

**NEWS RELEASE****FOR IMMEDIATE RELEASE*****CE Franklin Ltd. announces 2008 Third Quarter Results***

Calgary, Alberta, October 27, 2008 - CE FRANKLIN LTD. (TSX.CFT, AMEX.CFK) announced its results for the third quarter of 2008.

CE Franklin reported record third quarter net income of \$5.7 million or \$0.31 per share (basic) for the quarter ended September 30, 2008, a 39% increase compared to net income of \$4.1 million or \$0.22 per share earned in the third quarter ended September 30, 2007.

**Financial Highlights**

(millions of Cdn.\$ except per share data)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
	(unaudited)		(unaudited)	
<b>Sales</b>	\$ 149.3	\$ 116.8	\$ 386.2	\$ 354.0
<b>Gross Profit</b>	27.8	21.0	73.8	64.2
<b>Gross Profit - % of sales</b>	18.6%	18.0%	19.1%	18.1%
<b>EBITDA<sup>(1)</sup></b>	9.1	7.4	21.6	20.6
<b>EBITDA<sup>(1)</sup> as a % of sales</b>	6.1%	6.4%	5.6%	5.8%
<b>Net Income Per Share</b>	\$ 5.7	\$ 4.1	\$ 13.0	\$ 11.1
<b>Basic</b>	\$ 0.31	\$ 0.22	\$ 0.71	\$ 0.61
<b>Diluted</b>	\$ 0.31	\$ 0.22	\$ 0.70	\$ 0.59
<b>Net Working Capital<sup>(2)</sup></b>	\$ 123.1	\$ 134.7		
<b>Bank Operating Loan<sup>(2)</sup></b>	\$ 20.9	\$ 44.3		

"Net income improved in the third quarter compared to the prior year period by 39% to a record \$0.31 per share, outpacing the 13% increase in industry well completions for the same period. This is a solid result and CE Franklin is well positioned to remain profitable in this volatile market," said Michael West, President and Chief Executive Officer.

Net income for the third quarter of 2008 was \$5.7 million, up \$1.6 million (39%) from the third quarter of 2007. Sales reached \$149.3 million, an increase of \$32.5 million (28%) from the third quarter of 2007. Capital project business comprised 58% of sales, and increased \$22.2 million (34%) over the prior year period. Continued growth of oilsands revenues and increased tubular steel sales contributed the majority of the increase in capital project sales. Extremely tight tubular steel supply conditions have resulted in product cost increases in excess of 50% during 2008, and contributed to the increase in sales. Industry well completions increased by 13% over the prior year period, resulting in increased demand for products used in capital projects, and contributed to the remaining increase in capital project sales. The acquisition of JEN Supply in the fourth quarter of 2007 contributed to the increase in Maintenance, Repair and Operating Supply sales ("MRO"). Gross profit increased by \$6.8 million (32%) over the prior year period due to the increase in sales and gross profit margins. Gross profit margins for the quarter were 18.6% up from the prior year period at 18.0%. Selling, general and administrative expenses increased by \$5.2 million to \$18.5 million for the quarter due to increased variable compensation driven by the increase in earnings, increased facility costs with the opening of the new Edmonton distribution centre during the second quarter, and the addition of the JEN Supply operating costs. Lower interest expense was associated with reduced average debt levels and floating interest rates in the third quarter of 2008. Income taxes increased by \$0.5 million in the third quarter compared to the prior year period due to higher pre-tax earnings offset slightly by a reduction in income tax rates. The weighted average number

of shares outstanding during the third quarter was down slightly from the prior year period. Net income per share (basic) was \$0.31 in the third quarter of 2008, an increase of 41% compared to \$0.22 in the third quarter of 2007.

Net income for the nine months ended September 30, 2008 was \$13.0 million, up \$1.9 million (17%) from the nine months ended September 30, 2007. Sales reached \$386.2 million, up \$32.2 million (9%) compared to the prior year period due to increased revenues in the 3<sup>rd</sup> quarter of 2008. Increased oilsands and tubular steel revenues, and additional sales from the acquisitions of JEN Supply, and Full Tilt Field Services Limited ("Full Tilt") at the end of the 2<sup>nd</sup> quarter of 2007, more than offset the impact of lower year to date industry activity in 2008 compared to 2007 as reflected in the decline in well completions by 12%. Gross profit increased by \$9.6 million over the prior year period as gross profit margins increased from 18.1% in the nine months ended September 30, 2007 to 19.1% in the nine months ended September 30, 2008. Selling, general and administrative expenses increased by \$9.4 million to \$52.1 million due to the addition of operating expenses associated with the JEN Supply and Full Tilt acquisitions, increased variable compensation from the increase in earnings, and increased facility costs associated with the opening of the new distribution centre in Q2 of 2008. Interest expense declined due to reduced average debt levels and floating interest rates in the first nine months of 2008. Income taxes increased by \$0.2 million in the first nine months of the year compared to the prior year period due to higher pre-tax earnings offset slightly by a reduction in income tax rates. The weighted average number of shares outstanding during the first nine months was comparable to the prior year period. Net income per share (basic) was \$0.71 in the first nine months of 2008 compared to \$0.61 in the first nine months of 2007.

### **Business Outlook**

The Company's business is dependent on the level of conventional oil and gas capital expenditures and production activity in western Canada. Increasing oil and gas industry activity experienced in the 3<sup>rd</sup> quarter is anticipated to continue over the remainder of 2008, as capital projects initiated earlier in the year when oil and gas prices were strong, are completed. Recent global capital market volatility coupled with the decline in oil and gas commodity prices in the 3<sup>rd</sup> quarter and rising costs, suggest flat to declining industry activity in 2009 compared to 2008.

Over the longer term, the Company is optimistic that its strong competitive position will enable it to take advantage of available market share as conventional industry activity recovers and demand for the Company's products increase. Effective execution of the Company's oilsands and service diversification strategies provide further opportunities to profitably leverage its supply chain infrastructure.

- (1) EBITDA represents net income before interest, taxes, depreciation and amortization. EBITDA is a supplemental non-GAAP financial measure used by management, as well as industry analysts, to evaluate operations. Management believes that EBITDA, as presented, represents a useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. The Company is also presenting EBITDA and EBITDA as a percentage of sales because it is used by management as supplemental measures of profitability. The use of EBITDA by the Company has certain material limitations because it excludes the recurring expenditures of interest, income tax, and amortization expenses. Interest expense is a necessary component of the Company's expenses because the Company borrows money to finance its working capital and capital expenditures. Income tax expense is a necessary component of the Company's expenses because the Company is required to pay cash income taxes. Amortization expense is a necessary component of the Company's expenses because the Company uses property and equipment to generate sales. Management compensates for these limitations to the use of EBITDA by using EBITDA as only a supplementary measure of profitability. EBITDA is not used by management as an alternative to net income, as an indicator of the Company's operating performance, as an alternative to any other measure of performance in conformity with generally accepted accounting principles or as an alternative to cash flow from operating activities as a measure of liquidity. A reconciliation of EBITDA to Net Income is provided within the Company's Management Discussion and Analysis. Not all companies calculate EBITDA in the same manner and EBITDA does not have a standardized meaning prescribed by GAAP. Accordingly, EBITDA, as the term is used herein, is unlikely to be comparable to EBITDA as reported by other entities.
- (2) Net Working Capital is defined as current assets less accounts payable and accrued liabilities, income taxes payable and other current liabilities. Net Working Capital and Bank Operating Loan are as at quarter end.

