Enerflex

2024

Q3 Quarterly Report

Tomorrow starts today

November 13, 2024

Management's Discussion and Analysis

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 (the "Financial Statements") for the three and nine months ended September 30, 2024 and 2023, the Company's 2023 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2023, and the cautionary statements regarding forward-looking information and statements in the "*Forward-Looking Statements*" section of this MD&A.

The MD&A focuses on information and material results from the Financial Statements and considers known risks and uncertainties relating to the energy sector. This discussion should not be considered exhaustive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other factors 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 Management Information Circular dated March 15, 2024, the AIF, and Form 40-F, which are available on the Company's website at www.enerflex.com and under the Company's SEDAR+ and EDGAR profiles at www.sedarplus.ca and www.sec.gov/edgar, respectively.

The financial information reported herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting", and is presented in United States dollars unless otherwise stated.

Change in Presentation Currency

Effective January 1, 2024, the Company changed its presentation currency from Canadian dollars ("CAD") to United States dollars ("USD"). The change provides more relevant reporting of the Company's financial position, given that a significant portion of the Company's legal entities applied USD as its functional currency and a significant portion of the Company's expenses, cash flows, assets, and revenues are denominated in USD. The change in presentation currency represents a voluntary change in accounting policy. The Company has applied the presentation currency change retrospectively. All periods presented in this MD&A have been translated into the new presentation currency, in accordance with the guidance in IAS 21 "The Effects of Changes in Foreign Exchange Rates". Further details are provided in Note 1(c) of the Notes to the Financial Statements.

Summary Results

($ millions, except percentages)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Revenue	**$ 601**	$ 580	**$ 1,853**	$ 1,769
Gross margin	**141**	110	**364**	338
Selling, general and administrative expenses ("SG&A")	**82**	75	**235**	219
Foreign exchange loss	**2**	11	**6**	27
Operating income	**57**	24	**123**	92
EBITDA[1]	**122**	77	**272**	240
EBIT[1]	**74**	24	**132**	93
Net earnings	**30**	4	**17**	12
Cash provided by operating activities	**98**	51	**211**	48
Key Financial Performance Indicators (“KPIs”)[2]				
Engineered Systems (“ES”) bookings	**$ 349**	$ 394	**$ 1,100**	$ 1,041
ES backlog	**1,271**	1,158	**1,271**	1,158
Gross margin as a percentage of revenue	**23.5%**	19.0%	**19.6%**	19.1%
Gross margin before depreciation and amortization (“Gross margin before D&A”)	**176**	150	**468**	451
Gross margin before D&A as a percentage of revenue	**29.3%**	25.9%	**25.3%**	25.5%
Adjusted EBITDA[3]	**120**	90	**311**	287
Free cash flow	**78**	29	**150**	6
Long-term debt	**787**	1,038	**787**	1,038
Net debt	**692**	909	**692**	909
Bank-adjusted net debt to EBITDA ratio	**1.9**	2.7	**1.9**	2.7
Return on capital employed (“ROCE”)[4]	**4.5%**	3.0%	**4.5%**	3.0%

[1] EBITDA is defined as earnings before finance costs, income taxes, depreciation and amortization. EBIT is defined as earnings before finance costs and income taxes.
[2] These KPIs are non-IFRS measures. Further detail is provided in the “Non-IFRS Measures” section of this MD&A.
[3] Refer to the “Adjusted EBITDA” section of this MD&A for further details.
[4] Determined by using the trailing 12-month period.

Results Overview

- The Company recorded revenue of $601 million during the three months ended September 30, 2024, compared to $580 million during the three months ended September 30, 2023, primarily attributed to higher Engineered Systems ("ES") revenue from additional project volumes and increased Energy Infrastructure ("EI") revenue as a result of higher utilization and price increases on existing contracts. During the nine months ended September 30, 2024, the Company recorded $1,853 million of revenue, compared to $1,769 million recorded during nine months ended September 30, 2023.

- During the three months ended September 30, 2024, the Company recorded gross margin of $141 million and 23.5 percent compared to $110 million and 19.0 percent for the three months ended September 30, 2023. The favourable gross margin is primarily due to higher margin projects and strong project execution in ES, and increased contributions from EI and After-market Services ("AMS") due to continued strong pricing. The Company's gross margin for the nine months ended September 30, 2024, was $364 million and 19.6 percent compared to a gross margin of $338 million and 19.1 percent during the nine months ended September 30, 2023.

- Cash provided by operating activities was $98 million during the three months ended September 30, 2024, which included net working capital recovery of $35 million, primarily related to the increase in accounts payables related to projects in the ES business line from increased activity. This is a $47 million improvement over cash provided by operating activities from the three months ended September 30, 2023, and an improvement of $86 million over cash provided by operating activities from the three months ended June 30, 2024. Free cash flow was a source of cash of $78 million during the three months ended September 30, 2024, compared to $29 million during the same period last year, and an increase of $84 million compared to the three months ended June 30, 2024. Cash provided by operating activities was $211 million during the nine months ended September 30, 2024, which included net working capital recovery of $67 million, primarily related to the increase in accounts payables related to projects in the ES business line from increased activity. This is a $163 million improvement over cash provided by operating activities from the nine months ended September 30, 2023. Free cash flow was a source of cash of $150 million during the nine months ended September 30, 2024, compared to $6 million during the same period last year.

- The Company recorded SG&A of $82 million and $235 million during the three and nine months ended September 30, 2024, compared to $75 million and $219 million during the same periods of 2023. The variance is primarily due to the mark-to-market on share-based compensation due to higher share price.

- Enerflex reported operating income of $57 million during the third quarter of 2024, compared to $24 million reported during the same period of last year. The higher operating income is primarily due to increased gross margin from higher revenue and execution of higher ES margin projects, partially offset by higher SG&A.

- During the three months ended September 30, 2024, the Company recognized an embedded derivative related to the redemption options of its senior secured notes ("Notes"). The Company's Notes contain optional redemption features that allow the Company to redeem all or part of the Notes at prices set forth in the Notes agreement at a premium. These redemption features constitute embedded derivatives that are required to be separated from the Notes and measured at fair value. The Company recognized a gain of $19 million related to the redemption options, primarily due to the decline in risk-free rates, which have significantly increased the value of the redemption options. This is a non-cash unrealized gain that is not included in operating income and will be excluded from Adjusted EBITDA. More information can be found in Notes 7 and 10 of the Company's Financial Statements.

- The Company repaid $107 million of long-term debt during the three months ended September 30, 2024, which was partially offset by amortization of deferred debt issuance costs. The Company continued to reduce its net funded debt to EBITDA ("bank-adjusted net debt to EBITDA") ratio through strong cash flow generation and continued execution of its large ES backlog. At September 30, 2024, the Company was in compliance with its covenants. Subsequent to September 30, 2024, Enerflex issued a notice of partial redemption for $62.5 million (or 10 percent of the aggregate principal amount originally issued) of its Notes. The redemption was completed on October 11, 2024 (the "Redemption Date") at a redemption price of 103 percent of the principal amount of the Notes being redeemed, plus accrued and unpaid interest up to, but excluding, the Redemption Date.

- The Company invested $16 million in capital expenditures during the third quarter of 2024, which is primarily comprised of $14 million related to maintenance expenditures across the global EI assets and property, plant and equipment ("PP&E"). The Company also invested $17 million to expand an EI project in Eastern Hemisphere ("EH") that will be accounted for as a finance lease when completed.

- Enerflex recorded ES bookings of $349 million during the three months ended September 30, 2024, compared to $394 million during the three months ended September 30, 2023. Enerflex recorded ES bookings of $1,100 million during the nine months ended September 30, 2024, compared to $1,041 million recorded during the same period last year. The increase in year-to-date bookings is mainly attributable to greater overall bookings in North America ("NAM") and EH. The Company continues to have a healthy backlog of $1.3 billion at September 30, 2024, compared to $1.1 billion at December 31, 2023.

- Subsequent to September 30, 2024, Enerflex's Board of Directors (the "Board") increased the Company's quarterly dividend by 50 percent to C$0.0375 per common share, payable on January 16, 2025, to shareholders of record on November 26, 2024. The Board of Directors (the "Board") will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow, anticipated market conditions, and the general needs of the business.

Adjusted EBITDA

The Company defines EBITDA as earnings before finance costs, taxes, and depreciation and amortization. Enerflex's financial results include items that are unique, and items that Management and users of the Financial Statements adjust for when evaluating results. The Company removes the impact of these items when calculating Adjusted EBITDA. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA or as a replacement for measures prepared as determined under IFRS. Adjusted EBITDA may not be comparable to similar non-IFRS measures disclosed by other issuers.

Enerflex believes the adjustment of items that are unique or not in the normal course of continuing operations increases the comparability across items within the Financial Statements or between periods of the Financial Statements. An example of items that are considered unique are restructuring, transaction and integration costs, while an example of an item that increases comparability includes share-based compensation, which fluctuates based on share price that can be influenced by external factors that are not directly relevant to the Company's current operations. Items the Company has adjusted for in the past include, but are not limited to, restructuring, transaction, and integration costs; share-based compensation; severance costs associated with restructuring activities; government grants; impairments or gains on idle facilities; and impairment of goodwill. These items are considered either unique, non-recurring, or non-cash transactions, and not indicative of the ongoing normal operations of the Company.

The Company also adjusts for the impact of finance leases by eliminating the non-cash upfront selling profit recognized when finance leases are put into service, and instead includes lease payments received over the term of the related lease. The Company believes the adjustment for the impact of finance leases in its Adjusted EBITDA calculation provides a better understanding of Enerflex's cash-generating capabilities and improves comparability for similar EI assets with different contract terms.

During the three months ended September 30, 2024, the Company introduced a new adjustment for the gain or loss on the change in fair value of redemption options associated with the Notes. Movement of the fair value of redemption options result in unrealized gains or losses and will unwind as the Company's Notes are repaid. Management believes the redemption options are a unique non-cash transaction that is not indicative of the ongoing normal operations of the Company.

				Three months ended September 30, 2024
($ millions)	**Total**	**North America**	**Latin America**	**Eastern Hemisphere**
EBIT[1]	$ 74	$ 49	$ 13	$ (7)
Depreciation and amortization	48	19	14	15
EBITDA	122	68	27	8
Restructuring, transaction and integration costs	2	1	–	1
Share-based compensation	5	3	2	–
Impact of finance leases				
Upfront gain	–	–	–	–
Principal repayments received	10	–	1	9
Gain on redemption options[1]	(19)			
Adjusted EBITDA	**$ 120**	**$ 72**	**$ 30**	**$ 18**

[1] EBIT includes the gain on redemption options associated with the Notes and is considered a corporate adjustment, and therefore has not been allocated to a reporting segment.

($ millions)	Total	North America	Latin America	Three months ended September 30, 2023 Eastern Hemisphere
EBIT	$ 24	$ 32	$ (10)	$ 2
Depreciation and amortization	53	19	12	22
EBITDA	77	51	2	24
Restructuring, transaction and integration costs	4	2	1	1
Share-based compensation	–	–	–	–
Impact of finance leases				
Upfront gain	–	–	–	–
Principal repayments received	9	–	–	9
Adjusted EBITDA	$ 90	$ 53	$ 3	$ 34

($ millions)	**Total**	**North America**	**Latin America**	Nine months ended September 30, 2024 **Eastern Hemisphere**
EBIT[1]	**$ 132**	**$ 132**	**$ 18**	**$ (37)**
Depreciation and amortization	**140**	**55**	**41**	**44**
EBITDA	**272**	**187**	**59**	**7**
Restructuring, transaction and integration costs	**13**	**6**	**4**	**3**
Share-based compensation	**13**	**8**	**3**	**2**
Impact of finance leases				
Upfront gain	**(3)**	**–**	**–**	**(3)**
Principal repayments received	**35**	**–**	**1**	**34**
Gain on redemption options[1]	**(19)**			
Adjusted EBITDA	**$ 311**	**$ 201**	**$ 67**	**$ 43**

[1] *EBIT includes the gain on redemption options associated with the Notes and is considered a corporate adjustment, and therefore has not been allocated to a reporting segment.*

($ millions)	Total	North America	Latin America	Nine months ended September 30, 2023 Eastern Hemisphere
EBIT	$ 93	$ 80	$ (6)	$ 19
Depreciation and amortization	147	51	34	62
EBITDA	240	131	28	81
Restructuring, transaction and integration costs	26	8	5	13
Share-based compensation	7	5	1	1
Impact of finance leases				
Upfront gain	(13)	–	–	(13)
Principal repayments received	27	–	1	26
Adjusted EBITDA	$ 287	$ 144	$ 35	$ 108

Refer to the section "*Segmented Results*" of this MD&A for additional information about results by geographic location.

Engineered Systems Bookings and Backlog

Enerflex monitors its ES bookings and backlog as indicators of future revenue generation and business activity levels. Bookings are recorded in the period when a firm commitment or order is received from clients. Bookings increase backlog in the period they are received, while revenue recognized on ES projects decreases backlog in the period the revenue is recognized.

