

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

**OR**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2007**

**OR**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12570

**OR**

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.....

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**CE FRANKLIN LTD.**

*(Exact name of Registrant as specified in its charter)*

ALBERTA, CANADA

*(Jurisdiction of incorporation or organization)*

Suite 1900

300 - 5th Avenue S.W.

Calgary, Alberta, Canada T2P 3C4

*(Address of principal executive offices)*

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

Common shares, no par value

American Stock Exchange

Common shares, no par value

Toronto Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act. None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.

Indicate the number of outstanding shares of each of the Company's classes of capital or common shares as of the close of the period covered by the annual report.

As of December 31, 2007, there were 18,369,817 common shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## PART I

**Item 1: Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2: Offer Statistics and Expected Timetable**

Not applicable.

**Item 3: Key Information**

**A. Selected financial data**

The selected financial data presented below for the five years ended December 31, 2007 is presented in Canadian dollars and is derived from CE Franklin Ltd.'s ("CE Franklin" or the "Company") consolidated financial statements in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The information set forth below should be read in conjunction with the consolidated financial statements of CE Franklin (including notes thereto) included under Item 18 and "Operating and Financial Review and Prospects" included under Item 5.

CANADIAN GAAP	<b>As at and for the Year Ended December 31</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(in millions of Cdn. dollars except percentages, shares and per share data)				
<b>Statements of Operations:</b>					
<b>Sales</b>	466.3	555.2	484.2	339.7	257.9
<b>Gross profit</b>	84.6	103.5	91.3	60.2	43.6
% of sales	18.1	18.6	18.9	17.8	16.9
<b>Income from continuing operations</b>	13.6	22.9	18.9	6.1	1.3
<b>Loss from discontinued operations</b>	-	-	-	-	(0.9)
<b>Net income</b>	13.6	22.9	18.9	6.1	0.4
% of Sales	2.9	4.1	3.9	1.8	0.2
<b>Net income per share from continuing operations</b>					
Basic	0.74	1.27	1.09	0.36	0.07
Diluted	0.72	1.22	1.01	0.35	0.07
<b>Net income per share</b>					
Basic	0.74	1.27	1.09	0.36	0.02
Diluted	0.72	1.22	1.01	0.35	0.02
<b>Balance Sheets:</b>					
<b>Total assets</b>	208.7	205.4	192.5	145.5	117.6
<b>Capital stock</b>	24.3	23.6	21.9	19.3	19.3
<b>Shareholders' equity</b>	118.2	102.5	75.9	54.1	47.6
<b>Number of shares outstanding (000's)</b>	18,370	18,223	17,805	17,195	17,179
<b>Dividends declared</b>	nil	nil	nil	nil	nil

Net income, shareholders' equity, and other balance sheet amounts as determined in accordance with Canadian GAAP differ from those determined in accordance with United States generally accepted accounting principles ("U.S. GAAP"), due principally to the recording of compensation expense for stock options granted prior to January 1, 2003, the recording of certain restructuring expenditures as goodwill, the realization of certain future tax benefits, the change in tax rates and the transitional provision in 2002 with respect to impairment of goodwill. Under U.S. GAAP compensation expense, the restructuring expenditures, the change in tax rates and the transitional provision with respect to goodwill would have been recorded in the statement of operations and the benefit of the future tax assets would have been recorded as a reduction of goodwill. See note 15 to the December 31, 2007 consolidated financial statements included under Item 18.

**AMOUNTS IN ACCORDANCE WITH U.S. GAAP**

	<b>As at and for the Year Ended December 31</b>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(in millions of Cdn. dollars except per share data)				
<b>Net Income</b>	13.6	22.7	18.9	6.1	0.4
<b>Net Income Per Share</b>					
Basic earnings per share					
Continuing operations	0.74	1.26	1.09	0.36	0.07
Net income	0.74	1.26	1.09	0.36	0.02
Diluted earnings per share					
Continuing operations	0.72	1.21	1.01	0.35	0.07
Net income	0.72	1.21	1.01	0.35	0.02
<b>Total Assets</b>	207.3	204.0	191.1	144.1	116.3
<b>Shareholders' Equity</b>	117.0	101.1	74.6	52.7	46.2

All dollar amounts set forth in the Annual Report on Form 20-F are in Canadian dollars, except where otherwise indicated. The following tables set forth (i) the closing exchange rates at the end of the periods, the average exchange rates during the periods based on the closing exchange rate on the last day of each month and the high and low closing exchange rates based on the closing exchange rate on the last day of each month, (ii) the closing exchange rate at the end of each period, the average exchange rate during the period and the high and low exchange rates based on the closing exchange rate for each day during the month and (iii) the closing exchange rate for the day. The rates used are based on Bank of Canada foreign exchange rates.

