ENERFLEX

Q3

2023

QUARTERLY REPORT

Enerflex is in a position of unparalleled strength following the transformational acquisition of Exterran in 2022. Guided by our strategic plan and our Vision of ***Transforming Energy for a Sustainable Future***, we are stronger, more capable, and more resilient than ever before. Our growing global footprint and expanded product and service solutions, paired with our skilled and passionate workforce, has us poised to continue meeting the dynamic needs of the evolving energy industry. **Our future is bright**.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ENERFLEX

MANAGEMENT'S DISCUSSION AND ANALYSIS NOVEMBER 8, 2023

Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements (the "Financial Statements") for the three and nine months ended September 30, 2023 and 2022, the Company's 2022 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2022, and the cautionary statements regarding forward-looking information in the *"Forward-Looking Statements"* section of this MD&A.

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 Canadian dollars unless otherwise stated.

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 AIF and in the Company's Management Information Circular dated March 10, 2023, 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.

SUMMARY RESULTS

($ Canadian thousands, except percentages)	Three months ended September 30, 2023	Three months ended September 30, 2022[1]	Nine months ended September 30, 2023	Nine months ended September 30, 2022[1]
Revenue	**$ 778,173**	$ 392,813	**$ 2,379,887**	$ 1,087,959
Gross margin	**146,238**	78,670	**454,064**	195,902
Selling and administrative expenses ("SG&A")	**114,850**	55,102	**330,256**	145,252
Operating income	**$ 31,388**	$ 23,568	**$ 123,808**	$ 50,650
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**103,760**	(2,375)	**323,001**	69,580
Earnings before finance costs and income taxes ("EBIT")	**32,635**	(24,070)	**125,823**	3,937
Net earnings (loss)	**5,714**	(32,808)	**16,415**	(19,825)
Cash provided by operating activities	**70,867**	37,713	**64,322**	36,098
Key Financial Performance Indicators ("KPIs")[2]				
Engineered Systems bookings	**$ 559,560**	$ 347,630	**$ 1,398,129**	$ 897,810
Engineered Systems backlog	**1,565,937**	883,698	**1,565,937**	883,698
Gross margin as a percentage of revenue	**18.8%**	20.0%	**19.1%**	18.0%
Adjusted EBITDA	**121,747**	54,795	**386,689**	137,458
Distributable cash flow	**42,665**	27,781	**149,775**	70,761
Long-term debt	**1,403,426**	368,413	**1,403,426**	368,413
Net debt	**1,239,997**	169,626	**1,239,997**	169,626
Bank-adjusted net debt to EBITDA ratio[3]	**2.7**	-	**2.7**	-
Return on capital employed ("ROCE")[4]	**3.0%**	1.6%	**3.0%**	1.6%

[1] Comparative figures throughout this MD&A represent Enerflex's results prior to the closing of the acquisition of Exterran Corporation ("Exterran") on October 13, 2022 (the "Transaction"), and therefore do not reflect pre-acquisition historical data from Exterran.
[2] These KPIs are non-IFRS measures. Further detail is provided in the "Non-IFRS Measures" section of this MD&A.
[3] The bank-adjusted net debt to EBITDA ratio is calculated based on the covenant requirements in effect at September 30, 2023. The current covenant requirements were not in effect during the three and nine months ended September 30, 2022 due to the pending close of the Transaction.
[4] Determined by using the trailing 12-month period.

RESULTS OVERVIEW

- Enerflex generated revenue of $778.2 million during the three months ended September 30, 2023, which is an increase over the three months ended June 30, 2023, and is driven by continued strong performance from the Company's recurring businesses and North American ("NAM") Engineered Systems product line. During the first nine months of 2023, Enerflex recorded revenue of $2,379.9 million compared to $1,088.0 million in the same period of 2022, primarily due to the contribution from the acquired Exterran business, with notable increases in Engineered Systems activity, higher contract compression utilizations in the USA, and increased After-Market Services activities from parts sales and customer maintenance.

- During the three months ended September 30, 2023, the Company recorded gross margin of $146.2 million (18.8 percent), decreasing slightly from $147.2 million (18.9 percent) during the three months ended June 30, 2023. Enerflex's gross margin for the nine months ended September 30, 2023 was $454.1 million (19.1 percent), increasing from $195.9 million (18.0 percent) during the nine months ended September 30, 2022, primarily due to the contribution from the acquired Exterran business, increased contribution from higher margin recurring revenue product lines, and an improvement in the Engineered Systems NAM margin profile.

- The Company recorded SG&A of $114.9 million during the three months ended September 30, 2023, a quarter-over-quarter increase from $99.6 million of SG&A recorded during the three months ended June 30, 2023, driven primarily by a one-time bad debt recovery of $12.2 million in the second quarter of 2023. SG&A for the nine months ended September 30, 2023 was $330.3 million, compared to $145.3 million during the nine months ended September 30, 2022, primarily due to the additional costs required to support the acquired Exterran business, as well as restructuring, transaction, and integration costs incurred to integrate Exterran. Further, the ongoing devaluation of the Argentine peso, caused by high inflation, resulted in foreign exchange losses of $17.3 million and $40.9 million during the three and nine months ended September 30, 2023, respectively which were partially offset by $2.8 million of gains from associated instruments to manage these losses during the three and nine months ended September 30, 2023. The Company also earned interest income on cash being held in Argentina of $7.8 million and $23.5 million that are not reflected in operating income for the three and nine months ended September 30, 2023, respectively.

- Enerflex reported operating income of $31.4 million during the three months ended September 30, 2023, decreasing from the three months ended June 30, 2023 due to higher SG&A and lower gross margins. The Company reported $123.8 million of operating income for the nine months ended September 30, 2023, an increase of $73.2 million from the nine months ended September 30, 2022, primarily due to increased revenue and an improved gross margin percentage, which was partially offset by increased SG&A.

- The Company invested $25.5 million in capital expenditures in the third quarter of 2023, predominantly comprised of $7.5 million of maintenance capital expenditures across the Company's global Energy Infrastructure fleet, and $13.5 million of investments to expand the amount of electric driven equipment in the USA fleet based on customer demand.

- Enerflex's primary focus for 2023 is post-acquisition deleveraging. During the third quarter of 2023, the Company repaid $41.2 million of long-term debt, which was offset by the impact of foreign exchange and amortization of the deferred debt issuance costs. The Company continues to expect that it will reduce its net funded debt to EBITDA ("bank-adjusted net debt to EBITDA") ratio to less than 2.5 times by the end of 2023 through strong cash flow generation and the execution of its large Engineered Systems backlog. Enerflex plans to continue to strengthen its financial position to ensure the Company has significant flexibility through industry cycles. At September 30, 2023, the Company’s senior secured net funded debt to EBITDA ratio was 1.0:1, compared to a maximum ratio of 2.5:1, and the Company’s bank-adjusted net debt to EBITDA ratio was 2.7:1, compared to a maximum ratio of 4.5:1, according to the Company’s debt covenants.

- The Company recorded Engineered Systems bookings of $559.6 million during the three months ended September 30, 2023, compared to $322.0 million during the three months ended June 30, 2023, and $347.6 million during the three months ended September 30, 2022. Enerflex continues to observe strong customer activity levels in North America, notably for cryogenic natural gas processing facilities and for electric compression, as customers aim to decarbonize their operations. During the nine months ended of 2023, Enerflex secured $1,398.1 million of Engineered Systems bookings, representing an increase of $500.3 million from the first nine months of 2022.

- Engineered Systems backlog at September 30, 2023 was $1.6 billion, increasing from the Company's $1.5 billion balance at December 31, 2022. The movement in the current period is related to the new bookings, offset by the drawdown of Enerflex's existing backlog to drive strong Engineered Systems revenue recorded in the period.

- On October 1, 2023, the Company announced that Mr. Rodney D. Gray resigned from his role as Senior Vice President and Chief Financial Officer (“CFO”). Mr. Preet Dhindsa was appointed as Interim CFO, effective October 13, 2023.

- Subsequent to September 30, 2023, Enerflex declared a quarterly dividend of $0.025 per share, payable on January 10, 2024, to shareholders of record on November 21, 2023. The Board of Directors (the "Board") will continue to evaluate dividend payments on an ongoing 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 to eliminate the non-cash selling profit recognized when finance leases are put into service, and instead reflect the 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 Energy Infrastructure assets with different contract terms.

($ thousands)		Total		North America		Latin America		Three months ended September 30, 2023 Eastern Hemisphere
EBIT	**$**	**32,635**	**$**	**40,064**	**$**	**(13,219)**	**$**	**5,790**
Restructuring, and transaction and integration costs		**6,259**		**3,845**		**1,320**		**1,094**
Share-based compensation		**(799)**		**(274)**		**(163)**		**(362)**
Depreciation and amortization		**71,125**		**24,880**		**16,730**		**29,515**
Finance leases		**12,527**		**-**		**486**		**12,041**
Adjusted EBITDA	**$**	**121,747**	**$**	**68,515**	**$**	**5,154**	**$**	**48,078**

($ thousands)		Total		North America		Latin America		Three months ended September 30, 2022 Eastern Hemisphere
EBIT	$	(24,070)	$	(33,371)	$	1,725	$	7,576
Transaction and integration costs		3,785		3,080		202		503
Share-based compensation		3,097		1,816		689		592
Impairment of goodwill		48,000		48,000		-		-
Depreciation and amortization		21,695		13,729		4,951		3,015
Finance leases		2,288		25		-		2,263
Adjusted EBITDA	$	54,795	$	33,279	$	7,567	$	13,949

($ thousands)		Total		North America		Latin America		Nine months ended September 30, 2023 Eastern Hemisphere
EBIT	**$**	**125,823**	**$**	**109,748**	**$**	**(9,542)**	**$**	**25,617**
Restructuring, and transaction and integration costs		**35,920**		**12,117**		**11,216**		**12,587**
Share-based compensation		**8,736**		**5,684**		**1,498**		**1,554**
Depreciation and amortization		**197,178**		**68,563**		**45,538**		**83,077**
Finance leases		**19,032**		**-**		**1,817**		**17,215**
Adjusted EBITDA	**$**	**386,689**	**$**	**196,112**	**$**	**50,527**	**$**	**140,050**

($ thousands)		Total		North America		Latin America		Nine months ended September 30, 2022 Eastern Hemisphere
EBIT	$	3,937	$	(22,863)	$	8,082	$	18,718
Transaction and integration costs		14,052		10,196		1,584		2,272
Share-based compensation		4,479		2,825		866		788
Impairment of goodwill		48,000		48,000		-		-
Depreciation and amortization		65,643		40,762		15,779		9,102
Finance leases		1,347		160		-		1,187
Adjusted EBITDA	$	137,458	$	79,080	$	26,311	$	32,067

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 Engineered Systems 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 customers. Bookings increase backlog in the period they are received, while revenue recognized on Engineered Systems products decreases backlog in the period the revenue is recognized.

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

($ thousands)		Three months ended September 30, **2023**		2022		Nine months ended September 30, **2023**		2022
Engineered Systems Bookings								
North America	**$**	**537,206**	$	333,052	**$**	**1,260,069**	$	860,688
Latin America		**10,845**		6,117		**33,478**		30,961
Eastern Hemisphere		**11,509**		8,461		**104,582**		6,161
Total Engineered Systems bookings	**$**	**559,560**	$	347,630	**$**	**1,398,129**	$	897,810

($ thousands)		**September 30, 2023**		December 31, 2022
Engineered Systems Backlog				
North America	**$**	**1,305,466**	$	1,074,151
Latin America		**45,764**		52,825
Eastern Hemisphere		**214,707**		378,894
Total Engineered Systems backlog	**$**	**1,565,937**	$	1,505,870

Enerflex continues to observe strong customer activity levels. Included in the Company's bookings were two large cryogenic natural gas processing facilities, reflecting Enerflex's expanded product offerings stemming from the Transaction. Enerflex recorded bookings of $1.4 billion during the first nine months of 2023, increasing $500.3 million from the first nine months of 2022.

The Engineered Systems backlog of $1.6 billion remained robust at September 30, 2023, increased by $0.1 billion from December 31, 2022. New project bookings added to the backlog offset the drawdown of existing backlog, which drove strong Engineered Systems revenue recognition in the first nine months of 2023.

The global demand for natural gas remains robust, and Enerflex is well positioned to expand its Engineered Systems business by serving the growing natural gas markets in the Company's key operating regions. However, continued volatility in commodity prices and recessionary fears could affect the Company's ability to secure future bookings.

SEGMENTED RESULTS

Enerflex has three reporting segments: North America, Latin America ("LATAM"), and Eastern Hemisphere ("EH"), each of which are supported by Enerflex's corporate function. Corporate overheads are 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 customers for its products and services, and distribution methods used.