The following tables set forth ES bookings and backlog by reporting segment:

($ millions)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Bookings				
North America	**$ 342**	$ 382	**$ 964**	$ 937
Latin America	**5**	7	**13**	25
Eastern Hemisphere	**2**	5	**123**	79
Total bookings	**$ 349**	$ 394	**$ 1,100**	$ 1,041

($ millions)	**September 30, 2024**	December 31, 2023	January 1, 2023
Backlog			
North America	**$ 1,025**	$ 932	$ 793
Latin America	**31**	79	39
Eastern Hemisphere	**215**	123	280
Total backlog	**$ 1,271**	$ 1,134	$ 1,112

Bookings of $349 million were recorded during the three months ended September 30, 2024, and bookings of $1,100 million during the nine months ended September 30, 2024. The continued strength in bookings is based on the continued steady client activity levels in NAM with a strong emphasis on bookings for processing projects.

ES backlog of $1.3 billion at September 30, 2024, increased from a backlog of $1.1 billion at December 31, 2023.

Demand for new ES equipment and services in North America has been impacted by an extended weakness in domestic natural gas prices. This, combined with the anticipated overall mix of projects in Enerflex's ES backlog, is expected to result in ES gross margin before depreciation and amortization more consistent with the long-term average for this business line. Notwithstanding, near-term revenue for this business line is expected to remain steady and the medium-term outlook for ES products and services continues to be attractive, driven by increases in natural gas, oil, and produced water volumes across Enerflex's global footprint and decarbonization activities.

Segmented Results

Enerflex has three reporting segments: NAM, Latin America ("LATAM"), and EH, each of which are supported by Enerflex's corporate functions. Corporate overhead is allocated to the operating segments based on revenue. In assessing its operating segments, the Company considers geographic locations, economic characteristics, the nature of products and services provided, the nature of production processes, the types of clients for its products and services, and distribution methods used.

North America Segment Results

($ millions, except percentages)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
ES bookings	**$ 342**	$ 382	**$ 964**	$ 937
ES backlog	**1,025**	965	**1,025**	965
Segment revenue	**$ 418**	$ 374	**$ 1,242**	$ 1,095
Intersegment revenue	**(20)**	(5)	**(56)**	(25)
Revenue	**$ 398**	$ 369	**$ 1,186**	$ 1,070
EI	**$ 37**	$ 33	**$ 110**	$ 94
AMS	**68**	76	**206**	211
ES	**293**	260	**870**	765
Revenue	**398**	369	**1,186**	1,070
EI	**18**	14	**53**	39
AMS	**12**	15	**36**	38
ES	**65**	43	**174**	115
Gross margin	**95**	72	**263**	192
Gross margin %	**23.9%**	19.5%	**22.2%**	17.9%
EI	**26**	22	**77**	61
AMS	**13**	16	**40**	42
ES	**66**	46	**178**	121
Gross margin before D&A	**105**	84	**295**	224
Gross margin before D&A %	**26.4%**	22.8%	**24.9%**	20.9%
SG&A	**46**	40	**131**	113
Operating income	**49**	32	**132**	79
EBIT	**49**	32	**132**	80
EBITDA	**68**	51	**187**	131
Adjusted EBITDA	**72**	53	**201**	144

Enerflex recorded ES bookings of $342 million in the NAM segment in the third quarter of 2024, compared to $382 million the same period last year. The decrease is attributable to a large booking last year that did not repeat, offset by an increased volume of bookings in both the USA and Canada during the current quarter. Increased bookings reflect steady activity levels in the energy sector in the USA and Canada. The NAM segment continues to have a strong emphasis on bookings for processing projects. Accordingly, NAM's ES backlog of $1,025 million at September 30, 2024, is expected to result in strong ES revenue generation over the near term.

Revenue increased by $29 million and $116 million during the three and nine months ended September 30, 2024, compared to the same periods last year, which is primarily from increased ES revenues from elevated activity levels on a strong opening backlog and sustained client bookings. The segment also saw an increase in EI revenue due to its expanded contract compression fleet and inflationary price adjustments. Total revenue increase was offset by lower AMS revenues primarily due lower utilizations and to the hurricanes that impacted the Gulf Coast region during the current quarter.

Gross margin was $95 million and $263 million during the three and nine months ended September 30, 2024, which is an increase over the $72 million and $192 million during the three and nine months ended September 30, 2023. The increases are attributable to higher overall revenues and improved margins on executed ES projects.

SG&A was higher during the three and nine months ended September 30, 2024, compared to the same periods last year, which is primarily due to the mark-to-market on share-based compensation due to higher share price. The year-to-date increase to SG&A is also due to the recovery of a previously written off receivable in the comparative period.

At September 30, 2024, the USA contract compression fleet totaled approximately 428,000 horsepower. The average utilization of the USA contract compression fleet for the three and nine months ended September 30, 2024, was 94 percent comparable to the 94 percent utilization for the three and nine months ended September 30, 2023. The Company has seen increased revenue due to improved rental pricing.

Latin America Segment Results

($ millions, except percentages)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
ES bookings	**$ 5**	$ 7	**$ 13**	$ 25
ES backlog	**31**	34	**31**	34
Segment revenue	**$ 114**	$ 81	**$ 298**	$ 254
Intersegment revenue	**–**	(1)	**–**	(1)
Revenue	**$ 114**	$ 80	**$ 298**	$ 253
EI	**$ 68**	$ 57	**$ 188**	$ 185
AMS	**19**	12	**49**	38
ES	**27**	11	**61**	30
Revenue	**114**	80	**298**	253
EI	**20**	12	**51**	48
AMS	**5**	2	**14**	9
ES	**5**	4	**11**	8
Gross margin	**30**	18	**76**	65
Gross margin %	**26.3%**	22.5%	**25.5%**	25.7%
EI	**32**	23	**89**	80
AMS	**5**	2	**14**	9
ES	**5**	4	**11**	8
Gross margin before D&A	**42**	29	**114**	97
Gross margin before D&A %	**36.8%**	36.3%	**38.3%**	38.3%
SG&A	**14**	17	**43**	44
Foreign exchange loss	**1**	11	**5**	27
Operating income (loss)	**15**	(10)	**28**	(6)
EBIT	**13**	(10)	**18**	(6)
EBITDA	**27**	2	**59**	28
Adjusted EBITDA	**30**	3	**67**	35

ES bookings were $5 million and $13 million for the three and nine months ended September 30, 2024, compared to $7 million and $25 million during the comparative periods of 2023. Enerflex continues to monitor potential projects in LATAM and is well positioned to capitalize on those opportunities should they proceed.

Revenue was $114 million and $298 million for the three and nine months ended September 30, 2024, compared to $80 million and $253 million for the three and nine months ended September 30, 2023. The increases in revenue are primarily from increases in ES revenue based on the pace of execution on projects in its backlog, as well as increased AMS revenue from stronger parts sales, and increased EI revenue due to rate adjustments on existing contracts.

Gross margin increased by $12 million and $11 million during the three and nine months ended September 30, 2024, compared to the same periods last year, which is mainly due to increased revenue in all product lines. Gross margin for the nine months ended September 30, 2023, included the sale of certain EI assets which resulted in a slightly higher gross margin percentage when compared to the current year.

SG&A of $14 million and $43 million during the three and nine months ended September 30, 2024, decreased from the $17 million and $44 million during the same periods last year, mainly attributable to higher efficiencies on the integrated business.

Foreign exchange losses decreased during the three and nine months ended September 30, 2024, compared to the same periods in 2023, which is the result of a slower rate of devaluation of the Argentine peso and decreasing cash balances in Argentina. The decrease in foreign exchange losses were partially offset by the recognition of foreign exchange losses in Mexico during the three months ended September 30, 2024. The Company also recognized losses from associated instruments of $2 million and $10 million during the three and nine months ended September 30, 2024. The losses were partially offset by $1 million and $2 million in interest income earned on cash and cash equivalents held in Argentina for the three and nine months ended September 30, 2024, compared to interest income of $6 million and $18 million recorded during the three and nine months ended September 30, 2023. The losses from associated instruments and interest income are not reflected in operating income.

Eastern Hemisphere Segment Results

($ millions, except percentages)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
ES bookings	**$ 2**	$ 5	**$ 123**	$ 79
ES backlog	**215**	159	**215**	159
Segment revenue	**$ 89**	$ 133	**$ 372**	$ 450
Intersegment revenue	**–**	(2)	**(3)**	(4)
Revenue	**$ 89**	$ 131	**$ 369**	$ 446
EI	**$ 44**	$ 51	**$ 221**	$ 144
AMS	**36**	35	**116**	102
ES	**9**	45	**32**	200
Revenue	**89**	131	**369**	446
EI	**20**	17	**51**	46
AMS	**5**	5	**23**	18
ES	**(9)**	(2)	**(49)**	17
Gross margin	**16**	20	**25**	81
Gross margin %	**18.0%**	15.3%	**6.8%**	18.2%
EI	**33**	32	**82**	92
AMS	**5**	6	**25**	20
ES	**(9)**	(1)	**(48)**	18
Gross margin before D&A	**29**	37	**59**	130
Gross margin before D&A %	**32.6%**	28.2%	**16.0%**	29.1%
SG&A	**22**	18	**61**	62
Foreign exchange loss	**1**	–	**1**	–
Operating income (loss)	**(7)**	2	**(37)**	19
EBIT	**(7)**	2	**(37)**	19
EBITDA	**8**	24	**7**	81
Adjusted EBITDA	**18**	34	**43**	108

The Company reported $2 million and $123 million of bookings during the three and nine months ended September 30, 2024, a $3 million decrease and $44 million increase over the same periods in 2023. EH's backlog increased in the current period due to new bookings secured during the year.

Revenue decreased by $42 million during the three months ended September 30, 2024, compared to the same period last year. This decrease in revenue is primarily due to lower ES revenues relating to the EH Cryo project that was suspended in the second quarter of 2024 and is in Force Majeure. Lower EI revenue is attributed to an EI asset that was previously accounted for as an operating lease that was converted to a finance lease in the first quarter of 2024. These decreases in revenue were offset by increased AMS revenue from increased volume of service work.

Revenue decreased by $77 million during the nine months ended September 30, 2024, when compared to the same period last year, primarily due to lower ES revenue relating to project delays and the Force Majeure on the EH Cryo project and the impact of the upfront revenue on commencement of a finance lease project during the first three months of 2023. Offsetting the decrease in revenue is an increase to EI revenue as a result of the upfront revenue recognized on the extension and modification of an existing contract related to an EI asset previously accounted for as an operating lease that is now accounted for as a finance lease, and increased AMS revenues from increased volume of work.

Gross margin for the three months ended September 30, 2024, remained consistent with the three months ended September 30, 2023. Gross margin percentage increased primarily due to higher margin rental contracts. Gross margin for the nine months ended September 30, 2024, decreased by $56 million compared to the nine months ended September 30, 2023, primarily due to decreased ES revenue from project delays and increased costs on the EH Cryo project, and the impact of a larger upfront gain on the commencement and recognition of a finance lease project in the first quarter of 2023.

SG&A was $22 million and $61 million during the three and nine months ended September 30, 2024, compared to $18 million and $62 million during the same periods last year. The increase in SG&A during the three months ended September 30, 2024, is primarily due to the mark-to-market on share-based compensation due to higher share price.

Gross Margin by Product Line

Each of Enerflex's three reporting segments oversees execution of three main product lines: EI, AMS, and ES. The EI product line includes infrastructure solutions under contract for natural gas processing, compression, treated water, and electric power equipment. The AMS product line provides after-market mechanical services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, long-term service agreements, and technical services to our global clients. The ES product line is comprised of processing, compression, cryogenic, electric power, treated water, and low-carbon solutions, including carbon capture.

The Company considers its EI and AMS product lines to be recurring in nature, given that revenues are typically contracted and extend into the future. The Company aims to diversify and expand EI and AMS offerings, which the Company believes offer longer-term stability in earnings compared to ES revenue, which historically have been dependent on the cyclical demand for new compression, processing, and electric power equipment. While individual EI and AMS 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.

The components of each product line's gross margins are disclosed in the tables below.

