ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 5, 2020

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements for three and nine months ended September 30, 2020 and 2019, the Company's 2019 Annual Report, the Annual Information Form for the year ended December 31, 2019, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

The financial information reported herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") and is presented in Canadian dollars unless otherwise stated.

The MD&A focuses on information and key statistics from the unaudited interim condensed consolidated financial statements, and considers known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company can be found in the Company's Annual Information Form and Management Information Circular, which are available on SEDAR at www.sedar.com.

FINANCIAL OVERVIEW

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands, except percentages)	**2020**	2019	**2020**	2019
Revenue	**$ 265,037**	$ 544,284	**$ 918,215**	$ 1,571,060
Gross margin	**63,693**	132,571	**223,225**	331,643
Selling and administrative expenses	**43,352**	45,199	**138,225**	148,107
Operating income	**20,341**	87,372	**85,000**	183,536
Earnings before finance costs and income taxes ("EBIT")	**21,739**	87,742	**87,179**	185,089
Net earnings	**$ 10,736**	$ 63,074	**$ 55,589**	$ 120,692
Key Financial Performance Indicators[1]				
Engineered Systems bookings	**$ 23,157**	$ 125,508	**$ 221,052**	$ 414,407
Engineered Systems backlog	**186,304**	701,615	**186,304**	701,615
Recurring revenue growth[2]	**(6.1)%**	10.0%	**(6.0)%**	17.7%
Gross margin as a percentage of revenue	**24.0%**	24.4%	**24.3%**	21.1%
EBIT as a percentage of revenue[3]	**9.8%**	11.4%	**9.8%**	11.4%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 42,849**	$ 109,096	**$ 150,814**	$ 250,227
Return on capital employed ("ROCE") [3]	**7.7%**	16.5%	**7.7%**	16.5%
Rental horsepower	**714,375**	700,733	**714,375**	700,733

[1] Key financial performance indicators used by Enerflex to measure its performance include revenue and EBIT. Certain of these key performance indicators are non-IFRS measures. Further detail is provided in the Non-IFRS Measures section.

[2] Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature. Growth in recurring revenue is calculated on a period-over-period basis.

[3] Determined by taking the trailing 12-month period.

THIRD QUARTER 2020 OVERVIEW

For the three months ended September 30, 2020:

- Operating income was lower than the prior year, primarily due to reduced Engineered Systems revenue on lower bookings from 2019 and the first nine months of 2020, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were booked during the second half of 2018 and were largely completed by the third quarter of 2020, partially offset by lower SG&A costs. Gross margin percentage is consistent with the prior year, as the current year had increased contributions from recurring revenue product lines while the prior year included high margins recognized on the previously mentioned Engineered Systems projects. As previously disclosed, as these projects near completion, gross margins from Engineered Systems will decrease and margin contribution from recurring revenues will make up a larger proportion of total gross margin.
- SG&A costs of $43.4 million in the third quarter of 2020 were down from $45.2 million in the same period last year. SG&A in the quarter was lower due to decreased compensation expense on reduced headcount and decreased profit share on lower operational results, as well as cost recoveries related to government assistance programs, partially offset by increased bad debt provisions, driven by expected credit losses in the Rest of World ("ROW") segment, and higher share-based compensation on mark-to-market movement. In the quarter, the Company reduced travel, marketing, and non-critical IT expenditures as part of previously communicated cost-saving measures. The Company continues to monitor costs in response to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic, and remains focused on controlling costs where possible.
- Engineered Systems booking activity was lower in the quarter versus the prior year period, as bookings continue to be tempered by restrained spending within the oil and gas industry due to shifting supply and demand dynamics and the uncertainty caused by the COVID-19 pandemic. In addition to these factors, bookings have been negatively impacted by previously disclosed difficulties facing the oil and gas industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. Bookings totaled $23.2 million, down from $125.5 million in the same period last year. The movement in exchange rates resulted in a decrease of $4.0 million on foreign currency denominated backlog during the third quarter of 2020, compared to a $7.0 million increase in the comparable period – a net decrease of $11.0 million period-over-period. Reduced capital spending within the sector continues to negatively impact bookings activity for Enerflex's Engineered Systems business, and the Company has enacted measures to align costs with revenue levels expected from the Engineered Systems business.
- The Company continues to manage working capital and has slowed supply chain transactions to align with anticipated market activity. Inventory levels decreased in the quarter and the Company expects to continue to realize major equipment inventory into Engineered Systems projects and new contract compression units, however the timing and extent to which inventory can be utilized is dependent on demand. In addition, the collectability of accounts receivable becomes increasingly pertinent in periods of slower industry activity. The Company's large geographic footprint and diversification of products and services assists in mitigating counterparty credit risk that can result from customer concentration. Enerflex remains vigilant in assessing outstanding receivables and has implemented additional monitoring processes in assessing the creditworthiness of customers. During the third quarter of 2020, management identified certain receivable balances in the ROW segment that may be at higher risk of credit loss, leading to an increase in the allowance for doubtful accounts provision at September 30, 2020. The value of the provision taken represents only the outstanding amounts owed to Enerflex at September 30, 2020, as the total value of the associated contract was recognized and largely collected prior to 2020. The Company believes the current provision appropriately reflects the best estimate of its future expected credit losses.
- For the three months ended September 30, 2020, the Company invested $17.6 million in rental assets to fund both the organic expansion of the USA contract compression fleet and continued construction of four previously announced Build-Own-Operate-Maintain ("BOOM") projects. At September 30, 2020, the USA contract compression fleet totaled approximately 350,000 horsepower with an average fleet utilization of 81 percent for the quarter. In addition, Enerflex successfully completed the construction and commissioning of three previously awarded BOOM projects in Argentina and Brazil in the third quarter. All three are currently in the operational phase, operating as designed, and contributing to the bottom line. In the Middle East, COVID-19-related travel restrictions and limitations on worksite access continued to delay a fourth BOOM project that is now scheduled to commence operations in the fourth quarter of 2020.
- Subsequent to September 30, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on January 7, 2021, to shareholders of record on November 26, 2020. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

For the nine months ended September 30, 2020:

- Operating income for the first nine months of 2020 decreased over the prior year, due largely to lower Engineered Systems revenue and increased bad debt provisions in the USA and ROW segments, partially offset by improved gross margin percentage and lower overall SG&A costs. Both the current period and the comparative period also include the impact of higher estimated costs to complete certain projects, however the effect on the current year was lower than the comparative period. In addition, the comparative period also includes a write-down of equipment. Gross margin percentage is higher as a result of increased contributions from recurring revenue product lines and the proportionately higher contribution of the previously mentioned high margin Engineered Systems projects that were largely completed by the third quarter of 2020.
- SG&A costs of $138.2 million in the first nine months of 2020 were down from $148.1 million in the same period last year. The decrease in SG&A is driven by lower compensation expense on mark-to-market impacts on share-based compensation and recoveries related to government assistance programs, partially offset by increased bad debt provisions, driven by expected credit losses in the USA and ROW segments. During the third quarter of 2020, certain receivables that were previously provided for at June 30, 2020 were settled in accordance with management's estimates, and the receivables and associated provision were de-recognized.
- Engineered Systems booking activity was lower in the first nine months of 2020 versus the prior year period due to restrained spending within the oil and gas industry, as described above. The movement in exchange rates resulted in an increase of $12.1 million on foreign currency denominated backlog during the first nine months of 2020, compared to a $28.1 million decrease in the comparable period – a $40.2 million period-over-period increase.
- Engineered Systems backlog decreased compared to the balance at December 31, 2019 due to Engineered Systems revenue recognized in the period outpacing bookings, partially offset by favourable foreign exchange impacts.

ADJUSTED EBITDA

The Company's results include items that are unique and items that management and users of the financial statements adjust for when evaluating the Company's results. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. Adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that have historically been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) restructuring activities; 3) transaction costs related to M&A activity; and, 4) share-based compensation. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on factors that are not specific to the long-term performance of the Company. The disposal of idle facilities is isolated within Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

During the second quarter of 2020, the Company added another adjustment related to government grants, most notably the Canada Emergency Wage Subsidy and the JobKeeper Payment program in Australia. The amount of subsidies received has been recorded as a reduction in cost of goods sold and selling and administrative expense within the interim condensed consolidated statement of earnings in accordance with where the associated expense was recognized. Enerflex considers this to be a unique item as these temporary grants relate to the recent COVID-19 pandemic and are not anticipated to be part of the ongoing operations of the Company.

Management believes that identification of these items allows for a better understanding of the underlying operations of the Company based on the current assets and structure.

				Three months ended September 30, 2020
($ Canadian thousands)	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	$ 21,739	$ 6,445	$ 7,973	$ 7,321
Severance costs in COGS and SG&A	729	176	10	543
Government grants in COGS and SG&A	(6,447)	-	(1,445)	(5,002)
Share-based compensation	1,101	705	405	(9)
Depreciation and amortization	21,110	10,419	8,495	2,196
Adjusted EBITDA	$ 38,232	$ 17,745	$ 15,438	$ 5,049

($ Canadian thousands)		Total		USA		ROW		Three months ended September 30, 2019 Canada
Reported EBIT	$	87,742	$	57,106	$	13,892	$	16,744
Share-based compensation		(2,554)		(1,605)		(586)		(363)
Depreciation and amortization		21,354		8,622		10,231		2,501
Adjusted EBITDA	$	106,542	$	64,123	$	23,537	$	18,882

($ Canadian thousands)		**Total**		**USA**		**ROW**		Nine months ended September 30, 2020 **Canada**
Reported EBIT	**$**	**87,179**	**$**	**50,580**	**$**	**22,046**	**$**	**14,553**
Severance costs in COGS and SG&A		**3,744**		**972**		**134**		**2,638**
Government grants in COGS and SG&A		**(12,817)**		**-**		**(2,038)**		**(10,779)**
Share-based compensation		**(3,298)**		**(1,553)**		**(981)**		**(764)**
Depreciation and amortization		**63,635**		**30,995**		**26,002**		**6,638**
Adjusted EBITDA	**$**	**138,443**	**$**	**80,994**	**$**	**45,163**	**$**	**12,286**

($ Canadian thousands)		Total		USA		ROW		Nine months ended September 30, 2019 Canada
Reported EBIT	$	185,089	$	132,760	$	18,717	$	33,612
Write-off of facility and equipment in COGS		2,040		-		2,040		-
Gain on disposal of idle facilities		(434)		-		-		(434)
Share-based compensation		4,923		2,494		1,074		1,355
Depreciation and amortization		65,138		24,630		32,906		7,602
Adjusted EBITDA	$	256,756	$	159,884	$	54,737	$	42,135

Please refer to the section "Segmented Results" for additional information about results by geographic location.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

Bookings and backlog are monitored by Enerflex as an indicator of future revenue and business activity levels for the Engineered Systems product line. Bookings are recorded in the period when a firm commitment or order is received from customers. Bookings increase backlog in the period that they are received. Revenue recognized on Engineered Systems products decreases backlog in the period that the revenue is recognized. As a result, backlog is an indication of revenue to be recognized in future periods using percentage-of-completion accounting.

