Enerflex

2024

| Q2 Quarterly Report

Tomorrow starts today

Enerflex

August 7, 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 six months ended June 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 June 30, 2024	2023	Six months ended June 30, 2024	2023
Revenue	**$ 614**	$ 579	**$ 1,252**	$ 1,189
Gross margin	**136**	109	**223**	228
Selling, general and administrative expenses ("SG&A")	**75**	66	**153**	144
Foreign exchange loss	**3**	8	**4**	16
Operating income	**58**	35	**66**	68
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**103**	83	**150**	163
Earnings before finance costs and income taxes ("EBIT")	**55**	36	**58**	69
Net earnings (loss)	**5**	(2)	**(13)**	8
Cash provided by (used in) operating activities	**12**	(1)	**113**	(3)
Key Financial Performance Indicators ("KPIs")[1]				
Engineered Systems ("ES") bookings	**$ 331**	$ 264	**$ 751**	$ 647
ES backlog	**1,251**	1,080	**1,251**	1,080
Gross margin as a percentage of revenue	**22.1%**	18.8%	**17.8%**	19.2%
Gross margin before depreciation and amortization ("Gross margin before D&A")	**173**	145	**292**	301
Gross margin before D&A as a percentage of revenue	**28.2%**	25.0%	**23.3%**	25.3%
Adjusted EBITDA	**122**	107	**191**	197
Free cash flow	**(6)**	(20)	**72**	(23)
Long-term debt	**889**	1,064	**889**	1,064
Net debt	**763**	932	**763**	932
Bank-adjusted net debt to EBITDA ratio	**2.2**	2.8	**2.2**	2.8
Return on capital employed ("ROCE")[2]	**1.7%**	1.0%	**1.7%**	1.0%

[1] These KPIs are non-IFRS measures. Further detail is provided in the "Non-IFRS Measures" section of this MD&A.
[2] Determined by using the trailing 12-month period.

Results Overview

- The Company recorded revenue of $614 million during the three months ended June 30, 2024 compared to $579 million during the three months ended June 30, 2023, primarily attributed to higher Engineered Systems ("ES") revenue from strong project execution and the accelerated recognition on certain projects that used equipment from work-in-progress ("WIP") and finished goods inventories, and higher After-market Services ("AMS") revenue due to increased parts sales and customer maintenance activities. These revenue increases were offset by slightly lower Energy Infrastructure ("EI") revenue as a result of disposals during the three months ended June 30, 2023, partially offset by price increases on new contracts. During the first half of 2024, the Company recorded $1,252 million of revenue, compared to $1,189 million recorded in the first half of 2023. The increased revenue is the result of higher EI revenue with the recognition of the upfront revenue on the extension and modification of an existing Build-Own-Operate-Maintain ("BOOM") contract previously accounted for as an operating lease that is now accounted for as a finance lease in Eastern Hemisphere ("EH") which occurred in the first quarter of 2024. The increased revenue is also due to higher AMS revenue from increased parts sales and customer maintenance activities. The increases in EI and AMS revenues were offset by decreased ES revenue primarily due to the suspension of activity on a modularized cryogenic natural gas processing facility in Kurdistan (the "EH Cryo project") that went into Force Majeure during the current quarter, partially offset by increased ES revenues in North America ("NAM") from a strong opening backlog.

- During the three months ended June 30, 2024, the Company recorded gross margin of $136 million and 22.1 percent compared to $109 million and 18.8 percent for the three months ended June 30, 2023. The higher gross margin is primarily due to higher margin projects and strong project execution in NAM, and increased contributions from AMS due to inflationary price adjustments. The Company's gross margin for the first six months of 2024 was $223 million and 17.8 percent compared to a gross margin of $228 million and 19.2 percent for the first six months of 2023. The decrease is primarily due to increased costs on the EH Cryo project recognized during the first quarter of 2024, and the lower margin on the EI asset that is now being accounted for as a finance lease in EH recognized during the first quarter of 2024, partially offset by higher EI margins and higher margin ES projects executed in the current year, primarily in NAM.

- Cash provided by operating activities was $12 million during the three months ended June 30, 2024, which included net working capital investment of $51 million, primarily related to the execution of projects in the ES business line. This is a $13 million improvement over cash used in operating activities from the three months ended June 30, 2023. Free cash flow was a use of cash of $6 million during the three months ended June 30, 2024 compared to a use of cash of $20 million during the same period last year. Cash provided by operating activities was $113 million during the six months ended June 30, 2024, which included net working capital recovery of $32 million, primarily related to the advancement of projects in the ES business line. This is a $116 million improvement over cash used in operating activities from the six months ended June 30, 2023. Free cash flow was a source of cash of $72 million during the six months ended June 30, 2024 compared to a use of cash of $23 million during the same period last year.

- The Company recorded SG&A of $75 million and $153 million during the three and six months ended June 30, 2024 compared to $66 million and $144 million during the same periods of 2023. The variance is primarily due to the recovery of $10 million associated with a previously written off receivable during the three months ended June 30, 2023.

- The Company recorded foreign exchange losses of $3 million and $4 million during the three and six months ended June 30, 2024 compared to foreign exchange losses of $8 million and $16 million during the same periods last year. The decrease in foreign exchange losses is primarily the result of a slower rate of devaluation of the Argentine peso and decreasing cash balances in Argentina, partially offset by the recognition of foreign exchange losses in Mexico during the three months ended June 30, 2024. The Company also recorded losses from associated instruments of $3 million and $8 million during the three and six months ended June 30, 2024. Offsetting the impact of these losses, the Company earned interest income on cash and cash equivalents held in Argentina of $1 million and $2 million during the three and six months ended June 30, 2024 compared to interest income of $6 million and $12 million for three and six months ended June 30, 2023. The losses from associated instruments and interest income are not reflected in operating income.

- Enerflex reported operating income of $58 million during the second quarter of 2024, compared to $35 million reported during the same period of last year. The higher operating income is primarily due to increased gross margin from higher revenue and the execution of higher margin projects, partially offset by higher SG&A. Enerflex reported operating income of $66 million during the first half of 2024, which is lower than the $68 million operating income reported during the first half of 2023. The decrease is primarily due to the increased costs on the EH Cryo project.

- The Company invested $10 million in capital expenditures during the second quarter of 2024, which is comprised of $9 million related to maintenance expenditures across the global EI assets and property, plant and equipment ("PP&E"), and $1 million of investments to expand an EI project in EH.

- Enerflex recorded ES bookings of $331 million and $751 million during the three and six months ended June 30, 2024, compared to $264 million and $647 million recorded during the same periods last year, mainly attributable to higher bookings in NAM and EH. These strong bookings in the current quarter have resulted in a healthy backlog of $1.3 billion at June 30, 2024, compared to $1.1 billion at December 31, 2023.

- During the three months ended June 30, 2024, the Company entered into an agreement to extend the maturity of its secured revolving credit facility ("RCF") by one year to 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 the higher cost secured term loan ("Term Loan") which had a balance of $120 million at March 31, 2024. At June 30, 2024, the Company was in compliance with its covenants.

- During the three months ended June 30, 2024, Enerflex provided its client partner with notice of Force Majeure, suspended activity at the EH Cryo project and demobilized its personnel. Work at the site remains suspended and Enerflex continues to evaluate the situation in collaboration with its client partner and assesses next steps.

- Subsequent to June 30, 2024, Enerflex declared a quarterly dividend of C$0.025 per share, payable on October 2, 2024, to shareholders of record on August 22, 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 also improves comparability for similar EI assets with different contract terms.