### **Additional Information**

Additional information relating to CE Franklin, including its third quarter 2008 Management Discussion and Analysis and interim consolidated financial statements and its Form 20-F / Annual Information Form, is available under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com) and at [www.cefranklin.com](http://www.cefranklin.com)

### **Conference Call and Webcast Information**

A conference call to review the 2008 third quarter results, which is open to the public, will be held on Tuesday, October 28, 2008 at 11:00 a.m. Eastern Time (9:00 a.m. Mountain Time).

Participants may join the call by dialing **1-416-644-3415** in Toronto or dialing **1-800-732-6179** at the scheduled time of **11:00 a.m. Eastern Time**. For those unable to listen to the live conference call, a replay will be available at approximately 1:00 p.m. Eastern Time on the same day by calling **1-416-640-1917** in Toronto or dialing **1-877-289-8525** and entering the Passcode of **21284854** followed by the pound sign and may be accessed until midnight Sunday, November 9, 2008.

The call will also be webcast live at: <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2427700> and will be available on the Company's website at <http://www.cefranklin.com>.

Michael West, President and Chief Executive Officer will lead the discussion and will be accompanied by Mark Schweitzer, Vice President and Chief Financial Officer. The discussion will be followed by a question and answer period.

### **About CE Franklin**

For more than half a century, CE Franklin has been a leading supplier of products and services to the energy industry. CE Franklin distributes pipe, valves, flanges, fittings, production equipment, tubular products and other general oilfield supplies to oil and gas producers in Canada as well as to the oilsands, refining, heavy oil, petrochemical, forestry and mining industries. These products are distributed through its 44 branches, which are situated in towns and cities serving particular oil and gas fields of the western Canadian sedimentary basin.

**Forward-looking Statements:** The information in this news release may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and other applicable securities legislation. All statements, other than statements of historical facts, that address activities, events, outcomes and other matters that CE Franklin plans, expects, intends, assumes, believes, budgets, predicts, forecasts, projects, estimates or anticipates (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements and refer to the Form 20-F or our annual information form for further detail.

### **For Further Information Contact:**

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## Management's Discussion and Analysis as at October 27, 2008

*The following Management's Discussion and Analysis ("MD&A") is provided to assist readers in understanding CE Franklin Ltd.'s ("CE Franklin" or the "Company") financial performance and position during the periods presented and significant trends that may impact future performance of CE Franklin. This discussion should be read in conjunction with the Company's MD&A and consolidated financial statements for the year ended December 31, 2007 and the Company's MD&A and interim consolidated financial statements for the periods ended March 31, 2008 and June 30, 2008, respectively.*

*All amounts are expressed in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), except where otherwise noted.*

### OVERVIEW

CE Franklin is a leading distributor of pipe, valves, flanges, fittings, production equipment, tubular products and other general industrial supplies, primarily to the oil and gas industry in Canada through its 44 branches situated in towns and cities that serve oil and gas fields of the western Canadian sedimentary basin. In addition, the Company distributes similar products to the oilsands, refining, and petrochemical industries and non-oilfield related industries such as forestry and mining.

The Company's branch operations service over 3,000 customers by providing the right materials where they are needed, on time, and for the best value. Our branches, supported by our distribution centre in Edmonton, Alberta, stock over 25,000 stock keeping units. This hub and spoke supply chain infrastructure enables us to provide our customers with the products they need on a same day or over night basis while leveraging our scale to enable industry leading purchasing and logistics capabilities. Our branches are also supported by services provided by the Company's corporate office in Calgary, Alberta including sales, marketing, product expertise, invoicing, credit and collections and other business services.

The Company's shares trade on the TSX ("CFT") and AMEX ("CFK") stock exchanges. Smith International Inc. ("Smith"), a major oilfield service company based in the United States, owns approximately 53% of the Company's shares.

### Business and Operating Strategy

The Company is pursuing the following strategies to grow its business profitably:

- Grow market share in our core oilfield equipment distribution business in western Canada through concentrated sales efforts and premium customer service complimented by selected acquisitions such as the acquisition of JEN Supply Inc. ("JEN Supply") in December 2007 and by expanding our branch network. In October 2008, we have opened our 45<sup>th</sup> branch in Red Earth, Alberta.
- Leverage our existing supply chain infrastructure, product and project expertise by focusing on the emerging oilsands project and Maintenance, Repair and Operating ("MRO") business.
- Expand our production equipment service capability to capture more of the product life cycle requirements for the equipment we sell such as down hole pump repair, oilfield engine maintenance, well optimization and on site project management, in order to differentiate our service offering from that of other competitors and deepen our relationship with customers. The acquisition of Full Tilt Field Services Limited ("Full Tilt") in July 2007 provided us with the capability to service oilfield engines and related components that we were previously selling, and by doing so, positions us to attract new customers to our core oilfield equipment distribution business.

### Business Outlook

The Company's business is dependent on the level of conventional oil and gas capital expenditures and production activity in western Canada. Increasing oil and gas industry activity experienced in the 3<sup>rd</sup> quarter is anticipated to continue over the remainder of 2008, as capital projects initiated earlier in the year when oil and gas prices were strong, are completed. Recent global capital market volatility coupled with the decline in oil and gas commodity prices in the 3<sup>rd</sup> quarter and rising costs, suggest flat to declining industry activity in 2009 compared to 2008.

Over the longer term, the Company is optimistic that its strong competitive position will enable it to take advantage of available market share as conventional industry activity recovers and demand for the Company's products increase. Effective execution of the Company's oilsands and service diversification strategies provide further opportunities to profitably leverage its supply chain infrastructure.