The following tables set forth the Engineered Systems bookings and backlog by reporting segment for the following periods:

($ Canadian thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Bookings				
USA	**$ 8,527**	$ 96,433	**$ 118,067**	$ 268,291
Rest of World	**1,037**	1,660	**42,334**	18,224
Canada	**13,593**	27,415	**60,651**	127,892
Total bookings	**$ 23,157**	$ 125,508	**$ 221,052**	$ 414,407

($ Canadian thousands)	September 30, 2020	December 31, 2019
Backlog		
USA	**$ 90,144**	$ 320,054
Rest of World	**27,969**	8,941
Canada	**68,191**	138,762
Total backlog	**$ 186,304**	$ 467,757

Engineered Systems bookings in the third quarter and first nine months of 2020 were lower than the comparative period, as bookings continue to be tempered by restrained spending within the oil and gas industry due to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Backlog at September 30, 2020 was lower than at December 31, 2019 due to Engineered Systems revenue recognized outpacing bookings, partially offset by favourable foreign exchange impacts on foreign currency denominated backlog. The movement in exchange rates resulted in a decrease of $4.0 million during the third quarter and an increase of $12.1 million during the first nine months of 2020 on foreign currency denominated backlog, compared to an increase of $7.0 million and a decrease of $28.1 million in the same periods of 2019.

SEGMENTED RESULTS

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate function. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used.

The following summary describes the operations of each of the Company's reportable segments:

- USA generates revenue from manufacturing natural gas compression, processing, and electric power equipment, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, operations and maintenance solutions, and contract compression rentals;
- Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The Rest of World segment has been successful in securing BOOM and ITK projects; and
- Canada generates revenue from manufacturing both custom and standard natural gas compression, processing, and electric power equipment, as well as providing after-market mechanical service, parts, and compression and power generation rentals.

USA SEGMENT RESULTS

($ Canadian thousands)		Three months ended September 30, 2020		2019		Nine months ended September 30, 2020		2019
Engineered Systems bookings	**$**	**8,527**	$	96,433	**$**	**118,067**	$	268,291
Engineered Systems backlog		**90,144**		459,270		**90,144**		459,270
Segment revenue	**$**	**129,837**	$	311,288	**$**	**538,458**	$	953,590
Intersegment revenue		**(2,892)**		(11,989)		**(7,006)**		(34,706)
Revenue	**$**	**126,945**	$	299,299	**$**	**531,452**	$	918,884
Revenue – Engineered Systems	**$**	**69,079**	$	236,581	**$**	**347,977**	$	739,616
Revenue – Service	**$**	**35,897**	$	43,360	**$**	**115,465**	$	124,003
Revenue – Rentals	**$**	**21,969**	$	19,358	**$**	**68,010**	$	55,265
Operating income	**$**	**6,445**	$	57,292	**$**	**50,580**	$	132,965
EBIT	**$**	**6,445**	$	57,106	**$**	**50,580**	$	132,760
EBITDA	**$**	**16,864**	$	65,728	**$**	**81,575**	$	157,390
Segment revenue as a % of total revenue		**47.9%**		55.0%		**57.9%**		58.5%
Recurring revenue growth		**(7.7)%**		18.3%		**2.3%**		27.4%
Operating income as a % of segment revenue		**5.1%**		19.1%		**9.5%**		14.5%
EBIT as a % of segment revenue		**5.1%**		19.1%		**9.5%**		14.4%
EBITDA as a % of segment revenue		**13.3%**		22.0%		**15.3%**		17.1%

Engineered Systems bookings of $8.5 million in the third quarter of 2020 represents a decrease of $87.9 million or 91.2 percent compared to the same period in the prior year. Bookings activity continues to be lower than historical levels due to several factors, including a severe downturn in oil prices caused by shifting supply and demand dynamics, as well as market uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Revenue decreased by $172.4 million and $387.4 million in the third quarter and first nine months of 2020 compared to the same periods of 2019 due largely to lower Engineered Systems and Service revenue, partially offset by higher Rentals revenue. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings in recent periods, while Service was lower due to travel restrictions related to COVID-19 and pricing pressure on certain Service offerings. Rentals revenue increased due to the organic growth of the contract compression fleet, which grew by 21.8 percent on a horsepower basis in the last year.

Operating income was lower in the third quarter and first nine months of 2020 compared to the prior year by $50.8 million and $82.4 million, primarily due to lower gross margins. Gross margins decreased due to lower revenue on soft bookings from 2019 and the first nine months of 2020, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were booked during the second half of 2018 as they near completion. Decreased margins were partially offset by lower SG&A costs in the third quarter of 2020, the result of reduced compensation expenses on lower headcount and decreased profit share on lower operational results. For the nine months ended September 30, 2020, SG&A was consistent with the comparative period, with lower compensation costs, driven by mark-to-market impacts on share-based compensation and decreased profit share on lower operational results, being offset by bad debt provisions taken in the second quarter of 2020. The Company continues to monitor costs in response to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic, and remains focused on controlling costs where possible.

At September 30, 2020, the USA contract compression fleet totaled approximately 350,000 horsepower, compared to approximately 310,000 horsepower at December 31, 2019. The average utilization of the USA contract compression fleet for the three and nine months ended September 30, 2020 was 81 percent and 83 percent, respectively, compared to 87 percent in both comparative periods in 2019.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Engineered Systems Bookings	**$ 1,037**	$ 1,660	**$ 42,334**	$ 18,224
Engineered Systems Backlog	**27,969**	17,563	**27,969**	17,563
Segment revenue	**$ 79,035**	$ 87,685	**$ 208,843**	$ 280,771
Intersegment revenue	**(75)**	(164)	**(75)**	(7,739)
Revenue	**$ 78,960**	$ 87,521	**$ 208,768**	$ 273,032
Revenue – Engineered Systems	**$ 16,461**	$ 24,412	**$ 23,306**	$ 71,161
Revenue – Service[1]	**$ 25,042**	$ 24,961	**$ 71,772**	$ 82,588
Revenue – Rentals[1]	**$ 37,457**	$ 38,148	**$ 113,690**	$ 119,283
Operating income	**$ 7,973**	$ 13,892	**$ 21,993**	$ 18,719
EBIT	**$ 7,973**	$ 13,892	**$ 22,046**	$ 18,717
EBITDA	**$ 16,468**	$ 24,123	**$ 48,048**	$ 51,623
Segment revenue as a % of total revenue	**29.8%**	16.1%	**22.7%**	17.4%
Recurring revenue growth	**(1.0)%**	4.9%	**(8.1)%**	8.9%
Operating income as a % of segment revenue	**10.1%**	15.9%	**10.5%**	6.9%
EBIT as a % of segment revenue	**10.1%**	15.9%	**10.6%**	6.9%
EBITDA as a % of segment revenue	**20.9%**	27.6%	**23.0%**	18.9%

[1] *Revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line including $11,717 previously disclosed during the first quarter of 2020. For the three and nine months ended September 30, 2019, $10,730 and $32,130 have been reclassified. Please refer to Note 12 of the unaudited interim condensed consolidated financial statements for further details.*

Engineered Systems bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent.

Rest of World revenue decreased by $8.6 million and $64.3 million in the third quarter and first nine months of 2020 compared to the same period in the prior year due to lower Engineered Systems revenue, as well as lower Service and Rentals revenue in the nine months ended September 30, 2020. Engineered Systems revenue was down primarily due to timing of project work, as bookings from recent periods began contributing to operating results during the third quarter of 2020, while Engineered Systems revenue in the prior year reflected continued progress made on projects included in the opening backlog. Service revenues decreased due to reduced activity levels and a reduction in parts and equipment sales, while Rentals revenues decreased due to lower utilization of the rental fleet in Latin America.

Operating income decreased by $5.9 million in the third quarter and increased by $3.3 million in the first nine months of 2020 compared to the same period of 2019. The current quarter decrease is due to increased bad debt provisions, driven by expected credit losses, which was partially offset by improved gross margin percentage, reduced compensation expenses and decreased profit share on lower operational results, as well as lower travel and non-critical IT expenditures. The improvement in the first nine months of 2020 was due to higher gross margin percentage and the non-recurrence of write-downs of equipment included in the comparative period, as well as lower share-based compensation on mark-to-market impacts and reduced travel, marketing, and non-critical IT expenditures, partially offset by increased bad debt provisions. The Company continues to monitor costs in response to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic, and remains focused on controlling costs where possible.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Engineered Systems bookings	$ **13,593**	$ 27,415	$ **60,651**	$ 127,892
Engineered Systems backlog	**68,191**	224,782	**68,191**	224,782
Segment revenue	$ **70,075**	$ 160,421	$ **190,610**	$ 391,588
Intersegment revenue	**(10,943)**	(2,957)	**(12,615)**	(12,444)
Revenue	$ **59,132**	$ 157,464	$ **177,995**	$ 379,144
Revenue – Engineered Systems	$ **42,375**	$ 137,295	$ **131,222**	$ 317,926
Revenue – Service	$ **15,123**	$ 17,192	$ **40,835**	$ 52,234
Revenue – Rentals	$ **1,634**	$ 2,977	$ **5,938**	$ 8,984
Operating income	$ **5,923**	$ 16,188	$ **12,427**	$ 31,852
EBIT	$ **7,321**	$ 16,744	$ **14,553**	$ 33,612
EBITDA	$ **9,517**	$ 19,245	$ **21,191**	$ 41,214
Segment revenue as a % of total revenue	**22.3%**	28.9%	**19.4%**	24.1%
Recurring revenue growth	**(16.9)%**	3.5%	**(23.6)%**	23.5%
Operating income as a % of segment revenue	**10.0%**	10.3%	**7.0%**	8.4%
EBIT as a % of segment revenue	**12.4%**	10.6%	**8.2%**	8.9%
EBITDA as a % of segment revenue	**16.1%**	12.2%	**11.9%**	10.9%

Bookings in the third quarter of 2020 decreased to $13.6 million from $27.4 million a year ago. Bookings continue to be negatively impacted by restrained spending within the oil and gas industry due to shifting supply and demand dynamics and the uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Revenue decreased by $98.3 million and $201.1 million for the third quarter and first nine months of 2020 compared to the same periods in 2019, primarily due to lower Engineered Systems revenue on a lower opening backlog. In addition, Service and Rentals revenues were down due to lower equipment sales and reseller activity, Service branches performing more light-duty work as opposed to overhauls, and the return of certain rental units.

The Canadian segment recorded an operating income of $5.9 million and $12.4 million for the third quarter and first nine months of 2020 compared to $16.2 million and $31.9 million in the same period of 2019. Operating income decreased due to lower gross margin on reduced revenue and increased bad debt provisions, partially offset in the quarter reduced compensation expenses on lower headcount, decreased profit share on lower operational results, and cost recoveries related to government assistance programs, while the nine months of 2020 also included lower share-based compensation on mark-to-market impacts.

GROSS MARGIN BY PRODUCT LINE

Enerflex operates three business segments, and each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. The Engineered Systems product line consists of the supply of equipment systems, typically involving engineering, design, manufacturing, installation, construction, and the start-up of equipment. The Service product line provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, and technical services. The Rentals product line encompasses a fleet of natural gas compression, processing, and electric power equipment totalling approximately 715,000 horsepower on rent or available for rent globally, generating revenue from rental agreements, and the sale of rental equipment to customers. In addition to Enerflex's rental fleet, the Company's Rentals product line provides customers with personnel, equipment, tools, materials, and supplies to meet their natural gas compression, processing, and electric power needs, as well as designing, sourcing, owning, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services, including providing operation and maintenance as part of a BOOM agreement.

Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. The Company aims to diversify and expand Service and Rentals offerings, which we believe offer longer-term stability in earnings compared to Engineered Systems revenue, which historically has been dependent on cyclical demand for new compression, process, and electric power equipment. While individual Service and Rentals contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude these product lines from being considered recurring in nature.