				Three months ended June 30, 2024
($ millions)	**Total**	**North America**	**Latin America**	**Eastern Hemisphere**
EBIT	**$ 55**	**$ 50**	**$ –**	**$ 5**
Depreciation and amortization	**48**	**18**	**17**	**13**
EBITDA	**103**	**68**	**17**	**18**
Restructuring, transaction and integration costs	**5**	**2**	**2**	**1**
Share-based compensation	**2**	**2**	**–**	**–**
Impact of finance leases				
Upfront gain	**–**	**–**	**–**	**–**
Principal repayments received	**12**	**–**	**–**	**12**
Adjusted EBITDA	**$ 122**	**$ 72**	**$ 19**	**$ 31**

				Three months ended June 30, 2023
($ millions)	Total	North America	Latin America	Eastern Hemisphere
EBIT	$ 36	$ 27	$ 5	$ 4
Depreciation and amortization	47	17	10	20
EBITDA	83	44	15	24
Restructuring, transaction and integration costs	9	3	1	5
Share-based compensation	5	3	1	1
Impact of finance leases				
Upfront gain	–	–	–	–
Principal repayments received	10	–	1	9
Adjusted EBITDA	$ 107	$ 50	$ 18	$ 39

($ millions)	Total	North America	Latin America	Six months ended June 30, 2024 Eastern Hemisphere
EBIT	**$ 58**	**$ 83**	**$ 5**	**$ (30)**
Depreciation and amortization	**92**	**36**	**27**	**29**
EBITDA	**150**	**119**	**32**	**(1)**
Restructuring, transaction and integration costs	**11**	**5**	**4**	**2**
Share-based compensation	**8**	**5**	**1**	**2**
Impact of finance leases				
Upfront gain	**(3)**	**–**	**–**	**(3)**
Principal repayments received	**25**	**–**	**–**	**25**
Adjusted EBITDA	**$ 191**	**$ 129**	**$ 37**	**$ 25**

($ millions)	Total	North America	Latin America	Six months ended June 30, 2023 Eastern Hemisphere
EBIT	$ 69	$ 48	$ 4	$ 17
Depreciation and amortization	94	32	22	40
EBITDA	163	80	26	57
Restructuring, transaction and integration costs	22	6	4	12
Share-based compensation	7	5	1	1
Impact of finance leases				
Upfront gain	(13)	–	–	(13)
Principal repayments received	18	–	1	17
Adjusted EBITDA	$ 197	$ 91	$ 32	$ 74

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 June 30, 2024	2023	Six months ended June 30, 2024	2023
Bookings				
North America	**$ 303**	$ 247	**$ 622**	$ 555
Latin America	**3**	11	**8**	18
Eastern Hemisphere	**25**	6	**121**	74
Total bookings	**$ 331**	$ 264	**$ 751**	$ 647

($ millions)	**June 30, 2024**	December 31, 2023	January 1, 2023
Backlog			
North America	**$ 977**	$ 932	$ 793
Latin America	**53**	79	39
Eastern Hemisphere	**221**	123	280
Total backlog	**$ 1,251**	$ 1,134	$ 1,112

Bookings of $331 million were recorded during the three months ended June 30, 2024, as the Company continues to see sustained client activity levels. The Company had bookings of $751 million in the first half of 2024, an increase of $104 million when compared to the $647 million recorded in the first half of 2023. The increase is based on the strong momentum generated in 2023 and continued steady client activity levels in North America with a strong emphasis on bookings for processing projects, with significant contributions from cryo bookings at the Broken Arrow facility that was part of the acquisition of Exterran Corporation ("Exterran").

ES backlog of $1.3 billion at June 30, 2024 increased from a backlog of $1.1 billion at December 31, 2023. The significant project bookings that were added to Enerflex's backlog has been offset by the drawdown of existing backlog that contributed to ES revenue recognized in the period.

Global demand for natural gas remains robust, and Enerflex is well positioned to expand its ES business by serving the growing natural gas markets in the Company's key operating regions. However, weak natural gas prices in North America and recessionary fears could affect the Company's ability to secure future bookings.

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 June 30, 2024	2023	Six months ended June 30, 2024	2023
ES bookings	**$ 303**	$ 247	**$ 622**	$ 555
ES backlog	**977**	843	**977**	843
Segment revenue	**$ 439**	$ 364	**$ 824**	$ 721
Intersegment revenue	**(20)**	(7)	**(36)**	(20)
Revenue	**$ 419**	$ 357	**$ 788**	$ 701
EI	**$ 37**	$ 33	**$ 73**	$ 61
AMS	**72**	67	**138**	135
ES	**310**	257	**577**	505
Revenue	**419**	357	**788**	701
EI	**16**	14	**35**	25
AMS	**14**	11	**24**	23
ES	**63**	36	**109**	72
Gross margin	**93**	61	**168**	120
Gross margin %	**22.2%**	17.1%	**21.3%**	17.1%
EI	**24**	21	**51**	39
AMS	**16**	13	**27**	26
ES	**64**	37	**112**	75
Gross margin before D&A	**104**	71	**190**	140
Gross margin before D&A %	**24.8%**	19.9%	**24.1%**	20.0%
SG&A	**43**	34	**85**	73
Operating income	**50**	27	**83**	47
EBIT	**50**	27	**83**	48
EBITDA	**68**	44	**119**	80
Adjusted EBITDA	**72**	50	**129**	91

Enerflex recorded ES bookings of $303 million in the NAM segment in the second quarter of 2024, compared to $247 million the same period last year. The increase is attributable to a large volume of bookings in both the USA and Canada. Increased bookings reflect steady activity levels in the energy sector in the USA and Canada, with continued strong sold margins on new bookings. The NAM segment has a strong emphasis on bookings for processing projects, with significant contributions from cryo bookings at the Broken Arrow facility that was part of the Exterran acquisition. Accordingly, NAM's ES backlog of $977 million at June 30, 2024 is expected to result in strong ES revenue generation over the near term.

Revenue increased by $62 million and $87 million during the three and six months ended June 30, 2024 compared to the same periods last year, which is primarily from increased ES revenues from elevated activity levels on a stronger opening backlog and sustained client bookings, along with accelerated recognition of revenue due to equipment sales from WIP inventories and power generation equipment from finished goods inventories. The segment also saw an increase in EI revenue as a result of its expanded contract compression fleet and inflationary price adjustments, as well as higher AMS revenues from higher parts sales and increased volume of work.

Gross margin was $93 million and $168 million during the three and six months ended June 30, 2024, which is an increase over the $61 million and $120 million during the three and six months ended June 30, 2023. The increases are attributable to higher overall revenues and improved margins on executed ES projects. Gross margin percentage also increased during the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023, primarily due to higher margin projects and strong project execution in ES.

SG&A was higher during the three and six months ended June 30, 2024 compared to the same periods last year, which is primarily due to the recovery of $10 million associated with a previously written off receivable during the three months ended June 30, 2023.

At June 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 six months ended June 30, 2024 was 94 percent comparable to the 96 percent utilization for the three and six months ended June 30, 2023. The Company has seen increased revenue due to improved rental pricing.