NORTH AMERICA SEGMENT RESULTS

($ thousands, except percentages)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Engineered Systems bookings	**$ 537,206**	$ 333,052	**$ 1,260,069**	$ 860,688
Engineered Systems backlog	**1,305,466**	764,020	**1,305,466**	764,020
Segment revenue	**$ 490,959**	$ 314,273	**$ 1,460,774**	$ 860,879
Intersegment revenue	**3,742**	(6,655)	**(21,267)**	(71,445)
Revenue	**$ 494,701**	$ 307,618	**$ 1,439,507**	$ 789,434
Revenue – Energy Infrastructure	**$ 43,435**	$ 44,216	**$ 125,610**	$ 105,227
Revenue – After-Market Services	**103,602**	75,515	**285,143**	209,645
Revenue – Engineered Systems	**347,664**	187,887	**1,028,754**	474,562
Gross Margin	**94,719**	53,153	**260,620**	125,460
SG&A	**55,861**	38,886	**152,888**	101,610
Operating income	**38,858**	14,267	**107,732**	23,850
EBIT	**40,064**	(33,371)	**109,748**	(22,863)
EBITDA	**64,944**	(33,371)	**178,311**	4,170
Adjusted EBITDA	**68,515**	33,729	**196,112**	79,080
Revenue as a % of consolidated revenue	**63.6%**	78.3%	**60.5%**	72.6%
Operating income as a % of revenue	**7.9%**	4.6%	**7.5%**	3.0%
EBIT as a % of revenue	**8.1%**	(10.8)%	**7.6%**	(2.9)%
EBITDA as a % of revenue	**13.1%**	(10.8)%	**12.4%**	0.5%

Enerflex recorded Engineered Systems bookings of $537.2 million in the NAM segment in the third quarter of 2023, which is a substantial increase of $204.2 million compared to the third quarter of 2022. Bookings for the first nine months of 2023 were $1.3 billion, representing a considerable increase of $399.4 million compared to the first nine months of 2022, reflecting sustained customer activity levels in the energy sector. Accordingly, NAM's Engineered Systems backlog of $1.3 billion at September 30, 2023 is expected to result in strong Engineered Systems revenue generation over the near term.

Revenue of $494.7 million and $1,439.5 million for the three and nine months ended September 30, 2023 increased by $187.1 million and $650.1 million, respectively, compared to the same periods in 2022. The NAM segment continues to record strong revenue in all product lines in 2023, most significantly in Engineered Systems, which saw elevated activity levels on a stronger opening backlog and sustained bookings activity. After-Market Services revenues increased on strong parts sales, inflationary price adjustments and an increased volume of work. Lastly, Energy Infrastructure revenue decreased slightly in the third quarter of 2023 compared to the same period in 2022, primarily due to a non-recurring rental equipment sale of approximately $11 million during the third quarter of 2022, offset by increased contract compression utilizations, a larger fleet, and the positive impacts of inflationary price adjustments. Energy Infrastructure revenue increased in the first nine months of 2023 compared to the same period of 2022 resulting from increased contract compression utilizations, a larger fleet, and the positive impacts of inflationary price adjustments.

Gross margin increased during the three and nine months ended September 30, 2023 compared to 2022, which is attributable to higher overall revenues, as well as improved margins on sold Engineered Systems projects.

SG&A was higher during the three and nine months ended September 30, 2023 compared to the same periods last year, which is primarily due to additional costs required to support the acquired Exterran business, as well as restructuring, transaction, and integration costs. These higher costs in the nine months ended September 30, 2023 were partially offset by a one-time bad debt recovery of a $12.2 million receivable that had previously been written off.

At September 30, 2023, the USA contract compression fleet totaled approximately 405,000 horsepower. The average utilization of the fleet for the three and nine months ended September 30, 2023 was 93 and 95 percent, reflecting strong customer demand and robust market fundamentals. Average utilization rates in 2023 decreased from 95 percent and increased from 93 percent average utilizations in the comparative periods in 2022, respectively.

LATIN AMERICA SEGMENT RESULTS

($ thousands, except percentages)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Engineered Systems bookings	**$ 10,845**	$ 6,117	**$ 33,478**	$ 30,961
Engineered Systems backlog	**45,764**	6,609	**45,764**	6,609
Segment revenue	**$ 107,547**	$ 29,072	**$ 341,309**	$ 122,665
Intersegment revenue	**(2)**	-	**(773)**	(36)
Revenue	**$ 107,545**	$ 29,072	**$ 340,536**	$ 122,629
Revenue – Energy Infrastructure	**$ 77,097**	$ 18,739	**$ 249,421**	$ 52,922
Revenue – After-Market Services	**14,896**	7,119	**50,576**	21,134
Revenue – Engineered Systems	**15,552**	3,214	**40,539**	48,573
Gross Margin	**24,354**	7,761	**86,025**	23,562
SG&A	**37,611**	6,036	**95,565**	15,480
Operating income (loss)	**(13,257)**	1,725	**(9,540)**	8,082
EBIT	**(13,219)**	1,725	**(9,542)**	8,082
EBITDA	**3,511**	1,725	**35,996**	18,910
Adjusted EBITDA	**5,154**	7,567	**50,527**	26,311
Revenue as a % of consolidated revenue	**13.8%**	7.4%	**14.3%**	11.3%
Operating income (loss) as a % of revenue	**(12.3)%**	5.9%	**(2.8)%**	6.6%
EBIT as a % of revenue	**(12.3)%**	5.9%	**(2.8)%**	6.6%
EBITDA as a % of revenue	**3.3%**	5.9%	**10.6%**	15.4%

Third quarter 2023 Engineered Systems bookings of $10.8 million increased by $4.7 million relative to the third quarter of 2022, with the Company securing projects in the LATAM region in the current period.

LATAM's revenues increased by $78.5 million and $217.9 million in the three and nine months ended September 30, 2023 when compared to the same periods in 2022, primarily driven by revenues generated by the Company's expanded contracted Energy Infrastructure fleet stemming from the Transaction. After-Market Services revenues also increased year-over-year, while Engineered Systems revenues increased in the third quarter of 2023 compared to the third quarter of 2022 primarily due to higher backlog. However, Engineered Systems revenue decreased in the first nine months of 2023 compared to the same period of 2022 as a result of a major project being completed during the second quarter of 2022.

Total gross margins expanded during the three and nine months ended September 30, 2023 compared to the same periods in 2022 as a result of higher overall revenues from increased activity and higher realized gross margins from the Company's Energy Infrastructure assets.

SG&A was higher during the three and nine months ended September 30, 2023 compared to 2022, primarily due to additional costs required to support the acquired Exterran business, as well as restructuring, transaction, and integration costs. Further, Enerflex recognized foreign exchange losses of $17.3 million and $40.9 million during the three and nine months ended September 30, 2023, respectively, due to the ongoing devaluation of the Argentine peso. These foreign exchange losses were partially offset by $2.8 million of gains from associated instruments during the three and nine months ended September 30, 2023. The Company also earned interest income on cash being held in Argentina of $7.8 million and $23.5 million that are not reflected in operating income for the three and nine months ended September 30, 2023, respectively.

EASTERN HEMISPHERE SEGMENT RESULTS

($ thousands, except percentages)		Three months ended September 30, 2023		2022		Nine months ended September 30, 2023		2022
Engineered Systems bookings	**$**	**11,509**	$	8,461	**$**	**104,582**	$	6,161
Engineered Systems backlog		**214,707**		113,069		**214,707**		113,069
Segment revenue	**$**	**178,098**	$	56,298	**$**	**605,797**	$	176,224
Intersegment revenue		**(2,171)**		(175)		**(5,953)**		(328)
Revenue	**$**	**175,927**	$	56,123	**$**	**599,844**	$	175,896
Revenue – Energy Infrastructure	**$**	**69,445**	$	19,865	**$**	**194,078**	$	60,015
Revenue – After-Market Services		**46,212**		26,475		**136,997**		67,355
Revenue – Engineered Systems		**60,270**		9,783		**268,769**		48,526
Gross Margin		**27,165**		17,756		**107,419**		46,880
SG&A		**21,378**		10,180		**81,803**		28,162
Operating income		**5,787**		7,576		**25,616**		18,718
EBIT		**5,790**		7,576		**25,617**		18,718
EBITDA		**35,305**		7,576		**108,694**		24,805
Adjusted EBITDA		**48,078**		13,949		**140,050**		32,067
Revenue as a % of consolidated revenue		**22.6%**		14.3%		**25.2%**		16.2%
Operating income (loss) as a % of revenue		**3.3%**		13.5%		**4.3%**		10.6%
EBIT as a % of revenue		**3.3%**		13.5%		**4.3%**		10.6%
EBITDA as a % of revenue		**20.1%**		13.5%		**18.1%**		14.1%

The EH segment had $11.5 million bookings in the third quarter of 2023, while bookings of $104.6 million in the first nine months of 2023 increased significantly primarily as a result of an increased scope for an in-flight project acquired from Exterran. EH's backlog increased in the current period due to the backlog balance acquired from Exterran, partially offset by the natural gas infrastructure project that commenced operations in the first quarter of 2023. The project is being accounted for as a finance lease.

Revenue increased by $119.8 million and $423.9 million during the three and nine months ended September 30, 2023, compared to the three and nine months ended September 30, 2022. Engineered Systems revenue was higher as a result of a strong opening backlog. The nine months ended September 30, 2023 also includes non-cash selling profit recognized from a natural gas infrastructure project which commenced operations in the first quarter of 2023. Energy Infrastructure revenues increased primarily from the contribution of the aforementioned natural gas infrastructure project, in addition to the two Build-Own-Operate-Maintain ("BOOM") produced water facilities that were brought to commercial operation in the fourth quarter of 2022 and the first quarter of 2023. After-Market Services revenues increased from customer maintenance activities and parts sales in all regions.

Gross margins for the three and nine months ended September 30, 2023 were higher than the same periods in 2022, primarily due to increased activity and higher margin Engineered Systems projects being executed.

SG&A was higher during the three and nine months ended September 30, 2023 relative to the same periods in 2022 due to the additional costs required to support the acquired Exterran business, as well as restructuring, transaction, and integration costs.

GROSS MARGIN BY PRODUCT LINE

Each of Enerflex's regional business segments oversees the execution of all three product lines described above: Energy Infrastructure, After-Market Services and Engineered Systems.

The Company considers its Energy Infrastructure and After-Market Services 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 Energy Infrastructure and After-Market Services offerings, which the Company believes offer longer-term stability in earnings compared to Engineered Systems revenue, which historically have been dependent on the cyclical demand for new compression, processing, and electric power equipment. While individual Energy Infrastructure and After-Market Services contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude these product lines from being considered recurring in nature.

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

				Three months ended September 30, 2023
($ thousands, except percentages)	**Total**	**Energy Infrastructure**	**After-Market Services**	**Engineered Systems**
Revenue	**$ 778,173**	**$ 189,977**	**$ 164,710**	**$ 423,486**
Cost of goods sold:				
Operating expenses	**577,535**	**86,768**	**133,675**	**357,092**
Depreciation and amortization	**54,400**	**46,483**	**3,145**	**4,772**
Gross margin	**$ 146,238**	**$ 56,726**	**$ 27,890**	**$ 61,622**
Gross margin %	**18.8%**	**29.9%**	**16.9%**	**14.6%**

				Three months ended September 30, 2022
($ thousands, except percentages)	Total	Energy Infrastructure	After-Market Services	Engineered Systems
Revenue	$ 392,813	$ 82,820	$ 109,109	$ 200,884
Cost of goods sold:				
Operating expenses	294,544	34,456	88,040	172,048
Depreciation and amortization	19,599	15,649	2,472	1,478
Gross margin	$ 78,670	$ 32,715	$ 18,597	$ 27,358
Gross margin %	20.0%	39.5%	17.0%	13.6%

				Nine months ended September 30, 2023
($ thousands, except percentages)	**Total**	**Energy Infrastructure**	**After-Market Services**	**Engineered Systems**
Revenue	**$ 2,379,887**	**$ 569,109**	**$ 472,716**	**$ 1,338,062**
Cost of goods sold:				
Operating expenses	**1,773,292**	**257,561**	**376,798**	**1,138,933**
Depreciation and amortization	**152,531**	**134,407**	**8,744**	**9,380**
Gross margin	**$ 454,064**	**$ 177,141**	**$ 87,174**	**$ 189,749**
Gross margin %	**19.1%**	**31.1%**	**18.4%**	**14.2%**

($ thousands, except percentages)		Total		Energy Infrastructure		After-Market Services		Nine months ended September 30, 2022 Engineered Systems
Revenue	$	1,087,959	$	218,164	$	298,134	$	571,661
Cost of goods sold:								
Operating expenses		834,494		86,727		245,421		502,346
Depreciation and amortization		57,563		45,034		7,524		5,005
Gross margin	$	195,902	$	86,403	$	45,189	$	64,310
Gross margin %		18.0%		39.6%		15.2%		11.2%

INCOME TAXES

The Company reported an income tax recovery of $5.3 million for the three months ended September 30, 2023, compared to an income tax expense of $4.2 million in the same period of 2022. The decrease is the result of the reversal of purchase price allocation adjustments related to the disposition of certain assets. The Company reported an income tax expense of $16.7 million for the nine months ended September 30, 2023, compared to an income tax expense of $10.9 million in the same period of 2022. The year-over-year change is primarily driven by unrecognized deferred tax deductions related to head office cost and interest expenses in Canada, partially offset by the decrease in foreign earnings, and tax related to the goodwill impairment in the third quarter of 2022 that did not repeat.