								Three months ended September 30, 2024
($ millions, except percentages)		**Total**		**EI**		**AMS**		**ES**
Revenue	**$**	**601**	**$**	**149**	**$**	**123**	**$**	**329**
Cost of goods sold:								
Operating expenses		**425**		**58**		**100**		**267**
Depreciation and amortization		**35**		**33**		**1**		**1**
Gross margin	**$**	**141**	**$**	**58**	**$**	**22**	**$**	**61**
Gross margin %		**23.5%**		**38.9%**		**17.9%**		**18.5%**
Gross margin before D&A	**$**	**176**	**$**	**91**	**$**	**23**	**$**	**62**
Gross margin before D&A %		**29.3%**		**61.1%**		**18.7%**		**18.8%**

								Three months ended September 30, 2023
($ millions, except percentages)		Total		EI		AMS		ES
Revenue	$	580	$	141	$	123	$	316
Cost of goods sold:								
Operating expenses		430		64		99		267
Depreciation and amortization		40		34		2		4
Gross margin	$	110	$	43	$	22	$	45
Gross margin %		19.0%		30.5%		17.9%		14.2%
Gross margin before D&A	$	150	$	77	$	24	$	49
Gross margin before D&A %		25.9%		54.6%		19.5%		15.5%

($ millions, except percentages)		Total		EI		AMS		ES
								Nine months ended September 30, 2024
Revenue	$	1,853	$	519	$	371	$	963
Cost of goods sold:								
Operating expenses		1,385		271		292		822
Depreciation and amortization		104		93		6		5
Gross margin	$	364	$	155	$	73	$	136
Gross margin %		19.6%		29.9%		19.7%		14.1%
Gross margin before D&A	$	468	$	248	$	79	$	141
Gross margin before D&A %		25.3%		47.8%		21.3%		14.6%

($ millions, except percentages)		Total		EI		AMS		ES
								Nine months ended September 30, 2023
Revenue	$	1,769	$	423	$	351	$	995
Cost of goods sold:								
Operating expenses		1,318		190		280		848
Depreciation and amortization		113		100		6		7
Gross margin	$	338	$	133	$	65	$	140
Gross margin %		19.1%		31.4%		18.5%		14.1%
Gross margin before D&A	$	451	$	233	$	71	$	147
Gross margin before D&A %		25.5%		55.1%		20.2%		14.8%

Income Taxes

The Company reported income tax expense of $21 million and $43 million for the three and nine months ended September 30, 2024, compared to income tax (recovery) expense of $(4) million and $12 million in the same periods of 2023. The increases in income taxes in the current periods is primarily due to higher earnings from operations and higher earnings taxed in foreign jurisdictions, partially offset by the effects of exchange rates.

Legal Proceedings

During the second quarter of 2024, the Tenth Circuit Collegiate Court on Labor Matters in Mexico (the "Court") set aside a January 31, 2022 decision of a Labor Board in the State of Tabasco, Mexico (the "Labor Board") that had ordered subsidiaries of Exterran Corporation (now subsidiaries of Enerflex) to pay a former employee MXN$2,152 million (approximately $125 million) plus other benefits in connection with a dispute relating to the employee's severance pay following termination of his employment in 2015. In rendering its decision, the Court ruled in favor of Enerflex' arguments that the Labor Board ruling was in error and had no credible basis in law or fact.

During the third quarter of 2024, the Labor Board issued an order, supporting the Company's view that the ultimate resolution of the matter will be immaterial to its financial results, ordering payment of certain immaterial benefits to the former employee. Enerflex has filed memoranda seeking consistency on certain aspects of the decision but remains of the view that the ultimate resolution will be immaterial to its financial results. Recent Labor Board and Court rulings are consistent with Enerflex's view that the 2022 Labor Board ruling was in error and had no credible basis in law or fact.

As announced during Q3, Enerflex received a notice from its customer purporting to terminate the EH Cryo project contract notwithstanding Enerflex's prevailing Force Majeure declaration. Enerflex's customer has commenced arbitration proceedings against the Company asserting certain baseless and unsubstantiated claims. Enerflex views the purported termination as a wrongful attempt by its customer to circumvent the Company's contractual rights to suspend performance while the project site remains unsafe; a conclusion that is supported by expert security input. Enerflex is disputing such wrongful purported termination, defending itself against its customer's baseless and unsubstantiated claims and protecting its position in respect of the EH Cryo project.

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

Enerflex Strategy

Enerflex's Vision of ***Transforming Energy for a Sustainable Future*** is supported by a long-term strategy that is founded upon the following key pillars: technical excellence in modularized energy solutions; profitable growth achieved through vertically integrated and geographically diverse product offerings; financial strength and discipline; and sustainable returns to shareholders. Through consistent execution of this strategy and regular evaluation of the Company's capital allocation priorities and decisions, Enerflex has managed a resilient business to create shareholder value over its 40-plus-year history.

Enerflex delivers energy infrastructure and energy transition solutions across the globe by leveraging its enhanced presence in growing natural gas markets. The Company's vertically integrated suite of product offerings includes processing, cryogenic, compression, electric power, low-carbon, and treated water solutions, spanning all phases of a project's lifecycle, from front-end engineering and design to after-market service. Enerflex has proven expertise in delivering low-carbon solutions, including carbon capture utilization and storage, electrification, renewable natural gas ("RNG"), and hydrogen solutions, and works closely with its client partners to help facilitate global decarbonization efforts.

Enerflex will continue to build an increasingly resilient and sustainable business through its EI and AMS product lines over the long term, stabilizing cash flows and reducing cyclicality in the business.

Outlook

Industry Update

Demand has remained steady across the Company's business lines and geographic regions, including high utilization of EI assets and the AMS business line. Enerflex's EI product line is supported by customer contracts, which are expected to generate approximately $1.6 billion of revenue during their current terms.

Complementing Enerflex's recurring revenue businesses is the ES product line. ES results will be supported by a strong backlog of approximately $1.3 billion in projects at September 30, 2024, with the majority of this work expected to convert to revenue over the next 12 months. Demand for new ES equipment and services in North America has been impacted by an extended weakness in domestic natural gas prices. This, combined with the anticipated overall mix of projects in Enerflex's ES backlog, is expected to result in ES gross margin before depreciation and amortization more consistent with the historical long-term average for this business line. Notwithstanding, near-term revenue for this business line is expected to remain steady and the medium-term outlook for ES products and services continues to be attractive, driven by increases in natural gas, oil, and produced water volumes across Enerflex's global footprint and decarbonization activities.

The fundamentals for contract compression in the U.S. remain strong, led by increasing natural gas production in the Permian and capital spending discipline from market participants. Enerflex will continue to make selective customer supported growth investments in this business.

Enerflex continues to focus on enhancing the profitability of our core operations, reducing SG&A, and streamlining our geographic footprint.

Capital Spending

Enerflex expects full-year 2024 capital spending to be below its previous guidance range of $90 million to $110 million. The Company now expects capital spending in 2024 to be $80 million to $90 million, which includes approximately $60 million for maintenance and PP&E capital expenditures. Enerflex continues to make selective growth investments in its EI business line that are expected to generate attractive returns and deliver value to Enerflex shareholders.

Although Enerflex continues to develop its capital spending plans for 2025, the Company expects growth capital will remain below its long-term average. Similar to 2024, continued disciplined capital spending will focus on customer supported opportunities in the U.S. and Middle East. Further details will be provided in conjunction with the release of the Company's full-year 2025 guidance in early January 2025.

Capital Allocation

Providing meaningful direct shareholder returns is a priority for Enerflex. With the Company now operating within its target leverage range of bank-adjusted net debt-to-EBITDA ratio of 1.5x to 2.0x, Enerflex is able to increase direct shareholder returns. This is reflected in the Board's decision to increase the Company's quarterly dividend by 50 percent.

Going forward, capital allocation priorities could include further increases to the Company's dividend, share repurchases, disciplined growth capital spending, and/or further repayment of debt that would help in lowering net finance costs. Allocation decisions will be based on delivering value to Enerflex shareholders and measured against Enerflex's ability to maintain balance sheet strength.

Non-IFRS Measures

Enerflex measures its financial performance using several key financial performance indicators, some of which do not have standardized meanings as prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. These non-IFRS measures are also used by Management in its assessment of relative investments in operations and include ES bookings and backlog, recurring revenue, EBITDA, bank-adjusted net debt to EBITDA ratio, gross margin before D&A, ROCE, and free cash flow and 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 IFRS measure is provided below where appropriate. ES bookings and backlog do not have a directly comparable IFRS measure.

($ millions)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
EBIT, EBITDA, and Adjusted EBITDA				
EBIT	**$ 74**	$ 24	**$ 132**	$ 93
EBITDA	**122**	77	**272**	240
Adjusted EBITDA[1]	**120**	90	**311**	287
Recurring Revenue				
EI	**$ 149**	$ 141	**$ 519**	$ 423
AMS	**123**	123	**371**	351
Impact of finance leases	**10**	9	**(59)**	27
Total recurring revenue	**$ 282**	$ 273	**$ 831**	$ 801
% of total revenue	**46.9%**	47.1%	**44.8%**	45.3%
ROCE				
Trailing 12-month EBIT	**$ 81**	$ 61	**$ 81**	$ 61
Capital employed – beginning of period				
Net debt[2]	**$ 763**	$ 932	**$ 824**	$ 840
Shareholders' equity	**1,023**	1,150	**1,054**	1,140
	$ 1,786	$ 2,082	**$ 1,878**	$ 1,980
Capital employed – end of period				
Net debt[2]	**$ 692**	$ 909	**$ 692**	$ 909
Shareholders' equity	**1,057**	1,144	**1,057**	1,144
	$ 1,749	$ 2,053	**$ 1,749**	$ 2,053
Average capital employed[3]	**$ 1,795**	$ 2,037	**$ 1,795**	$ 2,037
ROCE	**4.5%**	3.0%	**4.5%**	3.0%

[1] *Refer to the "Adjusted EBITDA" section of this MD&A.*
[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

The Company defines free cash flow as cash provided by (used in) operating activities, less maintenance capital and PP&E expenditures, mandatory debt repayments, lease payments and dividends paid, with proceeds on disposals of PP&E and EI assets added back. Free cash flow does not consider growth capital expenditures and may not be comparable to similar measures presented by other companies as it does not have a standardized meaning under IFRS. Management uses this non-IFRS measure to help users of the financial statements assess the level of free cash generated to fund other non-operating activities. The following tables reconciles free cash flow to the most directly comparable IFRS measure, cash provided by (used in) operating activities:

($ millions)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Cash provided by operating activities before changes in working capital and other	**$ 63**	$ 44	**$ 144**	$ 147
Net change in working capital and other	**35**	7	**67**	(99)
Cash provided by operating activities	**$ 98**	$ 51	**$ 211**	$ 48
Less:				
Maintenance capital and PP&E expenditures	**(14)**	(10)	**(32)**	(32)
Mandatory debt repayments	**–**	(10)	**(10)**	(10)
Lease payments	**(5)**	(4)	**(15)**	(12)
Dividends	**(2)**	(2)	**(7)**	(7)
Add:				
Proceeds on disposals of PP&E and EI assets	**1**	4	**3**	19
Free cash flow	**$ 78**	$ 29	**$ 150**	$ 6

Liquidity

The Company expects that cash flows from operations in 2024, 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.

($ millions)	**September 30, 2024**
Cash and cash equivalents	**$ 95**
Total secured revolving credit facility ("RCF")	**800**
Less:	
Drawings on the RCF	**220**
Letters of Credit[1]	**87**
Available for future drawings	**$ 588**

[1] This represents the letters of credit that the Company has funded with the RCF. Additional letters of credit of $29 million are funded from the $70 million LC Facility. Refer to Note 7 "Long-Term Debt" of the Financial Statements for more information.

The Company continues to meet the covenant requirements of its funded debt, including the three-year secured RCF and the Notes. The senior secured net funded debt is comprised of the RCF.

The senior secured net funded debt to EBITDA ratio was 0.3:1, compared to a maximum ratio of 2.5:1, and the bank-adjusted net debt to EBITDA ratio was 1.9:1, compared to a maximum ratio of 4.0:1. The Company exited the quarter with an interest coverage ratio was 4.2:1 compared to a minimum ratio of 2.5:1. The interest coverage ratio is calculated by dividing the trailing 12-month EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

Summarized Statements of Cash Flow

($ millions)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Cash and cash equivalents, beginning of period	**$ 126**	$ 132	**$ 95**	$ 187
Cash provided by (used in):				
Operating activities	**98**	51	**211**	48
Investing activities	**(15)**	(25)	**(39)**	(92)
Financing activities	**(114)**	(35)	**(169)**	(18)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**–**	(2)	**(3)**	(4)
Cash and cash equivalents, end of period	**$ 95**	$ 121	**$ 95**	$ 121

Operating Activities

Cash provided by operating activities for the three and nine months ended September 30, 2024, was higher when compared to the comparative periods, primarily driven by higher net earnings recognized in the current periods, partially offset by the net changes in working capital. Movements in the net change in working capital are explained in the "Financial Position" section of this MD&A.

Investing Activities

Cash used in investing activities for the three and nine months ended September 30, 2024, was lower when compared to the same periods last year, primarily due to decreased capital expenditures on PP&E and EI assets.

Financing Activities

Cash used in financing activities for the three and nine months ended September 30, 2024, was higher when compared to same periods last year, primarily due to the net repayment of the RCF and the repayment of the Term Loan during the second quarter of 2024.

Capital Expenditures and Expenditures for Finance Leases

Enerflex distinguishes capital expenditures invested in EI assets as either maintenance or growth. Maintenance expenditures are necessary costs to continue utilizing existing EI assets, while growth expenditures are intended to expand the Company's EI assets. The Company may also incur costs related to the construction of EI assets determined to be finance leases. These costs are accounted for as work-in-progress related to finance leases, and once the project is completed and enters service, it is reclassified to cost of goods sold.