Latin America Segment Results

($ millions, except percentages)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
ES bookings	**$ 3**	$ 11	**$ 8**	$ 18
ES backlog	**53**	38	**53**	38
Segment revenue	**$ 100**	$ 86	**$ 184**	$ 173
Intersegment revenue	**–**	–	**–**	–
Revenue	**$ 100**	$ 86	**$ 184**	$ 173
EI	**$ 63**	$ 65	**$ 120**	$ 128
AMS	**16**	12	**30**	26
ES	**21**	9	**34**	19
Revenue	**100**	86	**184**	173
EI	**13**	20	**31**	36
AMS	**5**	4	**9**	7
ES	**4**	2	**6**	4
Gross margin	**22**	26	**46**	47
Gross margin %	**22.0%**	30.2%	**25.0%**	27.2%
EI	**28**	30	**57**	57
AMS	**5**	4	**9**	7
ES	**4**	2	**6**	4
Gross margin before D&A	**37**	36	**72**	68
Gross margin before D&A %	**37.0%**	41.9%	**39.1%**	39.3%
SG&A	**16**	14	**29**	27
Foreign exchange loss	**3**	8	**4**	16
Operating income	**3**	4	**13**	4
EBIT	**–**	5	**5**	4
EBITDA	**17**	15	**32**	26
Adjusted EBITDA	**19**	18	**37**	32

ES bookings were $3 million and $8 million for the three and six months ended June 30, 2024 compared to $11 million and $18 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 $100 million and $184 million for the three and six months ended June 30, 2024 compared to $86 million and $173 million for the three and six months ended June 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. These increases in revenue were offset by decreased EI revenue due to the sale of certain EI assets during 2023.

Gross margin decreased by $4 million in the three months ended June 30, 2024 compared to the same period last year, which is mainly due to the reassessment of salvage value recognized as a result of Management's estimate of residual value for certain EI assets. Gross margin percentage decreased during the three months ended June 30, 2024 compared to the same period last year due to the aforementioned reassessment of salvage value, partially offset by the increased scope of work on certain projects in the current period. Gross margin percentage also decreased in the first half of 2024 primarily due to the sale of BOOM and finance lease contracts in the prior year, in addition to the aforementioned reassessment of salvage value.

SG&A of $16 million and $29 million during the three and six months ended June 30, 2024 increased over the $14 million and $27 million during the same periods last year, mainly attributable to additional integration costs and increased total compensation.

Foreign exchange losses decreased during the three and six months ended June 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 June 30, 2024. The Company also recognized losses from associated instruments of $3 million and $8 million during the three and six months ended June 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 six months ended June 30, 2024 compared to interest income of $6 million and $12 million recorded during the three and six months ended June 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 June 30, 2024	2023	Six months ended June 30, 2024	2023
ES bookings	**$ 25**	$ 6	**$ 121**	$ 74
ES backlog	**221**	199	**221**	199
Segment revenue	**$ 97**	$ 137	**$ 283**	$ 317
Intersegment revenue	**(2)**	(1)	**(3)**	(2)
Revenue	**$ 95**	$ 136	**$ 280**	$ 315
EI	**$ 41**	$ 45	**$ 177**	$ 93
AMS	**39**	34	**80**	67
ES	**15**	57	**23**	155
Revenue	**95**	136	**280**	315
EI	**16**	14	**31**	29
AMS	**8**	7	**18**	13
ES	**(3)**	1	**(40)**	19
Gross margin	**21**	22	**9**	61
Gross margin %	**22.1%**	16.2%	**3.2%**	19.4%
EI	**25**	29	**49**	60
AMS	**9**	7	**20**	14
ES	**(2)**	2	**(39)**	19
Gross margin before D&A	**32**	38	**30**	93
Gross margin before D&A %	**33.7%**	27.9%	**10.7%**	29.5%
SG&A	**16**	18	**39**	44
Operating income (loss)	**5**	4	**(30)**	17
EBIT	**5**	4	**(30)**	17
EBITDA	**18**	24	**(1)**	57
Adjusted EBITDA	**31**	39	**25**	74

The Company reported $25 million and $121 million of bookings during the three and six months ended June 30, 2024, a $19 million and $47 million increase over the same periods in 2023. The Company secured an additional booking in the current quarter related to an ongoing project that was secured in the first quarter of 2024. This project was an expansion of an existing EI asset, which will be accounted for as a finance lease once the expansion is complete. EH's backlog increased in the current period due to new bookings.

Revenue decreased by $41 million during the three months ended June 30, 2024 compared to the same period last year. This decrease in revenue is primarily due to significantly lower ES revenue relating to the Force Majeure on the EH Cryo project that took effect during the period and resulted in lower revenue recognition, in addition to the completion of certain projects that were in mid-flight during the three months ended June 30, 2023 resulting in higher revenue recognition. Lower EI revenue is attributed to a BOOM 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 $35 million during the six months ended June 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 BOOM contract 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 June 30, 2024 remained consistent with the three months ended June 30, 2023. Gross margin percentage increased primarily due to higher margin rental contracts. Gross margin for the six months ended June 30, 2024 decreased by $52 million compared to the six months ended June 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 $16 million and $39 million during the three and six months ended June 30, 2024 compared to $18 million and $44 million during the three and six months ended June 30, 2023. This favourable variance is due to lower restructuring, transaction, and integration costs during the current quarter, partially offset by increased compensation costs.

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 June 30, 2024
($ millions, except percentages)		**Total**		**EI**		**AMS**		**ES**
Revenue	**$**	**614**	**$**	**141**	**$**	**127**	**$**	**346**
Cost of goods sold:								
Operating expenses		**441**		**64**		**97**		**280**
Depreciation and amortization		**37**		**32**		**3**		**2**
Gross margin	**$**	**136**	**$**	**45**	**$**	**27**	**$**	**64**
Gross margin %		**22.1%**		**31.9%**		**21.3%**		**18.5%**
Gross margin before D&A	**$**	**173**	**$**	**77**	**$**	**30**	**$**	**66**
Gross margin before D&A %		**28.2%**		**54.6%**		**23.6%**		**19.1%**

								Three months ended June 30, 2023
($ millions, except percentages)		Total		EI		AMS		ES
Revenue	$	579	$	143	$	113	$	323
Cost of goods sold:								
Operating expenses		434		63		89		282
Depreciation and amortization		36		32		2		2
Gross margin	$	109	$	48	$	22	$	39
Gross margin %		18.8%		33.6%		19.5%		12.1%
Gross margin before D&A	$	145	$	80	$	24	$	41
Gross margin before D&A %		25.0%		55.9%		21.2%		12.7%

($ millions, except percentages)		Total		EI		AMS		ES
								Six months ended June 30, 2024
Revenue	**$**	**1,252**	**$**	**370**	**$**	**248**	**$**	**634**
Cost of goods sold:								
Operating expenses		**960**		**213**		**192**		**555**
Depreciation and amortization		**69**		**60**		**5**		**4**
Gross margin	**$**	**223**	**$**	**97**	**$**	**51**	**$**	**75**
Gross margin %		**17.8%**		**26.2%**		**20.6%**		**11.8%**
Gross margin before D&A	**$**	**292**	**$**	**157**	**$**	**56**	**$**	**79**
Gross margin before D&A %		**23.3%**		**42.4%**		**22.6%**		**12.5%**

($ millions, except percentages)		Total		EI		AMS		ES
								Six months ended June 30, 2023
Revenue	$	1,189	$	282	$	228	$	679
Cost of goods sold:								
Operating expenses		888		126		181		581
Depreciation and amortization		73		66		4		3
Gross margin	$	228	$	90	$	43	$	95
Gross margin %		19.2%		31.9%		18.9%		14.0%
Gross margin before D&A	$	301	$	156	$	47	$	98
Gross margin before D&A %		25.3%		55.3%		20.6%		14.4%

Income Taxes

The Company reported income tax expense of $27 million and $22 million for the three and six months ended June 30, 2024, compared to income tax expense of $15 million and $16 million in the same periods of 2023. The increases in income taxes in the current periods is primarily due to 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. The matter has now been returned to the Labor Board to issue a new judgement in accordance with the Court's ruling and directives, which support the Company's view that the Labor Board's ultimate resolution will be immaterial to its financial results.