				Three months ended September 30, 2020
($ Canadian thousands)	**Total**	**Engineered Systems**	**Service**	**Rentals**
Revenue	**$ 265,037**	**$ 127,915**	**$ 76,062**	**$ 61,060**
Cost of goods sold:				
Operating expenses	**184,987**	**105,286**	**59,688**	**20,013**
Depreciation and amortization	**16,357**	**2,132**	**942**	**13,283**
Gross margin	**$ 63,693**	**$ 20,497**	**$ 15,432**	**$ 27,764**

				Three months ended September 30, 2019
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 544,284	$ 398,288	$ 85,513	$ 60,483
Cost of goods sold:				
Operating expenses	395,282	310,767	63,042	21,473
Depreciation and amortization	16,431	1,794	1,006	13,631
Gross margin	$ 132,571	$ 85,727	$ 21,465	$ 25,379

				Nine months ended September 30, 2020
($ Canadian thousands)	**Total**	**Engineered Systems**	**Service**	**Rentals**
Revenue	**$ 918,215**	**$ 502,505**	**$ 228,072**	**$ 187,638**
Cost of goods sold:				
Operating expenses	**645,609**	**403,068**	**176,243**	**66,298**
Depreciation and amortization	**49,381**	**6,380**	**3,000**	**40,001**
Gross margin	**$ 223,225**	**$ 93,057**	**$ 48,829**	**$ 81,339**

($ Canadian thousands)		Total		Engineered Systems		Service		Rentals
								Nine months ended September 30, 2019
Revenue	$	1,571,060	$	1,128,703	$	258,825	$	183,532
Cost of goods sold:								
Operating expenses		1,189,591		919,437		200,020		70,134
Depreciation and amortization		49,826		4,852		2,339		42,635
Gross margin	$	331,643	$	204,414	$	56,466	$	70,763

INCOME TAXES

Income tax expense totaled $5.5 million or 33.9 percent and $14.0 million or 20.1 percent of earnings before tax for the third quarter and first nine months of 2020, compared to $20.1 million or 24.1 percent and $51.3 million or 29.8 percent of earnings before tax in the same period of 2019. Income tax expense for the third quarter of 2020 was lower primarily due to reduced earnings before tax, a lower Canadian statutory rate, and the exchange rate effects on tax basis, partially offset by the effect of earnings taxed in foreign jurisdictions. Third quarter earnings in 2020 were generated mainly by foreign jurisdictions with higher statutory tax rates when compared to prior periods, resulting in an increase to the overall effective tax rate for the quarter. Income tax expense and the effective tax rate for the first nine months of 2020 were lower primarily due to reduced earnings before tax, a lower statutory rate, and the exchange rate effects on tax basis, partially offset by the effect of earnings taxed in foreign jurisdictions and amounts not deductible for tax purposes. During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted, which will reduce Enerflex's taxes in future periods. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

OUTLOOK

Enerflex's financial performance derives from strategic decisions to: 1) diversify product offerings for Engineered Systems; 2) focus on increasing the recurring revenue streams derived from new and existing long-term BOOM, rental, and service contracts; and 3) develop a geographically diversified business. Enerflex's capital allocation priorities in recent years have been oriented toward stabilizing cash flows and making the Company more resistant to the natural, yet unpredictable, cyclicality in commodity markets. Priorities have included significant investments in recurring revenue projects in the USA and ROW segments. While the current reduction in global oil and natural gas demand will significantly impact demand for Enerflex's products and services, these investments are expected to assist in stabilizing the Company's cash flow throughout this downturn and going forward.

Demand for the Company's Engineered Systems product offerings remains dependent on global capital investment in oil and natural gas, and all product lines are put under pressure when the macro environment is weakened. Uncertainty caused by a number of recent factors, most prominent being the COVID-19 pandemic and changes in supply and demand for oil, has reduced investment levels across the energy industry and tempered expectations for activity levels through 2020 and into 2021. These dynamics are in addition to previously disclosed difficulties facing the industry including: 1) producers having made a general shift to funding growth capital expenditures from free cash flow; 2) constrained access to capital markets for producers; 3) uncertainty around global trade dynamics; and 4) political uncertainty, and in some cases may serve to accentuate these issues.

North America continues to present the area of greatest uncertainty for Enerflex, though recent improvement in natural gas benchmark pricing is helpful for sentiment in the industry. The Company has yet to see this improved sentiment translate to bookings, however order flow is seeing some success from non-traditional applications, including electrified compression and lower carbon-intensity projects. Engineered Systems revenues in the Canada and USA regions are likely to experience pressure through the remainder of 2020 and into 2021. The outlook for business lines oriented toward our customers' opex in North America, namely Service and Rentals, appears to have stabilized in the near-term. As previously announced, growth capital expenditures on new rental fleet assets in the USA have been reduced to include only expenditures connected to existing contractual obligations. Notwithstanding, the Company's current financial position affords it some flexibility to pursue additional growth opportunities, should they arise when the macro environment is more constructive. Overall, asset ownership continues to represent a very important growth prospect for the Company and we intend to continue deploying capital to this higher-margin, less-cyclical business, provided returns and growth prospects remain attractive through the short-term uncertainty currently being experienced.

The ROW segment is less dependent on Engineered Systems to drive operating results, as long-term contracts for Service and Rentals make cash flows more predictable than the North American regions. In the Middle East / Africa ("MEA") region, we have seen increasing interest for new assets and have secured contract extensions for certain existing assets. In addition, future periods will see the contribution from a 10-year BOOM project scheduled to be commissioned in the fourth quarter of 2020. Latin America will benefit from the completion of certain BOOM projects in Brazil and Argentina, the sale of a 13 MW power and gas treating plant to reduce flare gas in Colombia, and renewed rental assets in Mexico.

While the Company's recent financial performance has benefitted from strong Engineered Systems project work and significant growth in the recurring revenue streams derived from its asset ownership and after-market services product lines, any continuation of market weakness may cause the Company's customers to further reduce capital budgets while simultaneously instituting cost cutting measures, thereby reducing demand for Enerflex's products and services.

Enerflex previously disclosed measures instituted to preserve the strength of our balance sheet and maximize free cash flow in the first quarter of 2020. At September 30, 2020, expected cost savings resulting from workforce and compensation reductions are in line with expectations as previously disclosed. In addition, the Company has received grant funding in the Canada and ROW segments to mitigate further job losses in jurisdictions with grant programs. In the third quarter of 2020, the Company continued to be effective in reducing travel, marketing, and non-critical IT expenditures. Growth capital expenditures in the first nine months of 2020 totaled $101.0 million, and the Company expects full year growth capital expenditures of approximately $120 million, subject to foreign exchange fluctuations between the U.S. and Canadian dollar, up from approximately $110 million previously disclosed. This increase is primarily due to increased BOOM completion costs due to COVID-19-induced delays and make-ready costs for the redeployment of certain Mexican rental assets on new contracts. Maintenance capital expenditures are expected to be $15 million to $20 million, subject to the scope of maintenance activities required and foreign exchange fluctuations between the U.S. and Canadian dollar, up from approximately $15 million previously disclosed. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

In the short term, Enerflex remains focused on providing a safe working environment for all employees, while preserving capital and maintaining balance sheet strength in response to uncertainty caused by the COVID-19 pandemic and recent market volatility. Given the current environment, the Company is carefully assessing project spending, with a focus on ensuring future projects provide maximum returns on invested capital. Enerflex has identified a number of opportunities, particularly in the ROW segment, however the Company is intent on maintaining capital discipline and will only pursue the most attractive projects. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on customer activity levels, which will drive the demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

The recent performance of the USA segment has been driven by a combination of international equipment orders, the U.S. industry's investment in shale oil and gas, and continued demand for the after-market service and contract compression product offerings. While the U.S. industry at large, and growth in the Permian in particular, have been impacted by global events, the Company believes that the increased presence of larger, more patient producers in the Permian is supportive of the formation's long-term production and value. Increased activity by dry gas producers and the presence of Enerflex in 21 locations covering key resource plays including the Marcellus, Utica, Haynesville, and Niobrara positions the Company to capture further demand for Engineered Systems products and fullstream solutions, as well as contract compression assets to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 350,000 horsepower, providing a more stable and predictable revenue source that the Company intends to continue to leverage and grow through 2020 and beyond, provided returns and growth prospects remain attractive. Producers in the USA segment will continue to be influenced by swings in the commodity price environment, along with the other risk variables cited above. In the third quarter of 2020, forecasted industry shut-in rates did not materialize to the extent that had been predicted for North America. This resulted in a stabilizing of rental compression utilization and rates relative to the volatility experienced in the prior quarter. Furthermore, adherence to COVID-19 safety protocols as part of overall HSE best practices became a more consistent work site regimen at customer locations during the quarter, allowing for more normalized access to production sites.

Rest of World

In the Rest of World segment, the Company continues to generate strong recurring revenue in both the MEA and Latin America regions. MEA continues to provide stable rental earnings with a rental fleet of approximately 100,000 horsepower, with earnings and horsepower both set to increase with an additional BOOM project scheduled to be commissioned in the fourth quarter of 2020. The Company continues to explore new markets and opportunities within this region, focusing on projects that provide long-term, stable cash flows.

In Latin America, despite COVID-19-related challenges, Enerflex successfully completed the construction and commissioning of three previously awarded BOOM projects in Argentina and Brazil. All three are currently in the operational phase, operating as designed, and contributing to the bottom line. The Company is also progressing well with respect to its power and gas treating plant to reduce flare gas in Colombia, which is expected to be delivered on time and on budget during the second half of 2021. Enerflex's views of the region remains cautiously optimistic as many countries have indicated a renewed desire to develop oil and natural gas in recent periods. With investment opportunities becoming available, the global energy industry is returning to various prolific plays within the region, although reduced exploration budgets and a greater aversion to risk may temper this return. The Company is well positioned to provide products and services throughout the region as activity takes place in its key markets, particularly Argentina, Brazil, and Colombia.

Enerflex continues to make progress on the construction of a previously awarded BOOM project in MEA, however, COVID-19-related travel restrictions and limitations on worksite access have delayed the date on which this project was expected to commence operations and begin generating revenue. Despite the challenges faced, the Company anticipates commencement of operations in the fourth quarter of 2020.

In Australia, demand for Enerflex service and maintenance support remains solid. Liquified natural gas ("LNG") supply contracts are providing a stable demand for gas. Downward pressure on production costs are increasing customers' desire to improve equipment reliability and efficiency and Enerflex is well positioned to support production equipment optimization and improve reliability. Capital equipment demand in the Australian market has seen a slow down in response to the current economic environment; however, multiple new opportunities have been approved by customers. While Enerflex remains optimistic that these opportunities will continue to drive demand for the Company's products and services through to the end of 2020, the Company is prepared to respond should our customer needs fall off sharply.

Canada

The Company expects that spending in the Canadian energy sector will remain constrained in the near term, as the traditional producers that make up a significant portion of Enerflex's customer base continue to face negative sentiment and a lack of consistent access to market. The combination of restricted access to financing in Canada, depressed oil prices, and the impact of COVID-19 has resulted in uncertainty for the Canadian energy industry, which producers across the sector have responded to by reducing capital budgets. As long as current global forces continue to bring market uncertainty, the Company expects limited development potential in Canada. While progress is being made on pipelines and certain LNG projects, raising the likelihood of export capacity and offering some future relief to the Canadian gas industry, management still expects traditional Engineered Systems activity in Canada to be very subdued through 2020 and into 2021. Non-traditional applications, including natural gas-fired power generation, have seen increasing levels of interest in recent periods, and the Company is able leverage expertise developed across the organization in developing electric power solutions, however the demand for these applications has not offset the decreased demand for traditional Engineered Systems in recent periods.