LEGAL PROCEEDINGS

On January 31, 2022, the Local Labor Board of the State of Tabasco in Mexico (the “Labor Board”) awarded a former employee of Exterran MXN$2,152 million in connection with a dispute relating to the employee’s severance pay following termination of their employment in 2015.

Enerflex believes the order of the Labor Board is in error and has no credible basis in law or fact. In 2017, the Labor Board ruled that the former employee was entitled to approximately MXN$1.4 million as severance based on an appellate court’s determination that the employee’s salary was approximately MXN$3,500 per day. However, the Labor Board’s January 2022 order significantly increased the amount the employee is owed, ignoring the actual salary that had been established by the appellate court and using an amount the former employee never actually received while working for Exterran.

Enerflex has appealed the decision, and the appeal is pending before the courts in Mexico. In the meantime, the Company is pursuing all other available avenues to preserve its rights, including rights under the Agreement between the United States of America, the United Mexican States, and Canada (“USMCA”) investment treaty arguing that the conduct of the Labor Board in Mexico amounts to violations of protections available under the North American Free Trade Agreement.

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; financial discipline and strength; profitable growth achieved through vertically integrated and geographically diverse product offerings; 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 over its 40-plus-year history.

Enerflex delivers modularized energy solutions to customers in key global natural gas growth markets. The Company’s vertically integrated product offerings include processing, cryogenic, compression, electric power, and produced water solutions, spanning all phases of a project’s lifecycle, from front-end engineering and design to after-market service. Enerflex also works closely with customers to enable their decarbonization efforts, with proven expertise in delivering low-carbon solutions, including carbon capture utilization and storage, electrification, renewable natural gas (“RNG”), and hydrogen solutions.

With the acquisition of Exterran, Enerflex executed its strategy to build an increasingly resilient and sustainable business through its Energy Infrastructure and After-Market Services product lines, and as a result, expects to stabilize cash flows and reduce cyclicality in the business over the long term.

OUTLOOK

The underlying macro drivers for Enerflex's business are robust, with the ongoing focus on global energy security and the growing need for low-emission natural gas resulting in strong demand for Enerflex's energy infrastructure and energy transition solutions.

STRATEGIC PRIORITIES

Heading into 2024, Enerflex's performance will be underpinned by recurring Energy Infrastructure and After-Market Services product lines, including a large platform of international assets that are expected to continue serving the growing need for reliable power and energy independence. The Company's USA contract compression fleet is expected to benefit from ongoing strength in customer demand.

Complementing Enerflex's recurring businesses is the Engineered Systems product line, which carries a record backlog of $1.6 billion. The Company expects the majority of its backlog to convert into revenue over the next 12 months.

Enerflex is targeting a disciplined capital program in 2024. In addition, the Company will continue to regularly review opportunities to optimize its geographic footprint and business platform. Enerflex will prioritize debt reduction, synergy realization, and operational efficiency. The Company also continues to evaluate its target long-term capital structure and capital allocation parameters and expects to provide more clarity in coming months.

The long-term fundamentals for natural gas are robust, given its critical role in supporting global decarbonization efforts and future economic growth. Enerflex is poised to capitalize on the growing demand for low-carbon solutions through its vertically integrated natural gas and energy transition offerings.

INTEGRATION OF EXTERRAN CORPORATION

Enerflex is progressing the integration of Exterran to become a more resilient and profitable business. Since closing the Transaction, Enerflex has captured approximately US$50 million of annual run-rate synergies and expects to realize the total US$60 million of anticipated synergies within 12 to 18 months from Transaction close of October 13, 2022.

2023 GUIDANCE

Enerflex is reaffirming all of its full-year 2023 financial guidance as last provided with our second quarter results.

(US$ millions, except ratios and percentages)	**November 8, 2023**	**August 9, 2023[1]**
Annual run-rate synergies[2]	**60**	60
Adjusted EBITDA[2,3]	**380 – 420**	380 – 420
Bank-adjusted net debt to EBITDA ratio[3,4]	**<2.5x**	<2.5x
Capital expenditures and contract assets		
Maintenance capital expenditures	**40 – 50**	40 – 50
Contract assets related to the Cryogenic Facility[5]	**40 – 50**	40 – 50
PP&E and growth capital expenditures	**80 – 90**	80 – 90
Total	**160 – 190**	160 – 190
Other non-discretionary expenditures[6]	**180 – 210**	180 – 210

[1] *Refer to the August 9, 2023 news release entitled "Enerflex Ltd. Reports Strong Second-Quarter 2023 Financial and Operational Results.*
[2] *Synergy capture is subject to timing considerations of being realized within 12 to 18 months of Transaction close.*
[3] *Non-IFRS measure that is not a standardized financial measure under IFRS and may not be comparable to similar non-IFRS measures disclosed by other issuers. Refer to "Forward Looking Statements" of this MD&A.*
[4] *Calculated in accordance with the Company's debt covenants, which permit: (a) the inclusion of Exterran's bank-adjusted EBITDA for the trailing 12 months ended for the respective period; and (b) a maximum of 4.5:1.*
[5] *Formerly referred to as work-in-progress in the Company's financial guidance. The Cryogenic Facility is being accounted for as a sale within the Engineered Systems product line and presented as a contract asset on Enerflex's consolidated statements of financial position.*
[6] *Includes net working capital, finance costs, cash income taxes, and dividends.*

The Company anticipates adjusted EBITDA as currently reported to be at the low end of its guidance range, inclusive of the impact from volatility in foreign exchange markets. The ongoing devaluation of the Argentine peso resulted in foreign exchange losses of $40.9 million during the nine months ended September 30, 2023, which is reported in SG&A. Also recorded in SG&A is $2.8 million of investment income earned from associated instruments that partially offsets the impact of these foreign exchange losses. Additionally, there is $23.5 million of interest income on cash and associated instruments reported as part of net finance costs.

Enerflex anticipates total 2023 PP&E and growth capital expenditures of US$80 million to US$90 million, approximately half of which is for the completion of two BOOM produced water projects that were originally anticipated in 2022 but were largely recognized in Q1 2023. In addition, Enerflex plans to invest in various small-scale, customer-sanctioned projects in the USA, LATAM, and EH.

Enerflex expects its other non-discretionary expenditures, which includes net working capital, finance costs, cash income taxes and dividends, to total US$180 million to US$210 million.

ENERGY TRANSITION

As the transition to a lower-carbon economy unfolds, Enerflex is collaborating with customers to advance projects that decarbonize and electrify operations and support infrastructure for RNG, biofuels, and hydrogen solutions. In the USA, the Inflation Reduction Act has accelerated the development of numerous carbon capture projects, growing the future opportunity set for Enerflex given its expertise in delivering modularized engineered-to-order process solutions. Enerflex has also engaged in several projects to design, engineer, and manufacture carbon capture and other low-carbon applications, including piloting activities to accelerate the identification and implementation of best-in-class solutions.

Over the long term, Enerflex will continue to evaluate and create paths that will allow for participation in developing and growing markets, which is expected to shape the energy transition landscape over the next several decades.

OUTLOOK BY SEGMENT

North America

Capital discipline continues to be at the forefront for North American upstream exploration and production companies. In the USA, Enerflex is observing strong demand for its products and services in the liquids-weighted Permian Basin. In Canada, Enerflex's market outlook is constructive following the initial agreement on future resource development between the Blueberry River First Nations and the Government of British Columbia coupled with increasing activity for eventual liquefied natural gas ("LNG") exports.

Given the robust long-term demand profile for natural gas and LNG exports in the USA, Enerflex anticipates that utilization rates for its contract compression fleet will remain elevated, demand for the Exterran Cryogenic product line will strengthen, and sold margins on new Engineered Systems bookings will remain strong. Additionally, the Company expects increased After-Market Services-related activities across the region will continue through 2023, including parts sales, overhauls, and retrofitting activities.

Latin America

With its expanded Energy Infrastructure platform, Enerflex generates predictable recurring revenues in Latin America and will continue to manage regional geopolitical risks. Over time, the Company plans to increase its contract compression fleet utilization by re-contracting and redeploying idle fleet to meet rising local demand since many nations throughout the region have indicated a growing need for reliable power and a desire to reduce their overall dependency on imported natural gas. Enerflex's presence and product offering is aligned with market drivers and the overall Company strategy.

Eastern Hemisphere

Enerflex's near-term focus in Europe, Africa and Middle East is strong operational execution, delivering cost improvements within existing operations, and safely advancing the Cryogenic Facility project. The Company also continues to explore new markets and opportunities requiring modular solutions to bolster cash flows in the region. Over the long term, Enerflex expects ongoing demand for larger-scale energy infrastructure assets and integrated turnkey projects.

In Asia Pacific, a strong LNG export market, and recent legislation surrounding emissions-reduction targets in Australia, are expected to strengthen the demand for natural gas and energy transition solutions in the region.

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 Engineered Systems bookings and backlog, recurring revenue, EBITDA, net debt to EBITDA ratio, bank-adjusted net debt to EBITDA ratio, and ROCE, 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. Engineered Systems bookings and backlog do not have a directly comparable IFRS measure.

($ thousands)	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
EBITDA and Adjusted EBITDA				
EBIT	**$ 32,635**	$ (24,070)	**$ 125,823**	$ 3,937
Depreciation and amortization	**71,125**	21,695	**197,178**	65,643
EBITDA	**$ 103,760**	$ (2,375)	**$ 323,001**	$ 69,580
Adjusted EBITDA[1]	**$ 121,747**	$ 54,795	**$ 386,689**	$ **137,458**
Recurring Revenue				
Energy Infrastructure	**$ 189,977**	$ 82,820	**$ 569, 109**	$ 218,164
After-Market Services	**164,710**	109,109	**472,716**	298,134
Impact of finance leases	**12,527**	2,288	**36,874**	7,904
Total recurring revenue	**$ 367,214**	$ 194,217	**$ 1,078,699**	$ 524,202
% of total revenue	**47.2%**	49.4%	**45.3%**	48.2%
ROCE				
Trailing 12-month EBIT	**$ 81,076**	$ 24,492	**$ 81,076**	$ 24,492
Capital employed – beginning of period				
Net debt[2]	**$ 1,234,125**	$ 198,873	**$ 1,136,549**	$ 158,664
Shareholders' equity	**1,522,667**	1,378,897	**1,542,908**	1,353,754
	$ 2,756,792	$ 1,577,770	**$ 2,679,457**	$ 1,512,418
Capital employed – end of period				
Net debt[2]	**$ 1,239,997**	$ 169,626	**$ 1,239,997**	$ 169,626
Shareholders' equity	**1,546,975**	1,419,844	**1,546,975**	1,419,844
	$ 2,786,972	$ 1,589,470	**$ 2,786,972**	$ 1,589,470
Average capital employed[3]	**$ 2,743,261**	$ 1,556,918	**$ 2,743,261**	$ 1,556,918
ROCE	**3.0%**	1.6%	3.0%	1.6%

[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.

DISTRIBUTABLE CASH FLOW

The Company defines distributable cash flow as cash provided by operating activities adjusted for the net change in working capital and other, less maintenance capital expenditures and lease payments. Distributable 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 as a way to assist users of the Financial Statements assess the level of free cash generated and to fund other non-operating activities such as payments to creditors, dividends, and capital expenditures. The following tables reconciles distributable cash flow to the most directly comparable IFRS measure, cash provided by operating activities:

		Three months ended September 30,				Nine months ended September 30,		
($ thousands)		**2023**		2022		**2023**		2022
Cash provided by (used in) operating activities	**$**	**70,867**	$	37,713	**$**	**64,332**	$	36,098
Add (deduct):								
Net change in working capital and other[1]		**(14,602)**		(1,366)		**130,228**		56,324
	$	**56,265**	$	36,347	**$**	**194,560**	$	92,422
Maintenance capital expenditures		**(7,455)**		(4,940)		**(28,298)**		(10,704)
Leases		**(6,145)**		(3,626)		**(16,487)**		(10,957)
Distributable cash flow	**$**	**42,665**	$	27,781	**$**	**149,775**	$	70,761

[1]Included in net change in working capital and other are proceeds of $28.0 million from the settlement of preferred shares received during the three months ended March 31, 2023.