(i)

	<b>Year Ended December 31,</b>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Rate at end of period	1.0088	0.8581	0.8598	0.8319	0.7713
Average rate during period	0.9418	0.8849	0.8271	0.7716	0.7195
High	1.0585	0.9079	0.8601	0.8432	0.7713
Low	0.8496	0.8562	0.7946	0.7288	0.6572

(ii)

	<b>2007</b>					
	<u>December</u>	<u>November</u>	<u>October</u>	<u>September</u>	<u>August</u>	<u>July</u>
Rate at end of period	1.0088	1.0000	1.0585	1.0052	0.9468	0.9374
Average rate during period	0.9970	1.0338	1.0261	0.9764	0.9444	0.9515
High	1.0199	1.0852	1.0585	1.0052	0.9536	0.9636
Low	0.9803	1.0000	1.0016	0.9483	0.9278	0.9360

(iii) On January 28, 2008, the closing rate in Canadian dollars was US \$0.9956 = Cdn. \$1.00.

**B. Capitalization and indebtedness**

Not applicable.

**C. Reasons for the offer and use of proceeds**

Not applicable.

#### **D. Risk factors**

Information for this item is set forth following the caption "Risk Factors" in the Company's "Management Discussion and Analysis" Item 5 set forth in this form 20-F.

#### **Item 4: Information on the Company**

##### **A. History and development of the Company**

In November 1993, Franklin Supply Company Ltd. ("Franklin"), a Canadian company, completed its initial public offering and its shares were listed on the American Stock Exchange.

CE Franklin is the result of the combination by reverse takeover of Franklin and Continental Emsco Company Limited ("CEL") on November 3, 1995. On January 1, 1996, Franklin Supply and its wholly owned subsidiary CEL amalgamated, resulting in CE Franklin. On September 26, 1996, the common shares of CE Franklin began trading on the Toronto Stock Exchange under the symbol "CFT". CE Franklin also trades on the American Stock Exchange under the symbol "CFK".

On January 1, 1998, Britannia Compression Sales Ltd., Domino Machine Ltd. and Northstar Industrial Ltd. were amalgamated into a new, wholly owned subsidiary, CEF Technologies Ltd. On January 1, 1998 BWM Supply and Service Ltd. was amalgamated with CE Franklin Ltd. As a result of these transactions, on January 1, 1998 CE Franklin had one wholly owned subsidiary, CEF Technologies Ltd.

On May 29, 1999, Smith International, Inc. ("Smith") acquired all the common shares previously held by Continental Emsco Company, which constituted 51.2% of the Company's outstanding common shares. As of January 28, 2008 Smith owned approximately 53% of the Company's outstanding common shares.

On February 1, 2002, CE Franklin amalgamated with its wholly owned subsidiary CEF Technologies Ltd.

On January 31, 2003 the Company transferred the property, equipment and operations of its small horsepower compression operations into a wholly owned subsidiary. Subsequently a 50% interest in the new subsidiary was sold for \$0.5 million.

On March 31, 2004 the Company sold its remaining 50% interest in its small horsepower compression operations for cash proceeds of \$1.0 million.

On February 1, 2006, the Company purchased the outstanding shares of an agent that operated two of the Company's branch locations, for total consideration of \$3.1 million.

On January 31, 2007, the Company purchased the assets of an agent that operated two of the Company's branch locations, for cash consideration of \$2.2 million.

On July 1, 2007, the Company purchased the outstanding shares of Full Tilt Field Services Ltd. ("Full Tilt") for consideration of \$3.4 million, subject to post closing adjustments.