During the three and nine months ended September 30, 2024, Enerflex invested $33 million and $63 million in capital expenditures, including maintenance of the Company's global EI assets and expenditures for finance leases, as well as small-scale investments to expand these EI assets across all regions.

Capital expenditures and expenditures for finance leases are shown in the table below:

($ millions)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Maintenance and PP&E	**$ 14**	$ 10	**$ 32**	$ 32
Growth	**2**	10	**11**	57
Total capital expenditures	**16**	20	**43**	89
Expenditures for finance leases	**17**	–	**20**	3
Total capital expenditures and expenditures for finance leases	**$ 33**	$ 20	**$ 63**	$ 92

Financial Position

The following table outlines significant changes in the consolidated statements of financial position as at September 30, 2024, compared to December 31, 2023:

($ millions)	Increase (Decrease)	Explanation
Current assets	**39**	Increase in current assets is primarily due to higher accounts receivables due to activity levels, work-in-progress related to finance leases related to a new project and finance leases receivable related to a new finance lease, partially offset by decreased current unbilled revenue based on activity levels, and short-term investments.
Unbilled revenue	**47**	Increase in non-current unbilled revenue is due to the reclassification of current amounts to non-current related to the suspension of activities of the EH Cryo project which is in Force Majeure.
Energy infrastructure assets – operating leases	**(147)**	Decrease in EI assets is primarily due to the extension and modification of an existing EI asset accounted for as operating leases, which is now being accounted for as a finance lease receivable in EH, and depreciation.
Energy infrastructure assets – finance leases	**37**	Increase in the non-current finance leases receivable is due to the extension and modification of an existing EI asset contract as noted above.
Other assets	**14**	Increase in other assets is primarily due to the fair value of the embedded derivatives on the Company's redemption options related to its Notes, offset by decreased prepaid deposits.
Current liabilities, excluding current portion of long-term debt	**116**	Increase in current liabilities, excluding the current portion of long-term debt is primarily due to movements in deferred revenues, accounts payables, and provisions driven by increased activity levels.
Total long-term debt	**(132)**	Decrease in total long-term debt is primarily due to the repayment of the Term Loan and net repayment on the RCF.

Quarterly Summary

Three months ended ($ millions, except per share amounts)		Revenue		Net earnings (loss)		Earnings (loss) per share – basic		Earnings (loss) per share – diluted
September 30, 2024	**$**	**601**	**$**	**30**	**$**	**0.24**	**$**	**0.24**
June 30, 2024		614		5		0.04		0.04
March 31, 2024		638		(18)		(0.15)		(0.15)
December 31, 2023		574		(95)		(0.77)		(0.77)
September 30, 2023		581		4		$0.03		$0.03
June 30, 2023		579		(2)		(0.02)		(0.02)
March 31, 2023		610		10		0.08		0.08
December 31, 2022		508		(60)		(0.50)		(0.50)

Seasonality of Operations

The energy 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. The Company's ES revenue can fluctuate on a quarter-over-quarter basis as a result of these seasonal trends. Revenues are also impacted by both the Company's and its client partner's capital investment decisions. The LATAM and EH segments are not significantly impacted by seasonal variations, while certain parts of the USA can be impacted by seasonal trends depending on customer activity, demand, and location. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating. The overall seasonality of the Company's operations are mitigated by the increase in recurring revenue streams in the USA, LATAM, and EH, which provide stable revenues throughout the year. A summary of recurring revenue is found in the *"Non-IFRS Measures"* section of this MD&A.

Capital Resources

On October 31, 2024, Enerflex had 124,044,811 common shares outstanding. Enerflex has not established a formal dividend policy, and the Board anticipates setting the quarterly dividends based on the availability of cash flow, anticipated market conditions, and the general needs of the business. Subsequent to the third quarter of 2024, the Board declared a quarterly dividend of C$0.0375 per share.

The RCF was extended during the three months ended June 30, 2024, and has a maturity date of October 13, 2026 (the “Maturity Date”). Availability under the RCF has been increased to $800 million from $700 million and may be increased by $50 million at the request of the Company, subject to the lenders’ consent. The Maturity Date of the RCF may be extended annually on or before the anniversary date with the consent of the lenders. In conjunction with the extension of the RCF, the Company repaid its Term Loan which had a balance of $120 million at March 31, 2024.

At September 30, 2024, the Company had combined drawings of $220 million against the RCF (December 31, 2023 – $368 million including the Term Loan, January 1, 2023 – $488 million including the Term Loan). The weighted average interest rate on the RCF at September 30, 2024, was 7.6 percent (December 31, 2023 – 7.7 percent, January 1, 2023 – 7.0 percent).

The composition of the borrowings on the Notes, RCF and Term Loan were as follows:

	Maturity Date	September 30, 2024	December 31, 2023	January 1, 2023
Notes	October 15, 2027	$ 625	$ 625	$ 625
Drawings on the RCF	October 13, 2026	220	238	338
Drawings on the Term Loan		–	130	150
		845	993	1,113
Deferred transaction costs and Notes discount		(58)	(74)	(86)
Long-term debt		$ 787	$ 919	$ 1,027
Current portion of long-term debt		$ –	$ 40	$ 20
Non-current portion of long-term debt		787	879	1,007
Long-term debt		$ 787	$ 919	$ 1,027

At September 30, 2024, without considering renewal at similar terms, the USD equivalent principal payments due over the next five years are $845 million, and nil thereafter.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and the accompanying 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, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and the Board has approved, this MD&A and the 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

Under the supervision, and with the participation, of Enerflex's Management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the Company conducted an evaluation of the effectiveness of its internal control over financial reporting ("ICFR") as of September 30, 2024, the end of the period covered by this MD&A. In conducting this evaluation, Management used the criteria described in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO 2013 Framework"). In designing and evaluating disclosure controls and procedures, Management recognizes that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As previously disclosed, in connection with the audit of our consolidated financial statements for the year ended December 31, 2023, we identified material weaknesses in our ICFR that, in aggregate, constitute material weaknesses in three components of internal control as defined by the COSO 2013 Framework, specifically the control activities, information and communication, and monitoring components. Based on the Company's evaluation over the third quarter of 2024, Management concluded that its disclosure controls and procedures and its ICFR are still not effective as of September 30, 2024.

Under standards established by the U.S. Securities and Exchange Commission, a material weakness is a deficiency or combination of deficiencies in ICFR and exists when the design or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. If a material weakness is identified, there is a possibility that a material misstatement in annual or interim consolidated financial statements will not be prevented or detected and corrected on a timely basis.

The Company underwent significant expansion of operations and revenue growth following the acquisition of Exterran Corporation in October 2022 and, as a consequence of this transaction, Enerflex was required to be compliant with SOX by December 31, 2023. Despite efforts to achieve compliance, the Company was unable to assert that its system of internal control was effective as at December 31, 2023.

Consistent with the previous disclosures, Enerflex has identified the following four material weaknesses in ICFR that continue to impact its financial statement accounts:

- Lack of consistent written policies and control procedures designed to be sufficiently precise to prevent and detect errors that have the potential to aggregate to a material amount;
- Insufficient evidencing and retention of documentation to support the review and approval of various controls;
- An ineffective information and communication process resulting from insufficient design and operation of control activities and inconsistent validation of the accuracy and completeness of information used in the execution of internal controls, primarily related to reports used to extract information from financial reporting systems and spreadsheets that utilize the extracted data; and
- As a consequence of the above material weaknesses the Company was unable to achieve effective monitoring, as controls did not operate over a sufficient period to enable an evaluation of operating effectiveness.

The material weaknesses did not result in any restatements of consolidated financial statements previously reported by Enerflex and there were no changes to previously released results. Accordingly, Management has concluded that the Financial Statements included in this report present fairly, in all material respects, the Company's financial position, results of operations, and cash flows for the periods presented, in conformity with IFRS. While there were no material accounting errors identified, there is a possibility that material misstatements in the Company's Financial Statements will not be prevented or detected on a timely basis because of the material weaknesses.

Remediation Plan and Activities:

Management and the Board of Directors of the Company are committed to maintaining a strong internal control environment, including continued investment in the Company's SOX Compliance Program and continuing efforts to promptly remediate the material weaknesses described above. In addition to work underway as part of the Company's 2024 SOX Compliance Program, the following progress has been made on steps taken in Q3 2024 in furtherance of our objective to remediate material weaknesses:

- Third party experts and the Company's Internal Audit team continue to be leveraged to support Management's assessment of the control environment for 2024 and to address deficiencies identified in a timely manner.
- As Enerflex moves into the final assessment phases for 2024, the Company continues to invest in documenting its processes and formalizing its evaluation procedures as well as training its control owners.
- Reward and recognition and executive sponsorship continue to play a pivotal role in continuing to advance the compliance program and implement the necessary control environment.
- As a result of this continued effort, Management is on track to complete a full scope evaluation to support the Company's 2024 year-end representations.

The Audit Committee continues to review progress of these remediation activities with Management and the external auditors on a consistent and frequent basis. As the Company continues to evaluate and work to improve its ICFR, Management may determine it necessary to implement additional measures to address control deficiencies. The control environment cannot be considered remediated until the applicable controls operate for a sufficient period and Management has concluded, through testing, that the controls are operating effectively. Management remains committed and continues to implement the remediation plan and believes it has sufficient resources in place to remediate the material weaknesses as soon as possible.

Changes in Internal Control Over Financial Reporting:

Management regularly reviews its system of ICFR and makes changes to the Company's processes and systems to improve controls and increase efficiency including, but not limited to, the changes set forth under "Remediation Plan and Activities", with a view to ensuring that the Company maintains an effective internal control environment. Other than what is disclosed in this MD&A, there have been no significant additional changes in the design of the Company's ICFR during the three months ended September 30, 2024, that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

Subsequent Events

Subsequent to September 30, 2024, Enerflex issued a notice of partial redemption for $62.5 million (or 10 percent of the aggregate principal amount originally issued) of its Notes. The redemption was completed on October 11, 2024 (the "Redemption Date") at a redemption price of 103 percent of the principal amount of the Notes being redeemed, plus accrued and unpaid interest up to, but excluding, the Redemption Date.

Subsequent to September 30, 2024, Enerflex declared a quarterly dividend of C$0.0375 per share, payable on January 16, 2025, to shareholders of record on November 26, 2024. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow, anticipated market conditions, and the general needs of the business.

Forward-Looking Statements

This MD&A contains forward-looking information and statements within the meaning of applicable Canadian securities laws and within the meaning of the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to Management's expectations about future events, results of operations, and the future performance (both financial and operational) and business prospects of Enerflex. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "future", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential", "objective", "capable", and similar expressions, are intended to identify forward-looking information and statements. In particular, this MD&A includes (without limitation) forward-looking information and statements pertaining to: the timing pursuant to which the recent Labor Board order will be reviewed and the Company's continuing expectation that the ultimate decision from the Labor Board will be immaterial to the financial results of Enerflex; the Company's ability to successfully dispute the purported termination of the EH Cryo project contract as wrongful and to protect its position in respect of the EH Cryo project; disclosures under the heading "Outlook" including: (i) expectations that customer contracts which support the EI product line will generate $1.6 billion of revenue during their current terms; (ii) expectations that a majority of the $1.3 billion backlog will convert to revenue over the next 12 months; (iii) in response to weakness in near-term natural gas prices combined with the anticipated overall mix of projects in Enerflex's ES backlog, expectations that the ES gross margin before depreciation and amortization will be more consistent with the historical long-term average for this business line with near-term revenue expected to remain steady; (iv) expectations for capital spending in full-year 2024 to be $80 million to $90 million, which includes approximately $60 million for maintenance and PP&E capital expenditures; (v) expectations that growth capital in 2025 will remain below the Company's long-term average; and (vi) capital allocation priorities going forward could include increases to the Company's dividend, share repurchases, additional growth spending, and/or further repayment of debt, if any, and the timing associated therewith, if at all; expectations that the Company's cash flows from operations in 2024, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund investments for working capital and capital assets; expectations that Management will complete a full scope evaluation to support the Company's 2024 year-end representations when required; the Company's continued belief that sufficient resources have been committed to the remediation plan for 2024; and the continuation by the Company of paying a sustainable quarterly cash dividend with such dividend being based on the availability of cash flows, anticipated market conditions, and the general needs of the business.