BANK-ADJUSTED NET DEBT TO EBITDA RATIO

The Company defines net debt as short- and long-term debt less cash and cash equivalents at period end, which is then divided by EBITDA for the trailing 12 months. In assessing whether the Company is compliant with the financial covenants related to its debt instruments, certain adjustments are made to net debt and EBITDA to determine Enerflex's bank-adjusted net debt to EBITDA ratio. These adjustments and Enerflex's bank-adjusted net debt to EBITDA ratio are calculated in accordance with, and derived from, the Company's financing agreements.

CAPITAL EXPENDITURES AND EXPENDITURES FOR FINANCE LEASES

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

During the three months ended September 30, 2023, Enerflex invested $25.5 million in capital expenditures, including maintenance of the Company's global Energy Infrastructure fleet, as well as small-scale investments to expand the fleet across all regions. During the nine months ended September 30, 2023, Enerflex invested $119.3 million in capital expenditures, primarily for the completion of two large BOOM produced water facilities in the Middle East.

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

		Three months ended September 30,				Nine months ended September 30,		
($ thousands)		**2023**		2022		**2023**		2022
Additions to PP&E	**$**	**4,523**	$	1,920	**$**	**14,451**	$	4,911
Additions to Energy Infrastructure assets:								
Maintenance		**7,455**		4,940		**28,298**		10,704
Growth		**13,489**		21,672		**76,557**		30,603
Total capital expenditures	$	**25,467**	$	28,532	$	**119,306**	$	46,218
Expenditures for finance leases	$	**-**	$	19,073	$	**4,730**	$	60,017
Total capital expenditures and expenditures for finance leases	$	**25,467**	$	47,605	$	**124,036**	$	106,235

FINANCIAL POSITION

The following table outlines significant changes in the consolidated statements of financial position as at September 30, 2023 compared to December 31, 2022:

($ millions)	**Increase (Decrease)**	**Explanation**
Current assets	**$(12.4)**	The decrease in current assets is due to lower cash and cash equivalents, the WIP related to finance leases being transferred to COGS upon commencement of Enerflex's natural gas infrastructure project in the Middle East, and decreased prepayments, partially offset by increases in accounts receivable, contract assets, inventories, and short-term investments.
Energy infrastructure assets	**$(29.7)**	The decrease in energy infrastructure assets is primarily due to depreciation, disposals and impairments, offset by organic investments in the Company's energy infrastructure fleet.
Contract assets	**$31.8**	The increase in the non-current portion of contract assets is due to expanded manufacturing activity in the USA.
Lease right-of-use assets	**$14.5**	The increase in lease right-of-use assets is due to additions, partially offset by depreciation and dispositions.
Finance leases receivable	**$(9.7)**	The decrease in the long-term portion of finance leases receivable is due to billings and payments from customers, and the classification of a finance lease receivable as current related to the disposal of certain assets subsequent to September 30, 2023, partially offset by the recognition of a 10-year natural gas infrastructure project that began operations during the first quarter of 2023.
Intangibles	**$(19.9)**	The decrease in intangibles is primarily due to amortization.
Goodwill	**$(7.2)**	The decrease in goodwill is due to the impact of foreign exchange.
Other assets	**$(25.7)**	The decrease in other assets is primarily due to the preferred shares that the Company previously held and were settled during the period.
Current liabilities	**$(39.3)**	The decrease in current liabilities is primarily due to movements in accounts payable and accrued liabilities, and deferred revenues based on the timing of revenue recognition and milestone billings, partially offset by an increase in the current portion of long-term debt and income taxes payable.
Long-term debt	**$(13.9)**	The decrease in long-term debt is primarily due to the net repayment on the three-year secured Term Loan and the recognition of deferred transaction costs.
Lease liabilities	**$11.8**	The increase in lease liabilities is due to the additions related to lease right-of-use assets noted above, partially offset by payments made against lease liabilities.
Total shareholders' equity	**$4.1**	Total shareholders' equity increased due to net income and the impact of stock options, offset by unrealized losses on the translation of foreign operations, and dividends.

LIQUIDITY

The Company expects that cash flows from operations in 2023, together with cash and cash equivalents on hand and currently available credit facilities, will be sufficient to fund its requirements for investments in working capital and capital assets. As at September 30, 2023, the Company held cash and cash equivalents of $163.4 million and had significant liquidity with access to $328.2 million for future drawings.

($ thousands)	**September 30, 2023**
Total Revolving Credit Facility (US$700,000)	**$ 946,400**
Less:	
Drawings on Revolving Credit Facility	**474,368**
Letters of Credit[1]	**143,800**
Available for future drawings	**$ 328,232**

[1] This represents the letters of credit that the Company has funded with the Revolving Credit Facility. Additional letters of credit of $18.2 million (US$13.5 million) are funded from the newly secured LC Facility. Refer to Note 10 "Long-Term Debt" of the Financial Statements for more information.

The Company continues to meet the covenant requirements of its funded debt, including the Revolving Credit Facility, Term Loan and senior secured notes (the "Notes"), with the senior secured net funded debt, which is comprised of the Revolving Credit Facility and the Term Loan, to EBITDA ratio of 1.0:1, compared to a maximum ratio of 2.5:1, and a bank-adjusted net debt to EBITDA ratio of 2.7:1, compared to a maximum ratio of 4.5:1. The Company exited the third quarter of 2023 with an interest coverage ratio of 4.2:1 compared to a minimum ratio of 2.5:1. The interest coverage ratio is calculated by dividing the trailing 12-month EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2023**	2022	**2023**	2022
Cash and cash equivalents, beginning of period	**$ 174,179**	$ 147,078	**$ 253,776**	$ 172,758
Cash provided by (used in):				
Operating activities	**70,867**	37,713	**64,332**	36,098
Investing activities	**(30,401)**	5,792	**(121,138)**	(10,936)
Financing activities	**(50,488)**	(298)	**(26,276)**	(8,876)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**(728)**	8,502	**(7,265)**	9,743
Cash and cash equivalents, end of period	**$ 163,429**	$ 198,787	**$ 163,429**	$ 198,787

OPERATING ACTIVITIES

For the three and nine months ended September 30, 2023, cash provided by operating activities was higher than the comparative period, primarily driven by higher net income and the net changes in working capital. Movements in the net change in working capital are explained in the *"Financial Position"* section of this MD&A.

INVESTING ACTIVITIES

Cash used in investing activities for the three and nine months ended September 30, 2023 is higher when compared to the same periods last year, primarily due to the increased capital expenditures on PP&E, energy infrastructure assets and intangible, and the purchase of short-term investments.

FINANCING ACTIVITIES

Cash used in financing activities increased during the three ended September 30, 2023 compared to the three months ended September 30, 2022 primarily due to a repayment on the Term Loan and the net repayment of the Revolving Credit Facility. The cash used in financing activities increased during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 primarily due to the lower net proceeds from the Revolving Credit Facility and lower deferred transaction costs.

QUARTERLY SUMMARY

Three months ended *($ thousands, except per share amounts)*		Revenue		Net earnings (loss)		Earnings (loss) per share – basic		Earnings (loss) per share – diluted
September 30, 2023	**$**	**778,173**	**$**	**5,714**	**$**	**0.05**	**$**	**0.05**
June 30, 2023		776,670		(2,823)		(0.02)		(0.02)
March 31, 2023		825,044		13,524		0.11		0.11
December 31, 2022		689,839		(81,118)		(0.68)		(0.68)
September 30, 2022		392,813		(32,808)		(0.37)		(0.37)
June 30, 2022		372,077		13,352		0.15		0.15
March 31, 2022		323,069		(369)		(0.00)		(0.00)
December 31, 2021		321,347		(32,707)		(0.36)		(0.36)
September 30, 2021		231,097		6,958		0.08		0.08
June 30, 2021		204,507		4,291		0.05		0.05
March 31, 2021		203,205		3,003		0.03		0.03
December 31, 2020		298,837		32,668		0.36		0.36
September 30, 2020		265,037		10,736		0.12		0.12

CAPITAL RESOURCES

On October 31, 2023, Enerflex had 123,927,997 common shares outstanding. Enerflex has not established a formal dividend policy and the Board anticipates setting the Company's quarterly dividends based on the availability of cash flow, anticipated market conditions, and the general needs of the business. Subsequent to September 30, 2023, the Board declared a quarterly dividend of $0.025 per share.

At September 30, 2023, the Company had combined drawings of $663.6 million against the Revolving Credit Facility and Term Loan (December 31, 2022 – $662.4 million). The weighted average interest rate on the Revolving Credit Facility and Term Loan at September 30, 2023 was 7.7 percent and 8.9 percent, respectively (December 31, 2022 – 7.0 percent and 7.8 percent, respectively).

The composition of the borrowings on the Revolving Credit Facility, Term Loan, and the Notes were as follows:

($ thousands)	Maturity Date		September 30, 2023		December 31, 2022
Drawings on the Revolving Credit Facility (US$700,000)	October 13, 2025	**$**	**474,368**	$	459,202
Drawings on the Term Loan (US$140,000)	October 13, 2025		**189,280**		203,160
Notes (US$625,000)	October 15, 2027		**845,000**		846,500
Deferred transaction costs and Notes discount			**(105,222)**		(118,537)
		$	**1,403,426**	$	1,390,325
Current portion of long-term debt		**$**	**54,080**	$	27,088
Non-current portion of long-term debt			**1,349,346**		1,363,237
Long-term debt		**$**	**1,403,426**	$	1,390,325

At September 30, 2023, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $1,508.6 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 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

The Chief Executive Officer and the Interim CFO, together with other members of Management, have evaluated the effectiveness of the Company's DC&P and ICFR as at September 30, 2023, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on that evaluation, Management has concluded that the design and operation of the Company's DC&P were adequate and effective as at September 30, 2023, to provide reasonable assurance that: a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities; and b) information required to be disclosed is recorded, processed, summarized, and reported within required time periods. Management also concluded that the design and operation of ICFR was adequate and effective as at September 30, 2023, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no significant changes in the design of the Company's ICFR during the nine months ended September 30, 2023 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

SUBSEQUENT EVENTS

Subsequent to September 30, 2023, Enerflex declared a quarterly dividend of $0.025 per share, payable on January 10, 2024, to shareholders of record on November 21, 2023. 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 the respective Management 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 expectations that the Company will reduce its bank-adjusted net debt to EBITDA ratio to less than 2.5 times by the end of 2023 through strong cash flow generation and the execution of its large Engineered Systems backlog; the expectation that the Company will continue to strengthen its financial position to ensure that the Company has significant flexibility through industry cycles; the global demand for natural gas to remain robust and the continued volatility in commodity prices and any impact on the Company’s ability to secure future booking; the NAM backlog which is expected to result in strong Engineered Systems revenue generation over the near term; the Company aims to diversify and expand Energy Infrastructure and After-Market Services offerings, which the Company believes offer longer-term stability in earnings compared to Engineered Systems revenue; the Company’s expectations to stabilize cash flows and reduce cyclicality in the business over the long-term; the disclosures under the section *"Outlook"* and *"Outlook by Segment"* including, but not limited to, the underlying macro drivers for Enerflex’s business and these drivers remaining robust; recurring Energy Infrastructure and After-Market Services product lines, including a large platform of international assets that are expected to continue serving the growing need for reliable power and energy independence; the expected benefits to the USA contract compression fleet driven by ongoing strength in customer demand; the expectation that a majority of the Engineered Systems backlog will convert into revenue in the next 12 months; the Company’s expectations for a balanced capital program in 2024; the expectations for growing demand in low-carbon solutions and the opportunities for the Company to capitalize on such demand through its vertically integrated natural gas and energy transition offerings;

the expectations to capture US$60 million in annual run-rate synergies within 12 to 18 months of the closing of the Transaction; The Company's expectations in respect of its guidance including that total 2023 PP&E and growth capital expenditures will range for US$80 million to US$90 million; the Company's plans to complete required upgrades on several facilities acquired through the Transaction; the Company's expectations to invest in various small-scale, customer-sanctioned projects in the USA, LATAM and EH; the Company's guidance in respect of other non-discretionary expenditures to be within the range of US$180 million to US$210 million; the Company's expectations that utilization rates for its contract compression fleet will remain elevated, demand for the Exterran Cryogenic product line will strengthen, and sold margins on new Engineered Systems bookings will remain strong; the Company's expectations for increased After-Market Services-related activities across the NAM region will continue through 2023; the expectations of the Company to increase its contract compression fleet utilization in LATAM; the Company's expectations of ongoing demand for larger- scale energy infrastructure assets and integrated turnkey projects in the EH region; the anticipated increase in demand for natural gas and energy transition solutions in the Asia Pacific region; the Company's expectations that cash flows from operations together with cash and cash equivalents on hand and currently available credit facilities, will be sufficient to fund the Company's requirements for investments in working capital and capital assets; the expectations that Enerflex will continue to reduce its bank-adjusted net debt to EBITDA ratio to below 2.5 times by the end of the year; the ability of Enerflex to participate in developing and growing markets, which is expected to shape the energy transition landscape of the next several decades; the expectations for the Company to pay and to continue to pay a quarterly dividend to shareholders and that the Board will set the dividend based on the availability of cash flow, anticipated market conditions, and the general needs of the business; the Company's plans to simplify its geographic footprint and consolidate its global manufacturing capacity; the Company's expectations that the initial agreement between Blueberry River First Nations and the Government of British Columbia, coupled with development activities anticipated for LNG exports, will be constructive for the Canadian business; the intended use, if any, by Enerflex of the remaining funds under the Revolving Credit Facility; future capital expenditures, including the amount and nature thereof; commodity prices and the impact of such prices on demand for the Company's products and services.