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

Enerflex continues to see consistent demand across all business units 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 remaining 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 as of June 30, 2024, with the majority of this work expected to convert into revenue over the next 12 months. Demand for ES products and services is driven by increases in natural gas, oil, and produced water volumes across Enerflex's global footprint and decarbonization activities.

Enerflex continues to actively monitor the near-term impact of weak natural gas prices on customer demand, notably in North America. Notwithstanding, the Company continues to benefit from activity in oil producing regions and with customers who maintain a positive medium-term view of natural gas fundamentals. The fundamentals for contract compression in the U.S. remain strong, led by increasing natural gas production in the Permian.

Capital Allocation

Enerflex continues to target a disciplined capital program in 2024, with total capital expenditures of $90 million to $110 million. This includes a total of approximately $70 million for maintenance and PP&E capital expenditures. As a result of efforts to optimize capital spending, Enerflex expects full-year 2024 capital spending to be at the low end of its guidance range.

Providing meaningful returns to shareholders is a priority for Enerflex. Once the Company is operating within its target leverage range of bank-adjusted net debt-to-EBITDA ratio of 1.5x to 2.0x, Enerflex expects to re-evaluate capital allocation priorities, which could include increased dividends, share repurchases, additional growth capital spending, and/or further repayment of debt. Allocation decisions will be based on providing the most attractive shareholder returns 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.

	Three months ended June 30,		Six months ended June 30,	
($ millions)	**2024**	2023	**2024**	2023
EBIT, EBITDA, and Adjusted EBITDA				
EBIT	**$ 55**	$ 36	**$ 58**	$ 69
EBITDA	**103**	83	**150**	163
Adjusted EBITDA[1]	**122**	107	**191**	197
Recurring Revenue				
EI	**$ 141**	$ 143	**$ 370**	$ 282
AMS	**127**	113	**248**	228
Impact of finance leases	**11**	10	**(69)**	18
Total recurring revenue	**$ 279**	$ 266	**$ 549**	$ 528
% of total revenue	**45.4%**	45.9%	**43.8%**	44.4%
ROCE				
Trailing 12-month EBIT	**$ 31**	$ 19	**$ 31**	$ 19
Capital employed – beginning of period				
Net debt[2]	**$ 743**	$ 884	**$ 824**	$ 840
Shareholders' equity	**1,025**	1,148	**1,054**	1,140
	$ 1,768	$ 2,032	**$ 1,878**	$ 1,980
Capital employed – end of period				
Net debt[2]	**$ 763**	$ 932	**$ 763**	$ 932
Shareholders' equity	**1,023**	1,150	**1,023**	1,150
	$ 1,786	$ 2,082	**$ 1,786**	$ 2,082
Average capital employed[3]	**$ 1,871**	$ 1,814	**$ 1,871**	$ 1,814
ROCE	**1.7%**	1.0%	**1.7%**	1.0%

[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 expenditures, mandatory debt repayments, lease payments and dividends paid, with proceeds on disposals of PP&E and EI assets added back. Free cash flow 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 June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Cash provided by operating activities before changes in working capital and other	**$ 63**	$ 53	**$ 81**	$ 103
Net change in working capital and other	**(51)**	(54)	**32**	(106)
Cash provided by (used in) operating activities	**$ 12**	$ (1)	**$ 113**	$ (3)
Less:				
Maintenance capital and PP&E expenditures	**(9)**	(15)	**(18)**	(22)
Mandatory debt repayments	**–**	–	**(10)**	–
Lease payments	**(6)**	(4)	**(10)**	(8)
Dividends	**(3)**	(3)	**(5)**	(5)
Add:				
Proceeds on disposals of PP&E and EI assets	**–**	3	**2**	15
Free cash flow	**$ (6)**	$ (20)	**$ 72**	$ (23)

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)	**June 30, 2024**
Cash and cash equivalents	**$ 126**
Total RCF	**800**
Less:	
Drawings on the RCF	**327**
Letters of Credit[1]	**87**
Available for future drawings	**$ 512**

[1] This represents the letters of credit that the Company has funded with the RCF. Additional letters of credit of $36 million are funded from the $70 million LC Facility. Refer to Note 6 "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 senior secured notes (the "Notes"). The senior secured net funded debt is comprised of the RCF.

The senior secured net funded debt to EBITDA ratio was 0.5:1, compared to a maximum ratio of 2.5:1, and the bank-adjusted net debt to EBITDA ratio was 2.2:1, compared to a maximum ratio of 4.0:1. The Company exited the quarter with an interest coverage ratio was 3.9:1 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 June 30, 2024	2023	Six months ended June 30, 2024	2023
Cash and cash equivalents, beginning of period	**$ 110**	$ 194	**$ 95**	$ 187
Cash provided by (used in):				
Operating activities	**12**	(1)	**113**	(3)
Investing activities	**(17)**	(34)	**(24)**	(67)
Financing activities	**23**	(26)	**(55)**	17
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**(2)**	(1)	**(3)**	(2)
Cash and cash equivalents, end of period	**$ 126**	$ 132	**$ 126**	$ 132

Operating Activities

For the three months ended June 30, 2024, cash was provided by operating activities compared to cash used in operating activities for the comparative period, primarily driven by higher net earnings recognized in the current period, partially offset by the net changes in working capital. For the six months ended June 30, 2024, cash provided by operating activities was higher than the cash used in operating activities for the comparative period primarily due to the net change in working capital, partially offset by the net loss recognized in the current period. 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 six months ended June 30, 2024 was lower when compared to the same periods last year, primarily due to decreased capital expenditures on EI assets.

Financing Activities

During the three months ended June 30, 2024, cash was provided by financing activities compared to cash used in financing activities for the same period last year primarily due to the net drawings of the RCF, partially offset by the repayment of the Term Loan. During the six months ended June 30, 2024, cash was used in financing activities compared to cash provided by financing activities mainly due to the full repayment of the Term Loan, partially offset by the net drawings of the RCF.

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 six months ended June 30, 2024, Enerflex invested $12 million and $30 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 June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Maintenance and PP&E	**$ 9**	$ 15	**$ 18**	$ 22
Growth	**1**	9	**9**	47
Total capital expenditures	**10**	24	**27**	69
Expenditures for finance leases	**2**	–	**3**	3
Total capital expenditures and expenditures for finance leases	**$ 12**	$ 24	**$ 30**	$ 72

Financial Position

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

($ millions)	**Increase (Decrease)**	**Explanation**
Current assets	**44**	Increase in current assets is primarily due to higher finance leases receivable, unbilled revenue and cash and cash equivalents, partially offset by decreases in short-term investments, accounts receivables, and prepayments.
Energy infrastructure assets	**(131)**	Decrease in EI assets is primarily due to the extension and modification of an existing BOOM asset, which is now being accounted for as a finance lease receivable in EH, and depreciation.
Unbilled revenue	**46**	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.
Finance leases receivable	**45**	Increase in the long-term portion of finance leases receivable is due to the extension and modification of an existing BOOM contract as noted above.
Current liabilities, excluding current portion of long-term debt	**59**	Increase in current liabilities, excluding the current portion of long-term debt is primarily due to movements in deferred revenues and provisions driven by increased activity levels.
Total long-term debt	**(30)**	Decrease in total long-term debt is primarily due to the repayment of the Term Loan, partially offset by net drawings on the RCF.
Total shareholders' equity	**(31)**	Decrease in total shareholders' equity is due to the net loss, dividends, and the impact of unrealized loss on the translation of foreign operations, offset by the impact of stock options.