ENERFLEX STRATEGY

Enerflex's global vision is "Transforming natural gas to meet the world's energy needs". The Company's strategy to support this vision centres on being an operationally focused, diversified, financially strong, dividend-paying company that delivers profitable growth by serving an expanding industry in seven gas producing regions worldwide. Enerflex believes that worldwide diversification and growth enhances shareholder value. This strategy has allowed the Company to overcome previous downturns and endure recent uncertainty while still delivering strong operating results. With a positive long-term outlook for natural gas, a clean burning fuel that can provide a practical reduction in carbon emissions as the global economy transitions to increasingly renewable sources of energy, Enerflex aims to provide superior returns through the continued implementation of this strategy.

Across the Company, Enerflex looks to leverage its diversified international positioning to provide exposure to projects in growing natural gas markets, and to offer integrated solutions spanning all phases of a project's life-cycle from engineering and design through to after-market service, with a focus on recurring revenue from Service and Rentals offerings. The Company works to leverage its

Enterprise-wide collaborative approach to deploy key expertise worldwide and generate repeat business from internationally active customers. The Company also targets growth areas in the traditional natural gas industry, including the increasing global demand for natural gas-fired power generation. Enerflex has developed regional strategies to support its Company-wide goals.

In the USA segment, Enerflex has concentrated its efforts on key regions and basins, driven by the U.S.'s increasingly complex natural gas sector. The Company has looked to build on its successes for gas processing solutions for liquids-rich plays in the region, and support the development of upstream resources and midstream infrastructure required to feed local demand and an export-focused LNG industry. For our recurring revenue product lines, the focus for the Service business has been on optimizing across the region while responding to market demand in all locations. For the Rentals product line, the organic expansion of the contract compression fleet has allowed Enerflex to increase revenues, while the Company's ability to design, engineer, and build contract compression units positions Enerflex well to respond to future growth in the segment. The Company believes that the long-term impact of continued focus on these recurring revenue product lines will be increased predictability and stability in earnings, while strategic investment in the contract compression fleet should drive growth and strong returns for the Rentals business.

Enerflex has focused its efforts in the ROW segment on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In these regions, the Company has targeted ITK projects and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Successful projects have been completed in Bahrain, Kuwait, and Oman in MEA, and in Argentina, Brazil, and Colombia in Latin America, including three projects that commenced operations in the third quarter of 2020 and a fourth that is expected to commence operations in the fourth quarter of 2020. Enerflex underscores the importance of BOOM solutions in this segment, as long-term contracts for rental and maintenance of this equipment align with the emphasis on growing recurring revenue streams and customers in this segment have proven to be receptive to these solutions. The Company has also seen increased interest in electric power solutions in many of the regions in the ROW segment, and looks to leverage expertise developed across the organization to meet this demand. Elsewhere in the segment, Enerflex has expanded the capability of the Company's Australian Service line in response to activity levels, which are projected to remain high on the strength of increasing demand for natural gas, contributing to recurring revenue.

Enerflex has aimed its efforts in Canada on leveraging its capabilities and expertise to continue to preserve market share in the natural gas sector, particularly in liquids-rich reservoirs, and to support the development of natural gas resources for a future LNG industry. In addition, the Company has looked to build on its successes in the electric power market given sustained low natural gas prices and the resulting increase in demand for natural gas-fired power generation. The Company is able to offer electric power solutions for purchase or for rent, the latter of which allows the Company to offer flexibility and provide maintenance while increasing recurring revenues. Lastly, there has been a focus on signing long-term service and maintenance contracts with customers in order to secure stability in Service revenues.

Enerflex seeks to continue to diversify its revenue streams from multiple markets, grow its backlog, and ensure profitable margins globally by aggressively managing costs, with a medium-term goal of achieving a 10 percent EBIT margin. In addition, the Company is focused on expanding the diversification of its product lines, with a goal to increase recurring revenue by 10 percent annually. Enerflex recognizes that the current economic conditions may make it challenging to meet these goals in the near-term but the Company believes these remain appropriate as medium-term and longer-term goals.

NON-IFRS MEASURES

The success of the Company and its business unit strategies is measured using a number of key performance indicators, some of which do not have a standardized meaning as prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures are also used by management in its assessment of relative investments in operations and include Engineered Systems bookings and backlog, recurring revenue, EBITDA, net debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net earnings or any other measure of performance under IFRS. The reconciliation of these non-IFRS measures to the most directly comparable measure calculated in accordance with IFRS is provided below where appropriate. Engineered Systems bookings and backlog do not have a directly comparable IFRS measure.

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2020**	2019	**2020**	2019
EBITDA				
EBIT	**$ 21,739**	$ 87,742	**$ 87,179**	$ 185,089
Depreciation and amortization	**21,110**	21,354	**63,635**	65,138
EBITDA	**$ 42,849**	$ 109,096	**$ 150,814**	$ 250,227
Recurring Revenue				
Service[1]	**$ 76,062**	$ 85,513	**$ 228,072**	$ 258,825
Rentals[1]	**61,060**	60,483	**187,638**	183,532
Total Recurring Revenue	**$ 137,122**	$ 145,996	**$ 415,710**	$ 442,357
ROCE				
Trailing 12-month EBIT	**$ 135,992**	$ 233,329	**$ 135,992**	$ 233,329
Capital Employed – beginning of period				
Net debt[2]	**$ 384,588**	$ 141,492	**$ 334,232**	$ 117,848
Shareholders' equity	**1,425,912**	1,276,350	**1,342,787**	1,282,519
	$ 1,810,500	$ 1,417,842	**$ 1,677,019**	$ 1,400,367
Capital Employed – end of period				
Net debt[2]	**$ 322,643**	$ 182,001	**$ 322,643**	$ 182,001
Shareholders' equity	**1,417,704**	1,338,416	**1,417,704**	1,338,416
	$ 1,740,347	$ 1,520,417	**$ 1,740,347**	$ 1,520,417
Average Capital Employed[3]	**$ 1,774,628**	$ 1,414,942	**$ 1,774,628**	$ 1,414,942
Return on Capital Employed	**7.7%**	16.5%	**7.7%**	16.5%

[1] Revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line including $11,717 previously disclosed during the first quarter of 2020. For the three and nine months ended September 30, 2019, $10,730 and $32,130 have been reclassified. Please refer to Note 12 of the unaudited interim condensed consolidated financial statements for further details.

[2] Net debt is defined as short- and long-term debt less cash and cash equivalents.

[3] Based on a trailing four-quarter average.

FREE CASH FLOW

($ Canadian thousands)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Cash provided by (used in) operating activities	**$ 90,711**	$ 31,661	**$ 164,971**	$ 136,502
Net change in non-cash working capital and other	**56,066**	(61,376)	**48,553**	(81,618)
	$ 34,645	$ 93,037	**$ 116,418**	$ 218,120
Add-back:				
Net finance costs	**5,502**	4,600	**17,639**	13,104
Current income tax expense	**2,405**	8,535	**11,280**	22,373
Proceeds on the disposal of property, plant and equipment	**-**	9,009	**96**	9,093
Proceeds on the disposal of rental equipment	**169**	396	**3,079**	3,120
Deduct:				
Net interest paid	**(1,492)**	(716)	**(13,032)**	(8,625)
Net cash taxes paid	**(1,221)**	(7,482)	**(8,678)**	(19,469)
Additions to property, plant and equipment	**(1,824)**	(10,225)	**(8,653)**	(38,033)
Additions to rental equipment:				
Growth	**(12,724)**	(54,738)	**(101,005)**	(134,497)
Maintenance	**(4,846)**	(594)	**(9,171)**	(6,073)
Dividends paid	**(1,793)**	(9,396)	**(22,418)**	(28,134)
Free cash flow	**$ 18,821**	$ 32,426	**$ (14,445)**	$ 30,979

For the three and nine months ended September 30, 2020, free cash flow decreased compared to the same periods in 2019, primarily due to lower cash provided by operating activities before non-cash working capital, partially offset by reduced growth capital expenditures on the rental fleet and property, plant and equipment, as well as lower cash taxes paid. As announced in the first quarter of 2020, Enerflex will proceed only with those growth capital expenditures connected to existing contractual obligations, as well as required maintenance capital expenditures. Notwithstanding, the Company's current financial position affords it some flexibility to pursue additional growth opportunities, should they arise when the macro environment is more constructive. Under favourable circumstances, additional capital may be directed to growth opportunities in any of our regions.

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at September 30, 2020 compared to December 31, 2019:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$(231.8)	The decrease in current assets is due to lower accounts receivable, contract assets, and inventories. Accounts receivable decreased due to the collection of trade receivables, lower overall activity levels, and increased allowance for doubtful accounts provision. Contract assets decreased due to lower activity levels and amounts reclassified to other assets, while inventory decreased due to the realization of major equipment inventory into projects. Decreases in current assets were partially offset by the strengthening of the U.S. dollar at September 30, 2020.
Rental equipment	$76.8	The increase in rental equipment is due to additions during the year, primarily on the contract compression fleet in the USA and BOOM projects in ROW, as well as the strengthening of the U.S. dollar at September 30, 2020 that impacts the revaluation of U.S. dollar denominated rental equipment, partially offset by depreciation.
Other assets	$43.3	The increase in other assets is largely due to a balance previously included in contract assets at December 31, 2019 that was reclassified to a long-term receivable during the first quarter of 2020, as well as preferred shares recorded in the third quarter of 2020.
Goodwill	$15.4	The increase in goodwill is due to the strengthening of the U.S. dollar at September 30, 2020 that impacts the revaluation of U.S. dollar denominated goodwill.
Current liabilities	$(123.6)	The decrease in current liabilities is due to lower accounts payable and deferred revenues, partially offset by a portion of long-term debt that was classified as current in the second quarter of 2020. Lower accounts payable and deferred revenues were due to lower overall activity levels, partially offset by the strengthening of the U.S. dollar at September 30, 2020.
Shareholders' equity before non-controlling interest	$75.0	Shareholders' equity before non-controlling interest increased due to $55.4 million net earnings, $32.2 million unrealized income on translation of foreign operations and $1.3 million of stock options impact, partially offset by dividends of $13.9 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2020, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at September 30, 2020, the Company held cash and cash equivalents of $99.5 million and had cash drawings of $106.2 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $567.4 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 1.2:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Cash, beginning of period	**$ 78,570**	$ 223,944	**$ 96,255**	$ 326,864
Cash provided by (used in):				
Operating activities	**90,711**	31,661	**164,971**	136,502
Investing activities	**(22,248)**	(59,521)	**(117,561)**	(165,533)
Financing activities	**(47,119)**	23,767	**(43,625)**	(77,304)
Exchange rate changes on foreign currency cash	**(385)**	(307)	**(511)**	(985)
Cash, end of period	**$ 99,529**	$ 219,544	**$ 99,529**	$ 219,544

Operating Activities

For the three and nine months ended September 30, 2020, cash provided by operating activities improved over the same period in 2019, with positive movements in non-cash working capital partially offset by lower net earnings. Movements in non-cash working capital are explained in the "Financial Position" section of this MD&A.

Investing Activities

For the three and nine months ended September 30, 2020, cash used in investing activities decreased due to lower capital expenditures on the rental fleet and property, plant and equipment, partially offset by lower proceeds on disposal of property, plant and equipment.