## Operating Results

The following table summarizes CE Franklin's results of operations:

(in millions of Cdn. dollars except per share data)

	Three Months Ended September 30				Nine Months Ended September 30			
	2008		2007		2008		2007	
<b>Sales</b>	\$ 149.3	100.0%	\$ 116.8	100.0%	\$ 386.2	100.0%	\$ 354.0	100.0%
Cost of sales	(121.5)	(81.4)%	(95.8)	(82.0)%	(312.4)	(80.9)%	(289.8)	(81.9)%
Gross profit	27.8	18.6%	21.0	18.0%	73.8	19.1%	64.2	18.1%
<b>Selling, general and administrative expenses</b>	(18.5)	(12.4)%	(13.3)	(11.3)%	(52.1)	(13.5)%	(42.7)	(12.0)%
Foreign exchange loss	(0.1)	(0.1)%	(0.3)	(0.3)%	(0.1)	(0.0)%	(0.9)	(0.3)%
<b>EBITDA(1)</b>	9.1	6.1%	7.4	6.4%	21.6	5.6%	20.6	5.8%
Amortization	(0.6)	(0.4)%	(0.6)	(0.5)%	(1.8)	(0.5)%	(2.1)	(0.6)%
Interest	(0.2)	(0.1)%	(0.5)	(0.4)%	(0.8)	(0.2)%	(1.6)	(0.5)%
<b>Income before taxes</b>	8.3	5.6%	6.3	5.5%	19.0	4.9%	16.9	4.7%
Income tax expense	(2.6)	(1.7)%	(2.2)	(1.9)%	(6.0)	(1.6)%	(5.8)	(1.6)%
<b>Net income</b>	5.7	3.8%	4.1	3.6%	13.0	3.3%	11.1	3.1%
<b>Net income per share</b>								
Basic (Cdn. \$)	\$ 0.31		\$ 0.22		\$ 0.71		\$ 0.61	
Diluted (Cdn. \$)	\$ 0.31		\$ 0.22		\$ 0.70		\$ 0.59	

### Weighted average number of shares outstanding (000's)

Basic	18,254	18,392	18,290	18,283
Diluted	18,495	18,901	18,674	18,792

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### Third Quarter Results

Net income for the third quarter of 2008 was \$5.7 million, up \$1.6 million (39%) from the third quarter of 2007. Sales reached \$149.3 million, an increase of \$32.5 million (28%) from the third quarter of 2007. Capital project business comprised 58% of sales, and increased \$22.2 million (34%) over the prior year period. Continued growth of oilsands revenues and increased tubular steel sales contributed the majority of the increase in capital project sales. Extremely tight tubular steel supply conditions have resulted in product cost increases in excess of 50% during 2008, and contributed to the increase in sales. Industry well completions increased by 13% over the prior year period, resulting in increased demand for products used in capital projects, and contributed to the remaining increase in capital project sales. The acquisition of JEN Supply in the fourth quarter of 2007 contributed to the increase in Maintenance, Repair and Operating Supply sales ("MRO"). Gross profit increased by \$6.8 million (32%) over the prior year period due to the increase in sales and gross profit margins. Gross profit margins for the quarter were 18.6% up from the prior year period at 18.0%. Selling, general and administrative expenses increased by \$5.2 million to \$18.5 million for the quarter due to increased variable compensation driven by the increase in earnings, increased facility costs with the opening of the new Edmonton distribution centre during the second quarter, and the addition of the JEN Supply operating costs. Lower interest expense was associated with reduced average debt levels and floating interest rates in the third quarter of 2008.

higher pre-tax earnings offset slightly by a reduction in income tax rates. The weighted average number of shares outstanding during the third quarter was down slightly from the prior year period. Net income per share (basic) was \$0.31 in the third quarter of 2008, an increase of 41% compared to \$0.22 in the third quarter of 2007.

### Year to Date Results

Net income for the nine months ended September 30, 2008 was \$13.0 million, up \$1.9 million (17%) from the nine months ended September 30, 2007. Sales reached \$386.2 million, up \$32.2 million (9%) compared to the prior year period due to increased revenues in the 3<sup>rd</sup> quarter of 2008. Increased oilsands and tubular steel revenues, and additional sales from the acquisitions of JEN Supply, and Full Tilt Field Services Limited ("Full Tilt") at the end of the 2<sup>nd</sup> quarter of 2007, more than offset the impact of lower year to date industry activity in 2008 compared to 2007 as reflected in the decline in well completions by 12%. Gross profit increased by \$9.6 million over the prior year period as gross profit margins increased from 18.1% in the nine months ended September 30, 2007 to 19.1% in the nine months ended September 30, 2008. Selling, general and administrative expenses increased by \$9.4 million to \$52.1 million due to the addition of operating expenses associated with the JEN Supply and Full Tilt acquisitions, increased variable compensation from the increase in earnings, and increased facility costs associated with the opening of the new distribution centre in Q2 of 2008. Interest expense declined due to reduced average debt levels and floating interest rates in the first nine months of 2008. Income taxes increased by \$0.2 million in the first nine months of the year compared to the prior year period due to higher pre-tax earnings offset slightly by a reduction in income tax rates. The weighted average number of shares outstanding during the first nine months was comparable to the prior year period. Net income per share (basic) was \$0.71 in the first nine months of 2008 compared to \$0.61 in the first nine months of 2007.

A more detailed discussion of the Company's third quarter results from operations is provided below:

### Sales

Sales for the quarter ended September 30, 2008 were \$149.3 million, up 28% from the quarter ended September 30, 2007, as detailed above in the "Third Quarter Results" discussion.

(in millions of Cdn. \$)

	Three months ended Sept 30				Nine months ended Sept 30			
	2008		2007		2008		2007	
End use sales demand	\$	%	\$	%	\$	%	\$	%
Capital projects	86.6	58	64.4	55	216.8	56	203.7	58
Maintenance, repair and operating supplies (MRO)	62.7	42	52.4	45	169.4	44	150.3	42
<b>Total sales</b>	<b>149.3</b>	<b>100</b>	<b>116.8</b>	<b>100</b>	<b>386.2</b>	<b>100</b>	<b>354.0</b>	<b>100</b>

**Note:** Capital project end use sales are defined by the Company as consisting of tubulars and 80% of pipe, flanges and fittings; and valves and accessories product sales respectively; MRO Sales are defined by the Company as consisting of pumps and production equipment, production services; general product and 20% of pipes, flanges and fittings; and valves and accessory product sales respectively.

The Company uses oil and gas well completions and average rig counts as industry activity measures to assess demand for oilfield equipment used in capital projects. Oil and gas well completions require the products sold by the Company to complete a well and bring production on stream and are a good general indicator of energy industry activity levels. Average drilling rig counts are also used by management to assess industry activity levels as the number of rigs in use ultimately drives well completion requirements. The relative level of oil and gas commodity prices is a key driver of industry capital project activity as product prices directly impact the economic returns realized by oil and gas companies. Well completion, rig count and commodity price information for the third quarter and YTD 2008 and 2007 are provided in the table below.

	Q3 Average		%	YTD Average		%
	2008	2007		2008	2007	
Gas - Cdn. \$/gj (AECO spot)	\$7.78	\$5.22	49%	\$8.65	\$6.58	31%
Oil - Cdn. \$/bbl (Edmonton Light)	\$122.84	\$80.52	53%	\$115.65	\$73.41	58%
Average rig count	454	352	29%	401	368	9%
Well completions:						
Oil	1,821	1,397	30%	4,063	3,963	3%
Gas	2,571	2,480	4%	7,531	9,171	(18%)
Total well completions	4,392	3,877	13%	11,594	13,134	(12%)

Average statistics are shown except for well completions.