Quarterly Summary

Three months ended ($ millions, except per share amounts)	Revenue	Net earnings (loss)	Earnings (loss) per share – basic	Earnings (loss) per share – diluted
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)
September 30, 2022	301	(24)	(0.27)	(0.27)

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 July 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 second quarter of 2024, the Board declared a quarterly dividend of C$0.025 per share.

During the three months ended June 30, 2024, the Company entered into an agreement to extend the maturity of its RCF by one year to October 13, 2026. 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 June 30, 2024, the Company had combined drawings of $327 million against the RCF and Term Loan (December 31, 2023 – $368 million, January 1, 2023 – $488 million). The weighted average interest rate on the RCF at June 30, 2024 was 7.7 percent (December 31, 2023 – 7.7 percent, January 1, 2023 – 7.0 percent).

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

($ millions)	Maturity Date		**June 30, 2024**		December 31, 2023		January 1, 2023
Drawings on the RCF	October 13, 2026	**$**	**327**	$	238	$	338
Drawings on the Term Loan			**–**		130		150
Notes	October 15, 2027		**625**		625		625
			952		993		1,113
Deferred transaction costs and Notes discount			**(63)**		(74)		(86)
Total long-term debt		**$**	**889**	$	919	$	1,027
Current portion of long-term debt		**$**	**–**	$	40	$	20
Non-current portion of long-term debt			**889**		879		1,007
Total long-term debt		**$**	**889**	$	919	$	1,027

At June 30, 2024, without considering renewal at similar terms, the USD equivalent principal payments due over the next five years are $952 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 June 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 second quarter of 2024, Management concluded that its disclosure controls and procedures and its ICFR are still not effective as of June 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 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 Q1 2024 in furtherance of our objective to remediate material weaknesses:

- Activated third party experts globally to substantially complete the documentation of all significant processes, their inherent financial reporting risks, and the controls in place to mitigate them.
- Began formally assessing the adequacy of control coverage following extensive remediation efforts.
- Continued frequent communication and oversight by the Audit Committee and the Executive Management Team.
- Embedded SOX compliance as a component in the 2024 employee compensation model.
- Continued leveraging of Internal Audit and third-party experts to globally address identified deficiencies in a consistent, efficient, and effective manner.
- An in-depth review of the Company's entity level controls was completed by Management during the second quarter of 2024 as planned and that the auditors will commence their review in the third quarter of 2024.

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 is committed to implementing the remediation plan throughout 2024 and believes it has committed sufficient resources 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 June 30, 2024, that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

Subsequent Events

Subsequent to June 30, 2024, Enerflex declared a quarterly dividend of C$0.025 per share, payable on October 2, 2024, to shareholders of record on August 22, 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 global demand for natural gas to remain robust and the continued volatility in commodity prices and recessionary fears which may impact the Company's ability to secure future bookings; the ability of the Company to capitalize on potential projects in the LATAM segment and the timing associated therewith; expectations for the Company to diversify and expand its EI and AMS offering, and the timing associated therewith; the Company's belief that diversifying and expanding the EI and AMS offerings will provide longer term-stability in earnings, as compared to ES revenues; the expectation that the Labor Board's ultimate resolution will be immaterial to the financial results of the Company; disclosures under the heading "Outlook" including: (i) consistent demand across all business units and geographic regions will persist; (ii) expectations that customer contracts which support the EI product line will generate $1.6 billion of revenue during their remaining terms; (iii) expectations that a majority of the $1.3 billion backlog will convert to revenue over the next 12 months; (iv) expectations for a disciplined 2024 capital program including total capital expenditures of between $90 million to $110 million (including a total of approximately $70 million for maintenance and PP&E capital expenditures); (v) expectations that full-year 2024 capital spending will be at the low end of the guidance range; and (vi) the timing required for the Company achieve its target leverage range of bank-adjusted net debt-to-EBITDA ratio of 1.5x to 2.0x and once achieved, if at all, expectations for the Company to re-evaluate its capital allocation priorities and the timing associated therewith; 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 the Company will remediate material deficiencies by December 31, 2024; the need for Management of the Company to implement additional measures to address control deficiencies and the timing associated therewith, if at all; the Company's belief that sufficient resources have been committed to the remediation plan for 2024; expectations that the review of the entity level controls by the auditors will commence in the third quarter of 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; the ability to successfully continue to integrate Exterran and the timing and costs associated there with; 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 integrated 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)		June 30, 2024		December 31, 2023		January 1, 2023[1]
Assets						
Current assets						
Cash and cash equivalents	**$**	**126**	$	95	$	187
Short-term investments		**–**		11		–
Accounts receivable		**390**		398		337
Unbilled revenue[2] (Note 4)		**195**		174		138
Inventories (Note 2)		**299**		294		273
Work-in-progress related to finance leases (Note 2)		**3**		–		31
Current portion of finance leases receivable (Note 3b)		**58**		43		44
Income taxes receivable		**5**		3		8
Derivative financial instruments (Note 8)		**–**		–		1
Prepayments		**51**		58		53
Assets held for sale		**–**		7		–
Total current assets		**1,127**		1,083		1,072
Property, plant and equipment		**100**		104		113
Energy infrastructure assets (Note 3a)		**733**		864		914
Unbilled revenue[2] (Note 4)		**181**		135		165
Lease right-of-use assets		**60**		62		58
Finance leases receivable (Note 3b)		**206**		161		173
Deferred tax assets		**21**		21		16
Intangible assets		**45**		55		76
Goodwill		**430**		433		498
Other assets		**36**		40		59
Total assets	**$**	**2,939**	$	2,958	$	3,144
Liabilities and Shareholders' Equity						
Current liabilities						
Accounts payable and accrued liabilities	**$**	**430**	$	424	$	464
Provisions (Note 5)		**33**		20		14
Income taxes payable		**70**		56		55
Deferred revenue		**333**		297		270
Current portion of long-term debt (Note 6)		**–**		40		20
Current portion of lease liabilities		**21**		19		15
Derivative financial instruments (Note 8)		**–**		1		1
Other current liabilities		**–**		6		–
Liabilities associated with assets held for sale		**–**		5		–
Total current liabilities		**887**		868		839
Deferred revenue		**20**		22		25
Long-term debt (Note 6)		**889**		879		1,007
Lease liabilities		**50**		57		54
Deferred tax liabilities		**55**		65		65
Other liabilities		**15**		13		14
Total liabilities	**$**	**1,916**	$	1,904	$	2,004
Shareholders' equity						
Share capital	**$**	**505**	$	504	$	503
Contributed surplus		**678**		678		678
Retained earnings		**40**		58		151
Accumulated other comprehensive loss		**(200)**		(186)		(192)
Total shareholders' equity		**1,023**		1,054		1,140
Total liabilities and shareholders' equity	**$**	**2,939**	$	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 10 "Guarantees, Commitments, and Contingencies".