This forward-looking information and statements are based on assumptions, estimates, and analysis made by Enerflex and its perception of trends, current conditions, and expected developments, as well as other factors that are believed by Enerflex to be reasonable and relevant in the circumstances and in light of the Transaction. All forward-looking information and statements in this MD&A is subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect Enerflex's operations, including, without limitation: the impact of economic conditions including volatility in the price of crude oil, natural gas, and natural gas liquids; supply chain interruptions leading to delays in receiving materials and parts to produce equipment; interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for crude oil and natural gas, and the related infrastructure including new environmental, taxation, and other laws and regulations; the ability to successfully integrate Exterran and the timing and costs associated therewith; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management and difficulties in retaining personnel; political unrest; and other factors, many of which are beyond the control of Enerflex. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. While Enerflex believes that there is a reasonable basis for the forward-looking information and statements included in this MD&A, as a result of such known and unknown risks, uncertainties, and other factors, actual results, performance, or achievements could differ and such differences could be material from those expressed in, or implied by, these statements. The forward-looking information and statements included in this MD&A should not be unduly relied upon as a number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including but not limited to: the ability of Enerflex to realize the anticipated benefits of, and synergies from, the Transaction and the timing and quantum thereof; potential undisclosed liabilities associated with the Transaction but unidentified during the due diligence process; the interpretation and treatment of the Transaction by tax authorities; the success of business integration and the time and costs required to successfully integrate; 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 integrated businesses; risks associated with technology and equipment, including potential cyberattacks; the occurrence of unexpected events such as pandemics, 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 Enerflex's AIF for the year ended December 31, 2022.

This MD&A contains information that may constitute future-oriented financial information or financial outlook information ("FOFI") about Enerflex and its prospective financial performance, financial position, or cash flows, including leverage, operational efficiencies, scale, capital expenditures and WIP, non-discretionary expenses, and accretion, all of which is subject to the same assumptions, risk factors, limitations, and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. The Company's actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Enerflex has included FOFI in this MD&A in order to provide readers with a more complete perspective on the Company’s future operations and Management's current expectations regarding the Company’s future performance. Readers are cautioned that such information may not be appropriate for other purposes.

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

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)

($ Canadian thousands)	**September 30, 2023**	December 31, 2022[1]
Assets		
Current assets		
Cash and cash equivalents	**$ 163,429**	$ 253,776
Short-term investments	**10,652**	-
Accounts receivable	**489,141**	455,841
Contract assets	**192,896**	186,259
Inventories (Note 3)	**417,079**	369,298
Work-in-progress related to finance leases (Note 3)	**-**	41,986
Current portion of finance leases receivable (Note 6)	**96,036**	60,020
Income taxes receivable (Note 12)	**6,290**	10,397
Derivative financial instruments (Note 16)	**123**	901
Prepayments	**61,820**	71,398
Total current assets	**1,437,466**	1,449,876
Property, plant and equipment (Note 4)	**147,062**	152,505
Energy infrastructure assets (Note 4)	**1,207,854**	1,237,550
Contract assets	**254,997**	223,179
Lease right-of-use assets (Note 5)	**92,852**	78,372
Finance leases receivable (Note 6)	**224,819**	234,484
Deferred tax assets (Note 12)	**28,282**	21,857
Intangible assets (Note 7)	**82,897**	102,773
Goodwill (Note 8)	**667,200**	674,396
Other assets (Note 9)	**57,410**	83,076
Total assets	**$ 4,200,839**	$ 4,258,068
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 601,633**	$ 628,086
Provisions	**23,846**	18,826
Income taxes payable (Note 12)	**89,790**	74,086
Deferred revenues	**301,845**	366,085
Current portion of long-term debt (Note 10)	**54,080**	27,088
Current portion of lease liabilities (Note 11)	**24,701**	20,125
Derivative financial instruments (Note 16)	**37**	977
Total current liabilities	**1,095,932**	1,135,273
Deferred revenues	**30,728**	33,435
Long-term debt (Note 10)	**1,349,346**	1,363,237
Lease liabilities (Note 11)	**84,754**	72,908
Deferred tax liabilities (Note 12)	**73,859**	88,550
Other liabilities	**19,245**	21,757
Total liabilities	**$ 2,653,864**	$ 2,715,160
Shareholders' equity		
Share capital	**$ 591,377**	$ 589,827
Contributed surplus	**660,003**	660,072
Retained earnings	**171,329**	164,200
Accumulated other comprehensive income	**124,266**	128,809
Total shareholders' equity	**1,546,975**	1,542,908
Total liabilities and shareholders' equity	**$ 4,200,839**	$ 4,258,068

[1] Certain balances as at December 31, 2022 have been re-presented as a result of measurement period adjustments for the acquisition of Exterran as required by IFRS 3 "Business Combinations", refer to Note 2 "Acquisition" for more information.

See accompanying notes to the unaudited interim condensed consolidated financial statements, including Note 18 "Guarantees, Commitments, and Contingencies".

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(unaudited)

($ Canadian thousands, except per share amounts)	Three months ended September 30, **2023**	2022[1]	Nine months ended September 30, **2023**	2022[1]
Revenue (Note 13)	**$ 778,173**	$ 392,813	**$ 2,379,887**	$ 1,087,959
Cost of goods sold	**631,935**	314,143	**1,925,823**	892,057
Gross margin	**146,238**	78,670	**454,064**	195,902
Selling and administrative expenses	**114,850**	55,102	**330,256**	145,252
Operating income	**31,388**	23,568	**123,808**	50,650
Gain on disposal of property, plant and equipment	**44**	9	**17**	88
Equity earnings from associates and joint ventures	**1,203**	353	**1,998**	1,199
Impairment of goodwill (Note 8)	**-**	(48,000)	**-**	(48,000)
Earnings before finance costs and income taxes	**32,635**	(24,070)	**125,823**	3,937
Net finance costs (Note 15)	**32,188**	4,522	**92,699**	12,853
Earnings before income taxes	**447**	(28,592)	**33,124**	(8,916)
Income taxes (Note 12)	**(5,267)**	4,216	**16,709**	10,909
Net Income (loss)	**$ 5,714**	$ (32,808)	**$ 16,415**	$ (19,825)
Income (loss) per share – basic	**$ 0.05**	$ (0.37)	**$ 0.13**	$ (0.22)
Income (loss) per share – diluted	**$ 0.05**	$ (0.37)	**$ 0.13**	$ (0.22)
Weighted average number of shares – basic	**123,888,473**	89,680,965	**123,799,145**	89,680,584
Weighted average number of shares – diluted	**124,106,107**	89,680,965	**124,014,367**	89,680,584

[1] Comparative figures through the Financial Statements represent Enerflex's results prior to the closing of the acquisition of Exterran Corporation on October 13, 2022, and therefore do not reflect pre-acquisition historical data from Exterran.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2023**	2022	**2023**	2022
Net income (loss)	**$ 5,714**	$ (32,808)	**$ 16,415**	$ (19,825)
Other comprehensive income (loss):				
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:				
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery	**318**	518	**(43)**	578
(Gain) loss on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**41**	5	**24**	(34)
Unrealized gain (loss) on translation of foreign denominated debt (Note 16)	**(17,811)**	(3,531)	**1,226**	(4,425)
Unrealized gain (loss) on translation of financial statements of foreign operations	**38,092**	78,639	**(5,750)**	95,218
Other comprehensive income (loss)	**$ 20,640**	$ 75,631	**$ (4,543)**	$ 91,337
Total comprehensive income (loss)	**$ 26,354**	$ 42,823	**$ 11,872**	$ 71,512

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

($ Canadian thousands)	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Operating Activities				
Net income (loss)	**$ 5,714**	$ (32,808)	**$ 16,415**	$ (19,825)
Adjustments for:				
Depreciation and amortization (Note 4)	**71,125**	21,695	**197,178**	65,643
Equity earnings from associates and joint ventures	**(1,203)**	(353)	**(1,998)**	(1,199)
Deferred income taxes (Note 12)	**(18,528)**	(3,275)	**(26,447)**	(4,937)
Share-based compensation expense (recovery) (Note 14)	**(799)**	3,097	**8,736**	4,479
(Gain) loss on sale of property, plant and equipment	**(44)**	(9)	**(17)**	(88)
Impairment of energy infrastructure assets (Note 4)	**-**	-	**693**	349
Impairment of goodwill (Note 8)	**-**	48,000	**-**	48,000
	56,265	36,347	**194,560**	92,422
Net change in working capital and other (Note 17)	**14,602**	1,366	**(130,228)**	(56,324)
Cash provided by operating activities	**$ 70,867**	$ 37,713	**$ 64,332**	$ 36,098
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$ (4,523)**	$ (1,920)	**$ (14,451)**	$ (4,911)
Energy infrastructure assets (Note 4)	**(20,944)**	(26,612)	**(104,855)**	(41,307)
Intangibles assets (Note 7)	**(227)**	-	**(5,802)**	-
Proceeds on disposal of:				
Property, plant and equipment	**732**	18	**745**	105
Energy infrastructure assets	**4,766**	10,601	**24,862**	13,294
Purchase of short-term investments	**(7,780)**	-	**(7,780)**	-
Investment in associates and joint ventures	**-**	(5,483)	**-**	(5,950)
Dividends received from associates and joint ventures	**-**	3,094	**-**	3,094
Net change in working capital associated with investing activities	**(2,425)**	26,094	**(13,857)**	24,739
Cash provided by (used in) investing activities	**$ (30,401)**	$ 5,792	**$ (121,138)**	$ (10,936)
Financing Activities				
Net proceeds from (repayment of) the Revolving Credit Facility (Note 10)	**$ (27,698)**	$ -	**$ 15,313**	$ -
Repayment of the Term Loan (Note 10)	**(13,520)**	-	**(13,520)**	-
Net proceeds from the Bank Facility (Note 10)	**-**	12,201	**-**	32,879
Net repayment of the Asset-Based Facility (Note 10)	**-**	(6,178)	**-**	(17,039)
Lease liability principal repayment (Note 11)	**(6,145)**	(3,626)	**(16,487)**	(10,957)
Dividends	**(3,095)**	(2,242)	**(9,281)**	(6,726)
Stock option exercises (Note 14)	**749**	-	**1,121**	12
Deferred transaction costs	**(779)**	(453)	**(3,422)**	(7,045)
Cash used in financing activities	**$ (50,488)**	$ (298)	**$ (26,276)**	$ (8,876)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (728)**	$ 8,502	**$ (7,265)**	$ 9,743
Increase (decrease) in cash and cash equivalents	**(10,750)**	51,709	**(90,347)**	26,029
Cash and cash equivalents, beginning of period	**174,179**	147,078	**253,776**	172,758
Cash and cash equivalents, end of period	**$ 163,429**	$ 198,787	**$ 163,429**	$ 198,787

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited)

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total
At January 1, 2022	$ 375,524	$ 658,615	$ 274,962	$ 44,544	$ 109	$ 44,653	$ 1,353,754
Net loss	-	-	(19,825)	-	-	-	(19,825)
Other comprehensive income	-	-	-	90,793	544	91,337	91,337
Effect of stock option plans	16	1,289	-	-	-	-	1,305
Dividends	-	-	(6,727)	-	-	-	(6,727)
At September 30, 2022	$ 375,540	$ 659,904	$ 248,410	$ 135,337	$ 653	$ 135,990	$ 1,419,844
At January 1, 2023	$ 589,827	$ 660,072	$ 164,200	$ 128,729	$ 80	$ 128,809	$ 1,542,908
Net income	-	-	16,415	-	-	-	16,415
Other comprehensive loss	-	-	-	(4,524)	(19)	(4,543)	(4,543)
Effect of stock option plans	1,550	(69)	-	-	-	-	1,481
Dividends	-	-	(9,286)	-	-	-	(9,286)
At September 30, 2023	**$ 591,377**	**$ 660,003**	**$ 171,329**	**$ 124,205**	**$ 61**	**$ 124,266**	**$ 1,546,975**

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, and were approved and authorized for issue by the Board of Directors (the "Board") on November 8, 2023.