Financing Activities

For the three months ended September 30, 2020, cash used in financing activities increased primarily due to repayment of long-term debt, compared to draws made on long-term debt in the same period in 2019, partially offset by lower dividends paid. For the nine months ended September 30, 2020, cash used in financing activities decreased primarily due to lower repayments of long-term debt, partially offset by lower dividends paid.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue	Net earnings	Earnings per share – basic	Earnings per share – diluted
September 30, 2020	**$ 265,037**	**$ 10,736**	**$ 0.12**	**$ 0.12**
June 30, 2020	287,438	7,415	0.08	0.08
March 31, 2020	365,740	37,438	0.42	0.42
December 31, 2019	474,362	31,436	0.35	0.35
September 30, 2019	544,284	63,074	0.71	0.70
June 30, 2019	541,874	40,649	0.45	0.45
March 31, 2019	484,902	16,969	0.19	0.19
December 31, 2018	466,842	32,480	0.37	0.36
September 30, 2018	445,803	37,696	0.43	0.42
June 30, 2018	404,848	20,367	0.23	0.23
March 31, 2018	385,780	10,873	0.12	0.12
December 31, 2017	450,065	26,702	0.30	0.30
September 30, 2017	315,019	25,188	0.28	0.28

CAPITAL RESOURCES

On October 31, 2020, Enerflex had 89,678,845 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. Subsequent to the third quarter of 2020, the Company declared a quarterly dividend of $0.02 per share. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

At September 30, 2020, the Company had drawn $106.2 million against the Bank Facility (December 31, 2019 - $121.3 million). The weighted average interest rate on the Bank Facility at September 30, 2020 was 2.4 percent (December 31, 2019 – 3.5 percent).

The composition of the borrowings on the Bank Facility and the Senior Notes was as follows:

($ Canadian thousands)		**September 30, 2020**		December 31, 2019
Drawings on Bank Facility	**$**	**106,214**	$	121,328
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**155,060**		151,374
Senior Notes due December 15, 2027		**123,373**		120,916
Deferred transaction costs		**(2,475)**		(3,131)
	$	**422,172**	$	430,487
Current portion of long-term debt	**$**	**40,000**	$	-
Non-current portion of long-term debt		**382,172**		430,487
	$	**422,172**	$	430,487

At September 30, 2020, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $301.3 million, and $123.4 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited interim condensed consolidated financial statements, and has in place appropriate information systems, procedures, and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the audited consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the nine months ended September 30, 2020 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR. The Company recognizes that employees may be required to change how control activities are performed during offsite work arrangements resulting from the COVID-19 pandemic, and has ensured that control objectives are being met during this period.

SUBSEQUENT EVENTS

Subsequent to September 30, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on January 7, 2021, to shareholders of record on November 26, 2020. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "objective" and "capable" and similar expressions are intended to identify forward-looking information. In particular, this MD&A includes (without limitation) forward-looking information pertaining to: anticipated financial performance; future capital expenditures, including the amount and nature thereof; bookings and backlog; oil and gas prices and the impact of such prices on demand for Enerflex products and services; development trends in the oil and gas industry; seasonal variations in the activity levels of certain oil and gas markets; business prospects and strategy; expansion and growth of the business and operations, including market share and position in the energy service markets; the ability to raise capital; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; and implications of changes in government regulation, laws and income taxes.

This forward-looking information is based on assumptions, estimates and analysis made in the light of the Company's experience and its perception of trends, current conditions and expected developments, as well as other factors that are believed by the Company to be reasonable and relevant in the circumstances. All forward-looking information in this MD&A, primarily in the Outlook and Enerflex Strategy sections, is subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations, including, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; business disruptions resulting from the COVID-19 pandemic; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company's control. For an augmented discussion of the risk factors and uncertainties that affect or may affect Enerflex, the reader is directed to the section entitled "Risk Management" in Enerflex's MD&A for the year ended December 31, 2019 (available on www.sedar.com) as well the section entitled "Supplemental Risk Factors" in Enerflex's MD&A for the three months ended March 31, 2020. While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this MD&A, as a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements, and readers are cautioned that such statements should not be unduly relied upon.

The forward-looking information contained herein is expressly qualified in its entirety by the above cautionary statement. The forward-looking information included in this MD&A is made as of the date of this MD&A and, other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		**September 30, 2020**		(restated)[1] December 31, 2019
Assets				
Current assets				
Cash and cash equivalents	**$**	**99,529**	$	96,255
Accounts receivable (Note 2)		**235,496**		384,021
Contract assets (Note 2)		**71,009**		130,392
Inventories (Note 3)		**241,690**		269,385
Income taxes receivable		**8,342**		6,626
Derivative financial instruments (Note 15)		**498**		152
Other current assets		**10,655**		12,223
Total current assets		**667,219**		899,054
Property, plant and equipment (Note 4)		**108,676**		108,551
Rental equipment (Note 4)		**718,862**		642,095
Lease right-of-use assets (Note 5)		**55,279**		60,288
Deferred tax assets (Note 11)		**50,305**		48,624
Other assets		**69,722**		26,410
Intangible assets		**18,597**		22,058
Goodwill (Note 6)		**589,357**		573,928
Total assets	**$**	**2,278,017**	$	2,381,008
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**214,643**	$	333,605
Provisions (Note 7)		**13,258**		18,250
Income taxes payable		**8,945**		8,074
Deferred revenues (Note 8)		**49,163**		89,409
Current portion of long-term debt (Note 9)		**40,000**		-
Current portion of lease liabilities (Note 10)		**14,111**		14,172
Deferred financing income		**62**		88
Derivative financial instruments (Note 15)		**169**		375
Total current liabilities		**340,351**		463,973
Long-term debt (Note 9)		**382,172**		430,487
Lease liabilities (Note 10)		**48,704**		52,828
Deferred tax liabilities (Note 11)		**81,158**		76,256
Other liabilities		**7,928**		14,677
Total liabilities	**$**	**860,313**	$	1,038,221
Shareholders' equity				
Share capital	**$**	**375,524**	$	375,524
Contributed surplus		**656,389**		655,107
Retained earnings		**270,372**		228,843
Accumulated other comprehensive income		**113,956**		81,779
Total shareholders' equity before non-controlling interest		**1,416,241**		1,341,253
Non-controlling interest		**1,463**		1,534
Total shareholders' equity and non-controlling interest		**1,417,704**		1,342,787
Total liabilities and shareholders' equity	**$**	**2,278,017**	$	2,381,008

See accompanying Notes to the interim condensed consolidated financial statements, including guarantees, commitments, and contingencies (Note 17).

[1] Certain December 31, 2019 balances have been reclassified. Refer to Note 1(b) for additional detail.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue (Note 12)	**$ 265,037**	$ 544,284	**$ 918,215**	$ 1,571,060
Cost of goods sold	**201,344**	411,713	**694,990**	1,239,417
Gross margin	**63,693**	132,571	**223,225**	331,643
Selling and administrative expenses	**43,352**	45,199	**138,225**	148,107
Operating income	**20,341**	87,372	**85,000**	183,536
Gain (loss) on disposal of property, plant and equipment (Note 4)	**-**	(186)	**53**	227
Equity earnings from associate	**1,398**	556	**2,126**	1,326
Earnings before finance costs and income taxes	**21,739**	87,742	**87,179**	185,089
Net finance costs (Note 14)	**5,502**	4,600	**17,639**	13,104
Earnings before income taxes	**16,237**	83,142	**69,540**	171,985
Income taxes (Note 11)	**5,501**	20,068	**13,951**	51,293
Net earnings	**$ 10,736**	$ 63,074	**$ 55,589**	$ 120,692
Net earnings attributable to:				
Controlling interest	**$ 10,746**	$ 62,958	**$ 55,429**	$ 120,323
Non-controlling interest	**(10)**	116	**160**	369
	$ 10,736	$ 63,074	**$ 55,589**	$ 120,692
Earnings per share – basic	**$ 0.12**	$ 0.71	**$ 0.62**	$ 1.35
Earnings per share – diluted	**$ 0.12**	$ 0.70	**$ 0.62**	$ 1.34
Weighted average number of shares – basic	**89,678,845**	89,631,084	**89,678,845**	89,444,611
Weighted average number of shares – diluted	**89,678,845**	89,746,389	**89,678,845**	89,756,875

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

($ Canadian thousands)	Three months ended September 30, **2020**	2019	Nine months ended September 30, **2020**	2019
Net earnings	**$ 10,736**	$ 63,074	**$ 55,589**	$ 120,692
Other comprehensive income (loss):				
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:				
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery	**261**	248	**418**	(713)
Gain (loss) on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**(486)**	76	**(598)**	818
Unrealized gain (loss) on translation of foreign denominated debt	**1,821**	(817)	**(2,211)**	2,182
Unrealized gain (loss) on translation of financial statements of foreign operations	**(19,089)**	7,084	**34,337**	(45,951)
Other comprehensive income (loss)	**$ (17,493)**	$ 6,591	**$ 31,946**	$ (43,664)
Total comprehensive income (loss)	**$ (6,757)**	$ 69,665	**$ 87,535**	$ 77,028
Other comprehensive income (loss) attributable to:				
Controlling interest	**$ (17,739)**	$ 6,671	**$ 32,177**	$ (43,290)
Non-controlling interest	**246**	(80)	**(231)**	(374)
	$ (17,493)	$ 6,591	**$ 31,946**	$ (43,664)

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

($ Canadian thousands)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Operating Activities				
Net earnings	**$ 10,736**	$ 63,074	**$ 55,589**	$ 120,692
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**21,110**	21,354	**63,635**	65,138
Equity earnings from associate and joint venture	**(1,398)**	(556)	**(2,126)**	(1,326)
Deferred income taxes (Note 11)	**3,096**	11,533	**2,671**	28,920
Share-based compensation expense (recovery) (Note 13)	**1,101**	(2,554)	**(3,298)**	4,923
(Gain) loss on sale of property, plant and equipment (Note 4)	**-**	186	**(53)**	(227)
	34,645	93,037	**116,418**	218,120
Net change in non-cash working capital and other (Note 16)	**56,066**	(61,376)	**48,553**	(81,618)
Cash provided by operating activities	**$ 90,711**	$ 31,661	**$ 164,971**	$ 136,502
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$ (1,824)**	$ (10,225)	**$ (8,653)**	$ (38,033)
Rental equipment (Note 4)	**(17,570)**	(55,332)	**(110,176)**	(140,570)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)	**-**	9,009	**96**	9,093
Rental equipment (Note 4)	**169**	396	**3,079**	3,120
Change in other assets	**(3,023)**	(3,369)	**(1,907)**	857
Cash used in investing activities	**$ (22,248)**	$ (59,521)	**$ (117,561)**	$ (165,533)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 16)	**$ (41,217)**	$ 35,883	**$ (9,005)**	$ (44,462)
Lease liability principal repayment (Note 10)	**(3,286)**	(3,537)	**(9,633)**	(10,203)
Lease interest (Note 10)	**(823)**	(651)	**(2,569)**	(1,729)
Dividends	**(1,793)**	(9,396)	**(22,418)**	(28,134)
Stock option exercises	**-**	1,468	**-**	7,224
Cash provided by (used in) financing activities	**$ (47,119)**	$ 23,767	**$ (43,625)**	$ (77,304)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (385)**	$ (307)	**$ (511)**	$ (985)
Increase (decrease) in cash and cash equivalents	**20,959**	(4,400)	**3,274**	(107,320)
Cash and cash equivalents, beginning of period	**78,570**	223,944	**96,255**	326,864
Cash and cash equivalents, end of period	**$ 99,529**	$ 219,544	**$ 99,529**	$ 219,544

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2019	$ 366,120	$ 654,324	$ 118,134	$ 143,563	$ (1,071)	$ 142,492	$ 1,281,070	$ 1,449	$ 1,282,519
IFRS 16 opening retained earnings adjustment	-	-	(2,429)	-	-	-	(2,429)	-	(2,429)
Net earnings	-	-	120,323	-	-	-	120,323	369	120,692
Other comprehensive income (loss)	-	-	-	(43,395)	105	(43,290)	(43,290)	(374)	(43,664)
Effect of stock option plans	9,124	371	-	-	-	-	9,495	-	9,495
Dividends	-	-	(28,197)	-	-	-	(28,197)	-	(28,197)
At September 30, 2019	$ 375,244	$ 654,695	$ 207,831	$ 100,168	$ (966)	$ 99,202	$ 1,336,972	$ 1,444	$ 1,338,416
At January 1, 2020	$ 375,524	$ 655,107	$ 228,843	$ 82,760	$ (981)	$ 81,779	$ 1,341,253	$ 1,534	$ 1,342,787
Net earnings	-	-	55,429	-	-	-	55,429	160	55,589
Other comprehensive income (loss)	-	-	-	32,357	(180)	32,177	32,177	(231)	31,946
Effect of stock option plans	-	1,282	-	-	-	-	1,282	-	1,282
Dividends	-	-	(13,900)	-	-	-	(13,900)	-	(13,900)
At September 30, 2020	**$ 375,524**	**$ 656,389**	**$ 270,372**	**$ 115,117**	**$ (1,161)**	**$ 113,956**	**$ 1,416,241**	**$ 1,463**	**$ 1,417,704**

See accompanying Notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands of Canadian dollars, except per share amounts or as otherwise noted.)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issue by the Board of Directors on November 5, 2020.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 and 2019 were prepared in accordance with IAS 34 and do not include all the disclosures included in the annual consolidated financial statements for the year ended December 31, 2019. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements. Certain prior period amounts have been reclassified between contract assets and deferred revenues to better align with contractual terms for these projects. Contract assets and deferred revenues as at December 31, 2019 have been reduced by $53,498 from balances disclosed in the annual consolidated financial statements.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in the annual consolidated financial statements for the year ended December 31, 2019.