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

	Three months ended June 30,		Six months ended June 30,	
($ United States millions, except per share amounts)	**2024**	2023	**2024**	2023
Revenue (Note 7)	**$ 614**	$ 579	**$ 1,252**	$ 1,189
Cost of goods sold	**478**	470	**1,029**	961
Gross margin	**136**	109	**223**	228
Selling, general and administrative expenses	**75**	66	**153**	144
Foreign exchange loss	**3**	8	**4**	16
Operating income	**58**	35	**66**	68
Equity earnings from associates and joint ventures	**–**	1	**–**	1
Loss on financial instruments	**(3)**	–	**(8)**	–
Earnings before finance costs and income taxes	**55**	36	**58**	69
Net finance costs	**23**	23	**49**	45
Earnings before income taxes	**32**	13	**9**	24
Income taxes	**27**	15	**22**	16
Net earnings (loss)	**$ 5**	$ (2)	**$ (13)**	$ 8
Other comprehensive income (loss)				
Items that may be reclassified to profit or loss in subsequent periods:				
Loss on derivatives designated as cash flow hedges transferred to net loss, net of income tax expense	**1**	–	**1**	–
Unrealized gain (loss) on translation of foreign-denominated debt	**(6)**	14	**(21)**	15
Unrealized gain (loss) on translation of financial statements of foreign operations	**–**	(8)	**6**	(8)
Other comprehensive income (loss)	**(5)**	6	**(14)**	7
Total comprehensive income (loss)	**$ –**	$ 4	**$ (27)**	$ 15
Earnings (loss) per share – basic	**$ 0.04**	$ (0.02)	**$ (0.10)**	$ 0.06
Earnings (loss) per share – diluted	**$ 0.04**	$ (0.02)	**$ (0.10)**	$ 0.06
Weighted average number of shares outstanding – basic	**124,015,516**	123,768,301	**123,986,511**	123,753,742
Weighted average number of shares outstanding – diluted	**124,116,924**	123,958,145	**123,986,511**	123,975,590

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 June 30, **2024**	2023	Six months ended June 30, **2024**	2023
Operating Activities				
Net earnings (loss)	**$ 5**	$ (2)	**$ (13)**	$ 8
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**48**	47	**92**	94
Equity earnings from associates and joint ventures	**–**	(1)	**–**	(1)
Deferred income taxes expense (recovery)	**5**	3	**(14)**	(6)
Share-based compensation expense	**2**	5	**8**	7
Loss on financial instruments	**3**	–	**8**	–
Impairment of energy infrastructure assets (Note 3a)	**–**	1	**–**	1
	63	53	**81**	103
Net change in working capital and other (Note 9)	**(51)**	(54)	**32**	(106)
Cash provided by (used in) operating activities	**$ 12**	$ (1)	**$ 113**	$ (3)
Investing Activities				
Additions to:				
Property, plant and equipment	**(4)**	(5)	**(7)**	(7)
Energy infrastructure assets (Note 3a)	**(6)**	(19)	**(20)**	(62)
Intangible assets	**(1)**	(2)	**(1)**	(4)
Proceeds on disposal of energy infrastructure assets (Note 3a)	**–**	3	**2**	15
Net proceeds (purchases) of financial instruments	**(3)**	–	**3**	–
Net change in working capital associated with investing activities	**(3)**	(11)	**(1)**	(9)
Cash used in investing activities	**$ (17)**	$ (34)	**$ (24)**	$ (67)
Financing Activities				
Net drawings from (repayment of) the Revolving Credit Facility (Note 6)	**$ 152**	$ (17)	**$ 90**	$ 32
Repayment of the Term Loan (Note 6)	**(120)**	–	**(130)**	–
Lease liability principal repayment	**(6)**	(4)	**(10)**	(8)
Dividends	**(3)**	(3)	**(5)**	(5)
Stock option exercises	**1**	–	**1**	–
Deferred transaction costs	**(1)**	(2)	**(1)**	(2)
Cash provided by (used in) financing activities	**$ 23**	$ (26)	**$ (55)**	$ 17
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (2)**	$ (1)	**$ (3)**	$ (2)
Increase (decrease) in cash and cash equivalents	**16**	(62)	**31**	(55)
Cash and cash equivalents, beginning of period	**110**	194	**95**	187
Cash and cash equivalents, end of period	**$ 126**	$ 132	**$ 126**	$ 132

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	–	–	8	–	–	–	8
Other comprehensive income	–	–	–	7	–	7	7
Dividends	–	–	(5)	–	–	–	(5)
At June 30, 2023	$ 503	$ 678	$ 154	$ (184)	$ (1)	$ (185)	$ 1,150
At January 1, 2024	$ 504	$ 678	$ 58	$ (185)	$ (1)	$ (186)	$ 1,054
Net loss	–	–	(13)	–	–	–	(13)
Other comprehensive earnings (loss)	–	–	–	(15)	1	(14)	(14)
Effect of stock option plans	1	–	–	–	–	–	1
Dividends	–	–	(5)	–	–	–	(5)
At June 30, 2024	**$ 505**	**$ 678**	**$ 40**	**$ (200)**	**$ –**	**$ (200)**	**$ 1,023**

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 August 7, 2024.

(b) Basis of Presentation and Measurement

The Financial Statements for the three and six months ended June 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 (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 six months ended June 30, 2023, consolidated statements of earnings and comprehensive income:

Three months ended June 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Net earnings	$ (3)	$ 1	$ (2)
Comprehensive income	(28)	32	4

Six months ended June 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Net earnings	$ 11	$ (3)	$ 8
Comprehensive income	(14)	29	15

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

Three months ended June 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Cash provided by (used in):			
Operating activities	$ (4)	$ 3	$ (1)
Investing activities	(47)	13	(34)
Financing activities	(32)	6	(26)

Six months ended June 30,	Previously reported in CAD 2023	Presentation currency change	Reported in USD 2023
Cash provided by (used in):			
Operating activities	$ (7)	$ 4	$ (3)
Investing activities	(91)	24	(67)
Financing activities	24	(7)	17

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

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

Six months ended June 30,		Previously reported in CAD 2023		Presentation currency change		Reported in USD 2023
Earnings per share – basic	$	0.09	$	(0.03)	$	0.06
Earnings per share – diluted		0.09		(0.03)		0.06

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, Presentation of Financial Statements, 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. Inventories

Inventories consisted of the following:

	June 30, 2024	December 31, 2023	January 1, 2023
Direct materials	**$ 99**	$ 70	$ 79
Repair and distribution parts	**113**	115	101
Work-in-progress	**77**	90	73
Equipment	**10**	19	20
Total inventories	**$ 299**	$ 294	$ 273

	June 30, 2024	December 31, 2023	January 1, 2023
Work-in-progress related to finance leases	**$ 3**	$ –	$ 31

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold ("COGS") during the three and six months ended June 30, 2024 was $478 million and $1,029 million (June 30, 2023 – $470 million and $961 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 six months ended June 30, 2024 was $1 million and $1 million (June 30, 2023 – $2 million and $4 million).

The costs related to the construction of Energy Infrastructure ("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 six months ended June 30, 2024 the Company invested $2 million and $3 million related to finance leases.