**Sources:** Oil and Gas prices – First Energy Capital Corp.; Rig count data – Hughes Christensen; Well completion data – Daily Oil Bulletin

Sales of capital project related products were \$86.6 million in the third quarter of 2008, up 34% (\$22.2 million) from the third quarter of 2007. Total well completions increased by 13% to 4,392 in the third quarter of 2008 while the average working rig count increased to 454 (29%) compared to the third quarter of 2007. Gas wells comprised 59% of the total wells completed in western Canada in the third quarter of 2008 compared to 64% in the third quarter of 2007. Oil and gas capital expenditure activity began to recover in the second and third quarters of 2008 resulting in part from emerging gas exploration plays in northeast British Columbia and oil pool development in southeast Saskatchewan. Well completions in the third quarter increased by 13% as capital project activity returned after being delayed by adverse weather conditions experienced in the second quarter. Well completions for the remainder of 2008 should benefit from the increase in average rig counts experienced during the third quarter of 2008, which should translate into stronger demand for the Company's products. Spot gas and oil prices ended the third quarter at \$6.13 per GJ (AECO spot) and \$95.76 per bbl (Edmonton light), a decrease of 21% and 22%, respectively, over third quarter average prices. This, in combination with the volatility experienced across global capital markets, could result in reduced industry cash flow, access to capital and capital expenditure economics, which in turn may decrease demand for the Company's products in 2009.

MRO product sales are related to overall oil and gas industry production levels and tend to be more stable than capital project sales. MRO product sales for the quarter ended September 30, 2008 increased by \$10.3 million (20%) to \$62.7 million compared to the quarter ended September 30, 2007 and comprised 42% of the Company's total sales. The acquisition of JEN Supply in the fourth quarter of 2007 contributed incremental sales of \$5.3 million.

The Company's strategy is to grow profitability by focusing on its core western Canadian oilfield equipment service business, complemented by an increase in the product life cycle services provided to its customers, and the focus on the emerging oilsands capital project and MRO sales opportunities. Revenue results of these initiatives to date are provided below:

Sales (\$millions)	Q3 2008		Q3 2007		YTD 2008		YTD 2007	
	\$	%	\$	%	\$	%	\$	%
Western Canada oilfield	125.4	84	105.1	91	345.7	90	323.4	92
Oilsands	18.8	12	6.3	5	24.9	6	19.2	5
Production Services	4.1	3	4.0	3	11.9	3	7.4	2
International	1.0	1	1.4	1	3.7	1	4.0	1
Total Sales	149.3	100	116.8	100	386.2	100	354.0	100

Sales of oilfield products to conventional western Canada oil and gas end use applications were \$125.4 million for the third quarter of 2008, up 19% from the third quarter of 2007. Over half of this increase was comprised of incremental sales from the acquisition of JEN Supply and the increased sale of tubular steel products with the remaining increase reflective of the 13% increase in well completions compared to the prior year period.

Sales to oilsands end use applications increased to \$18.8 million in the third quarter compared to \$6.3 million in the third quarter of 2007. The Company continues to position its sales focus and Edmonton distribution centre and Fort McMurray branch to penetrate this emerging market for capital project and MRO products. Bid quotation flow is increasing.

Production service sales were \$4.1 million in the third quarter of 2008 consistent with sales in the third quarter 2007. Full Tilt was acquired at the end of the 2<sup>nd</sup> quarter of 2007, which provides oilfield engine maintenance and crane equipment services based in Lloydminster. The Company has commenced expanding Full Tilt's service to other Company branch locations in order to capture more of our customer's product life cycle expenditures while differentiating our services from other oilfield equipment distributors.

Sales to international customer projects declined \$0.4 million to \$1.0 million in the third quarter of 2008 and are serviced by our Edmonton distribution centre. Sales activity from the Libyan oilfield equipment joint venture established in 2007 has been minimal to date.

	<u>Q3 2008</u>	<u>Q3 2007</u>	<u>YTD 2008</u>	<u>YTD 2007</u>
<b>Gross Profit</b>				
Gross profit ( <i>millions</i> )	\$27.8	\$21.0	\$73.8	\$64.2
Gross profit margin as a % of sales	18.6%	18.0%	19.1%	18.1%
Gross profit composition by product sales category:				
Tubulars	18%	8%	11%	8%
Pipe, flanges and fittings	23%	26%	24%	28%
Valves and accessories	14%	18%	18%	19%
Pumps, production equipment and services	15%	17%	16%	15%
General	30%	31%	31%	30%
Total Gross Profit	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Gross profit reached \$27.8 million in the third quarter of 2008, up \$6.8 million (32%) from the third quarter of 2007 due to the increase in sales and gross profit margins. Gross profit composition in the third quarter of 2008 remained fairly consistent with the prior year period with the exception of tubulars, where sales and gross profit increased due in part to the product cost inflation of steel and tight product supply conditions.

#### Selling, General and Administrative ("SG&A") Costs

	<u>Three months ended Sept 30</u>				<u>Nine months ended Sept 30</u>			
	<u>2008</u>		<u>2007</u>		<u>2008</u>		<u>2007</u>	
Sales (\$millions)	\$	%	\$	%	\$	%	\$	%
People costs	10.5	57	7.7	57	29.9	57	24.2	57
Selling costs	2.7	15	1.4	11	7.0	13	5.4	13
Facility and office costs	3.3	18	2.3	17	9.4	18	7.3	17
Other	2.0	10	2.0	15	5.8	12	5.8	13
SG&A Costs	<u>18.5</u>	<u>100</u>	<u>13.4</u>	<u>100</u>	<u>52.1</u>	<u>100</u>	<u>42.7</u>	<u>100</u>
SG&A costs a % of sales	12%		11%		14%		12%	

SG&A costs increased 38% (\$5.1 million) in the third quarter of 2008 from the prior year period and represented 12% of sales compared to 11% the prior year period. The increase in people costs of \$2.8 million reflects increased variable compensation due to the increase in earnings and the addition of JEN Supply employees. Selling costs were up \$1.3 million compared to the prior year period due to increased sales commissions and accounts receivable bad debt allowances. Facility and office costs have increased in the third quarter of 2008 as the Company moved into a new, larger distribution centre in Edmonton in the second quarter. The addition of the JEN Supply facilities and continued occupancy cost pressure in western Canada contributed the remaining increase in cost. The Company leases 40 of its 44 branch locations as well as its corporate office in Calgary and Edmonton distribution centre. The Company mitigates the cyclical nature of industry activity levels by adjusting its variable and fixed (primarily salaries and benefits) SG&A costs as activity levels change.

#### Amortization Expense

Amortization expense was \$0.6 million in the third quarter of 2008 down slightly from \$0.7 million in the third quarter of 2007.