On December 3, 2007, the Company purchased the outstanding shares of JEN Supply Inc. ("JEN Supply") for consideration of \$12.6 million subject to post closing adjustments.

On January 2, 2008, the Company amalgamated with Full Tilt and JEN Supply.

The Company is registered in the Province of Alberta, Canada. The principal address and telephone number of the Company are as follows:

CE Franklin Ltd.  
Suite 1900  
300 – 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta Canada  
T2P 3C4  
403-531-5600

##### **Principal Capital Expenditures and Divestitures**

On December 3, 2007, the Company purchased the outstanding shares of JEN Supply for consideration of \$12.6 million, subject to post closing adjustments. JEN Supply is an oilfield equipment distributor

operating in east-central Alberta. The acquisition was funded by bank borrowings, cash flow from operations and a deferred consideration obligation of \$0.5 million.

On July 1, 2007, the Company purchased the outstanding shares of Full Tilt for consideration of \$3.4 million, subject to post closing adjustments. Full Tilt provides oilfield engine maintenance and crane equipment services and is based in Lloydminster, Alberta. The acquisition was funded by bank borrowings and cash flow from operations.

On January 31, 2007, the Company purchased the assets of an agent that operated two of the Company's branch locations in Alberta, for cash consideration of \$2.2 million. The acquisition was funded by bank borrowings and cash flow from operations.

On February 1, 2006, the Company purchased the outstanding shares of an agent that operated two of the Company's branch locations in Alberta, for total consideration of \$3.1 million comprised of cash consideration of \$2.3 million and debt issued to the vendor valued at \$0.8 million. In addition to the cash consideration, a \$0.2 million contingent amount was paid on February 1, 2007 as a result of the achievement of certain conditions. The acquisition was funded by bank borrowings, cash flow from operations and debt issued to the vendor.

The Company has discussed the possible acquisition of complementary businesses and competitors. The Company has not entered into any agreement with respect to any prospective acquisition. The Company intends to continue discussions and to make acquisitions in the future when they are deemed advantageous to the Company. There can be no assurance that the Company will be able to expand its operations by further acquisitions. In addition, if the Company makes acquisitions, there can be no assurance that such transactions will prove to be profitable for the Company.

## **B. Business overview**

### **Distribution**

CE Franklin distributes pipe, valves, flanges, fittings, production equipment, tubular products and other general oilfield supplies to the oil and gas industry in Canada through its 44 branches and inventory stocking points which are situated in towns and cities that serve particular oil and gas fields of the western Canadian sedimentary basin. In addition, the Company distributes general oilfield supplies to the oilsands, refining, heavy oil and petrochemical and non-oilfield related industries such as the forestry and mining.

CE Franklin, from time to time, will open or close branches or inventory stocking points to meet customer requirements and fluctuating market conditions. The branches act as a "one stop shop" for the oil and gas industry by providing over 25,000 regularly-stocked Stock Keeping Units ("SKU's") of product, and related equipment services. The branches provide supply chain management services to enable customers to get the right products at the right time. Should a branch not have a particular product in stock, it has overnight access to the centralized distribution centre in Edmonton, Alberta.

Other services provided by the branches include pump repair, customized pump designs and testing, convenient hours and locations and 24-hour on call service. In addition, CE Franklin provides well optimization analysis, onsite project management and oilfield engine maintenance and crane equipment services.

CE Franklin manages its buying and distribution through a 100,000 square-foot centralized distribution centre (the "Distribution Centre") located in Edmonton, Alberta. The Distribution Centre is strategically located within reasonable proximity to a majority of vendors and acts as the hub for the branches. Its location reduces freight costs through effective consolidation of shipments. It provides a cross-dock function that minimizes inventory levels and maximizes service through automatic stock replenishment. The Distribution Centre is International Organization for Standardization 9001 - 2000 ("ISO") certified, which is required by a growing number of CE Franklin's customers in conformance with their own ISO programs. The Company is planning to begin moving into a new 151,000 square-foot distribution Centre in Edmonton in the second quarter of 2008 that will support additional distribution capacity and services.