(c) Supplemental Accounting Estimates and Judgement

The timely preparation of financial statements requires that management make estimates and assumptions and use judgement. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in the economic environment have required the Company to reassess some estimates and judgement or have caused new and/or significant impacts on previous estimates and judgement. Enerflex previously disclosed significant accounting estimates and areas of judgements at December 31, 2019 as part of the Company's 2019 Annual Report. As additional estimates or areas of judgements are identified, or changes are made to the Company's assessment of previously disclosed estimates or areas of judgements, Enerflex will disclose the nature and potential impact of these new or revised judgements, estimates and assumptions.

Revenue Recognition – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using percentage-of-completion accounting, using the input method, whereby actual input costs as a percentage of estimated total costs is used to determine the extent to which performance obligations are satisfied. Certain contracts also include aspects of variable consideration, such as liquidated damages on project delays. For these contracts, management must make estimations as to the likelihood of the variable consideration being recognized or constrained, based on the status of each project, the potential value of variable consideration, communication received from the customer, and other factors. Enerflex continues to monitor these factors, with minimal impacts to date. Changes in estimated cost or revenue associated with a project, including variable consideration, could result in material changes to revenue and gross margin recognized on certain projects.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. The impact of COVID-19 and negative economic factors surrounding the oil and gas industry on expected credit losses requires significant judgement, as it is not directly comparable with any recent similar events. Future economic conditions, especially around the oil and gas industry, may have a significant impact on the collectability of trade receivables from customers and the corresponding expected credit losses. Management has implemented additional monitoring processes in assessing the creditworthiness of customers and believes the current provision appropriately reflects the best estimate of its future expected credit losses.

Impairment of Non-Financial Assets and Goodwill

The Company is required to assess at the end of each reporting period whether there are any indicators that an asset may be impaired. During the second quarter of 2020, management determined that there were indicators of impairment of the Company's tangible and intangible assets, as a result of the negative economic factors surrounding the oil and gas industry and the impact of the COVID-19 pandemic. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at June 30, 2020, the result of which was no impairment of goodwill. At September 30, 2020, the Company determined that there were no further indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

Enerflex tests goodwill for impairment at least on an annual basis, or when there is any indication that goodwill may be impaired. This requires an estimation of the value-in-use of the groups of cash generating units ("CGUs") to which the goodwill is allocated. Estimating the value-in-use requires an estimate of the expected future cash flows from each group of CGUs and use judgement to determine a suitable discount rate in order to calculate the present value of those cash flows.

Income Taxes

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The basis for this estimate is management's five-year cash flow projections. The Company determined that the recoverability of deferred tax assets has not changed as a result of recent events, however management will continue to assess in response to changing economic conditions.

Government Grants

In response to the COVID-19 pandemic and associated restrictions, including mandated quarantines, business closures, and travel restrictions, governments in certain jurisdictions in which the Company does business have established programs to assist companies and individuals through the period for which these restrictions are in place. During the second quarter of 2020, the Company qualified for government grants in a number of jurisdictions, most notably the Canada Emergency Wage Subsidy and the JobKeeper Payment program in Australia. The subsidies received, totaling $6.4 million and $12.8 million for the three and nine months ended September 30, 2020, have been recorded as a reduction in cost of goods sold and selling and administrative expense within the interim condensed consolidated statement of earnings in accordance with where the associated expense was recognized.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

		September 30, 2020		December 31, 2019
Trade receivables	**$**	**224,766**	$	373,480
Less: allowance for doubtful accounts[1]		**(13,414)**		(2,144)
Trade receivables, net	**$**	**211,352**	$	371,336
Other receivables		**24,144**		12,685
Total accounts receivable	**$**	**235,496**	$	384,021

[1] *During the third quarter of 2020, management identified certain receivable balances in the Rest of World segment that may be at higher risk of credit loss, leading to an increase in the allowance for doubtful accounts provision at September 30, 2020. The value of the provision taken represents only the outstanding amounts owed to Enerflex at September 30, 2020, as the total value of the associated contract was recognized and largely collected prior to 2020. In the second quarter of 2020, management had identified certain receivable balances in the USA segment that were at higher risk of credit loss and were provided for at June 30, 2020. During the third quarter of 2020, these receivables were settled in accordance with management's estimates and the receivables and associated provision were de-recognized.*

Aging of trade receivables:

		September 30, 2020		December 31, 2019
Current to 90 days	$	**168,420**	$	321,058
Over 90 days		**56,346**		52,422
	$	**224,766**	$	373,480

Movement in allowance for doubtful accounts:

		September 30, 2020		December 31, 2019
Balance, January 1	$	**2,144**	$	992
Impairment provision additions on receivables		**22,209**		2,162
Amounts settled and derecognized during the year		**(10,771)**		(951)
Currency translation effects		**(168)**		(59)
Closing balance	$	**13,414**	$	2,144

Movement in contract assets:

		September 30, 2020		December 31, 2019
Balance, January 1	$	**130,392**	$	158,027
Unbilled revenue recognized		**167,633**		645,276
Amounts billed		**(209,090)**		(666,896)
Amounts transferred to other assets		**(26,625)**		-
Currency translation effects		**8,699**		(6,015)
Closing balance	$	**71,009**	$	130,392

Amounts recognized as contract assets are typically billed to customers within three months. Amounts reclassified to other assets relate to a balance previously included in contract assets at December 31, 2019 that was revised to a long-term receivable during the first quarter of 2020.

NOTE 3. INVENTORIES

Inventories consisted of the following:

		September 30, 2020		December 31, 2019
Direct materials	$	**154,223**	$	182,692
Work-in-process		**29,765**		33,403
Repair and distribution parts		**40,882**		42,540
Equipment		**16,820**		10,750
Total inventories	$	**241,690**	$	269,385

The amount of inventory and overhead costs recognized as an expense and included in cost of goods for the three and nine months ended September 30, 2020 was $201.3 million and $695.0 million (September 30, 2019 – $411.7 million and $1,239.4 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the interim condensed consolidated statement of earnings and included in cost of goods sold for the three and nine months ended September 30, 2020 was $2.5 million and $4.6 million (September 30, 2019 – $1.2 million and $3.4 million).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and nine months ended September 30, 2020, the Company added $1.8 million and $8.7 million in property, plant and equipment (September 30, 2019 – $10.2 million and $38.0 million) and $17.6 million and $110.2 million in rental equipment (September 30, 2019 – $55.3 million and $140.6 million). The impact of foreign exchange movements on assets denominated in a foreign currency during the nine months ended September 30, 2020 was an increase of $2.6 million on property, plant and equipment and $7.9 million on rental equipment (September 30, 2019 – decrease of $2.2 million and $16.9 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended September 30, 2020 was $15.6 million (September 30, 2019 – $15.9 million), of which $14.6 million was included in cost of goods sold (September 30, 2019 – $15.0 million) and $1.0 million was included in selling and administrative expenses (September 30, 2019 – $0.9 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the nine months ended September 30, 2020 was $46.8 million (September 30, 2019 – $48.2 million), of which $44.0 million was included in cost of goods sold (September 30, 2019 – $45.5 million) and $2.8 million was included in selling and administrative expenses (September 30, 2019 – $2.7 million).

Impairment of rental equipment included in earnings for the three and nine months ended September 30, 2020 was $0.5 million (September 30, 2019 – nil).

NOTE 5. LEASE RIGHT-OF-USE ASSETS

During the three and nine months ended September 30, 2020, the Company added $1.3 million and $5.3 million in lease right-of-use assets (September 30, 2019 – $29.7 million and $36.9 million).

Depreciation of lease right-of-use assets included in earnings for the three months ended September 30, 2020 was $3.4 million (September 30, 2019 – $3.1 million), of which $1.7 million was included in cost of goods sold (September 30, 2019 – $1.4 million) and $1.7 million was included in selling and administrative expenses (September 30, 2019 – $1.7 million).

Depreciation of lease right-of-use assets included in earnings for the nine months ended September 30, 2020 was $10.3 million (September 30, 2019 – $9.2 million), of which $5.3 million was included in cost of goods sold (September 30, 2019 – $4.4 million) and $5.0 million was included in selling and administrative expenses (September 30, 2019 – $4.8 million).

NOTE 6. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

	September 30, 2020	December 31, 2019
Balance, January 1	**$ 573,928**	$ 598,831
Currency translation effects	**15,429**	(24,903)
	$ 589,357	$ 573,928

Goodwill acquired through business combinations was allocated to the USA, Rest of World, and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. During the second quarter of 2020, the Company identified indicators of impairment resulting from the negative economic factors surrounding the oil and gas industry and the impact of the COVID-19 pandemic. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at June 30, 2020, the result of which was no impairment of goodwill. At September 30, 2020, the Company determined that there were no further indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

NOTE 7. PROVISIONS

	September 30, 2020	December 31, 2019
Warranty provision	$ 13,258	$ 15,563
Legal provision	-	1,818
Restructuring provision	-	869
	$ 13,258	$ 18,250

NOTE 8. DEFERRED REVENUES

	September 30, 2020	December 31, 2019
Balance, January 1	$ 89,409	$ 348,804
Cash received in advance of revenue recognition	184,850	424,737
Revenue subsequently recognized	(231,386)	(673,473)
Currency translation effects	6,290	(10,659)
Closing balance	$ 49,163	$ 89,409

Amounts recognized as deferred revenues are typically recognized into revenue within six months.

NOTE 9. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2023 (the "Maturity Date"). The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $150.0 million at the request of the Company, subject to the lenders' consent. There are no required or scheduled principal repayments until the Maturity Date of the Bank Facility.

The composition of the borrowings on the Bank Facility and the Company's senior unsecured notes ("Notes") was as follows:

	September 30, 2020	December 31, 2019
Drawings on Bank Facility	$ 106,214	$ 121,328
Notes due June 22, 2021	40,000	40,000
Notes due December 15, 2024	155,060	151,374
Notes due December 15, 2027	123,373	120,916
Deferred transaction costs	(2,475)	(3,131)
	$ 422,172	$ 430,487
Current portion of long-term debt	$ 40,000	$ -
Non-current portion of long-term debt	382,172	430,487
	$ 422,172	$ 430,487

For the nine months ended September 30, 2020, movement in U.S. dollar foreign exchange rates resulted in an increase of $10.0 million on U.S. dollar denominated long-term debt (December 31, 2019 – decrease of $14.2 million).