(b) Basis of Presentation and Measurement

The Financial Statements for the three and nine months ended September 30, 2023 and 2022 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, 2022. 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.

The 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 the 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.

The Financial Statements are presented in Canadian dollars, which is Enerflex's (the "Company") presentation currency, rounded to the nearest thousand, 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 significant changes in accounting policies compared to those described in the annual consolidated financial statements for the year-ended December 31, 2022.

(c) Current Accounting Policy Changes

i. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Effective January 1, 2023, the definition of accounting estimates was amended under IAS 8. Under the amended definition, a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The amendment further clarifies that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty.

ii. IAS 12 Income Taxes ("IAS 12")

In May 2021, the IASB issued amendments to IAS 12, which narrows the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a related asset and liability give rise to taxable and deductible temporary differences that are not equal.

These amendments are effective for annual periods beginning on or after January 1, 2023, and the Company adopted these amendments as of January 1, 2023. There were no adjustments that resulted from the adoption of these amendments on January 1, 2023.

NOTE 2. ACQUISITION

On October 13, 2022, the Company completed the acquisition (the "Transaction") of Exterran Corporation ("Exterran") for total consideration of $222.6 million. For more details see Note 7 *"Acquisition"* of the annual consolidated financial statements for the year ended December 31, 2022.

The preliminary purchase price allocation is based on Management's best estimate of the fair value of the assets acquired and liabilities assumed as at October 13, 2022. As of the Transaction date, the Company was investigating options for the disposal of certain energy infrastructure assets. During the three months ended March 31, 2023, the Company sold these assets which resulted in the adjustment of fair value. The adjusted purchase price allocation resulted in decreases to energy infrastructure assets of $12.8 million and net working capital, $0.2 million, and increases to deferred tax assets, $3.5 million and goodwill, $9.5 million.

During the three months ended September 30, 2023, the Company finalized its assessment of deferred and current taxes, which led to further purchase price allocation adjustments resulting in decreases to deferred taxes of $6.8 million and current taxes of $9.5 million, and an increase to accrued liabilities of $1.8 million. The impact of these adjustments was a $14.5 million decrease to goodwill.

The total impact of these adjustments was a decrease of $5.0 million to goodwill, and resulted in total goodwill for the Transaction as at December 31, 2022 of $134.4 million (October 13, 2022 – $139.4 million). As at September 30, 2023, Management finalized the purchase price allocation.

During the three and nine months ended September 30, 2023, the Company incurred $6.2 million and $35.9 million (September 30, 2022 – $3.8 million and $14.1 million) of further restructuring, transaction, and integration costs directly related to the Transaction. These costs are included in cost of goods sold ("COGS") and selling and administrative expenses ("SG&A") in the interim condensed consolidated statements of earnings (loss).

NOTE 3. INVENTORIES

Inventories consisted of the following:

	September 30, 2023	December 31, 2022
Direct materials	**$ 93,093**	$ 107,575
Repair and distribution parts	**149,122**	136,876
Work-in-progress	**147,788**	98,297
Equipment	**27,076**	26,550
Total inventories	**$ 417,079**	$ 369,298

	September 30, 2023	December 31, 2022
Work-in-progress related to finance leases	**$ -**	$ 41,986

The amount of inventory and overhead costs recognized as expense and included in COGS during the three and nine months ended September 30, 2023 was $631.9 million and $1,925.8 million (September 30, 2022 – $314.1 million and $892.1 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 (loss) and included in COGS for the three and nine months ended September 30, 2023 was $0.1 million and $4.9 million (September 30, 2022 – $0.9 million and 1.8 million).

The costs related to the construction of energy infrastructure assets determined to be finance leases are accounted for as work-in-progress related to finance leases. Once a project is completed and enters service it is reclassified to COGS. During the three and nine months ended September 30, 2023 the Company invested nil and $4.7 million (September 30, 2022 – $19.1 million and $60.0 million) related to finance leases that commenced operations in the period. The Company does not have any finance lease projects in progress as at September 30, 2023.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND ENERGY INFRASTRUCTURE ASSETS

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Energy infrastructure assets[1]
Cost						
December 31, 2022	$ 23,559	$ 151,400	$ 90,698	$ 4,585	$ 270,242	$ 1,529,166
Additions	-	799	2,256	11,396	14,451	104,855
Reclassification	120	2,170	10,859	(13,876)	(727)	-
Disposals	-	(852)	(3,180)	-	(4,032)	(29,790)
Currency translation effects	(15)	(327)	(2,146)	3,488	1,000	5,589
September 30, 2023	**$ 23,664**	**$ 153,190**	**$ 98,487**	**$ 5,593**	**$ 280,934**	**$ 1,609,820**
Accumulated depreciation						
December 31, 2022	$ -	$ (58,666)	$ (59,071)	$ -	$ (117,737)	$ (291,616)
Depreciation charge	-	(8,111)	(13,232)	-	(21,343)	(125,503)
Impairment	-	-	-	-	-	(693)
Disposals	-	812	2,492	-	3,304	16,494
Currency translation effects	-	150	1,754	-	1,904	(648)
September 30, 2023	**$ -**	**$ (65,815)**	**$ (68,057)**	**$ -**	**$ (133,872)**	**$ (401,966)**
Net book value						
December 31, 2022	$ 23,559	$ 92,734	$ 31,627	$ 4,585	$ 152,505	$ 1,237,550
September 30, 2023	**$ 23,664**	**$ 87,375**	**$ 30,430**	**$ 5,593**	**$ 147,062**	**$ 1,207,854**

[1] Certain balances as at December 31, 2022 have been re-presented as a result of measurement period adjustments for the acquisition of Exterran as required by IFRS 3 "Business Combinations", refer to Note 2 "Acquisition" for more information.

Depreciation of property, plant, and equipment ("PP&E") and energy infrastructure assets included in net income (loss) for the three and nine months ended September 30, 2023, was $49.9 million and $146.9 million (September 30, 2022 – $17.1 million and $50.0 million), of which $43.9 million and $133.1 million was included in COGS (September 30, 2022 – $16.7 million and $48.7 million) and $6.0 million and $13.8 million was included in SG&A (September 30, 2022 – $0.4 million and $1.3 million).

NOTE 5. LEASE RIGHT-OF-USE ASSETS

		Land and buildings		Equipment		Total lease right-of-use assets
Cost						
December 31, 2022	$	94,107	$	25,058	$	119,165
Additions		16,863		16,374		33,237
Disposal		(8,612)		(3,440)		(12,052)
Currency translation effects		(298)		(380)		(678)
September 30, 2023	**$**	**102,060**	**$**	**37,612**	**$**	**139,672**
Accumulated depreciation						
December 31, 2022	$	(27,157)	$	(13,636)	$	(40,793)
Depreciation charge		(12,520)		(5,305)		(17,825)
Disposal		6,903		3,696		10,599
Currency translation effects		101		1,098		1,199
September 30, 2023	**$**	**(32,673)**	**$**	**(14,147)**	**$**	**(46,820)**
Net book value						
December 31, 2022	$	66,950	$	11,422	$	78,372
September 30, 2023	**$**	**69,387**	**$**	**23,465**	**$**	**92,852**

Depreciation of lease right-of-use ("ROU") assets included in net earnings (loss) for the three and nine months ended September 30, 2023 was $7.6 million and $17.8 million (September 30, 2022 – $3.5 million and $10.6 million), of which $6.0 million and $13.3 million was included in COGS (September 30, 2022 – $2.9 million and $8.9 million) and $1.6 million and $4.5 million was included in SG&A (September 30, 2022 – $0.6 million and $1.7 million).

NOTE 6. FINANCE LEASES RECEIVABLE

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

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

	Minimum lease payments and unguaranteed residual value		Present value of minimum lease payments and unguaranteed residual value	
	September 30, 2023	December 31 2022	**September 30, 2023**	December 31, 2022
Less than one year	**$ 101,985**	$ 73,614	**$ 96,036**	$ 60,020
Between one and five years	**188,962**	196,314	**138,596**	149,052
Later than five years	**143,538**	144,482	**86,223**	85,432
	$ 434,485	$ 414,410	**$ 320,855**	$ 294,504
Less: Unearned finance income	**(113,630)**	(119,906)	**-**	-
	$ 320,855	$ 294,504	**$ 320,855**	$ 294,504

	September 30, 2023	December 31, 2022
Balance, January 1	**$ 294,504**	$ 103,358
Acquisition	**-**	110,097
Additions	**64,112**	86,602
Interest income	**24,158**	14,801
Billings and payments	**(61,032)**	(33,740)
Other	**(2,254)**	-
Currency translation effects	**1,367**	13,386
Closing balance	**$ 320,855**	$ 294,504

The Company recognized non-cash selling profit related to the commencement of finance leases of $17.8 million for the nine months ended September 30, 2023 (September 30, 2022 – $6.6 million). Additionally, the Company recognized $7.7 million and $24.2 million of interest income on finance leases receivable during the three and nine months ended September 30, 2023 (September 30, 2022 – $3.0 million and $8.8 million). The total cash received in respect of finance leases was $20.2 million and $61.0 million for the three and nine months ended September 30, 2023 (September 30, 2022 – $5.2 million and $16.7 million), as reflected in billings and payments.

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At September 30, 2023, the average interest rate was 9.2 percent per annum (December 31, 2022 – 9.4 percent). The finance leases receivable at the end of reporting period are neither past due nor impaired.

Subsequent to September 30, 2023, the Company disposed of certain assets that were accounted for as finance leases, resulting in the derecognition of the associated finance lease receivable of $32.8 million. The total balance of the finance lease receivable has been classified as current.

NOTE 7. INTANGIBLE ASSETS

		Customer relationships and other		Software		Total intangible assets
Cost						
December 31, 2022	$	151,310	$	74,303	$	225,613
Additions		-		5,802		5,802
Reclassification		-		727		727
Disposal		-		(1,401)		(1,401)
Currency translation effects		(1,256)		(1,980)		(3,236)
September 30, 2023	**$**	**150,054**	**$**	**77,451**	**$**	**227,505**
Accumulated amortization						
December 31, 2022	$	(73,427)	$	(49,413)	$	(122,840)
Amortization charge		(13,531)		(8,414)		(21,945)
Disposal		-		1,401		1,401
Currency translation effects		1,044		(2,268)		(1,224)
September 30, 2023	**$**	**(85,914)**	**$**	**(58,694)**	**$**	**(144,608)**
Net book value						
December 31, 2022	$	77,883	$	24,890	$	102,773
September 30, 2023	**$**	**64,140**	**$**	**18,757**	**$**	**82,897**

NOTE 8. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

		September 30, 2023		December 31, 2022[1]
Balance, January 1	**$**	**674,396**	$	566,270
Acquisition (Note 2)		**-**		134,444
Impairment		**-**		(48,000)
Currency translation effects		**(7,196)**		21,682
Closing balance	**$**	**667,200**	$	674,396

[1] *Certain balances as at December 31, 2022 have been re-presented as a result of measurement period adjustments for the acquisition of Exterran as required by IFRS 3 "Business Combinations", refer to Note 2 "Acquisition" for more information.*

At September 30, 2023, Management determined that there were no indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

As of the Transaction date, the Company was investigating options for the disposal of certain energy infrastructure assets. During the three months ended March 31, 2023, the Company sold these assets which resulted in the adjustment of fair value. During the three months ended September 30, 2023, the Company finalized its assessment of deferred taxes and income taxes payable which resulted in an adjustment of fair value. These adjustments are reflected in the December 31, 2022 comparative period which also resulted in a final adjustment to the purchase price allocation and goodwill. Refer to Note 2 *"Acquisition"* for more information.

NOTE 9. OTHER ASSETS

	September 30, 2023	December 31, 2022
Investment in associates and joint ventures	**$ 37,155**	$ 34,977
Prepaid deposits	**18,319**	13,972
Long-term receivables[1]	**1,936**	34,127
Total other assets	**$ 57,410**	$ 83,076

[1] During the three months ended March 31, 2023 the Company received proceeds of $28.0 million from the settlement of preferred shares.

NOTE 10. LONG-TERM DEBT

The three-year secured term loan ("Term Loan") and the three-year secured revolving credit facility ("Revolving Credit Facility") have a maturity date of October 13, 2025 (the "Maturity Date"). In addition, the Revolving Credit Facility may be increased by US$150.0 million at the request of the Company, subject to the lenders' consent. The Maturity Date of the Revolving Credit Facility may be extended annually on or before the anniversary date with the consent of the lenders. The senior secured notes (the "Notes") consist of US$625.0 million principal amount, bears interest of 9.0 percent, and has a maturity of October 15, 2027.

The Company obtained a $94.6 million (US$70.0 million) unsecured credit facility ("LC Facility") with one of the lenders in its Revolving Credit Facility. 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, counter 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 September 30, 2023, the Company has utilized $18.2 million (US$13.5 million) of the $94.6 million (US$70.0 million) limit.