## Interest Expense

Interest expense was \$0.2 million in the third quarter of 2008, down \$0.3 million (58%) from the third quarter of 2007 due to lower average borrowing levels and a decline in average floating interest rates.

## Foreign Exchange Loss

Foreign exchange losses of \$0.1 million in the third quarter of 2008 compared to a \$0.3 million loss in the third quarter of 2007. Losses reflect the impact of the weakening Canadian dollar on United States dollar denominated product purchases and net working capital liabilities.

## Income Tax Expense

The Company's effective tax rate for the third quarter of 2008 was 31.2%, compared to 34.3% in the third quarter of 2007 due principally to a reduction in statutory tax rates. Substantially all of the Company's tax provision is currently payable.

## SUMMARY OF QUARTERLY FINANCIAL DATA

The selected quarterly financial data presented below is presented in Canadian dollars and in accordance with Canadian GAAP. This information is derived from the Company's unaudited quarterly financial statements.

*(in millions of Cdn. dollars except per share data)*

Unaudited	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2006	2007	2007	2007	2007	2008	2008	2008
Sales	\$ 130.6	\$ 154.3	\$ 82.9	\$ 116.8	\$ 112.3	\$ 140.6	\$ 96.4	\$ 149.3
Gross profit	25.0	26.3	16.8	21.0	20.4	27.1	19.0	27.8
Gross profit %	19.1%	17.0%	20.3%	18.0%	18.2%	19.3%	19.7%	18.6%
EBITDA	9.6	11.0	2.2	7.4	5.1	10.2	2.3	9.1
EBITDA as a % of sales	7.4%	7.1%	2.7%	6.4%	4.5%	7.2%	2.4%	6.1%
Net income	5.4	6.4	0.6	4.1	2.4	6.3	1.0	5.7
Net income as a % of sales	4.1%	4.1%	0.7%	3.6%	2.1%	4.5%	1.0%	3.8%
Net income per share								
Basic (Cdn. \$)	\$ 0.30	\$ 0.35	\$ 0.03	\$ 0.22	\$ 0.13	\$ 0.34	\$ 0.05	\$ 0.31
Diluted (Cdn. \$)	\$ 0.29	\$ 0.34	\$ 0.03	\$ 0.22	\$ 0.13	\$ 0.34	\$ 0.05	\$ 0.31
Net working capital <sup>(1)</sup>	120.2	124.0	127.0	128.7	134.7	117.4	114.9	123.1
Bank operating loan <sup>(1)</sup>	34.0	33.6	36.0	35.4	44.3	21.8	18.4	20.9

<sup>(1)</sup> Net working capital and bank operating loan amounts are as at quarter end.

The Company's sales levels are affected by weather conditions. As warm weather returns in the spring each year the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have dried out. In addition, many exploration and production areas in northern Canada are accessible only in the winter months when the ground is frozen. As a result, the first and fourth quarters typically represent the busiest time for oil and gas industry activity and the highest sales activity for the Company. Sales levels drop dramatically during the second quarter until such time as roads have dried and road bans have been lifted. This typically results in a significant reduction in earnings during the second quarter, as the Company does not reduce its SG&A expenses during the second quarter to offset the reduction in sales. Net working capital (defined as current assets less accounts payable and accrued liabilities, income taxes payable and other current liabilities) and bank operating loan borrowing levels follow similar seasonal patterns as sales.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary internal source of liquidity is cash flow from operating activities before net changes in non-cash working capital balances. Cash flow from operating activities and the Company's 364-day bank operating facility are used to finance the Company's net working capital, capital expenditures required to maintain its operations and growth capital expenditures.

As at September 30, 2008, borrowings under the Company's bank operating loan were \$20.9 million, a decrease of \$23.4 million from December 31, 2007. Borrowing levels have decreased due to the Company generating \$15.8 million in cash flow from operating activities, before net changes in non-cash working capital balances, and an \$11.9 million reduction in net working capital. This was offset by \$1.9 million in capital and other expenditures, \$0.8 million in repayments of long term debt and capital lease obligations and \$1.6 million for the purchase of shares to resource stock compensation obligations.

As at September 30, 2007, borrowings under the Company's bank operating loan were \$35.4 million, an increase of \$1.4 million from December 31, 2006. Borrowing levels increased due to the Company generating \$14.4 million in cash from cash flow from operating activities, before net change in non-cash working capital balances and \$0.6 million in the issuance of capital stock from the exercise of employee stock options. This was offset by a \$8.6 million increase in net working capital, \$5.8 million related to business acquisitions, \$0.4 million in repayment of long term debt and capital leases, \$0.2 million for the purchase of shares to resource stock compensation obligations, and \$1.4 million in capital and other expenditures.

Net working capital was \$123.1 million at September 30, 2008, a decrease of \$11.6 million from December 31, 2007 and \$5.6 million from September 30, 2007. Accounts receivable increased by \$11.9 million (13%) to \$101.2 million at September 30, 2008 from December 31, 2007, due to increased sales in the third quarter offset by an 8% decrease in days sales outstanding in accounts receivable ("DSO") in the third quarter of 2008 compared to the fourth quarter of 2007. DSO was 57 days for the third quarter of 2008 compared to 62 days in the fourth quarter 2007 and 63 days in the third quarter 2007. The improvement in DSO performance during the third quarter was due in part to the resolution of the temporary issues associated with the implementation of a new invoicing system that negatively impacted DSO in the first half of 2008 and a general improvement in collections performance. DSO is calculated using average sales per day for the quarter compared to the period end accounts receivable balance. Inventory increased by \$0.4 million (0%) at September 30, 2008 from December 31, 2007. Inventory turns for the third quarter of 2008 improved to 5.6 times compared to 4.6 times in the third quarter of 2007 and 4.3 times in the fourth quarter of 2007. Inventory turns are calculated using cost of goods sold for the quarter on an annualized basis compared to the period end inventory balance. The company will continue to adjust its investment in inventory to align with anticipated activity levels in order to improve inventory turnover efficiency. Accounts payable and accrued liabilities increased by \$28.3 million (63%) in the third quarter of 2008 from December 31, 2007 due mainly to an increase in purchasing to resource higher sales levels.

The Company has a 364 day bank operating loan facility in the amount of \$60.0 million arranged with a syndicate of three banks that matures in July 2009. The loan facility bears interest based on floating interest rates and is secured by a general security agreement covering all assets of the Company. The maximum amount available under the facility is subject to a borrowing base formula applied to accounts receivable and inventories, and a covenant restricting the Company's average debt to 2.25 times trailing twelve month EBITDA. As at September 30, 2008, the Company's average debt to EBITDA ratio was 1.0 times (September 30, 2007 – 1.2 times) which provides a maximum borrowing ability of \$60 million under the facility. As at September 30, 2008, the ratio of the Company's debt to total capitalization (debt plus equity) was 14% (September 30, 2007 – 37%).