All forward-looking information and statements in this MD&A are subject to important risks, uncertainties, and assumptions, which may affect Enerflex's operations, including, without limitation: the impact of economic conditions; the markets in which Enerflex's products and services are used; general industry conditions; changes to, and introduction of new, governmental regulations, laws, and income taxes; increased competition; insufficient funds to support capital investments; availability of qualified personnel or management; political unrest and geopolitical conditions; and other factors, many of which are beyond the control of Enerflex. As a result of the foregoing, actual results, performance, or achievements of Enerflex could differ and such differences could be material from those expressed in, or implied by, these statements, including but not limited to: the ability of Enerflex to realize the anticipated benefits of, and synergies from, the acquisition of Exterran and the timing and quantum thereof; the interpretation and treatment of the transaction to acquire Exterran by applicable tax authorities; the ability to maintain desirable financial ratios; the ability to access various sources of debt and equity capital, generally, and on acceptable terms, if at all; the ability to utilize tax losses in the future; the ability to maintain relationships with partners and to successfully manage and operate the business; risks associated with technology and equipment, including potential cyberattacks; the occurrence and continuation of unexpected events such as pandemics, severe weather events, war, terrorist threats, and the instability resulting therefrom; risks associated with existing and potential future lawsuits, shareholder proposals, and regulatory actions; and those factors referred to under the heading *"Risk Factors"* in: (i) Enerflex's Annual Information Form for the year ended December 31, 2023, (ii) Enerflex's management's discussion and analysis for the year ended December 31, 2023, and (iii) Enerflex's Management Information Circular dated March 15, 2024, each of the foregoing documents being accessible under the electronic profile of the Company on SEDAR+ and EDGAR at www.sedarplus.ca and www.sec.gov/edgar, respectively.

Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. The forward-looking information and statements included in this MD&A are made as of the date of this MD&A and are based on the information available to the Company at such time and, other than as required by law, Enerflex disclaims any intention or obligation to update or revise any forward-looking information and statements, whether as a result of new information, future events, or otherwise. This MD&A and its contents should not be construed, under any circumstances, as investment, tax, or legal advice.

The outlook provided in this MD&A is based on assumptions about future events, including economic conditions and proposed courses of action, based on Management's assessment of the relevant information currently available. The outlook is based on the same assumptions and risk factors set forth above and is based on the Company's historical results of operations. The outlook set forth in this MD&A was approved by Management and the Board of Directors. Management believes that the prospective financial information set forth in this MD&A has been prepared on a reasonable basis, reflecting Management's best estimates and judgments, and represents the Company's expected course of action in developing and executing its business strategy relating to its business operations. The prospective financial information set forth in this MD&A should not be relied on as necessarily indicative of future results. Actual results may vary, and such variance may be material.

Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Statements of Financial Position (unaudited)

($ United States millions)	**September 30, 2024**	December 31, 2023	January 1, 2023[1]
Assets			
Current assets			
Cash and cash equivalents	**$ 95**	$ 95	$ 187
Short-term investments	**–**	11	–
Accounts receivable	**450**	398	337
Unbilled revenue[2] (Note 2)	**150**	174	138
Inventories (Note 3)	**292**	294	273
Work-in-progress related to finance leases (Note 3)	**20**	–	31
Current portion of energy infrastructure ("EI") assets – finance leases receivable (Note 4b)	**56**	43	44
Income taxes receivable	**4**	3	8
Derivative financial instruments (Note 10)	**–**	–	1
Prepayments	**55**	58	53
Assets held for sale	**–**	7	–
Total current assets	**1,122**	1,083	1,072
Unbilled revenue[2] (Note 2)	**182**	135	165
Property, plant and equipment	**97**	104	113
EI assets – operating leases (Note 4a)	**717**	864	914
EI assets – finance leases receivable (Note 4b)	**198**	161	173
Lease right-of-use assets	**60**	62	58
Deferred tax assets	**24**	21	16
Intangible assets	**40**	55	76
Goodwill	**433**	433	498
Other assets (Note 5)	**54**	40	59
Total assets	**$ 2,927**	$ 2,958	$ 3,144
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	**$ 463**	$ 424	$ 464
Provisions (Note 6)	**37**	20	14
Income taxes payable	**81**	56	55
Deferred revenue	**341**	297	270
Current portion of long-term debt (Note 7)	**–**	40	20
Current portion of lease liabilities	**22**	19	15
Derivative financial instruments (Note 10)	**–**	1	1
Other current liabilities	**–**	6	–
Liabilities associated with assets held for sale	**–**	5	–
Total current liabilities	**944**	868	839
Deferred revenue	**21**	22	25
Long-term debt (Note 7)	**787**	879	1,007
Lease liabilities	**50**	57	54
Deferred tax liabilities	**52**	65	65
Other liabilities	**16**	13	14
Total liabilities	**$ 1,870**	$ 1,904	$ 2,004
Shareholders' equity			
Share capital	**$ 505**	$ 504	$ 503
Contributed surplus	**678**	678	678
Retained earnings	**68**	58	151
Accumulated other comprehensive loss	**(194)**	(186)	(192)
Total shareholders' equity	**1,057**	1,054	1,140
Total liabilities and shareholders' equity	**$ 2,927**	$ 2,958	$ 3,144

[1] *Effective January 1, 2024, the Company changed its presentation currency from Canadian dollars to United States dollars. Refer to Note 1(c) for more information.*
[2] *Unbilled revenue was previously titled contract assets. There were no dollar amounts reclassified as a result of the change in name.*

See accompanying notes to the unaudited interim condensed consolidated financial statements, including Note 12 "Guarantees, Commitments, and Contingencies".

Interim Condensed Consolidated Statements of Earnings and Other Comprehensive Income (Loss) (unaudited)

($ United States millions, except per share amounts)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Revenue (Note 8)	**$ 601**	$ 580	**$ 1,853**	$ 1,769
Cost of goods sold	**460**	470	**1,489**	1,431
Gross margin	**141**	110	**364**	338
Selling, general and administrative expenses	**82**	75	**235**	219
Foreign exchange loss	**2**	11	**6**	27
Operating income	**57**	24	**123**	92
Equity earnings from associates and joint ventures	**–**	–	**–**	1
Loss on financial instruments	**(2)**	–	**(10)**	–
Gain on redemption options (Note 10)	**19**	–	**19**	–
Earnings before finance costs and income taxes (“EBIT”)	**74**	24	**132**	93
Net finance costs (Note 9)	**23**	24	**72**	69
Earnings before income taxes (“EBT”)	**51**	–	**60**	24
Current income taxes	**24**	9	**60**	31
Deferred income taxes	**(3)**	(13)	**(17)**	(19)
Income taxes	**21**	(4)	**43**	12
Net earnings	**$ 30**	$ 4	**$ 17**	$ 12
Other comprehensive income (loss)				
Items that may be reclassified to profit or loss in subsequent periods:				
Gain on derivatives designated as cash flow hedges transferred to net loss, net of income tax expense	**–**	–	**1**	–
Unrealized gain (loss) on translation of foreign-denominated debt	**8**	(13)	**(13)**	2
Unrealized gain (loss) on translation of financial statements of foreign operations	**(2)**	4	**4**	(4)
Other comprehensive income (loss)	**6**	(9)	**(8)**	(2)
Total comprehensive income (loss)	**$ 36**	$ (5)	**$ 9**	$ 10
Earnings per share – basic	**$ 0.24**	$ 0.03	**$ 0.14**	$ 0.10
Earnings per share – diluted	**$ 0.24**	$ 0.03	**$ 0.14**	$ 0.10
Weighted average number of shares outstanding – basic	**124,044,811**	123,888,473	**124,005,873**	123,799,145
Weighted average number of shares outstanding – diluted	**124,155,265**	124,106,107	**124,109,107**	124,014,367

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

($ United States millions)	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Operating Activities				
Net earnings	**$ 30**	$ 4	**$ 17**	$ 12
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**48**	53	**140**	147
Equity earnings from associates and joint ventures	**–**	–	**–**	(1)
Deferred income taxes recovery	**(3)**	(13)	**(17)**	(19)
Share-based compensation expense	**5**	–	**13**	7
Loss on financial instruments	**2**	–	**10**	–
Gain on redemption options (Note 10)	**(19)**	–	**(19)**	–
Impairment of EI assets (Note 4a)	**–**	–	**–**	1
	63	44	**144**	147
Net change in working capital and other (Note 11)	**35**	7	**67**	(99)
Cash provided by operating activities	**$ 98**	$ 51	**$ 211**	$ 48
Investing Activities				
Additions to:				
Property, plant and equipment	**(4)**	(4)	**(11)**	(11)
EI assets (Note 4a)	**(12)**	(16)	**(32)**	(78)
Intangible assets	**–**	–	**(1)**	(4)
Proceeds on disposal of property, plant and equipment	**–**	1	**–**	1
Proceeds on disposal of EI assets (Note 4a)	**1**	3	**3**	18
Net proceeds (purchases) of financial instruments	**(2)**	(6)	**1**	(6)
Net change in working capital associated with investing activities	**2**	(3)	**1**	(12)
Cash used in investing activities	**$ (15)**	$ (25)	**$ (39)**	$ (92)
Financing Activities				
Net drawings from (repayment of) the Revolving Credit Facility (Note 7)	**$ (107)**	$ (19)	**$ (17)**	$ 13
Repayment of the Term Loan (Note 7)	**–**	(10)	**(130)**	(10)
Lease liability principal repayment	**(5)**	(4)	**(15)**	(12)
Dividends	**(2)**	(2)	**(7)**	(7)
Stock option exercises	**–**	1	**1**	1
Deferred transaction costs	**–**	(1)	**(1)**	(3)
Cash used in financing activities	**$ (114)**	$ (35)	**$ (169)**	$ (18)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ –**	$ (2)	**$ (3)**	$ (4)
Decrease in cash and cash equivalents	**(31)**	(11)	**–**	(66)
Cash and cash equivalents, beginning of period	**126**	132	**95**	187
Cash and cash equivalents, end of period	**$ 95**	$ 121	**$ 95**	$ 121

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

($ United States millions)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total
At January 1, 2023	$ 503	$ 678	$ 151	$ (191)	$ (1)	$ (192)	$ 1,140
Net earnings	–	–	12	–	–	–	12
Other comprehensive loss	–	–	–	(2)	–	(2)	(2)
Effect of stock option plans	1	–	–	–	–	–	1
Dividends	–	–	(7)	–	–	–	(7)
At September 30, 2023	$ 504	$ 678	$ 156	$ (193)	$ (1)	$ (194)	$ 1,144
At January 1, 2024	$ 504	$ 678	$ 58	$ (185)	$ (1)	$ (186)	$ 1,054
Net earnings	–	–	17	–	–	–	17
Other comprehensive loss	–	–	–	(9)	1	(8)	(8)
Effect of stock option plans	1	–	–	–	–	–	1
Dividends	–	–	(7)	–	–	–	(7)
At September 30, 2024	**$ 505**	**$ 678**	**$ 68**	**$ (194)**	**$ –**	**$ (194)**	**$ 1,057**

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

(All amounts in millions of United States dollars, except per share amounts or as otherwise noted.)

Note 1. Summary of Material Accounting Policies

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements ("Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements and were approved and authorized for issue by the Board of Directors (the "Board") on November 13, 2024.

(b) Basis of Presentation and Measurement

The Financial Statements for the three and nine months ended September 30, 2024 and 2023 were prepared in accordance with IAS 34 "Interim Financial Reporting" and do not include all the disclosures included in the annual consolidated financial statements for the year ended December 31, 2023. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements. Certain comparative figures have been reclassified to conform to the current period's presentation.

Preparation of these Financial Statements requires Management to make judgments, estimates and assumptions based on existing knowledge that affect the application of accounting policies and reported amounts and disclosures. Actual results could differ from these estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Enerflex Ltd. (the "Company") changed its presentation currency of the Financial Statements from Canadian dollars ("CAD") to United States dollars ("USD"). This change in accounting policy is detailed in the following section. The Financial Statements are rounded to the nearest million, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost basis with certain financial assets and financial liabilities recorded at fair value. There have been no further significant changes in accounting policies compared to those described in the annual consolidated financial statements for the year-ended December 31, 2023.

(c) Change in Accounting Policies

i. Change in Presentation Currency

Effective January 1, 2024, the Company changed its presentation currency from CAD to USD. The change will provide more relevant reporting of the Company's financial position, given that a significant portion of the Company's legal entities apply USD as its functional currency and a significant portion of the Company's expenses, cash flows, assets, and revenues are denominated in USD. The change in presentation currency represents a voluntary change in accounting policy. The Company has applied the presentation currency change retrospectively, in accordance with the guidance in IAS 8 "Account Policies, Changes in Accounting Estimates and Errors". All periods presented in the Financial Statements have been translated into the new presentation currency, in accordance with the guidance in IAS 21 "The Effects of Changes in Foreign Exchange Rates".

The unaudited condensed interim consolidated statements of earnings and the unaudited condensed interim consolidated statements of cash flows have been translated into the presentation currency using the average exchange rates prevailing during each reporting period. In the unaudited condensed interim consolidated statements of financial position, all assets and liabilities have been translated using the period-end exchange rates, and all resulting exchange differences have been recognized in accumulated other comprehensive income. Shareholders' equity balances have been translated using historical rates in effect on the date of the transactions.

The functional currency of the parent Company and all its subsidiaries remain the same and will not be impacted by the presentation currency change. The functional currency of the parent Company is CAD and functional currency of most of its subsidiaries is USD.