The weighted average interest rate on the Bank Facility for the nine months ended September 30, 2020 was 2.4 percent (December 31, 2019 – 3.5 percent). At September 30, 2020, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $301.3 million, and $123.4 million thereafter.

NOTE 10. LEASE LIABILITIES

	September 30, 2020		December 31, 2019	
Balance, January 1	$	67,000	$	39,438
Additions		5,032		41,973
Lease interest		2,569		2,586
Payments made against lease liabilities		(12,202)		(15,137)
Currency translation effects and other		416		(1,860)
Closing balance	$	62,815	$	67,000
Current portion of lease liabilities	$	14,111	$	14,172
Non-current portion of lease liabilities		48,704		52,828
	$	62,815	$	67,000

In addition to the lease payments made above, during the three and nine months ended September 30, 2020, the Company paid $0.3 million and $0.9 million (September 30, 2019 – $0.5 million and $1.6 million) relating to short-term and low-value leases which were expensed as incurred. During the three and nine months ended September 30, 2020, the Company also paid $0.5 million and $1.2 million (September 30, 2019 – $0.3 million and $1.4 million) in variable lease payments not included in the measurement of lease liabilities, of which $0.2 million and $0.5 million (September 30, 2019 – $0.1 million and $0.3 million) was included in cost of goods sold and $0.3 million and $0.7 million (September 30, 2019 – $0.2 million and $1.1 million) was included in selling and administrative expenses. Interest expense on lease liabilities was $0.8 million and $2.6 million for the three and nine months ended September 30, 2020 (September 30, 2019 – $0.7 million and $1.7 million). Total cash outflow for leases for the three and nine months ended September 30, 2020 was $4.9 million and $14.3 million (September 30, 2019 – $5.0 million and $15.5 million).

Future minimum lease payments under non-cancellable leases were as follows:

	September 30, 2020	
2020	$	4,022
2021		14,568
2022		12,086
2023		8,687
2024		5,873
Thereafter		31,826
	$	77,062
Less:		
Imputed interest		14,062
Short-term leases		155
Low-value leases		30
	$	62,815

NOTE 11. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Current income taxes	**$ 2,405**	$ 8,535	**$ 11,280**	$ 22,373
Deferred income taxes	**3,096**	11,533	**2,671**	28,920
	$ 5,501	$ 20,068	**$ 13,951**	$ 51,293

(b) Reconciliation of Tax Expense

The provision for income taxes differs from that which would be expected by applying Canadian statutory rates. A reconciliation of the difference is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Earnings before income taxes	**$ 16,237**	$ 83,142	**$ 69,540**	$ 171,985
Canadian statutory rate	**25.3%**	26.5%	**25.3%**	26.5%
Expected income tax provision	**$ 4,108**	$ 22,032	**$ 17,594**	$ 45,576
Add (deduct):				
Exchange rate effects on tax basis	**574**	1,280	**(3,991)**	3,201
Earnings taxed in foreign jurisdictions	**1,047**	(2,999)	**(448)**	(2,555)
Revaluation of Canadian deferred tax assets due to change in statutory rate	**-**	-	**-**	5,040
Amounts not deductible (taxable) for tax purposes	**151**	(59)	**1,251**	499
Impact of accounting for associates and joint ventures	**(352)**	(178)	**(579)**	(449)
Other	**(27)**	(8)	**124**	(19)
Income tax expense from continuing operations	**$ 5,501**	$ 20,068	**$ 13,951**	$ 51,293

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2019 – 15.0 percent) and provincial income tax rates of 10.3 percent (2019 – 11.5 percent). During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

The Company's effective tax rate is subject to fluctuations in the Argentine peso and Mexican peso exchange rate against the U.S. dollar. Since the Company holds significant rental assets in Argentina and Mexico, the tax base of these assets is denominated in Argentine peso and Mexican peso, respectively. The functional currency is, however, the U.S. dollar and as a result, the related local currency tax bases are revalued periodically to reflect the closing U.S. dollar rate against these currencies. Any movement in the exchange rate results in a corresponding unrealized exchange rate gain or loss being recorded as part of deferred income tax expense or recovery. During periods of large fluctuation or devaluation of the local currency against the U.S. dollar, these amounts may be significant but are unrealized and may reverse in the future. Recognition of these amounts is required by IFRS, even though the revalued tax basis does not generate any cash tax obligation or liability in the future.

NOTE 12. REVENUE

	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Engineered Systems	**$ 127,915**	$ 398,288	**$ 502,505**	$ 1,128,703
Service[1]	**76,062**	85,513	**228,072**	258,825
Rentals[1]	**61,060**	60,483	**187,638**	183,532
Total revenue	**$ 265,037**	$ 544,284	**$ 918,215**	$ 1,571,060

[1] During the second quarter of 2020, revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line, including $11,717 previously disclosed during the first quarter of 2020. For the three and nine months ended September 30, 2019, $10,730 and $32,130 of revenues have been reclassified from Service to Rentals. This new classification creates better alignment with management's internal metrics, as the operations and maintenance of these facilities are considered costs and revenue associated with the rental of the facilities.

Revenue by geographic location, which is attributed by destination of sale, was as follows:

	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
United States	**$ 118,972**	$ 217,338	**$ 445,034**	$ 777,644
Canada	**55,034**	152,448	**159,251**	362,748
Nigeria	**10,997**	84,623	**91,773**	154,073
Australia	**15,536**	15,925	**51,180**	54,832
Oman	**14,036**	33,381	**39,995**	89,960
Bahrain	**10,834**	10,519	**33,433**	32,279
Mexico	**7,445**	9,828	**24,125**	32,128
Colombia	**14,959**	2,252	**20,529**	15,078
Argentina	**4,239**	3,564	**15,302**	14,034
United Arab Emirates	**1,125**	67	**9,395**	700
Brazil	**3,304**	2,892	**7,984**	8,174
Other	**8,556**	11,447	**20,214**	29,410
Total revenue	**$ 265,037**	$ 544,284	**$ 918,215**	$ 1,571,060

The following table outlines the Company's unsatisfied performance obligations, by product line, as at September 30, 2020:

	Less than one year	One to two years	Greater than two years	Total
Engineered Systems	$ 164,944	$ 21,360	$ -	$ 186,304
Service[2]	28,175	13,419	30,873	72,467
Rentals[2]	186,492	137,559	481,907	805,958
	$ 379,611	**$ 172,338**	**$ 512,780**	**$ 1,064,729**

[2] Unsatisfied performance obligations relating to the operation and maintenance of BOOM contracts have been reclassified from Service to Rentals. Please refer to footnote 1 for further details.

NOTE 13. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

The share-based compensation expense included in the determination of net earnings was:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Equity settled share-based payments	**$ 342**	$ 346	**$ 1,282**	$ 2,271
Cash settled share-based payments	**759**	(2,900)	**(4,580)**	2,652
Share-based compensation expense (recovery)	**$ 1,101**	$ (2,554)	**$ (3,298)**	$ 4,923

Deferred share units ("DSUs"), phantom share entitlements ("PSEs"), performance share units ("PSUs"), restricted share units ("RSUs"), and cash performance target plan awards ("CPTs") are all classified as cash settled share-based payments. Stock options are equity settled share-based payments.

During the first nine months of 2020, the Board of Directors granted CPTs, PSEs, PSUs, RSUs, and options to officers and key employees. The DSU, PSU, and RSU holders had dividends credited to their accounts during the period. The carrying value of the liability relating to cash settled share-based payments at September 30, 2020 included in current liabilities was $0.5 million (December 31, 2019 – $2.4 million) and in other long term liabilities was $6.1 million (December 31, 2019 - $10.0 million).

(b) Equity-Settled Share-Based Payments

	September 30, 2020		December 31, 2019	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**3,565,521**	**$ 14.67**	3,662,698	$ 14.74
Granted	**839,478**	**5.51**	890,836	13.38
Exercised[1]	**-**	**-**	(595,224)	12.52
Forfeited	**(88,469)**	**14.95**	(371,422)	15.67
Expired	**(226,310)**	**14.33**	(21,367)	14.91
Options outstanding, end of period	**4,090,220**	**$ 12.81**	3,565,521	$ $14.67
Options exercisable, end of period	**1,843,655**	**$ 14.76**	1,427,608	$ $14.93

[1]No options were exercised for the nine months ended September 30, 2020. The weighted average share price of Options at the date of exercise for the nine months ended September 30, 2019 was $18.55.

The Company granted 839,478 stocks options for the nine months ended September 30, 2020 (September 30, 2019 – 890,836). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted for the period ended September 30, 2020 was $2.15 per options (September 30, 2019 - $2.87).

The weighted average assumptions used in determinations of fair values are noted below:

	September 30, 2020	September 30, 2019
Expected life (years)	**5.34**	5.28
Expected volatility[2]	**43.6%**	33.9%
Dividend yield	**1.4%**	3.2%
Risk-free rate	**0.5%**	1.2%
Estimated forfeiture rate	**3.6%**	4.1%

[2] Expected volatility is based on the historical volatility of Enerflex over a five-year period, consistent with the expected life of the option.

The following table summarizes options outstanding and exercisable at September 30, 2020:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$5.51 – $12.05	1,322,439	5.04	$	7.77	482,961	1.86	$	11.69
$12.06 – $14.75	1,214,599	4.91		13.33	480,502	3.97		13.31
$14.76 – $20.75	1,553,182	3.88		16.69	880,192	3.41		17.22
Total	**4,090,220**	**4.56**	**$**	**12.81**	**1,843,655**	**3.15**	**$**	**14.76**

(c) Cash-Settled Share-Based Payments

During the three and nine months ended September 30, 2020, the value of director's compensation and executive bonuses elected to be received in DSUs totalled $0.4 million and $2.1 million (September 30, 2019 - $0.4 million and $1.3 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2020	721,820	$	13.95
Granted	357,537		5.87
Vested	(25,720)		5.91
In lieu of dividends	27,354		7.08
DSUs outstanding, September 30, 2020	**1,080,991**	**$**	**11.29**

NOTE 14. FINANCE COSTS AND INCOME

	Three months ended September 30,				Nine months ended September 30,			
		2020		2019		**2020**		2019
Finance Costs								
Short and long-term borrowings	**$**	**4,829**	$	4,693	**$**	**15,466**	$	14,787
Interest on lease liability		**823**		651		**2,569**		1,729
Total finance costs	**$**	**5,652**	$	5,344	**$**	**18,035**	$	16,516
Finance Income								
Bank interest income	**$**	**131**	$	722	**$**	**333**	$	3,341
Income from finance leases		**19**		22		**63**		71
Total finance income	**$**	**150**	$	744	**$**	**396**	$	3,412
Net finance costs	**$**	**5,502**	$	4,600	**$**	**17,639**	$	13,104

NOTE 15. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at September 30, 2020 were designated in the same manner as they were at December 31, 2019. At September 30, 2020, the estimated fair values of financial instruments approximated their carrying values, with the exception of the long-term debt Notes. The carrying value and estimated fair value of the Notes as at September 30, 2020 was $318.4 million and $334.7 million, respectively (December 31, 2019 – $312.3 million and $328.0 million, respectively). The fair value of these Notes at September 30, 2020 was determined on a discounted cash flow basis with a weighted average discount rate of 3.9 percent (December 31, 2019 – 3.8 percent).

Preferred Shares

During the third quarter of 2020, the Company accepted preferred shares from a customer in exchange for products and services. The preferred shares were initially recorded at amortized cost and recognized in other assets. The carrying value and estimated fair value of the preferred shares at September 30, 2020 was $23.0 million.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products.