## CAPITAL STOCK

The weighted average number of shares outstanding during the third quarter 2008 was 18.3 million, a decrease of 0.1 million shares over the prior year's third quarter due principally to the purchase of common shares to resource restricted share unit obligations, offset by the exercise of stock options and restricted share units. The diluted weighted average number of shares outstanding at September 30, 2008 was 18.7 million, a decrease of 0.2 million shares from the prior year's third quarter.

As at September 30, 2008 and 2007, the following shares and securities convertible into shares, were outstanding:

<i>(millions)</i>	September 30, 2008	September 30, 2007
	Shares	Shares
Shares outstanding	18.2	18.4
Stock Options	1.3	0.8
Restricted Share units	0.2	0.2
Shares outstanding and issuable	19.7	19.4

The Company has established an independent trust to purchase common shares of the Company on the open market to resource restricted share unit obligations. During the three and nine month periods ended September 30, 2008, 100,095 and 200,095 common shares were acquired by the trust at an average cost per share of \$9.22 and \$8.23 respectively (2007 – nil for the three month period and 15,200 common shares for the nine month period and at an average cost per share of \$11.38).

### **Contractual Obligations**

There have been no material changes in off-balance sheet contractual commitments since December 31, 2007. Capital expenditures in 2008 are anticipated to be in the \$3 million to \$5 million range and will be directed towards the Company's new Edmonton distribution center, computer systems enhancements and expanding its production service capability.

### **Critical Accounting Estimates**

There have been no material changes to critical accounting estimates since December 31, 2007. The Company is not aware of any environmental or asset retirement obligations that could have a material impact on its operations.

### **Change in Accounting Policies**

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountant's Handbook Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. The standards establish presentation guidelines for financial instruments and deal with their classification, as well as providing readers of the financial statements with information pertinent to the Company's objectives, policies and processes for managing capital.

Effective January 1, 2008, the Company adopted Section 3031 – Inventories. The standard sets out to prescribe the accounting treatment for inventories and provide guidance on the determination of cost and subsequent recognition of expenses. The adoption of Section 3031 did not impact the determination of inventory cost and expenses recorded by the Company. Inventory obsolescence expense of \$301,000 was recognized in the nine month period ending September 30, 2008 (2007- \$500,000). As at September 30, 2008 and December 31, 2007 the Company had recorded reserves for inventory obsolescence of \$2.1 million and \$1.8 million, respectively.

### **New Accounting Pronouncements**

During the second quarter of 2008, the CICA published CICA 3064 – Goodwill and Intangible Assets, with an effective date of January 1, 2009. This standard addresses the accounting treatment of internally developed intangibles and the recognition of such assets. The Company believes that the adoption of this standard will not have a material impact on its financial statements.

### **Controls and Procedures**

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Canadian GAAP in its financial statements. The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Company have evaluated whether there were changes to its ICFR during the nine months ended September 30, 2008 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

## Risk Factors

The Company is exposed to certain business and market risks arising from transactions that are entered into in the normal course of business, which are primarily related to interest rate changes and fluctuations in foreign exchange rates. During the reporting period, no events or transactions have occurred that would materially change the information disclosed in the Company's 2007 Form 20-F.

## Forward Looking Statements

The information in this MD&A may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, that address activities, events, outcomes and other matters that CE Franklin plans, expects, intends, assumes, believes, budgets, predicts, forecasts, projects, estimates or anticipates (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements are based on management's current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this MD&A, including those in under the caption "**Risk factors**".

Forward-looking statements appear in a number of places and include statements with respect to, among other things:

- forecasted oil and gas industry activity levels in 2008 and 2009;
- planned capital expenditures and working capital and availability of capital resources to fund capital expenditures and working capital;
- the Company's future financial condition or results of operations and future revenues and expenses;
- the Company's business strategy and other plans and objectives for future operations;
- fluctuations in worldwide prices and demand for oil and gas;
- fluctuations in the demand for the Company's products and services.

Should one or more of the risks or uncertainties described above or elsewhere in this MD&A occur, or should underlying assumptions prove incorrect, the Company's actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements expressed or implied, included in this MD&A and attributable to CE Franklin are qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that CE Franklin or persons acting on its behalf might issue. CE Franklin does not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of filing this MD&A, except as required by law.

## Other Items

Additional information relating to CE Franklin, including its Form 20-F/Annual Information Form, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.cefranklin.com](http://www.cefranklin.com).

# CE Franklin Ltd.

## Interim Consolidated Balance Sheets - Unaudited

(in thousands of Canadian dollars)

	September 30 2008	December 31 2007
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	101,214	89,305
Inventories	86,792	86,414
Other	8,218	3,781
	<u>196,224</u>	<u>179,500</u>
Property and equipment	6,520	6,398
Goodwill	20,570	20,523
Future income taxes (note 3)	1,562	1,403
Other	586	891
	<u>225,462</u>	<u>208,715</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank operating loan	20,902	44,301
Accounts payable and accrued liabilities	73,108	44,807
Current portion of long term debt and capital lease obligations	197	805
	<u>94,207</u>	<u>89,913</u>
Long term debt and capital lease obligations	500	582
	<u>94,707</u>	<u>90,495</u>
<b>Shareholders' Equity (note 2)</b>		
Capital stock	22,914	24,306
Contributed surplus	18,619	17,671
Retained earnings	89,222	76,243
	<u>130,755</u>	<u>118,220</u>
	<u>225,462</u>	<u>208,715</u>

See accompanying notes to these interim consolidated financial statements.

**CE Franklin Ltd.**  
**Interim Consolidated Statements of Operations - Unaudited**

	<u>Three months ended</u>		<u>Nine months Ended</u>	
<i>(in thousands of Canadian dollars except shares and per share amounts)</i>	<u>September 30</u>		<u>September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Sales</b>	<b>149,256</b>	<b>116,817</b>	<b>386,233</b>	<b>354,010</b>
<b>Cost of sales</b>	<b>121,460</b>	<b>95,770</b>	<b>312,423</b>	<b>289,822</b>
<b>Gross profit</b>	<b>27,796</b>	<b>21,047</b>	<b>73,810</b>	<b>64,188</b>
<b>Other expenses</b>				
Selling, general and administrative expenses	18,534	13,347	52,144	42,699
Amortization	586	654	1,797	2,140
Interest expense	205	487	805	1,549
Foreign exchange loss	119	282	109	871
	<b>19,444</b>	<b>14,770</b>	<b>54,855</b>	<b>47,259</b>
<b>Income before income taxes</b>	<b>8,352</b>	<b>6,277</b>	<b>18,955</b>	<b>16,929</b>
<b>Income tax expense (recovery) (note 3)</b>				
Current	2,548	2,219	6,131	6,100
Future	58	(66)	(155)	(311)
	<b>2,606</b>	<b>2,153</b>	<b>5,976</b>	<b>5,789</b>
<b>Net and comprehensive income for the period</b>	<b>5,746</b>	<b>4,124</b>	<b>12,979</b>	<b>11,140</b>
<b>Net income per share (note 2)</b>				
Basic	0.31	0.22	0.71	0.61
Diluted	0.31	0.22	0.70	0.59
<b>Weighted average number of shares outstanding (000's) (note 2)</b>				
Basic	18,254	18,392	18,290	18,283
Diluted	18,495	18,901	18,674	18,792