The change in presentation currency resulted in the following impact on January 1, 2023, opening consolidated statement of financial position:

	Previously reported in CAD January 1, 2023	Presentation currency change	Reported in USD January 1, 2023
Total assets	$ 4,258	$ (1,114)	$ 3,144
Total liabilities	2,715	(711)	2,004
Total shareholders' equity	1,543	(403)	1,140

The change in presentation currency resulted in the following impact on the December 31, 2023, consolidated statement of financial position:

	Previously reported in CAD December 31, 2023	Presentation currency change	Reported in USD December 31, 2023
Total assets	$ 3,912	$ (954)	$ 2,958
Total liabilities	2,518	(614)	1,904
Total shareholders' equity	1,394	(340)	1,054

The change in presentation currency resulted in the following impact on the three and nine months ended September 30, 2023, consolidated statements of earnings and comprehensive income:

Three months ended September 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Net earnings	$ 6	$ (2)	$ 4
Comprehensive income	26	(31)	(5)

Nine months ended September 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Net earnings	$ 16	$ (4)	$ 12
Comprehensive income	12	(2)	10

The change in presentation currency resulted in the following impact on the three and nine months ended September 30, 2023, consolidated statements of cash flows:

Three months ended September 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Cash provided by (used in):			
Operating activities	$ 71	$ (20)	$ 51
Investing activities	(30)	5	(25)
Financing activities	(50)	15	(35)

Nine months ended September 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Cash provided by (used in):			
Operating activities	$ 64	$ (16)	$ 48
Investing activities	(121)	29	(92)
Financing activities	(26)	8	(18)

The change in presentation currency resulted in the following impact on the three and nine months ended September 30, 2023, basic and diluted earnings per share:

Three months ended September 30,		Previously reported in CAD 2023		Presentation currency change		Reported in USD 2023
Earnings per share – basic	$	0.05	$	(0.02)	$	0.03
Earnings per share – diluted		0.05		(0.02)		0.03

Nine months ended September 30,		Previously reported in CAD 2023		Presentation currency change		Reported in USD 2023
Earnings per share – basic	$	0.13	$	(0.03)	$	0.10
Earnings per share – diluted		0.13		(0.03)		0.10

ii. Amendments to Current Accounting Policies

a. IAS 1 Presentation of Financial Statements (“IAS 1”)

In October 2022, the IASB issued amendments to clarify that the classification of liabilities as current or non-current is based solely on a company’s right to defer settlement for at least twelve months at the reporting date. The right needs to exist at the reporting date and must have substance. In addition to the amendment from January 2020 where the IASB issued amendments to IAS 1, to provide a more general approach to the presentation of liabilities as current or non-current, only covenants with which a company must comply on or before the reporting date may affect this right. Covenants to be complied with after the reporting date do not affect the classification of a liability as current or non-current at the reporting date. However, disclosure about covenants is required to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

b. IFRS 16 Leases (“IFRS 16”)

In September 2022, the IASB issued amendments to IFRS 16 that add subsequent measurement requirements for lease liabilities arising from sale and leaseback transactions for seller-lessees. The amendment does not prescribe specific measurement requirements for lease liabilities but measures the lease liability in a way that it does not recognise any amount of the gain or loss that relates to the right of use retained.

These amendments are effective for annual periods beginning on or after January 1, 2024, and the Company adopted these amendments as of January 1, 2024. There were no adjustments that resulted from the adoption of these amendments on January 1, 2024.

iii. Standards Recently Issued, but not yet Effective

a. IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18")

On April 9, 2024, the IASB issued IFRS 18, the new standards on presentation and disclosure in financial statements. IFRS 18 will require defined subtotals in the Consolidated Statements of Earnings (Loss), require disclosure of management-defined performance measures ("MPM"), provide principles for the aggregation and disaggregation of information, and improve comparability across entities and reporting periods.

IFRS 18 will replace IAS 1 and retains many of the existing principals in IAS 1. IFRS 18 will be effective for years beginning on or after January 1, 2027, with earlier application permitted. Retrospective application is required. The Company is currently evaluating the impact of adopting IFRS 18 on the consolidated financial statements.

Consequential amendments to other accounting standards

IAS 7 Statement of Cash Flows ("IAS 7")

Narrow-scope amendments have been made to IAS 7, which include changing the starting point for determining cash flows from operations under the indirect method from 'profit or loss' to 'operating profit or loss'. The optionality around classification of cash flows from dividends and interest in the statement of cash flows has also largely been removed.

IAS 33 Earnings per Share ("IAS 33")

IAS 33 has been amended to include additional requirements that permit entities to disclose additional amounts per share, only if the numerator used in the calculation is an amount attributed to ordinary equity holders of the parent entity and a total or subtotal identified by IFRS 18, or MPM as defined by IFRS 18.

b. IFRS 9 Financial Instruments ("IFRS 9") and IFRS 7 Financial Instruments: Disclosures ("IFRS 7")

In May 2024, the IASB issued amendments to IFRS 9 and IFRS 7 to clarify financial assets and financial liabilities are recognized and derecognized at settlement date except for regular way purchases or sales of financial assets and financial liabilities meeting conditions for new exception. The new exception permits companies to elect to derecognize certain financial liabilities settled via electronic payment systems earlier than the settlement date.

They also provide guidelines to assess contractual cash flow characteristics of financial assets, which apply to all contingent cash flows, including those arising from environmental, social, and governance (ESG)-linked features.

Additionally, these amendments introduce new disclosure requirements and update others.

The amendments will be effective for years beginning on or after January 1, 2026, with earlier adoption permitted. The Company is currently evaluating the impact of adopting the amendments to IFRS 9 and IFRS 7 on its consolidated financial statements.

Note 2. Unbilled Revenue

A reconciliation of the changes in unbilled revenue was as follows:

	September 30, 2024		December 31, 2023	
Opening balance	**$**	**309**	$	303
Unbilled revenue recognized		**710**		1,011
Amounts billed		**(686)**		(1,004)
Currency translation effects		**(1)**		(1)
Closing balance	**$**	**332**	$	309
Current unbilled revenue	**$**	**150**	$	174
Non-current unbilled revenue		**182**		135
Total unbilled revenue	**$**	**332**	$	309

Amounts recognized as current unbilled revenue are typically billed to customers within twelve months and amounts recognized as non-current unbilled revenue will be billed to customers more than twelve months from the date of the balance sheet.

During the second quarter of 2024, Enerflex suspended activity at a modularized cryogenic natural gas processing facility in Kurdistan (the "EH Cryo project"), provided its customer with notice of Force Majeure and demobilized its personnel. The ultimate duration of the Force Majeure declaration and impact of the suspension on the EH Cryo project remains indeterminable. During the third quarter of 2024, and as previously announced, Enerflex received notice from its customer purporting to terminate the EH Cryo project contract. Enerflex is disputing such wrongful purported termination and protecting its position in respect of the EH Cryo project.

The unbilled revenue associated with the EH Cryo project is $178 million and is included in non-current unbilled revenue. The Company also recorded an onerous contract provision of $17 million, resulting in a net position of $161 million. Management has made estimates and assumptions surrounding the customer's purported contract termination, the expected proceeds and profitability of the EH Cryo project contract, the estimated degree of completion based on cost progression and other factors that impact the amount of revenue recognized for the project. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized.

Since inception of the project, Enerflex has maintained a $31 million Letter of Credit in support of its obligation under the EH Cryo project contract. Enerflex would view any drawing of the financial security in the prevailing circumstances as improper and would be considered as an additional receivable owed by the customer.

Management continues to assess the status of the EH Cryo project and its impact on the Financial Statements.

Note 3. Inventories

Inventories consisted of the following:

	September 30, 2024	December 31, 2023	January 1, 2023
Direct materials	**$ 99**	$ 70	$ 79
Repair and distribution parts	**106**	115	101
Work-in-progress	**77**	90	73
Equipment	**10**	19	20
Total inventories	**$ 292**	$ 294	$ 273

	September 30, 2024	December 31, 2023	January 1, 2023
Work-in-progress related to finance leases	**$ 20**	$ –	$ 31

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold ("COGS") during the three and nine months ended September 30, 2024, was $460 million and $1,489 million (September 30, 2023 – $470 million and $1,431 million). COGS is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. COGS also includes inventory write-downs pertaining to obsolescence and aging, and recoveries of past write-downs upon disposition. The net change in inventory reserves charged to the interim condensed consolidated statements of earnings and included in COGS for the three and nine months ended September 30, 2024, was less than $1 million and $1 million (September 30, 2023 – less than $1 million and $4 million).

The costs related to the construction of EI assets determined to be finance leases are accounted for as work-in-progress related to finance leases. Once a project is completed and enters service it is reclassified to COGS. During the three and nine months ended September 30, 2024, the Company invested $17 million and $20 million related to finance leases.

Note 4. Energy Infrastructure Assets

The Company's EI assets are Energy Infrastructure assets comprised of Build-Own-Operate-Maintain ("BOOM") assets, and contract compression assets which are leased to customers. At the inception of a lease contract, all leases are classified as either an operating lease or a finance lease.

(a) EI Assets – Operating Leases

EI assets under lease arrangements that are classified and accounted for as operating leases under the definition of IFRS 16 are stated at cost less accumulated depreciation and impairment losses.

A reconciliation of the changes in the carrying amount of EI assets was as follows:

	September 30, 2024	December 31, 2023
Cost		
Balance, January 1	**$ 1,142**	$ 1,129
Additions	**32**	90
Disposals[1]	**(117)**	(70)
Currency translation effects	**(12)**	(7)
Total cost	**$ 1,045**	$ 1,142
Accumulated depreciation		
Balance, January 1	**$ (278)**	$ (215)
Depreciation charge	**(85)**	(127)
Impairment	**–**	(1)
Disposals[1]	**26**	53
Currency translation effects	**9**	12
Total accumulated depreciation	**$ (328)**	$ (278)
Net book value	**$ 717**	$ 864

[1] *During the three months ended March 31, 2024, disposals include the conversion of a BOOM asset, which was previously accounted for as an operating lease, to a finance lease as a result of a contract modification.*

During the three and nine months ended September 30, 2024, the Company recognized $59 million and $170 million of revenue related to operating leases in its Latin America ("LATAM") and Eastern Hemisphere ("EH") segments (September 30, 2023 – $58 million and $173 million), and $36 million and $107 million of revenue related to its North America ("NAM") contract compression fleet (September 30, 2023 – $32 million and $91 million).

(b) EI Assets – Finance Leases

Lease arrangements for certain EI assets are considered finance leases when the risks and rewards of ownership are transferred to the lessee, which generally occurs if ownership of the lease is transferred to the lessee by the end of the lease term; the lessee has the option to purchase the leased asset at a price that is sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that option will be exercised; the term of the lease is for the major part of the economic life of the asset; or the present value of the lease payments amounts to substantially all of the fair value of the asset.

The Company has entered into finance lease arrangements for certain of its EI assets, with initial terms ranging from 5 to 10 years.

The value of the finance leases receivable were comprised of the following:

	Minimum lease payments and unguaranteed residual value			Present value of minimum lease payments and unguaranteed residual value		
	September 30, 2024	December 31, 2023	January 1, 2023	**September 30, 2024**	December 31, 2023	January 1, 2023
Less than one year	**$ 57**	$ 46	$ 54	**$ 56**	$ 43	$ 44
Between one and five years	**192**	129	145	**150**	106	110
Later than five years	**63**	90	107	**48**	55	63
	$ 312	$ 265	$ 306	**$ 254**	$ 204	$ 217
Less: Unearned interest revenue	**(58)**	(61)	(89)	**–**	–	–
Closing balance	**$ 254**	$ 204	$ 217	**$ 254**	$ 204	$ 217

	September 30, 2024	December 31, 2023
Opening balance	**$ 204**	$ 217
Additions[1]	**87**	48
Interest revenue	**17**	23
Payments (principal and interest)	**(52)**	(59)
Derecognition on disposal	**–**	(24)
Other	**(2)**	(2)
Currency translation effects	**–**	1
Closing balance	**$ 254**	$ 204

[1] During the three months ended March 31, 2024, additions included the conversion of a BOOM asset, which was previously accounted for as an operating lease, to a finance lease as a result of a contract modification.

The Company recognized non-cash selling profit related to the commencement of finance leases of nil and $3 million for the three and nine months ended September 30, 2024 (September 30, 2023 – nil and $13 million). Additionally, the Company recognized $6 million and $17 million of interest revenue on finance leases receivable during the three and nine months ended September 30, 2024 (September 30, 2023 – $6 million and $18 million). Total cash received in respect of finance leases during the three and nine months ended September 30, 2024, was $16 million and $52 million (September 30, 2023 – $15 million and $45 million), as reflected in principal and interest payments.

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At September 30, 2024, the average interest rate was 7.9 percent per annum (December 31, 2023 – 8.6 percent). The finance leases receivables at the end of reporting period are neither past due nor impaired.

Note 5. Other Assets

Other assets were comprised of the following:

	September 30, 2024	December 31, 2023	January 1, 2023
Investment in associates and joint ventures	**$ 28**	$ 28	$ 25
Redemption options[1]	**19**	–	–
Prepaid deposits	**7**	12	9
Long-term receivables	**–**	–	25
Total other assets	**$ 54**	$ 40	$ 59

[1] The Company's senior secured notes contain optional redemption features that allow Enerflex to redeem the notes prior to maturity at a premium. Refer to Note 7 "Long-Term Debt" for more information.