For the supply chain to be effective, strong relationships must be cultivated between the Company and its customers. Several customers have looked to CE Franklin for its expertise in materials management and

other service support. The formal arrangement between the Company and its customers is referred to as an “alliance” or an “enhanced business relationship”. Through building alliances, the Company now manages approximately 50 warehouses for its customers. The trend is for customers to focus on their core competencies and outsource non-core areas.

The primary driver of the Company’s profitability is the level of oil and gas exploration and production activity, particularly in the western Canadian sedimentary basin. The price of oil and gas, well completions and rig counts are common indicators of activity levels in the energy industry. Other drivers of profitability include activity levels within specific regions, the mix of products sold and customer mix.

Activity levels within specific regions will fluctuate due to various factors including the mix of oil and gas activity within the region and oil and gas producers entering or leaving the region. The Company responds to these fluctuations by opening or closing branch locations in order to service customer needs and ensure there is coverage in areas of higher activity.

The mix of products sold and the customer mix will affect profitability. Profit margins will vary for different products and the method of sale. Walk-in business at the branches will generate higher profit margins compared to bids, which are typically larger orders where the Company can take advantage of volume discounts and longer lead times. Customer contracts can affect profit margin where different customers receive different pricing structures based on factors such as volume, service requirements and complexity.

### **Business and Operating Strategy**

The Company’s business and operating strategy includes improving the Company’s value offering and service to its customers, increasing market share, maximizing gross profit margins through procurement practices, rationalizing expenses through process improvement efficiencies and improving earnings. CE Franklin leverages its relationship with Wilson International, Inc. (“Wilson Supply”), a wholly owned subsidiary of Smith in the United States, to offer a North American solution to its customer base. The Company will continue to focus on continuous improvement in the areas of customer service and operational effectiveness. CE Franklin will continue in its efforts to strengthen and grow its market share.

### **Operations**

CE Franklin’s operations are divided into: sales, which includes product and account management and inside sales functions; marketing and supply, which include central purchasing and product pricing; operations, which includes branches and inventory stocking points strategically located to optimize customer service, the Distribution Centre, and information technologies; customer service, safety and quality; finance and administration; and business effectiveness (human resources).

The product management function includes technical and sales personnel who specialize in providing product sales and service to customers and branch operations for the Company’s specialized product lines, such as bottom hole pumps and other production equipment, steel and fiberglass tubulars and valves.

To ensure coordination and close contact with all of the Company’s major customers, a sales group, working out of Calgary, Alberta, where many customer head offices are located, act as account managers with specific individual responsibilities for managing the Company’s business and alliance relationships with its customers. In addition, the Company has regional area sales representatives who are responsible for coordinating sales and activities in the field. The inside sales group is responsible for coordination and preparation of hundreds of competitive bid packages each year for Canadian and international sales.

Individual branch managers are responsible for the branch in their district. There is interdependence on sales efforts and results with the sales force located in the Calgary, Alberta office. The branch is the front line interface with the customer. The Distribution Centre provides centralized materials management services for CE Franklin’s branches and where practical will ship product directly to customers. The information technologies group is a fundamental component of providing service to customers and is responsible for maintaining the Company’s enterprise and electronic commerce systems. The marketing and supply group is responsible for inventory procurement, pricing and margins. Customer service,

safety and quality assurance processes and procedures are in place to deliver superior customer service while maintaining a safe work environment for the Company's employees.

Customers can walk in, phone in, fax orders or drop off drawings asking us to prepare a materials list and to supply products. Customer lead times vary from walk in to several weeks notice.

The Company operates in a customer centric model with all employee compensation affected by total Company earnings per share. Individual senior managers have specific responsibilities but compensation is based on total Company performance.

### **Competition**

The Canadian oilfield supply industry is highly competitive and fragmented. CE Franklin and its largest competitors generally operate at low profit margins due to price competition. Price competition is due to customer price pressure and to competition among the major supply companies for the same business. Costs of goods may not be subject to competitive pressures due to the ability of manufacturers of certain products, particularly tubular products, to hold the prices at which they sell their products. The Company believes that its future profitability is partially influenced by additional competitive factors beyond its control, including the ability of some customers to purchase products directly from the manufacturer rather than from independent oilfield supply distributors. In addition, if the oil and gas industry were to experience significant growth in drilling activity, new competitors could arise due to the low capital investment required.