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

## Interim Consolidated Statements of Cash Flow - Unaudited

(in thousands of Canadian dollars)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Cash flows from operating activities</b>				
Net income for the period	5,746	4,124	12,979	11,140
Items not affecting cash -				
Amortization	586	654	1,797	2,140
Future income tax (recovery) expense	58	(66)	(155)	(311)
Stock based compensation expense	303	412	1,149	1,474
	<b>6,693</b>	<b>5,124</b>	<b>15,770</b>	<b>14,443</b>
Net change in non-cash working capital balances related to operations -				
Accounts receivable	(17,008)	(20,281)	(12,020)	885
Inventories	(3,451)	9,977	14	11,472
Other current assets	(2,176)	259	(3,931)	806
Accounts payable and accrued liabilities	15,597	3,612	28,666	(20,819)
Income taxes payable	(925)	2,352	(793)	(946)
	<b>(1,270)</b>	<b>1,043</b>	<b>27,706</b>	<b>5,841</b>
<b>Cash flows (used in)/ from financing activities</b>				
Increase/(Decrease) in bank operating loan	2,506	(593)	(23,399)	1,382
Decrease in long term debt and capital lease obligations	(54)	(45)	(759)	(436)
Issuance of capital stock	-	1	49	569
Purchase of capital stock in trust for RSU Plans	(919)	-	(1,642)	(173)
	<b>1,533</b>	<b>(637)</b>	<b>(25,751)</b>	<b>1,342</b>
<b>Cash flows used in investing activities</b>				
Purchase of property and equipment	(263)	(359)	(2,396)	(1,359)
Business acquisitions	-	(47)	441	(5,824)
	<b>(263)</b>	<b>(406)</b>	<b>(1,955)</b>	<b>(7,183)</b>
<b>Change in cash and cash equivalents during the period</b>	-	-	-	-
<b>Cash and cash equivalents- Beginning of period</b>	-	-	-	-
<b>Cash and cash equivalents – End of period</b>	-	-	-	-
Cash paid during the period for:				
Interest on bank operating loan	195	478	777	1,525
Interest on capital lease obligations and long term debt	10	9	28	24
Income taxes	3,315	27	5,884	7,212

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

## Interim Consolidated Statements of Changes in Shareholders' Equity - Unaudited

(in thousands of Canadian dollars and number of shares)

	Capital Stock		Contributed Surplus	Retained Earnings	Shareholders' Equity
	Number of Shares	\$			
<b>Balance - December 31, 2006</b>	18,223	23,586	16,213	62,676	102,475
Stock based compensation expense	-	-	1,474	-	1,474
Stock options exercised	174	827	(257)	-	570
Restricted share units (RSU's) exercised	10	204	(204)	-	-
Purchase of shares in trust for RSU plans	(15)	(173)	-	-	(173)
Net income	-	-	-	11,140	11,140
<b>Balance - September 30, 2007</b>	<b>18,392</b>	<b>24,444</b>	<b>17,226</b>	<b>73,816</b>	<b>115,486</b>
<b>Balance - December 31, 2007</b>	18,370	24,306	17,671	76,243	118,220
Stock based compensation expense	-	-	1,149	-	1,149
Stock options exercised	10	70	(20)	-	50
Restricted share units (RSU's) exercised	11	181	(181)	-	-
Purchase of shares in trust for RSU Plans	(200)	(1,643)	-	-	(1,643)
Net income	-	-	-	12,979	12,979
<b>Balance - September 30, 2008</b>	<b>18,191</b>	<b>22,914</b>	<b>18,619</b>	<b>89,222</b>	<b>130,755</b>

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

(tabular amounts in thousands of Canadian dollars except share and per share amounts)

### Note 1 - Accounting Policies

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis with CE Franklin Ltd.'s (the "Company") annual consolidated financial statements for the year ended December 31, 2007, with the exception of policies relating to financial instruments, capital disclosures and inventories as noted below. The disclosures provided below are incremental to those included in the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended December 31, 2007.

Effective January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation. The standards establish presentation guidelines for financial instruments and deal with their classification, as well as providing readers of the financial statements with information pertinent to the Company's objectives, policies and processes for managing capital.

Effective January 1, 2008, the Company adopted Section 3031 – Inventories. The standard establishes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition of expenses. The adoption of Section 3031 did not impact the determination of inventory costs and expense recorded by the Company. Inventories consisting primarily of goods purchased for resale are valued at the lower of average cost or net realizable value. Inventory obsolescence expense was recognized in the three and nine month periods ending September 30, 2008 of \$25,000 recovery and \$301,000 expense respectively (2007 - \$245,000 and \$500,000). A recovery of \$25,000 was recorded in the three month period ended September 30, 2008 due to a general improvement in inventory turnover performance. As at September 30, 2008 and December 31, 2007 the Company had recorded reserves for inventory obsolescence of \$2.1 million and \$1.8 million respectively.

These unaudited interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented; all such adjustments are of a normal recurring nature.

The Company's sales typically peak in the first quarter when drilling activity is at its highest levels. They then decline through the second and third quarters, rising again in the fourth quarter when preparation for the new drilling season commences. Similarly, net working capital levels are typically at seasonally high levels at the end of the first quarter, declining in the second and third quarters, and then rising again in the fourth quarter.

### Note 2 – Share Data

At September 30, 2008, the Company had 18.2 million common shares and 1.3 million options outstanding to acquire common shares at a weighted average exercise price of \$5.85 per common share, of which 667,164 options were vested and exercisable at a weighted average exercise price of \$4.23 per common share.

#### a) Stock options

Option activity for each of the nine month periods ended September 30 was as follows:

<b>000's</b>	<b>2008</b>	<b>2007</b>
Outstanding at January 1	1,262	804
Granted	75	220
Exercised	(10)	(174)
Forfeited	(1)	(1)
<b>Outstanding at September 30</b>	<b>1,326</b>	<b>849</b>

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

(tabular amounts in thousands of Canadian dollars except share and per share amounts)

There were no options granted during the three month period ended September 30, 2008. A total of 110,683 share options were granted at a weighted average strike price of \$10.30 in the three month period ended September 30, 2007 for a fair value of \$507,000. The fair value of the options granted during the nine month period ended September 30, 2008 was \$274,000 (September 30, 2007- \$1,027,000) and were estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

	<u>2008</u>
Dividend yield	Nil
Risk-free interest rate	3.88%
Expected life	5 years
Expected volatility	50%

Stock Option compensation expense recorded in the three and nine month periods ended September 30, 2008 was \$170,000 (2007 - \$144,000) and \$520,000, (2007- \$379,000), respectively.