Note 3. 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 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:

	June 30, 2024	December 31, 2023
Cost		
Balance, January 1	**$ 1,142**	$ 1,129
Additions	**20**	90
Disposals[1]	**(114)**	(70)
Currency translation effects	**(14)**	(7)
Total cost	**$ 1,034**	$ 1,142
Accumulated depreciation		
Balance, January 1	**$ (278)**	$ (215)
Depreciation charge	**(56)**	(127)
Impairment	**–**	(1)
Disposals[1]	**23**	53
Currency translation effects	**10**	12
Total accumulated depreciation	**$ (301)**	$ (278)
Net book value	**$ 733**	$ 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 six months ended June 30, 2024, the Company recognized $58 million and $111 million of revenue related to operating leases in its Latin America ("LATAM") and Eastern Hemisphere ("EH") segments (June 30, 2023 – $63 million and $115 million), and $35 million and $71 million of revenue related to its North America ("NAM") contract compression fleet (June 30, 2023 – $31 million and $59 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		
	June 30, 2024	December 31, 2023	January 1, 2023	**June 30, 2024**	December 31, 2023	January 1, 2023
Less than one year	**$ 59**	$ 46	$ 54	**$ 58**	$ 43	$ 44
Between one and five years	**197**	129	145	**155**	106	110
Later than five years	**71**	90	107	**51**	55	63
	$ 327	$ 265	$ 306	**$ 264**	$ 204	$ 217
Less: Unearned interest revenue	**(63)**	(61)	(89)	**–**	–	–
Closing balance	**$ 264**	$ 204	$ 217	**$ 264**	$ 204	$ 217

	June 30, 2024	December 31, 2023
Opening balance	**$ 204**	$ 217
Additions[1]	**87**	48
Interest revenue	**11**	23
Payments (principal and interest)	**(36)**	(59)
Derecognition on disposal	**–**	(24)
Other	**(2)**	(2)
Currency translation effects	**–**	1
Closing balance	**$ 264**	$ 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 less than $1 million and $3 million for the three and six months ended June 30, 2024 (June 30, 2023 – nil and $13 million). Additionally, the Company recognized $5 million and $11 million of interest revenue on finance leases receivable during the three and six months ended June 30, 2024 (June 30, 2023 – $6 million and $12 million). Total cash received in respect of finance leases during the three and six months ended June 30, 2024 was $17 million and $36 million (June 30, 2023 – $15 million and $30 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 June 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 4. Unbilled Revenue

Movement in unbilled revenue:

	June 30, 2024	December 31, 2023
Opening balance	$ 309	$ 303
Acquisition	–	–
Unbilled revenue recognized	459	1,011
Amounts billed	(392)	(1,004)
Currency translation effects	–	(1)
Closing balance	$ 376	$ 309
Current unbilled revenue	$ 195	$ 174
Non-current unbilled revenue	181	135
Total unbilled revenue	$ 376	$ 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.

Enerflex has suspended activity at a modularized cryogenic natural gas processing facility in Kurdistan (the "EH Cryo project") and has provided its client partner 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 is indeterminable at this time.

The unbilled revenue associated with the EH Cryo project is $177 million and is included in non-current unbilled revenue. The Company has also recorded an onerous contract provision of $17 million, resulting in a net position of $160 million.

Note 5. Provisions

A reconciliation of the changes in provisions was as follows:

	June 30, 2024	December 31, 2023	January 1, 2023
Onerous contracts	**$ 17**	$ –	$ –
Warranties	**10**	11	10
Restructuring	**6**	7	1
Legal	**–**	2	3
Total provisions	**$ 33**	$ 20	$ 14

June 30, 2024	Onerous Contracts	Warranties	Restructuring	Legal	Total
Opening balance	$ –	$ 11	$ 7	$ 2	$ 20
Additions during the year	19	3	–	–	22
Amounts settled and released in the year	(2)	(3)	(1)	–	(6)
Reversal	–	–	–	(2)	(2)
Currency translation effects	–	(1)	–	–	(1)
Closing balance	**$ 17**	**$ 10**	**$ 6**	**$ –**	**$ 33**

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 6. Long-Term Debt

During the three months ended June 30, 2024, the Company entered into an agreement to extend the maturity of its secured revolving credit facility ("RCF") by one year to 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 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.

The Company has a $70 million unsecured credit facility "LC Facility" with one of the lenders in its RCF. This LC Facility allows the Company to request the issuance of 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. This LC Facility is supported by performance security guarantees provided by Export Development Canada. As at June 30, 2024, the Company utilized $36 million of the $70 million limit.

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

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

	Maturity Date		**June 30, 2024**		December 31, 2023		January 1, 2023
Drawings on the RCF	October 13, 2026	**$**	**327**	$	238	$	338
Drawings on the Term Loan			**–**		130		150
Notes	October 15, 2027		**625**		625		625
			952		993		1,113
Deferred transaction costs and Notes discount			**(63)**		(74)		(86)
Long-term debt		**$**	**889**	$	919	$	1,027
Current portion of long-term debt		**$**	**–**	$	40	$	20
Non-current portion of long-term debt			**889**		879		1,007
Long-term debt		**$**	**889**	$	919	$	1,027

The weighted average interest rate on the RCF for the six months ended June 30, 2024 was 7.7 percent (December 31, 2023 – 7.7 percent, January 1, 2023 – 7.0 percent). At June 30, 2024, without considering renewal at similar terms, the USD equivalent principal payments due over the next five years are $952 million, and nil thereafter.

Note 7. Revenue

Revenue by product line were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Energy Infrastructure	**$ 141**	$ 143	**$ 370**	$ 282
After-market Services	**127**	113	**248**	228
Engineered Systems	**346**	323	**634**	679
Total revenue	**$ 614**	$ 579	**$ 1,252**	$ 1,189

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
United States	**$ 255**	$ 245	**$ 537**	$ 479
Oman	**32**	38	**157**	73
Canada	**92**	64	**151**	118
Argentina	**40**	43	**76**	85
Nigeria	**40**	55	**58**	113
Australia	**15**	17	**33**	32
Brazil	**16**	19	**31**	43
Mexico	**18**	15	**31**	29
Iraq	**16**	38	**24**	82
Thailand	**10**	8	**23**	16
Bahrain	**10**	11	**21**	69
Peru	**16**	–	**19**	1
Colombia	**5**	3	**17**	6
Others	**49**	23	**74**	43
Total revenue	**$ 614**	$ 579	**$ 1,252**	$ 1,189

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

	Less than one year	One to two years	Greater than two years	**Total**
Energy Infrastructure	$ 396	$ 353	$ 855	**$ 1,604**
After-market Services	71	40	91	**202**
Engineered Systems	1,046	190	15	**1,251**
Total	**$ 1,513**	**$ 583**	**$ 961**	**$ 3,057**

Note 8. Financial Instruments

Designation and Valuation of Financial Instruments

Financial instruments at June 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 June 30, 2024 was $625 million and $652 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 June 30, 2024 was determined on a discounted cash flow basis with a weighted average discount rate of 8.3 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 June 30, 2024:

			Notional amount	Maturity
Canadian Dollar Denominated Contracts				
Purchase contracts	USD	**$**	**22**	July 2024 – May 2025
Sales contracts	USD		**(28)**	July 2024 – December 2024

At June 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).

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 $658 million in designated foreign currency borrowings are included in accumulated other comprehensive loss for June 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						
Earnings before income taxes	**$**	**(3)**	**$**	**–**	**$**	**–**
Financial instruments held in foreign operations						
Other comprehensive income (loss)	**$**	**34**	**$**	**1**	**$**	**–**
Financial instruments held in Canadian operations						
Earnings before income taxes	**$**	**5**	**$**	**–**	**$**	**–**

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

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 six months ended June 30, 2024, the Company had foreign exchange losses in Argentina of $2 million and $3 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 June 30, 2024 has 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 $3 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.