The Company is required to maintain certain covenants on the Revolving Credit Facility, Term Loan and the Notes. As at September 30, 2023, the Company was in compliance with its covenants.

The composition of the borrowings on the Revolving Credit Facility, Term Loan, and the Notes were as follows:

	Maturity Date	September 30, 2023	December 31, 2022
Drawings on the Revolving Credit Facility (US$700,000)	October 13, 2025	**$ 474,368**	$ 459,202
Drawings on the Term Loan (US$140,000)	October 13, 2025	**189,280**	203,160
Notes (US$625,000)	October 15, 2027	**845,000**	846,500
Deferred transaction costs and Notes discount		**(105,222)**	(118,537)
		$ 1,403,426	$ 1,390,325
Current portion of long-term debt		**$ 54,080**	$ 27,088
Non-current portion of long-term debt		**1,349,346**	1,363,237
Long-term debt		**$ 1,403,426**	$ 1,390,325

The weighted average interest rate on the Revolving Credit Facility for nine months ended September 30, 2023 was 7.7 percent (December 31, 2022 – 7.0 percent), and the weighted average interest rate on the Term Loan for the nine months ended September 30, 2023 was 8.9 percent (December 31, 2022 – 7.8 percent). At September 30, 2023 without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $1,508.6 million, and nil thereafter.

NOTE 11. LEASE LIABILITIES

		September 30, 2023		December 31, 2022
Balance, January 1	**$**	**93,033**	$	57,014
Acquisition		**-**		39,845
Additions		**34,067**		9,977
Lease interest		**4,501**		3,398
Payments made against lease liabilities		**(20,989)**		(19,156)
Currency translation effects and other		**(1,157)**		1,955
Closing balance	**$**	**109,455**	$	93,033
Current portion of lease liabilities	**$**	**24,701**	$	20,125
Non-current portion of lease liabilities		**84,754**		72,908
Lease liabilities	**$**	**109,455**	$	93,033

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

		September 30, 2023
2023	**$**	**7,833**
2024		**27,889**
2025		**24,167**
2026		**17,932**
2027		**14,407**
Thereafter		**35,903**
	$	**128,131**
Less:		
Imputed interest		**18,535**
Short-term leases		**134**
Low-value leases		**7**
Lease liabilities	**$**	**109,455**

NOTE 12. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income taxes were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Current income taxes	**$ 13,261**	$ 7,491	**$ 43,156**	$ 15,846
Deferred income taxes	**(18,528)**	(3,275)	**(26,447)**	(4,937)
Income taxes	**$ (5,267)**	$ 4,216	**$ 16,709**	$ 10,909

(b) Reconciliation of Income Taxes

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
Earnings before income taxes	**$ 447**	$ (28,592)	**$ 33,124**	$ (8,916)
Canadian statutory rate	**23.4%**	23.4%	**23.4%**	23.4%
Expected income tax provision	**$ 104**	$ (6,690)	**$ 7,751**	$ (2,086)
Add (deduct):				
Change in unrecognized deferred tax asset	**6,128**	2,153	**18,490**	7,943
Impairment of goodwill	**-**	11,232	**-**	11,232
Exchange rate effects on tax basis	**(2,018)**	(1,523)	**(135)**	(4,259)
Earnings taxed in foreign jurisdictions	**(7,711)**	(361)	**(9,463)**	(1,630)
Amounts not deductible for tax purposes	**(1,847)**	(95)	**-**	148
Impact of accounting for associates and joint ventures	**(282)**	(83)	**(468)**	(281)
Other	**359**	(417)	**534**	(158)
Income taxes	**$ (5,267)**	$ 4,216	**$ 16,709**	$ 10,909

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2022 – 15.0 percent) and the Alberta provincial income tax rate of 8.4 percent (2022 – 8.4 percent).

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

NOTE 13. REVENUE

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Energy Infrastructure[1]	**$ 189,977**	$ 82,820	**$ 569,109**	$ 218,164
After-Market Services	**164,710**	109,109	**472,716**	298,134
Engineered Systems	**423,486**	200,884	**1,338,062**	571,661
Total revenue	**$ 778,173**	$ 392,813	**$ 2,379,887**	$ 1,087,959

[1] During the three and nine months ended September 30, 2023, the Company recognized $62.4 million and $198.4 million of revenue related to operating leases in its Latin America ("LATAM") and Eastern Hemisphere ("EH") segments (September 30, 2022 – $19.1 million and $45.5 million), and $43.4 million and $122.5 million of revenue related to its North America ("NAM") contract compression fleet (September 30, 2022 – $32.9 million and $91.9 million).

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

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
United States	**$ 342,486**	$ 244,715	**$ 987,605**	$ 566,662
Canada	**91,309**	58,853	**249,714**	189,185
Nigeria	**57,734**	392	**210,287**	11,662
Argentina	**52,262**	8,804	**166,192**	33,050
Oman	**62,196**	14,495	**160,162**	79,397
Iraq	**44,896**	225	**155,835**	768
Bahrain	**16,192**	7,207	**109,576**	25,879
Brazil	**23,734**	8,034	**82,107**	25,638
Australia	**21,197**	11,844	**64,903**	47,675
Mexico	**19,071**	17,285	**58,404**	43,915
Other	**47,096**	20,959	**135,102**	64,128
Total revenue	**$ 778,173**	$ 392,813	**$ 2,379,887**	$ 1,087,959

The following table outlines the Company's unsatisfied performance obligations, by product line, as at September 30, 2023:

	Less than one year	One to two years	Greater than two years	**Total**
Energy Infrastructure	$ 592,094	$ 499,181	$ 1,452,209	**$ 2,543,484**
After-Market Services	97,776	37,861	91,227	**226,864**
Engineered Systems	1,231,082	334,855	-	**1,565,937**
	$ 1,920,952	**$ 871,897**	**$ 1,543,436**	**$ 4,336,285**

NOTE 14. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Equity-settled share-based payments	**$ 171**	$ 366	**$ 360**	$ 1,293
Cash-settled share-based payments (recovery)	**(970)**	2,731	**8,376**	3,186
Share-based compensation expense (recovery)	**$ (799)**	$ 3,097	**$ 8,736**	$ 4,479

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

The Company granted PSUs and RSUs to officers and key employees during the nine months ended September 30, 2023 with a weighted average fair value of CAD $8.55 and USD $6.26 per share. The DSU, PSU, and RSU holders had dividends credited to their accounts during the period. The carrying value of the liability relating to cash-settled share-based payments at September 30, 2023 included in current liabilities was $8.9 million (December 31, 2022 – $13.5 million) and in other long-term liabilities was $11.4 million (December 31, 2022 - $13.8 million).

(b) Equity-Settled Share-Based Payments

	September 30, 2023 Number of options	September 30, 2023 Weighted average exercise price	December 31, 2022 Number of options	December 31, 2022 Weighted average exercise price
Options outstanding, beginning of period	**3,089,229**	**$ 10.77**	4,456,444	$ 11.66
Exercised[1]	**(188,977)**	**5.92**	(47,120)	5.51
Forfeited	**(305,107)**	**9.69**	(27,286)	13.51
Expired	**(208,147)**	**13.41**	(1,292,809)	13.98
Options outstanding, end of period	**2,386,998**	**$ 11.06**	3,089,229	$ 10.77
Options exercisable, end of period	**1,678,662**	**$ 12.36**	1,671,421	$ 12.48

[1] The weighted average share price of options at the date of exercise for the nine months ended September 30, 2023 was $8.52 (September 30, 2022 – $7.89).

The following table summarizes options outstanding and exercisable at September 30, 2023:

	Options Outstanding			Options Exercisable		
Range of exercise prices[1]	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price
$5.51 – $6.68	555,752	3.75	$ 5.51	288,587	3.63	$ 5.51
$6.69 – $14.75	1,174,581	3.71	10.94	733,410	3.35	11.83
$14.76 – $16.12	656,665	1.43	15.97	656,665	1.43	15.97
Total	**2,386,998**	**3.09**	**$ 11.06**	**1,678,662**	**2.65**	**$ 12.36**

[1] The range of exercise prices equal the weighted average market price of the Company's shares on the five days preceding the effective date of the grant based on prices from the Toronto Stock Exchange.

(c) Cash-Settled Share-Based Payments

During the three and nine months ended September 30, 2023, the value of director's compensation and executive bonuses elected to be received in DSUs totalled $0.6 million and $1.8 million (September 30, 2022 – $0.5 million and $1.6 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2023	1,625,513	$	10.16
Granted	224,091		7.94
In lieu of dividends	13,611		8.62
Vested	(113,018)		9.56
DSUs outstanding, September 30, 2023	**1,750,197**	**$**	**9.90**

NOTE 15. FINANCE COSTS AND INCOME

	Three months ended September 30,				Nine months ended September 30,			
		2023		2022		**2023**		2022
Finance Costs								
Short- and long-term borrowings[1]	**$**	**39,166**	$	4,696	**$**	**116,229**	$	13,168
Interest on lease liability		**1,531**		658		**4,501**		2,019
Total finance costs	**$**	**40,697**	$	5,354	**$**	**120,730**	$	15,187
Finance Income								
Interest income	**$**	**8,509**	$	832	**$**	**28,031**	$	2,334
Net finance costs	**$**	**32,188**	$	4,522	**$**	**92,699**	$	12,853

[1] Finance costs on short- and long-term borrowings relate primarily to interest on the Company's Revolving Credit Facility, Term Loan and Notes that were issued during the three months ended December 31, 2022. Refer to Note 10 "Long-Term Debt" for more information on interest rates on the Revolving Credit Facility, Term Loan and Notes.

NOTE 16. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at September 30, 2023 were designated in the same manner as they were at December 31, 2022. During the three months ended September 30, 2023, the Company entered into short-term investments which are measured at fair value through profit or loss. Accordingly, with the exception of the Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at September 30, 2023 was $845.0 million and $877.0 million, respectively (December 31, 2022 – $846.5 million and $869.3 million, respectively). The fair value of these Notes at September 30, 2023 was determined on a discounted cash flow basis with a weighted average discount rate of 9.3 percent (December 31, 2022 – 9.0 percent).

The Company previously held preferred shares that were initially recorded at fair value, 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, 2022 was $28.0 million and $28.7 million, respectively.

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at September 30, 2023:

			Notional amount	Maturity
Canadian Dollar Denominated Contracts				
Purchase contracts	USD	$	**15,187**	October 2023 – July 2024
Sales contracts	USD		**(10,357)**	October 2023 – September 2024

At September 30, 2023, the fair value of derivative financial instruments classified as financial assets was $0.1 million, and as financial liabilities was less than $0.1 million (December 31, 2022 – $0.9 million and $1.0 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar ("USD"), 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 US$622.7 million in designated foreign currency borrowings are included in accumulated other comprehensive income (loss) for September 30, 2023. The following table shows the sensitivity to a five percent weakening of the Canadian dollar against the USD, AUD, and BRL.

Canadian dollar weakens by five percent		USD		AUD		BRL
Earnings (loss) from foreign operations						
Earnings (loss) before income taxes	$	**6,966**	$	**(13)**	$	**(1,233)**
Financial instruments held in foreign operations						
Other comprehensive income	$	**16,023**	$	**366**	$	**205**
Financial instruments held in Canadian operations						
Loss before income taxes	$	**(24,068)**	$	**-**	$	**-**

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

With the ongoing devaluation of the Argentine peso, caused by high inflation, the Company is at risk for foreign exchange losses on its cash balances denominated in Argentine peso ("ARS"). During the three and nine months ended September 30, 2023, the Company had foreign exchange losses of $17.3 million and $40.9 million, respectively, which represented 46 percent and 109 percent of the Argentina cash balance. If the ARS weakens by five percent, the Company could experience additional foreign exchange losses of approximately $1.8 million. There is a risk of higher losses based on the further devaluation of the ARS. The Company will continue to explore its options to minimize the impact of future devaluation.

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at September 30, 2023 has a fixed interest rate and therefore the related interest expense will not be impacted by fluctuations in interest rates. Conversely, the Company's Revolving Credit Facility and Term Loan are subject to changes in market interest rates.

For each one percent change in the rate of interest on the Revolving Credit Facility and Term Loan, the change in annual interest expense would be $4.7 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 Revolving Credit Facility for future drawings to meet the Company's requirements for investments in working capital and capital assets. As at September 30, 2023, the Company held cash and cash equivalents of $163.4 million and had access to $328.2 million on the Revolving Credit Facility.

		September 30, 2023
Total Revolving Credit Facility (US$700,000)	**$**	**946,400**
Less:		
Drawings on the Revolving Credit Facility		**474,368**
Letters of Credit[1]		**143,800**
Available for future drawings	**$**	**328,232**

[1] This represents the letters of credit that the Company has funded with the Revolving Credit Facility. Additional letters of credit of $18.2 million (US$13.5 million) are funded from the LC Facility. Refer to Note 10 "Long-Term Debt" for more information.