Note 6. Provisions

Provisions were comprised of the following:

	September 30, 2024	December 31, 2023	January 1, 2023
Onerous contracts	**$ 17**	$ –	$ –
Warranties	**14**	11	10
Restructuring	**6**	7	1
Legal	**–**	2	3
Total provisions	**$ 37**	$ 20	$ 14

A reconciliation of the changes in provisions was as follows:

September 30, 2024	Onerous Contracts	Warranties	Restructuring	Legal	Total
Opening balance	$ –	$ 11	$ 7	$ 2	$ 20
Additions during the year	19	8	–	–	27
Amounts settled and released in the year	(2)	(5)	(1)	–	(8)
Reversal	–	–	–	(2)	(2)
Closing balance	**$ 17**	**$ 14**	**$ 6**	**$ –**	**$ 37**

December 31, 2023	Onerous Contracts	Warranties	Restructuring	Legal	Total
Opening balance	$ –	$ 10	$ 1	$ 3	$ 14
Additions during the year	–	7	6	–	13
Amounts settled and released in the year	–	(6)	–	(1)	(7)
Closing balance	$ –	$ 11	$ 7	$ 2	$ 20

Note 7. Long-Term Debt

The secured revolving credit facility ("RCF"), which was extended during the three months ended June 30, 2024, has a maturity date of October 13, 2026 (the "Maturity Date"). Availability under the RCF increased to $800 million from $700 million and may be increased by $50 million at the request of the Company, subject to the lenders' consent. The Maturity Date of the RCF may be extended annually on or before the anniversary date with the consent of the lenders. In conjunction with the extension of the RCF, the Company repaid its secured term loan ("Term Loan") which had a balance of $120 million at March 31, 2024. The senior secured notes (the "Notes") consist of $625 million principal amount, bears interest of 9.0 percent, and has a maturity of October 15, 2027.

As part of the RCF, the Company can request the issuance of up to $150 million in letters of guarantee, standby letters of credit, performance bonds, counter guarantees, import documentary credits, country standby letters of credit or similar credits to finance the day-to-day operations of the Company. As at September 30, 2024, the Company utilized $87 million of the $150 million limit. The Company also has an additional $70 million unsecured credit facility ("LC Facility") with one of the lenders in its RCF. This LC Facility allows the Company to request the same forms of credits as under the RCF. This LC Facility is supported by performance security guarantees provided by Export Development Canada. As at September 30, 2024, the Company utilized $29 million of the $70 million limit.

The Company is required to maintain certain covenants on the RCF and the Notes. As at September 30, 2024, the Company was in compliance with its covenants.

Composition of the borrowings on the Notes, RCF and Term Loan were as follows:

	Maturity Date	**September 30, 2024**	December 31, 2023	January 1, 2023
Notes	October 15, 2027	**$ 625**	$ 625	$ 625
Drawings on the RCF	October 13, 2026	**220**	238	338
Drawings on the Term Loan		**–**	130	150
		845	993	1,113
Deferred transaction costs and Notes discount		**(58)**	(74)	(86)
Long-term debt		**$ 787**	$ 919	$ 1,027
Current portion of long-term debt		**$ –**	$ 40	$ 20
Non-current portion of long-term debt		**787**	879	1,007
Long-term debt		**$ 787**	$ 919	$ 1,027

Subsequent to September 30, 2024, the Company issued a notice of partial redemption for $62.5 million of its Notes, refer to Note 15 "*Subsequent Events*" for more information.

The weighted average interest rate on the RCF for the nine months ended September 30, 2024, was 7.6 percent (December 31, 2023 – 7.7 percent, January 1, 2023 – 7.0 percent). At September 30, 2024, without considering renewal at similar terms, the USD equivalent principal payments due over the next five years are $845 million, and nil thereafter.

Redemption Options

The Company's Notes contain optional redemption features that allow the Company to redeem all or part of the Notes at prices set forth in the Notes agreement at a premium, following certain dates specified in the Notes agreement. These redemption features constitute embedded derivatives that are required to be separated from the Notes and measured at fair value.

The embedded derivative components of these hybrid financial instruments are measured at fair value at each reporting date with gains or losses in fair value recognized through profit or loss. The decline in risk-free rates has resulted in a significant increase to the value of the redemption options, and accordingly, the Company has recognized an embedded derivative asset of $19 million as at September 30, 2024 (December 31, 2023 – nil) related to these redemption options.

Note 8. Revenue

Revenue by product line were as follows:

	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Energy Infrastructure	**$ 149**	$ 141	**$ 519**	$ 423
After-market Services	**123**	123	**371**	351
Engineered Systems	**329**	316	**963**	995
Total revenue	**$ 601**	$ 580	**$ 1,853**	$ 1,769

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

	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
United States	**$ 268**	$ 256	**$ 825**	$ 735
Oman	**33**	46	**190**	119
Canada	**53**	68	**178**	186
Argentina	**51**	39	**127**	124
Nigeria	**45**	43	**109**	156
Mexico	**19**	14	**50**	43
Australia	**16**	16	**49**	48
Brazil	**13**	18	**44**	61
Peru	**23**	2	**42**	3
Bahrain	**11**	12	**32**	81
Iraq	**7**	34	**31**	116
Thailand	**7**	7	**30**	23
Colombia	**3**	5	**20**	11
Others	**52**	20	**126**	63
Total revenue	**$ 601**	$ 580	**$ 1,853**	$ 1,769

The following table outlines the Company's unsatisfied performance obligations, by product line, as at September 30, 2024:

	Less than one year	One to two years	Greater than two years	**Total**
Energy Infrastructure	$ 445	$ 348	$ 808	**$ 1,601**
After-market Services	74	43	68	**185**
Engineered Systems	1,135	121	15	**1,271**
Total	**$ 1,654**	**$ 512**	**$ 891**	**$ 3,057**

Note 9. Finance Costs and Income

Net finance costs were comprised of the following:

	Three months ended September 30, 2024	2023	Nine months ended September 30, 2024	2023
Finance Costs				
Interest on debt	**$ 21**	$ 26	**$ 66**	$ 78
Accretion of Notes discount	**2**	1	**6**	5
Lease interest expense	**1**	1	**3**	3
Other interest expense	**–**	2	**1**	4
Total finance costs	**$ 24**	$ 30	**$ 76**	$ 90
Finance Income				
Interest income	**1**	6	**4**	21
Net finance costs	**23**	24	**72**	69

Note 10. Financial Instruments

Designation and Valuation of Financial Instruments

Financial instruments at September 30, 2024, were designated in the same manner as they were at December 31, 2023. Accordingly, with the exception of the Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at September 30, 2024, was $625 million and $687 million, respectively (December 31, 2023 – $625 million and $622 million, January 1, 2023 – $625 million and $642 million, respectively). The fair value of these Notes at September 30, 2024, was determined on a discounted cash flow basis with a weighted average discount rate of 7.0 percent (December 31, 2023 – 9.0 percent, January 1, 2023 – 9.0 percent).

The Company previously held preferred shares that were initially recorded at fair value and subsequently measured at amortized cost and recognized as long-term receivables in Other assets. During the three months ended March 31, 2023, the Company redeemed these preferred shares and recognized a gain in excess of the carrying value, which is included in the interim condensed consolidated statements of earnings. The carrying value and estimated fair value of the preferred shares at December 31, 2023, was nil (January 1, 2023 – $21 million and $21 million), respectively.

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, 2024:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**$ 21**	October 2024 – May 2025
Sales contracts	USD	**(18)**	October 2024 – December 2025

At September 30, 2024, the fair value of derivative financial instruments classified as financial assets was less than $1 million, and as financial liabilities was less than $1 million (December 31, 2023 – less than $1 million and $1 million, January 1, 2023 - $1 million and $1 million, respectively).

Redemption Options

During the three months ended September 30, 2024, the Company recognized embedded derivatives related to the redemption options of its Notes, refer to Note 7 *"Long-Term Debt"* for more information. The Company measures these embedded derivatives at fair value and the gain or losses that result from periodic revaluation are recorded through profit or loss.

The fair value of these redemption options are determined using a valuation model based on inputs from observable market data, including independent price publications and third-party pricing services, which are considered Level 2 inputs. Refer to Note 3 *"Summary of Material Accounting Policies"* of the Company's annual consolidated financial statements for the year ended December 31, 2023, for more information on the fair value hierarchy. The fair value of the embedded derivatives was $19 million as at September 30, 2024 (December 31, 2023 – nil, January 1, 2023 – nil), which is included in Other assets on the interim condensed consolidated statements of financial position.

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the USD against the CAD, Australian dollar ("AUD"), and Brazilian real ("BRL"). 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, foreign exchange gains and losses on the translation of $652 million in designated foreign currency borrowings are included in accumulated other comprehensive loss for September 30, 2024. The functional currencies for all entities remain the same. Refer to Note 1(c) *"Change in Accounting Policies"* for further details. The following table shows the sensitivity to a five percent weakening of the USD against the CAD, AUD, and BRL.

US dollar weakens by five percent	CAD	AUD	BRL
Earnings from foreign operations			
EBT	$ (3)	$ –	$ –
Financial instruments held in foreign operations			
Other comprehensive income (loss)	$ 33	$ –	$ 1
Financial instruments held in Canadian operations			
EBT	$ 3	$ –	$ –

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

With the ongoing devaluation of the Argentine peso ("ARS"), caused by high inflation, the Company is at risk for foreign exchange losses on its cash balances denominated in ARS. During the three and nine months ended September 30, 2024, the Company had foreign exchange losses in Argentina of $1 million and $4 million. If the ARS weakens by five percent, the Company could experience additional foreign exchange losses of approximately less than $1 million. There is a risk of higher losses based on the further devaluation of the ARS. The Company continues to explore its options to minimize the impact of future devaluation.

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, 2024, have a fixed interest rate and therefore the related interest expense will not be impacted by fluctuations in interest rates. Conversely, the Company's RCF is subject to changes in market interest rates.

For each one percent change in the rate of interest on the RCF, the change in annual interest expense would be $2 million. All interest charges are recorded in the interim condensed consolidated statements 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 RCF for future drawings to meet the Company's requirements for investments in working capital and capital assets.

		September 30, 2024
Cash and cash equivalents	$	95
Total RCF		800
Less:		
Drawings on the RCF		220
Letters of Credit[1]		87
Available for future drawings	**$**	**588**

[1] This represents the letters of credit that the Company has funded with the RCF. Additional letters of credit of $29 million are funded from the $70 million LC Facility. Refer to Note 7 "Long-Term Debt" for more information.

The Company continues to meet the covenant requirements of its funded debt, including the RCF and Notes. The senior secured net funded debt, which is comprised of the RCF to EBITDA ratio was 0.3:1, compared to a maximum ratio of 2.5:1, the net funded debt to EBITDA ("bank-adjusted net debt to EBITDA") ratio was 1.9:1, compared to a maximum ratio of 4.0:1, and an interest coverage ratio was 4.2:1 compared to a minimum ratio of 2.5:1. The interest coverage ratio is calculated by dividing the trailing 12-month EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

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, 2024:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Accounts payable and accrued liabilities	463	–	–	463
Long-term debt – Notes	–	–	625	625
Long-term debt – RCF	–	–	220	220
Other long-term liabilities	–	–	16	16

The Company expects that cash flows from operations in 2024, together with cash and cash equivalents on hand and the RCF, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

Note 11. Supplemental Cash Flow Information

Changes in working capital and other during the period:

	Three months ended September 30,				Nine months ended September 30,			
		2024		2023		**2024**		2023
Accounts receivable[1]	**$**	**(60)**	$	(17)	**$**	**(52)**	$	(25)
Unbilled revenue		**44**		20		**(23)**		(29)
Inventories		**7**		–		**2**		(36)
Work-in-progress related to finance leases		**(17)**		–		**(20)**		31
EI assets – finance leases		**10**		12		**36**		(20)
Income taxes receivable		**1**		2		**(1)**		3
Prepayments		**(4)**		(3)		**3**		7
Net assets held for sale		**–**		–		**2**		–
Long-term receivables related to preferred shares		**–**		–		**–**		21
Accounts payable and accrued liabilities and provisions[2]		**35**		(3)		**55**		(5)
Income taxes payable		**11**		(5)		**25**		12
Deferred revenue		**9**		(5)		**50**		(49)
Other current liabilities		**–**		–		**(6)**		–
Foreign currency and other		**(1)**		6		**(4)**		(9)
Net change in working capital and other	**$**	**35**	$	7	**$**	**67**	$	(99)

[1] The change in accounts receivable represents only the portion relating to operating activities.
[2] The change in accounts payable and accrued liabilities and provisions represents only the portion relating to operating activities.