		June 30, 2024
Cash and cash equivalents	$	126
Total RCF		800
Less:		
Drawings on the RCF		327
Letters of Credit[1]		87
Available for future drawings	**$**	**512**

[1] This represents the letters of credit that the Company has funded with the RCF. Additional letters of credit of $36 million are funded from the $70 million LC Facility. Refer to Note 6 "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 0.5:1, compared to a maximum ratio of 2.5:1, the net funded debt to EBITDA ("bank-adjusted net debt to EBITDA") ratio was 2.2:1, compared to a maximum ratio of 4.0:1, and an interest coverage ratio was 3.9:1 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 June 30, 2024:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Accounts payable and accrued liabilities	430	–	–	430
Long-term debt – RCF	–	–	327	327
Long-term debt – Notes	–	–	625	625
Other long-term liabilities	–	–	15	15

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 9. Supplemental Cash Flow Information

Changes in working capital and other during the period:

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Accounts receivable[1]	**$ 18**	$ (12)	**$ 8**	$ (8)
Unbilled revenue	**(58)**	(23)	**(67)**	(49)
Inventories	**(1)**	(23)	**(5)**	(36)
Work-in-progress related to finance leases	**(2)**	–	**(3)**	31
Finance leases receivable	**11**	8	**26**	(32)
Income taxes receivable	**2**	(2)	**(2)**	(2)
Prepayments	**2**	(6)	**7**	10
Net assets held for sale	**–**	–	**2**	–
Long-term receivables related to preferred shares	**–**	–	**–**	21
Accounts payable and accrued liabilities and provisions[2]	**(4)**	24	**20**	(6)
Income taxes payable	**3**	8	**14**	13
Deferred revenue	**(27)**	(30)	**41**	(44)
Other current liabilities	**–**	–	**(6)**	–
Foreign currency and other	**5**	2	**(3)**	(4)
Net change in working capital and other	**$ (51)**	$ (54)	**$ 32**	$ (106)

[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 June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Interest paid – short- and long-term borrowings	**$ 36**	$ 35	**$ 45**	$ 52
Interest paid – lease liabilities	**1**	1	**2**	2
Total interest paid	**$ 37**	$ 36	**$ 47**	$ 54
Interest received	**1**	5	**2**	11
Income taxes paid	**14**	12	**21**	16

Changes in liabilities arising from financing activities during the period:

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Long-term debt, opening balance	**$ 853**	$ 1,078	**$ 919**	$ 1,027
Changes from financing cash flows	**32**	(17)	**(40)**	32
The effect of changes in foreign exchange rates	**–**	2	**1**	–
Amortization of deferred transaction costs	**3**	2	**6**	5
Accretion of Notes discount	**2**	2	**4**	4
Deferred transaction costs	**(1)**	(2)	**(1)**	(3)
Long-term debt, closing balance	**$ 889**	$ 1,065	**$ 889**	$ 1,065

Note 10. Guarantees, Commitments, and Contingencies

Guarantees

At June 30, 2024, the Company had outstanding letters of credit of $123 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 $36 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	$	**514**
2025		**69**
2026		**3**

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. The matter has now been returned to the Labor Board to issue a new judgement in accordance with the Court's ruling and directives, which support the Company's view that the Labor Board's ultimate resolution will be immaterial to its financial results.

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 11. 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 12. 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 six months ended June 30, 2024, the Company had no individual customer which accounted for more that 10 percent of its revenue (June 30, 2023 – none).

During the three months ended June 30, 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 three and six months ended June 30, 2023. The impact to the reporting segments operating income for the three and six months ended June 30, 2023 is a decrease of $3 million for NAM; an increase of $1 million for LATAM and an increase of $2 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

	North America		Latin America		Eastern Hemisphere		Total	
Three months ended June 30,	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
Segment revenue	**$ 439**	$ 364	**$ 100**	$ 86	**$ 97**	$ 137	**$ 636**	$ 587
Intersegment revenue	**(20)**	(7)	**–**	–	**(2)**	(1)	**(22)**	(8)
Revenue	**419**	357	**100**	86	**95**	136	**614**	579
EI	**37**	33	**63**	65	**41**	45	**141**	143
AMS	**72**	67	**16**	12	**39**	34	**127**	113
ES	**310**	257	**21**	9	**15**	57	**346**	323
Revenue	**419**	357	**100**	86	**95**	136	**614**	579
EI	**16**	14	**13**	20	**16**	14	**45**	48
AMS	**14**	11	**5**	4	**8**	7	**27**	22
ES	**63**	36	**4**	2	**(3)**	1	**64**	39
Gross Margin	**93**	61	**22**	26	**21**	22	**136**	109
SG&A	**43**	34	**16**	14	**16**	18	**75**	66
Foreign exchange loss	**–**	–	**3**	8	**–**	–	**3**	8
Operating income	**$ 50**	$ 27	**$ 3**	$ 4	**$ 5**	$ 4	**$ 58**	$ 35

	North America		Latin America		Eastern Hemisphere		Total	
Six months ended June 30,	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
Segment revenue	**$ 824**	$ 721	**$ 184**	$ 173	**$ 283**	$ 317	**$ 1,291**	$ 1,211
Intersegment revenue	**(36)**	(20)	**–**	–	**(3)**	(2)	**(39)**	(22)
Revenue	**788**	701	**184**	173	**280**	315	**1,252**	1,189
EI	**73**	61	**120**	128	**177**	93	**370**	282
AMS	**138**	135	**30**	26	**80**	67	**248**	228
ES	**577**	505	**34**	19	**23**	155	**634**	679
Revenue	**788**	701	**184**	173	**280**	315	**1,252**	1,189
EI	**35**	25	**31**	36	**31**	29	**97**	90
AMS	**24**	23	**9**	7	**18**	13	**51**	43
ES	**109**	72	**6**	4	**(40)**	19	**75**	95
Gross Margin	**168**	120	**46**	47	**9**	61	**223**	228
SG&A	**85**	73	**29**	27	**39**	44	**153**	144
Foreign exchange loss	**–**	–	**4**	16	**–**	–	**4**	16
Operating income (loss)	**$ 83**	$ 47	**$ 13**	$ 4	**$ (30)**	$ 17	**$ 66**	$ 68

Segment Assets

	North America		Latin America		Eastern Hemisphere		Total	
	Jun. 30, 2024	Dec. 31, 2023	**Jun. 30, 2024**	Dec. 31, 2023	**Jun. 30, 2024**	Dec. 31, 2023	**Jun. 30, 2024**	Dec. 31, 2023
Segment assets	**$ 785**	$ 734	**$ 307**	$ 272	**$ 246**	$ 264	**$ 1,338**	$ 1,270
EI assets	**288**	298	**188**	209	**257**	357	**733**	864
Finance leases receivable[1]	**–**	–	**1**	–	**263**	204	**264**	204
Goodwill[2]	**166**	167	**–**	–	**264**	266	**430**	433
Corporate	**–**	–	**–**	–	**–**	–	**174**	187
Total segment assets	**$ 1,239**	$ 1,199	**$ 496**	$ 481	**$ 1,030**	$ 1,091	**$ 2,939**	$ 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
Segment assets	$ 734	$ 841	$ 272	$ 395	$ 264	$ 52	$ 1,270	$ 1,287
EI assets	298	342	209	195	357	377	864	914
Finance leases receivable[1]	–	–	–	26	204	191	204	217
Goodwill[2]	167	166	–	66	266	266	433	498
Corporate	–	–	–	–	–	–	187	227
Total segment assets	$ 1,199	$ 1,349	$ 481	$ 682	$ 1,091	$ 886	$ 2,958	$ 3,144

[1] Refer to Note 3b "EI Assets – Finance Leases" for a continuity of the Company's finance leases receivable.

[2] The total amount of goodwill in the Canada and USA operating segments 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 13. Subsequent Events

Subsequent to June 30, 2024, Enerflex declared a quarterly dividend of C$0.025 per share, payable on October 2, 2024, to shareholders of record on August 22, 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.

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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

Marc Rossiter
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**

Transfer Agent, Registrar, and Dividend-Disbursing Agent

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Auditors

Ernst & Young LLP Chartered Professional Accountants
Calgary, AB, CA

Investor Relations

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