The following table summarizes the Company's commitments to buy and sell foreign currencies as at September 30, 2020:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**10,223**	October 2020 – March 2021
Sales contracts	USD	**(16,909)**	October 2020 – January 2021
Purchase contracts	EUR	**58**	October 2020

At September 30, 2020, the fair value of derivative financial instruments classified as financial assets was $0.5 million, and as financial liabilities was $0.2 million (December 31, 2019 – $0.2 million and $0.4 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of $63.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for September 30, 2020. The following table shows the sensitivity to a five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by five percent		USD		AUD		BRL
Earnings from foreign operations						
Earnings before income taxes	$	**2,080**	$	**67**	$	**117**
Financial instruments held in foreign operations						
Other comprehensive income	$	**11,980**	$	**767**	$	**170**
Financial instruments held in Canadian operations						
Earnings before income taxes	$	**(9,920)**	$	**-**	$	**-**

The movement in net earnings before tax in Canadian operations is a result of a change in the fair values of financial instruments. The majority of these financial instruments are hedged.

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at September 30, 2020 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates.

For each one percent change in the rate of interest on the Bank Facility, the change in annual interest expense would be $1.1 million. All interest charges are recorded on the interim condensed consolidated statement of earnings as finance costs.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank Facility for future drawings to meet the Company's future growth targets and to pay its obligations as they come due. As at September 30, 2020, the Company held cash and cash equivalents of $99.5 million and had drawn $106.2 million against the Bank Facility, leaving it with access to $567.4 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and Notes, with a bank-adjusted net debt to EBITDA ratio of 1.2:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at September 30, 2020:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 110	$ 59	$ -	$ 169
Accounts payable and accrued liabilities	214,643	-	-	214,643
Long-term debt - Bank Facility	-	-	106,214	106,214
Long-term debt - Notes	-	40,000	278,433	318,433
Other long-term liabilities	-	-	7,928	7,928

The Company expects that cash flows from operations in 2020, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Net change in non-cash working capital and other				
Accounts receivable	**$ 80,422**	$ 79,112	**$ 148,525**	$ 204,197
Contract assets	**210**	(80,363)	**59,383**	(60,232)
Inventories	**30,416**	(18,124)	**27,695**	(83,475)
Deferred revenue	**(35,058)**	(39,709)	**(40,246)**	(165,676)
Accounts payable and accrued liabilities, provisions, and income taxes payable	**(8,747)**	12,924	**(123,083)**	29,952
Foreign currency and other	**(11,177)**	(15,216)	**(23,721)**	(6,384)
	$ 56,066	$ (61,376)	**$ 48,553**	$ (81,618)

Cash interest and taxes paid and received during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Interest paid – short- and long-term borrowings	**$ 902**	$ 781	**$ 10,860**	$ 10,282
Interest paid – lease liabilities	**823**	651	**2,569**	1,729
Total interest paid	**$ 1,725**	$ 1,432	**$ 13,429**	$ 12,011
Interest received	**233**	716	**397**	3,386
Taxes paid	**4,282**	7,502	**11,973**	19,891
Taxes received	**3,061**	20	**3,295**	422

Changes in liabilities arising from financing activities during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	**2020**	2019
Long-term debt, opening balance	**$ 463,158**	$ 365,436	**$ 430,487**	$ 444,712
Changes from financing cash flows	**(34,929)**	33,017	**(18,995)**	(34,870)
The effect of changes in foreign exchange rates	**(6,337)**	2,950	**10,024**	(8,836)
Amortization of deferred transaction costs	**231**	226	**690**	1,295
Other changes	**49**	(84)	**(34)**	(756)
Long-term debt, closing balance	**$ 422,172**	$ 401,545	**$ 422,172**	$ 401,545

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At September 30, 2020, the Company had outstanding letters of credit of $51.4 million (December 31, 2019 - $46.3 million).

The Company is involved in litigation and claims associated with normal operations against which certain provisions have been made in the financial statements. Management is of the opinion that any resulting settlement arising from the litigation would not materially affect the financial position, results of operations or liquidity of the Company.

The Company has purchase obligations over the next three years as follows:

2020	**$ 63,820**
2021	**15,130**
2022	**1,487**

NOTE 18. SEASONALITY

The oil and natural gas service sector in Canada and in some parts of the USA has a distinct seasonal trend in activity levels which results from well-site access and drilling pattern adjustments to take advantage of weather conditions. Generally, Enerflex's Engineered Systems product line has experienced higher revenues in the fourth quarter of each year while Service and Rentals product line revenues have been stable throughout the year. Rentals revenues are also impacted by both the Company's and its customers' capital investment decisions. The USA and Rest of World segments are not significantly impacted by seasonal variations. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating.

NOTE 19. SEGMENTED INFORMATION

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the nine months ended September 30, 2020, the Company recognized $92.4 million of revenue from one customer in the USA and Canada segments, which represented 10.1 percent of total consolidated revenue for the period. At September 30, 2020, amounts owing from the customer included in accounts receivable and contract assets was $15.4 million, which represented 5.0 percent of the total balance of accounts receivable and contract assets.

The following summary describes the operations of each of the Company's reportable segments:

- *USA generates revenue from manufacturing natural gas compression, processing, and electric power equipment, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, operations and maintenance solutions, and contract compression rentals;*
- *Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The Rest of World segment has been successful in securing build-own-operate-maintain and integrated turnkey projects; and*
- *Canada generates revenue from manufacturing both custom and standard natural gas compression, processing, and electric power equipment, as well as providing after-market mechanical service, parts, and compression and power generation rentals.*

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies.

Three months ended September 30,	USA		Rest of World		Canada		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment revenue	**$ 129,837**	$ 311,288	**$ 79,035**	$ 87,685	**$ 70,075**	$ 160,421	**$ 278,947**	$ 559,394
Intersegment revenue	**(2,892)**	(11,989)	**(75)**	(164)	**(10,943)**	(2,957)	**(13,910)**	(15,110)
Revenue	**$ 126,945**	$ 299,299	**$ 78,960**	$ 87,521	**$ 59,132**	$ 157,464	**$ 265,037**	$ 544,284
Revenue – Engineered Systems	**69,079**	236,581	**16,461**	24,412	**42,375**	137,295	**127,915**	398,288
Revenue – Service[1]	**35,897**	43,360	**25,042**	24,961	**15,123**	17,192	**76,062**	85,513
Revenue – Rentals[1]	**21,969**	19,358	**37,457**	38,148	**1,634**	2,977	**61,060**	60,483
Operating income	**$ 6,445**	$ 57,292	**$ 7,973**	$ 13,892	**$ 5,923**	$ 16,188	**$ 20,341**	$ 87,372

Nine months ended September 30,	USA		Rest of World		Canada		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment revenue	**$ 538,458**	$ 953,590	**$ 208,843**	$ 280,771	**$ 190,610**	$ 391,588	**$ 937,911**	$ 1,625,949
Intersegment revenue	**(7,006)**	(34,706)	**(75)**	(7,739)	**(12,615)**	(12,444)	**(19,696)**	(54,889)
Revenue	**$ 531,452**	$ 918,884	**$ 208,768**	$ 273,032	**$ 177,995**	$ 379,144	**$ 918,215**	$ 1,571,060
Revenue – Engineered Systems	**347,977**	739,616	**23,306**	71,161	**131,222**	317,926	**502,505**	1,128,703
Revenue – Service[1]	**115,465**	124,003	**71,772**	82,588	**40,835**	52,234	**228,072**	258,825
Revenue – Rentals[1]	**68,010**	55,265	**113,690**	119,283	**5,938**	8,984	**187,638**	183,532
Operating income	**$ 50,580**	$ 132,965	**$ 21,993**	$ 18,719	**$ 12,427**	31,852	**$ 85,000**	$ 183,536

[1] *Revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line including $11,717 previously disclosed during the first quarter of 2020. For the three and nine months ended September 30, 2019, $10,730 and $32,130 have been reclassified. Please refer to Note 12 for further details.*

	USA		Rest of World		Canada		Total	
As at	**Sep. 30, 2020**	Dec. 31, 2019	**Sep. 30, 2020**	Dec. 31, 2019	**Sep. 30, 2020**	Dec. 31, 2019	**Sep. 30, 2020**	Dec. 31, 2019
Segment assets	**$ 882,624**	$ 948,437	**$ 608,795**	$ 601,512	**$ 545,495**	$ 552,457	**$ 2,036,914**	$ 2,102,406
Goodwill	**162,488**	158,214	**338,502**	327,347	**88,367**	88,367	**589,357**	573,928
Corporate	**-**	-	**-**	-	**-**	-	**(348,254)**	(295,326)
Total segment assets	**$ 1,045,112**	$ 1,106,651	**$ 947,297**	$ 928,859	**$ 633,862**	$ 640,824	**$ 2,278,017**	$ 2,381,008

NOTE 20. SUBSEQUENT EVENTS

Subsequent to September 30, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on January 7, 2021, to shareholders of record on November 26, 2020. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

DIRECTORS AND EXECUTIVES

Enerflex's Executive Management Team:
Left to Right – Greg Stewart, David Izett, Marc Rossiter, Sanjay Bishnoi, Phil Pyle, and Patricia Martinez.

BOARD OF DIRECTORS

FERNANDO ASSING
Director
Katy, Tx

ROBERT S. BOSWELL [1, 4]
Director
Denver, CO

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

W. BYRON DUNN [2, 4]
Director
Dallas, TX

H. STANLEY MARSHALL [2, 3]
Director
Paradise, NL

KEVIN J. REINHART [5]
Director
Calgary, AB

MARC E. ROSSITER
Director
President and Chief Executive Officer
Calgary, AB

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

JUAN CARLOS VILLEGAS [4]
Director
Vitacura, ChileB

MICHAEL A. WEILL [6]
Director
Houston, Te

HELEN J. WESLEY [2, 6]
Director
Calgary, AX

1. *Chair of the Nominating and Corporate Governance Committee*
2. *Member of the Nominating and Corporate Governance Committee*
3. *Chair of the Human Resources and Compensation Committee*
4. *Member of the Human Resources and Compensation Committee*
5. *Chair of the Audit Committee*
6. *Member of the Audit Committee*
7. *Chairman of the Board*

EXECUTIVES

SANJAY BISHNOI
Senior Vice President, Chief Financial Officer
Calgary, AB

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

DAVID IZETT
Senior Vice President, General Counsel
Calgary, AB

SHAREHOLDERS' INFORMATION

COMMON SHARES

The common shares of Enerflex are listed and traded on the Toronto Stock Exchange under the symbol "EFX".

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

AST Trust Company (Canada)
Calgary, AB, Canada and Toronto, ON, Canada

For shareholder enquiries:
AST Trust Company (Canada)
2001 Boul. Robert-Bourassa, Suite 1600
Montreal, QC, H3A 2A6, Canada

Mail:
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Station B
Montreal, QC, H3B 3K3, Canada

Tel: +1.800.387.0825 | +1.416.682.3860
Fax: +1.888.249.6189
Email: inquiries@astfinancial.com
Web: astfinancial.com/ca-en

All questions about accounts, share certificates, or dividend cheques should be directed to the Transfer Agent, Registrar, and Dividend Disbursing Agent.

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

The Toronto Dominion Bank | Calgary, AB, Canada

The Bank of Nova Scotia | Toronto, ON, Canada

INVESTOR RELATIONS

Enerflex Ltd.
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Calgary, AB, T2G 0K3, Canada

Tel: +1.403.387.6377 | Email: ir@enerflex.com

Requests for Enerflex's Annual Report, Quarterly Reports, and other corporate communications should be directed to ir@enerflex.com.

ENERFLEX

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