Cash interest and taxes paid and received during the period:

	Three months ended September 30,				Nine months ended September 30,			
		2024		2023		**2024**		2023
Interest paid – short- and long-term borrowings	**$**	**7**	$	14	**$**	**52**	$	66
Interest paid – lease liabilities		**1**		1		**3**		3
Total interest paid	**$**	**8**	$	15	**$**	**55**	$	69
Interest received		**1**		13		**3**		24
Income taxes paid		**9**		10		**30**		26

Changes in liabilities arising from financing activities during the period:

	Three months ended September 30,				Nine months ended September 30,			
		2024		2023		**2024**		2023
Long-term debt, opening balance	**$**	**889**	$	1,065	**$**	**919**	$	1,027
Changes from financing cash flows		**(107)**		(29)		**(147)**		3
The effect of changes in foreign exchange rates		**–**		(1)		**1**		(1)
Amortization of deferred transaction costs		**3**		3		**9**		8
Accretion of Notes discount		**2**		1		**6**		5
Deferred transaction costs		**–**		(1)		**(1)**		(4)
Long-term debt, closing balance	**$**	**787**	$	1,038	**$**	**787**	$	1,038

Note 12. Guarantees, Commitments, and Contingencies

Guarantees

At September 30, 2024, the Company had outstanding letters of credit of $116 million (December 31, 2023 – $140 million, January 1, 2023 – $129 million). Of the total outstanding letters of credit, $87 million (December 31, 2023 – $104 million, January 1, 2023 – $129 million) are funded from the RCF and $29 million (December 31, 2023 – $36 million, January 1, 2023 – nil) are funded from the $70 million LC Facility.

Commitments

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

2024	$	**261**
2025		**206**
2026		**5**

Legal Proceedings

During the second quarter of 2024, the Tenth Circuit Collegiate Court on Labor Matters in Mexico (the "Court") set aside a January 31, 2022 decision of a Labor Board in the State of Tabasco, Mexico (the "Labor Board") that had ordered subsidiaries of Exterran Corporation (now subsidiaries of Enerflex) to pay a former employee MXN$2,152 million (approximately $125 million) plus other benefits in connection with a dispute relating to the employee's severance pay following termination of his employment in 2015. In rendering its decision, the Court ruled in favor of Enerflex' arguments that the Labor Board ruling was in error and had no credible basis in law or fact.

During the third quarter of 2024, the Labor Board issued an order, supporting the Company's view that the ultimate resolution of the matter will be immaterial to its financial results, ordering payment of certain immaterial benefits to the former employee. Enerflex has filed memoranda seeking consistency on certain aspects of the decision but remains of the view that the ultimate resolution will be immaterial to its financial results. Recent Labor Board and Court rulings are consistent with Enerflex's view that the 2022 Labor Board ruling was in error and had no credible basis in law or fact.

As announced during Q3, Enerflex received a notice from its customer purporting to terminate the EH Cryo project contract notwithstanding Enerflex's prevailing Force Majeure declaration. Enerflex's customer has commenced arbitration proceedings against the Company asserting certain baseless and unsubstantiated claims. Enerflex views the purported termination as a wrongful attempt by its customer to circumvent the Company's contractual rights to suspend performance while the project site remains unsafe; a conclusion that is supported by expert security input. Enerflex is disputing such wrongful purported termination, defending itself against its customer's baseless and unsubstantiated claims and protecting its position in respect of the EH Cryo project.

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

Note 13. Seasonality

The energy 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. The Company's ES revenues can fluctuate on a quarter-over-quarter basis as a result of these seasonal trends. Revenues are also impacted by both the Company's and its customers' capital investment decisions. The LATAM and EH segments are not significantly impacted by seasonal variations, while certain parts of the USA can be impacted by seasonal trends depending on customer activity, demand, and location. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating. The overall seasonality of the Company's operations are mitigated by the increase in recurring revenue streams in the USA, LATAM, and EH, which provide stable revenues throughout the year.

Note 14. Segmented Information

The Company has identified three reporting segments for external reporting:

- NAM consists of operations in Canada and the USA.
- LATAM consists of operations in Argentina, Bolivia, Brazil, Colombia, Mexico, and Peru.
- EH consists of operations in the Middle East, Africa, Europe, Australia, and Asia.

Each segment generates revenue from the EI, After-market Services ("AMS") and Engineered Systems ("ES") product lines.

The accounting policies of these reportable operating segments are the same as those described in Note 3 "*Summary of Material Accounting Policies*" of the Company's annual consolidated financial statements for the year-ended December 31, 2023.

For internal management reporting, the Company's Chief Operating Decision Maker ("CODM") has identified four operating segments which include: Canada, USA, LATAM, and EH. Each of the operating segments are supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its reporting and operating segments, the Company considered geographic locations, economic characteristics, the nature of products and services provided, the nature of production processes, the types of customers for its products and services, and distribution methods used. These considerations also factored into the decision to combine Canada and USA into one reporting segment. For each of the operating segments, the CODM reviews internal management reports on at least a quarterly basis. For the nine months ended September 30, 2024, the Company had no individual customer which accounted for more that 10 percent of its revenue (September 30, 2023 – none).

During the second quarter of 2024, the CODM reassessed how it analyzes the gross margin for each of the Company's product lines, which resulted in the disaggregation of gross margin by product line and impacted operating income in the reporting segments for the nine months ended September 30, 2023. The impact to the reporting segments operating income for the three and nine months ended September 30, 2023, is a decrease of $1 million for NAM and an increase of $1 million for EH. Total consolidated gross margin and operating income remained unchanged.

The CODM also reassessed how it analyzes the total assets of each of the Company's reporting segments. The CODM relies on the operating effectiveness of, and returns on the operating and finance leases of its EI assets, and given their prominence on the balance sheet, has made the decision to disaggregate and separately identify EI assets and finance leases receivable, refer to the Segment Assets tables below. In order to provide relevant information, the Company reclassified intercompany loans to Corporate from the respective reporting segments to conform to the current year presentation. The impact on segment assets for December 31, 2023, is a decrease of $183 million for NAM; a decrease of $6 million for EH; an increase of $3 million for LATAM and an increase of $186 million for Corporate. The impact on segment assets for January 1, 2023, was an increase of $8 million and $3 million for EH and LATAM and a decrease of $11 million for Corporate.

The following tables provide certain financial information by the Company's reporting segments.

Revenues and Operating Income

Three months ended September 30,	North America 2024	North America 2023	Latin America 2024	Latin America 2023	Eastern Hemisphere 2024	Eastern Hemisphere 2023	Total 2024	Total 2023
Segment revenue	**$ 418**	$ 374	**$ 114**	$ 81	**$ 89**	$ 133	**$ 621**	$ 588
Intersegment revenue	**(20)**	(5)	**–**	(1)	**–**	(2)	**(20)**	(8)
Revenue	**398**	369	**114**	80	**89**	131	**601**	580
EI	**37**	33	**68**	57	**44**	51	**149**	141
AMS	**68**	76	**19**	12	**36**	35	**123**	123
ES	**293**	260	**27**	11	**9**	45	**329**	316
Revenue	**398**	369	**114**	80	**89**	131	**601**	580
EI	**18**	14	**20**	12	**20**	17	**58**	43
AMS	**12**	15	**5**	2	**5**	5	**22**	22
ES	**65**	43	**5**	4	**(9)**	(2)	**61**	45
Gross Margin	**95**	72	**30**	18	**16**	20	**141**	110
SG&A	**46**	40	**14**	17	**22**	18	**82**	75
Foreign exchange loss	**–**	–	**1**	11	**1**	–	**2**	11
Operating income (loss)	**$ 49**	$ 32	**$ 15**	$ (10)	**$ (7)**	$ 2	**$ 57**	$ 24

Nine months ended September 30,	North America 2024	North America 2023	Latin America 2024	Latin America 2023	Eastern Hemisphere 2024	Eastern Hemisphere 2023	Total 2024	Total 2023
Segment revenue	**$ 1,242**	$ 1,095	**$ 298**	$ 254	**$ 372**	$ 450	**$ 1,912**	$ 1,799
Intersegment revenue	**(56)**	(25)	**–**	(1)	**(3)**	(4)	**(59)**	(30)
Revenue	**1,186**	1,070	**298**	253	**369**	446	**1,853**	1,769
EI	**110**	94	**188**	185	**221**	144	**519**	423
AMS	**206**	211	**49**	38	**116**	102	**371**	351
ES	**870**	765	**61**	30	**32**	200	**963**	995
Revenue	**1,186**	1,070	**298**	253	**369**	446	**1,853**	1,769
EI	**53**	39	**51**	48	**51**	46	**155**	133
AMS	**36**	38	**14**	9	**23**	18	**73**	65
ES	**174**	115	**11**	8	**(49)**	17	**136**	140
Gross Margin	**263**	192	**76**	65	**25**	81	**364**	338
SG&A	**131**	113	**43**	44	**61**	62	**235**	219
Foreign exchange loss	**–**	–	**5**	27	**1**	–	**6**	27
Operating income (loss)	**$ 132**	$ 79	**$ 28**	$ (6)	**$ (37)**	$ 19	**$ 123**	$ 92

Segment Assets

	North America		Latin America		Eastern Hemisphere		Total	
	Sep. 30, 2024	Dec. 31, 2023	**Sep. 30, 2024**	Dec. 31, 2023	**Sep. 30, 2024**	Dec. 31, 2023	**Sep. 30, 2024**	Dec. 31, 2023
EI assets – operating leases	**$ 282**	$ 298	**$ 185**	$ 209	**$ 250**	$ 357	**$ 717**	$ 864
EI assets – finance leases	**–**	–	**–**	–	**254**	204	**254**	204
Goodwill[1]	**166**	167	**–**	–	**267**	266	**433**	433
Other segment assets	**723**	734	**310**	272	**346**	264	**1,379**	1,270
Corporate	**–**	–	**–**	–	**–**	–	**144**	187
Total segment assets	**$ 1,171**	$ 1,199	**$ 495**	$ 481	**$ 1,117**	$ 1,091	**$ 2,927**	$ 2,958

	North America		Latin America		Eastern Hemisphere		Total	
	Dec. 31, 2023	Jan. 1, 2023	Dec. 31, 2023	Jan. 1, 2023	Dec. 31, 2023	Jan. 1, 2023	Dec. 31, 2023	Jan. 1, 2023
EI assets – operating leases	$ 298	$ 342	$ 209	$ 195	$ 357	$ 377	$ 864	$ 914
EI assets – finance leases	–	–	–	26	204	191	204	217
Goodwill[1]	167	166	–	66	266	266	433	498
Other segment assets	734	841	272	395	264	52	1,270	1,288
Corporate	–	–	–	–	–	–	187	227
Total segment assets	$ 1,199	$ 1,349	$ 481	$ 682	$ 1,091	$ 886	$ 2,958	$ 3,144

[1] The total amount of goodwill in the Canada and USA operating segments at September 30, 2024, were $30 million and $136 million, respectively (December 31, 2023 – $31 million and $136 million, January 1, 2023 – $30 million and $136 million, respectively).

Note 15. Subsequent Events

Subsequent to September 30, 2024, Enerflex issued a notice of partial redemption for $62.5 million (or 10 percent of the aggregate principal amount originally issued) of its Notes. The redemption was completed on October 11, 2024 (the “Redemption Date”) at a redemption price of 103 percent of the principal amount of the Notes being redeemed, plus accrued and unpaid interest up to, but excluding, the Redemption Date.

Subsequent to September 30, 2024, Enerflex declared a quarterly dividend of C$0.0375 per share, payable on January 16, 2025, to shareholders of record on November 26, 2024. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow, anticipated market conditions, and the general needs of the business.

Board of Directors

Kevin Reinhart
Board Chair
Alberta, CA

Fernando Assing [1]
Texas, USA

Joanne Cox [1,3]
Alberta, CA

W. Byron Dunn [1,3]
Human Resources and Compensation Committee Chair
Texas, USA

James Gouin [2]
Ontario, CA

Mona Hale [2]
Audit Committee Chair
Alberta, CA

Marc Rossiter
President and Chief Executive Officer
Alberta, CA

Thomas B. Tyree, Jr. [2]
Colorado, USA

Juan Carlos Villegas [1,3]
Region Metropolitana, Chile

Michael Weill [2,3]
Nominating and Corporate Governance Committee Chair
Texas, USA

1 Member of Human Resources and Compensation Committee
2 Member of Audit Committee
3 Member of Nominating and Corporate Governance Committee

Executive Management

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President and Chief Executive Officer
Alberta, CA

Preet Dhindsa
SVP and Chief Financial Officer
Alberta, CA

David Izett
SVP and General Counsel
Alberta, CA

Mauricio Meineri
President, Latin America
Texas, USA

Robert Mitchell
SVP and Chief Administrative Officer
Texas, USA

Phil Pyle
President, Eastern Hemisphere
Abu Dhabi, UAE

Greg Stewart
President, USA Region
Texas, USA

Helmuth Witulski
President, Canada
Alberta, CA

Shareholder Information

Stock Exchange Listings

Toronto Stock Exchange
Trading Symbol: **EFX**

New York Stock Exchange
Trading Symbol: **EFXT**

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