### b) Restricted share units

The Company has Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans (collectively the "RSU Plans"), where by RSU's and DSU's are granted entitling the participant, at the Company's option, to receive either a common share or cash equivalent value in exchange for a vested unit. The vesting period for RSU's is three years from the grant date. DSU's vest on the date of grant. Compensation expense related to the units granted is recognized over the vesting period based on the fair value of the units at the date of the grant and is recorded to compensation expense and contributed surplus. The contributed surplus balance is reduced as the vested units are exchanged for either common shares or cash.

000's	2008		2007	
	RSU	DSU	RSU	DSU
Outstanding at January 1	178	37	120	12
Granted	1	30	79	25
Exercised	(11)	-	(10)	-
Forfeited	-	-	(9)	-
<b>Outstanding at September 30</b>	<b>168</b>	<b>67</b>	<b>180</b>	<b>37</b>

RSU plan compensation expense recorded in the three and nine month periods ended September 30, 2008 was \$133,000 (2007- \$269,000) and \$629,000 (2007- \$1,095,000) respectively.

The Company purchases its common shares on the open market to satisfy restricted share unit obligations through an independent trust. The trust is considered to be a variable interest entity and is consolidated in the Company's financial statements with the number and cost of shares held in trust, reported as a reduction of capital stock. During the three and nine month periods ended September 30, 2008, 100,095 and 200,095 common shares were acquired respectively by the trust (2007 – nil for the three month period and 15,200 common shares for the nine month period) at a cost of \$922,000 for the three month period and \$1,643,000 for the nine month period (2007 - \$173,000).

### c) Reconciliation of weighted average number of diluted common shares outstanding (in 000's)

The following table summarizes the common shares in calculating net earnings per share.

	Three Months Ended		Nine Months Ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
Weighted average common shares outstanding- basic	18,254	18,392	18,290	18,283
Effect of Stock options and RSU Plans	241	509	384	509
<b>Weighted average common shares outstanding- diluted</b>	<b>18,495</b>	<b>18,901</b>	<b>18,674</b>	<b>18,792</b>

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

(tabular amounts in thousands of Canadian dollars except share and per share amounts)

### Note 3 – Income taxes

- a) The difference between the income tax provision recorded and the provision obtained by applying the combined federal and provincial statutory rates is as follows:

	Three Months Ended				Nine Months Ended			
	September 30				September 30			
	2008	%	2007	%	2008	%	2007	%
Income before income taxes	8,351		6,279		18,955		16,930	
Income taxes calculated at expected rates	2,498	29.9	2,048	32.6	5,670	29.9	5,522	32.6
Non-deductible items	122	1.5	97	1.6	319	1.7	345	2.0
Capital and large corporations taxes	13	0.2	-	0.0	35	0.2	22	0.1
Adjustments on filing returns & other	(27)	(0.4)	8	0.1	(48)	(0.3)	(100)	(0.6)
	2,606	31.2	2,153	34.3	5,976	31.5	5,789	34.1

As at September 30, 2008, income taxes receivable included in other current assets are \$0.524 million (December 31 2007 – Income taxes receivable \$0.848 million).

- b) Future income taxes reflect the net effects of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purpose. Significant components of future income tax assets and liabilities are as follows:

	September 30	December 31
	2008	2007
<b>Assets</b>		
Financing charges	71	103
Property and equipment	910	874
Stock compensation expense & Other	934	786
	1,915	1,763
<b>Liabilities</b>		
Goodwill	353	360
<b>Net future income tax asset</b>	1,562	1,403

The Company believes it is more likely than not that all future income tax assets will be realized.

### Note 4- Capital Management

The Company's primary source of capital is its shareholders equity and cash flow from operating activities before net changes in non-cash working capital balances. The Company augments these capital sources with a \$60 million, 364 day bank operating loan facility which is used to finance its net working capital and general corporate requirements. The bank operating facility is arranged through a syndicate of three banks and matures in July 2009.

The maximum amount available to borrow under this facility is subject to a borrowing base formula applied to accounts receivable and inventories, and a covenant restricting the Company's debt to 2.25 times trailing 12 month earnings before interest, amortization and taxes. As at September 30, 2008, this ratio was 1.0 times (December 31, 2007 – 1.4 times) and the maximum amount available to be borrowed under the facility was \$60 million. In management's opinion, the Company's available borrowing capacity under its bank operating facility and ongoing cash flow from operations, are sufficient to resource its anticipated contractual commitments. The facility contains certain other restrictive covenants, which the Company was in compliance with as at September 30, 2008.

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

(tabular amounts in thousands of Canadian dollars except share and per share amounts)

### Note 5 – Financial Instruments and Risk Management

#### a) Fair Values

The Company's financial instruments recognized on the consolidated balance sheet consist of accounts receivable, accounts payable and accrued liabilities, bank operating loan, long term debt and obligations under capital leases. The fair values of these financial instruments, excluding the bank operating loan, long term debt and obligations under capital leases, approximate their carrying amounts due to their short-term maturity. At September 30, 2008, the fair value of the bank operating loan, long term debt and obligations under capital leases approximated their carrying values due to their floating interest rate nature and short term maturity.

#### b) Credit Risk

A substantial portion of the Company's accounts receivable balance is with customers in the oil and gas industry and is subject to normal industry credit risks.

#### c) Market Risk

The Company is exposed to market risk from changes in the Canadian prime interest rate which can impact its borrowing costs. The Company purchases certain products in US dollars and sells such products to its customer typically priced in Canadian dollars. As a result, fluctuations in the value of the Canadian dollar relative to the US dollar can result in foreign exchange gains and losses.

#### d) Risk Management

From time to time the Company enters into foreign exchange forward contracts to manage its foreign exchange market risk by fixing the value of its liabilities and future commitments. The Company's foreign exchange risk arises principally from the settlement of United States dollar denominated net working capital balances as a result of product purchases denominated in United States dollars. As at September 30, 2008, the Company had contracted to purchase US\$5.1 million at fixed exchange rates with terms not exceeding six months. The fair market values of the contracts are nominal.

### Note 6 – Related Party Transactions

Smith International Inc. ("Smith") owns approximately 53% of the Company's outstanding shares. The Company is the exclusive distributor in Canada of down hole pump production equipment manufactured by Wilson Supply, a division of Smith. Purchase of such equipment conducted in the normal course on commercial terms were as follows:

	September 30 2008	September 30 2007
Cost of sales for the three months ended	2,570	2,498
Cost of sales for the nine months ended	7,938	7,041
Inventory	4,849	4,074
Accounts payable and accrued liabilities	535	1,064

### Note 7 - Segmented reporting

The Company distributes oilfield products principally through its networks of 44 branches located in western Canada to oil and gas industry customers. Accordingly, the Company has determined that it operated through a single operating segment and geographic jurisdiction.