There are approximately 250 oilfield supply stores in Canada operated by five large companies and many smaller ones. The oilfield supply market is part of the larger industrial supply market, which is also served in part by numerous other competitors. Some of CE Franklin's major competitors have manufacturing divisions or affiliates that produce some of their product lines. This vertical integration may place the Company at a cost disadvantage. The market is further fragmented by (i) companies that specialize in the sales of certain products, (ii) general industrial supply houses that overlap with the oilfield suppliers particularly in the area of pipe, valves and fittings, (iii) manufacturers who sell directly to the oil and gas industry and (iv) major oil companies that sometimes purchase directly from manufacturers on large orders.

Smith, which owns approximately 53% of the Company's outstanding common shares as of January 28, 2008, and its affiliates, including Wilson Supply, has verbally indicated that they will not compete with CE Franklin in Canada. CE Franklin has verbally agreed not to compete with Smith or Wilson Supply in the United States. However, there are no assurances that these agreements will not change at a future date.

Outside of North America, oilfield equipment and supplies are sold and supplied differently and, accordingly, North American-style branches are not common. As a result of price competition in Canada, profit margins in the industry are typically not high and profitability is achieved by continuously improving the effectiveness of personnel and the efficiency of systems.

Adverse weather conditions could temporarily decrease the demand for CE Franklin's products and services. CE Franklin's financial performance is tied closely to the seasonality of drilling activity. Higher drilling activity in Canada is generally experienced in the winter months. In the spring and early summer, drilling activity slows due to the difficulty in moving equipment during the spring thaws. To the extent that unseasonable weather conditions such as excessive rain or unusually warm winters affect the ability of CE Franklin's customers to access their oil and gas sites, then the demand for CE Franklin's products and services would temporarily decrease and the Company's revenues, cash flows and profitability would be adversely affected.

### **C. Organizational structure**

On July 1, 2007, the company purchased the outstanding shares of Full Tilt for total consideration of \$3.4 million, subject to post closing adjustments.

On July 31, 2007, CE Franklin amalgamated with its wholly owned subsidiaries, Continental Supply Ltd. and 1072999 Alberta Ltd.

On December 3, 2007 the Company purchased the outstanding share of JEN Supply Inc. ("JEN Supply") for total consideration of \$12.6 million, subject to post closing adjustments.

On January 2, 2008, CE Franklin amalgamated with its wholly owned subsidiaries, Full Tilt and JEN Supply. The Company operates as a single legal entity, CE Franklin Ltd., effective January 2, 2008.

#### **D. Property, plant and equipment**

##### **Description of Property**

The Company's head office is located in Calgary, Alberta and its Distribution Centre is based in Edmonton, Alberta. The Company has 29 branches in Alberta, six in Saskatchewan, seven in British Columbia, one in Manitoba and one in Ontario. The Company owns four locations and leases the remaining locations. The owned properties represent three branches in Alberta, and one branch in Saskatchewan. The owned properties are subject to a general security agreement in favor of the Company's principal lender. The Company will either lease or purchase facilities in certain areas after evaluating the economics of both alternatives.

The current capacity at the Company's branches and Distribution Centre is considered adequate to meet current market demand. In the past, the Company has been able to secure new operating facilities as required. The Company entered into a lease commitment with a 15 year term pertaining to the construction of a new distribution centre in Edmonton, Alberta. The Company intends to begin conducting operations from the new distribution facility in the second quarter of 2008.

The Company is not aware of any environmental issues that could have a material impact on any of its properties.

Property and equipment increased 15% to \$6.4 million as at December 31, 2007. This increase includes net additions to property and equipment of \$2.0 million combined with \$1.3 million of property and equipment through business acquisitions completed in 2007. The additions were offset by amortization expense of \$2.8 million.