The Company continues to meet the covenant requirements of its funded debt, including the Revolving Credit Facility, Term Loan and Notes. Senior secured net funded debt, defined as borrowings under the Revolving Credit Facility and Term Loan, net of cash, to EBITDA ratio is 1.0:1, compared to a maximum ratio of 2.5:1, and a net funded debt to EBITDA ("bank-adjusted net debt to EBITDA") ratio of 2.7:1, compared to a maximum ratio of 4.5:1, and an interest coverage ratio of 4.2:1 compared to a minimum ratio of 2.5:1. The interest coverage ratio is calculated by dividing the trailing 12-month EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at September 30, 2023:

		Less than 3 months		3 months to 1 year		Greater than 1 year		Total
Derivative financial instruments								
Foreign currency forward contracts	$	35	$	2	$	-	$	37
Accounts payable and accrued liabilities		601,633		-		-		601,633
Long-term debt – Revolving Credit Facility		-		-		474,368		474,368
Long-term debt – Term Loan		13,520		40,560		135,200		189,280
Long-term debt – Notes		-		-		845,000		845,000
Other long-term liabilities		-		-		19,245		19,245

The Company expects that cash flows from operations in 2023, together with cash and cash equivalents on hand, the Revolving Credit Facility and the Term Loan, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Accounts receivable[1]	**$ (32,081)**	$ 17,429	**$ (32,377)**	$ (28,944)
Contract assets	**17,797**	5,287	**(38,455)**	(8,272)
Inventories	**(8,537)**	(50,219)	**(47,781)**	(71,317)
Work-in-progress related to finance leases	**-**	(19,405)	**41,986**	(27,470)
Finance leases receivable	**9,213**	(5,956)	**(26,351)**	(41,770)
Income taxes receivable	**2,125**	(1,649)	**4,107**	(365)
Prepayments	**(5,898)**	(20,945)	**9,578**	(24,063)
Long-term receivables related to preferred shares	**-**	-	**27,954**	-
Accounts payable and accrued liabilities, and provisions[2]	**9,035**	10,630	**(10,159)**	47,677
Income taxes payable	**(4,712)**	(2,405)	**15,704**	(2,473)
Deferred revenue	**258**	50,917	**(66,947)**	83,239
Other	**27,402**	17,682	**(7,487)**	17,434
Net change in working capital and other	**$ 14,602**	$ 1,366	**$ (130,228)**	$ (56,324)

[1] *The change in accounts receivable represents only the portion relating to operating activities.*

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

Cash interest and taxes paid and received during the period:

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Interest paid – short- and long-term borrowings	**$ 18,198**	$ 1,768	**$ 88,554**	$ 10,856
Interest paid – lease liabilities	**1,531**	658	**4,501**	2,019
Total interest paid	**$ 19,729**	$ 2,426	**$ 93,055**	$ 12,875
Interest received	**14,307**	292	**29,639**	784
Taxes paid	**12,512**	9,766	**34,544**	15,946
Taxes received	**-**	133	**500**	2,581

Changes in liabilities arising from financing activities during the period:

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Long-term debt, opening balance	**$ 1,408,304**	$ 345,951	**$ 1,390,325**	$ 331,422
Changes from financing cash flows	**(41,218)**	6,023	**1,793**	15,840
The effect of changes in foreign exchange rates	**32,724**	16,264	**(1,186)**	20,541
Amortization of deferred transaction costs	**3,633**	285	**10,585**	902
Accretion of Notes discount	**1,821**	-	**6,991**	-
Deferred transaction costs	**(1,838)**	(110)	**(5,082)**	(292)
Long-term debt, closing balance	**$ 1,403,426**	$ 368,413	**$ 1,403,426**	$ 368,413

NOTE 18. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

As of September 30, 2023, the Company had outstanding letters of credit of $162.0 million (December 31, 2022 – $175.1 million). Of the total outstanding letters of credit, $143.8 million (December 31, 2022 – $175.1 million) are funded from the Revolving Credit Facility and $18.2 million (US$13.5 million) (December 31, 2022 – nil) are funded from the LC Facility.

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

2023	$	**232,642**
2024		**257,107**
2025		**3,428**

Legal Proceedings

On January 31, 2022, the Local Labor Board of the State of Tabasco in Mexico (the "Labor Board") awarded a former employee of Exterran MXN$2,152 million in connection with a dispute relating to the employee's severance pay following termination of their employment in 2015.

Enerflex believes the order of the Labor Board is in error and has no credible basis in law or fact. In 2017, the Labor Board ruled that the former employee was entitled to approximately MXN$1.4 million as severance based on an appellate court's determination that the employee's salary was approximately MXN$3,500 per day. However, the Labor Board's January 2022 order significantly increased the amount the employee is owed, ignoring the actual salary that had been established by the appellate court and using an amount the former employee never actually received while working for Exterran.

Enerflex has appealed the decision, and the appeal is pending before the courts in Mexico. In the meantime, the Company is pursuing all other available avenues to preserve its rights, including rights under the Agreement between the United States of America, the United Mexican States, and Canada ("USMCA") investment treaty arguing that the conduct of the Labor Board in Mexico amounts to violations of protections available under the North American Free Trade Agreement.

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 19. 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. Generally, the Company has experienced higher revenues in the fourth quarter of each year related to 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.

NOTE 20. SEGMENTED INFORMATION

The Company has identified three reporting segments for external reporting:

- NAM consists of operations in Canada and the USA. The segment generates revenue from manufacturing natural gas infrastructure under contract, refrigeration, processing, and electric power equipment, including custom and standard compression packages and modular natural gas processing equipment, refrigeration systems and produced water treatment services, in addition to generating revenue from mechanical services and parts, and maintenance solutions, and operating our compression assets under contract for oil and gas and midstream customers.
- LATAM consists of operations in Argentina, Bolivia, Brazil, Colombia, Mexico and Peru. The segment generates revenue from operating Enerflex's Energy Infrastructure assets under take-or-pay contracts, providing after-market services, including parts and components, as well as operations, maintenance, and overhaul services.
- EH consists of operations in the Middle East, Africa, Europe and Asia Pacific. The segment generates revenue by operating Enerflex's Energy Infrastructure assets under take-or-pay contracts, manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment.

The accounting policies of the reportable operating segments are the same as those described in Note 3 *"Summary of Significant Accounting Policies"* of the Company's annual consolidated financial statements for the year-ended December 31, 2022.

For internal Management reporting, the Company's Chief Operating Decision Maker ("CODM") has identified four operating segments which include: Canada; USA; Latin America; and Eastern Hemisphere. Each of the operating segments are supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its reporting and operating segments, the Company considered geographic locations, economic characteristics, the nature of products and services provided, the nature of production processes, the types of customers for its products and services, and distribution methods used. These considerations also factored into the decision to combine Canada and USA into one reporting segment. For each of the operating segments, the CODM reviews internal management reports on at least a quarterly basis.

For the nine months ended September 30, 2023, the Company had no individual customer which accounted for more than 10 percent of its revenue (September 30, 2022 – none).

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

Revenues and Operating Income

Three months ended September 30,	North America 2023	North America 2022	Latin America 2023	Latin America 2022	Eastern Hemisphere 2023	Eastern Hemisphere 2022	Total 2023	Total 2022
Segment revenue	**$ 490,959**	$ 314,273	**$ 107,547**	$ 29,072	**$ 178,098**	$ 56,298	**$ 776,604**	$ 399,643
Intersegment revenue	**3,742**	(6,655)	**(2)**	-	**(2,171)**	(175)	**1,569**	(6,830)
Revenue	**$ 494,701**	$ 307,618	**$ 107,545**	$ 29,072	**$ 175,927**	$ 56,123	**$ 778,173**	$ 392,813
Energy Infrastructure	**43,435**	44,216	**77,097**	18,739	**69,445**	19,865	**189,977**	82,820
After-Market Services	**103,602**	75,515	**14,896**	7,119	**46,212**	26,475	**164,710**	109,109
Engineered Systems	**347,664**	187,887	**15,552**	3,214	**60,270**	9,783	**423,486**	200,884
Operating income (loss)	**$ 38,858**	$ 14,267	**$ (13,257)**	$ 1,725	**$ 5,787**	$ 7,576	**$ 31,388**	$ 23,568

Nine months ended September 30,	North America 2023	North America 2022	Latin America 2023	Latin America 2022	Eastern Hemisphere 2023	Eastern Hemisphere 2022	Total 2023	Total 2022
Segment revenue	**$ 1,460,774**	$ 860,879	**$ 341,309**	$ 122,665	**$ 605,797**	$ 176,224	**$ 2,407,880**	$ 1,159,768
Intersegment revenue	**(21,267)**	(71,445)	**(773)**	(36)	**(5,953)**	(328)	**(27,993)**	(71,809)
Revenue	**$ 1,439,507**	$ 789,434	**$ 340,536**	$ 122,629	**$ 599,844**	$ 175,896	**$ 2,379,887**	$ 1,087,959
Energy Infrastructure	**125,610**	105,227	**249,421**	52,922	**194,078**	60,015	**569,109**	218,164
After-Market Services	**285,143**	209,645	**50,576**	21,134	**136,997**	67,355	**472,716**	298,134
Engineered Systems	**1,028,754**	474,562	**40,539**	48,573	**268,769**	48,526	**1,338,062**	571,661
Operating income (loss)	**$ 107,732**	$ 23,850	**$ (9,540)**	$ 8,082	**$ 25,616**	$ 18,718	**$ 123,808**	$ 50,650

Segment Assets

	North America Sep. 30, 2023	North America Dec. 31, 2022[1]	Latin America Sep. 30, 2023	Latin America Dec. 31, 2022[1]	Eastern Hemisphere Sep. 30, 2023	Eastern Hemisphere Dec. 31, 2022[1]	Total Sep. 30, 2023	Total Dec. 31, 2022[1]
Segment assets	**$ 1,464,017**	$ 1,602,755	**$ 690,553**	$ 829,676	**$ 1,155,825**	$ 828,517	**$ 3,310,395**	$ 3,260,948
Goodwill[2]	**224,664**	224,992	**89,105**	89,264	**353,431**	360,140	**667,200**	674,396
Corporate	**-**	-	**-**	-	**-**	-	**223,244**	322,724
Total segment assets	**$ 1,688,681**	$ 1,827,747	**$ 779,658**	$ 918,940	**$ 1,509,256**	$ 1,188,657	**$ 4,200,839**	$ 4,258,068

[1] Certain balances as at December 31, 2022 have been re-presented as a result of measurement period adjustments for the acquisition of Exterran as required by IFRS 3 "Business Combinations", refer to Note 2 "Acquisition" for more information, as well as amendments to the Company's reporting segments.

[2] The total amount of goodwill in the Canada and USA operating segments are $40.4 million and $184.3 million, respectively (December 31, 2022 – $40.4 million and $184.6 million, respectively).

NOTE 21. SUBSEQUENT EVENTS

Subsequent to September 30, 2023, Enerflex declared a quarterly dividend of $0.025 per share, payable on January 10, 2024, to shareholders of record on November 21, 2023. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow, anticipated market conditions, and the general needs of the business.

BOARD OF DIRECTORS

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Dallas, TX, USA

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Boerne, TX, USA

JAMES GOUIN [2]
Belle River, ON, CA

MONA HALE [2]
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Edmonton, AB, CA

KEVIN REINHART
BOARD CHAIR
Calgary, AB, CA

MARC ROSSITER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Calgary, AB, CA

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Lo Barnechea, RM, CL

MICHAEL WEILL [2, 3]
NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHAIR
Houston, TX, USA

EXECUTIVE MANAGEMENT TEAM

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PRESIDENT AND CHIEF EXECUTIVE OFFICER
Calgary, AB, CA

PREET DHINDSA
INTERIM CHIEF FINANCIAL OFFICER
Calgary, AB, CA

PATRICIA MARTINEZ
CHIEF ENERGY TRANSITION OFFICER
Houston, TX, USA

DAVID IZETT
SVP AND GENERAL COUNSEL
Calgary, AB, CA

ROBERT MITCHELL
SVP AND CHIEF ADMINISTRATIVE OFFICER
Houston, TX, USA

GREG STEWART
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Houston, TX, USA

PHIL PYLE
PRESIDENT, EASTERN HEMISPHERE
Abu Dhabi, UAE

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PRESIDENT, LATIN AMERICA
Houston, TX, USA

HELMUTH WITULSKI
PRESIDENT, CANADA
Calgary, AB, CA

ROGER GEORGE
PRESIDENT, WATER SOLUTIONS
Atlanta, GA, USA

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

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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CORPORATE CALENDAR

February 28, 2024
Q4 2023 Results

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