#### **Item 5: Operating and Financial Review and Prospects**

##### **Management's Discussion and Analysis as at February 12, 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 audited consolidated financial statements of CE Franklin and the related notes thereto.*

*All amounts are expressed in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), except where otherwise noted. For a discussion of the principle differences between CE Franklin's financial results as calculated under U.S. GAAP, see note 15 to the consolidated financial statements of CE Franklin.*

##### **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 centralized distribution centre in Edmonton, Alberta, stock over 25,000 stock keeping units. This infrastructure enables us to provide our customer's with the products they need on a same day or over night basis. Our centralized inventory and procurement capabilities allow us to leverage our scale to enable industry leading hub and spoke purchasing and logistics capabilities. The branches are also supported by services provided by the Company's corporate office in Calgary, Alberta including sales, marketing, product expertise, logistics, invoicing, credit and collection 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 53% of the Company's shares.

### **Business and Operating Strategy**

The Canadian oilfield equipment supply industry is highly competitive and fragmented. There are approximately 250 oilfield supply stores in Canada which generate annual estimated sales of \$2 to \$3 billion. CE Franklin competes with four other large oilfield equipment distributors and with numerous local and regional distributors as well as specialty equipment distributors and manufacturers. The oilfield equipment market is part of the larger industrial equipment supply market, which is also serviced by numerous competitors.

Oilfield equipment distributors compete based on price and level of service. Service includes the ability to consistently provide required products to a customer's operating site when needed, project management services, product expertise and support, billing and expenditure management services, and related equipment services.

Demand for oilfield equipment is driven by the level of oil and gas industry capital expenditures as well as by production related maintenance, repair and operating ("MRO") requirements. MRO demand tends to be relatively stable over time and predictable in terms of product and service requirements. Capital project demand fluctuates over time with oil and gas commodity prices.

The mix of products sold and customers served will affect profitability. Local walk in relationship business will typically generate higher profit margins compared to project bids, which are typically larger orders where the Company can take advantage of volume discounts and longer lead times. Larger oil and gas producers typically have a broader geographic operating reach, conduct larger capital projects, and require more sophisticated billing and project management services than do smaller customers. The Company has entered into a number of formal alliances with larger customers where the scale and repeat nature of business enables efficiencies which are shared with the customer through lower profit margins.

Barriers to entry in the oilfield supply business are low with start up operations typically focused on servicing local relationship based MRO customers. To compete effectively on capital project business and to service larger customers requires multi-location branch operations, increased financial, procurement, product expertise and breadth of product lines, information systems and process capability.

The Company's 44 branch operations provide substantial geographic coverage across the oil and gas producing regions in western Canada. Each branch competes for local business supported by centralized support services provided by the Company's Edmonton distribution centre and corporate office in Calgary. The Company's large branch network, coupled with its centralized capabilities enables it to develop strong supply chain relationships with suppliers and provide it with a competitive advantage over local independent oilfield and specialty equipment distributors for larger customers who are seeking one stop shopping and more comprehensive service. The Company's relationship with Wilson Supply, a leading oilfield equipment distributor operating in the United States, and a wholly owned subsidiary of Smith, enables it to provide North American solutions to its customer base and provides increased purchasing scale with equipment suppliers.

The Company is pursuing four strategies to grow its business profitably:

- Grow market share in our core conventional oilfield equipment distribution business in western Canada through concentrated sales efforts and premium customer service complemented by selected acquisitions such as the acquisition of JEN Supply Inc. ("JEN Supply") completed in December 2007.
- Leverage our existing supply chain infrastructure, product and project expertise by focusing on the emerging oilsands project and MRO business in Alberta.
- 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 deepening 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 parts that we were previously selling, and by doing so, position us to attract new customers to our core oilfield equipment distribution business.

- Leverage our domestic supply chain infrastructure capabilities and customers by targeting international sales. Selected international project sales are resourced from our Edmonton distribution centre. An oilfield equipment distribution joint venture was established in the 2<sup>nd</sup> quarter of 2007 in Libya with Wilson Supply and a Libyan partner.

## Business Outlook

The Company's business is dependent on the level of conventional oil and gas capital expenditures and production activity in western Canada. A combination of events experienced in 2007 including soft natural gas prices, the Alberta government royalty task force review and subsequent decision to increase royalty rates, high drilling and operating costs, and the rapid appreciation of the Canadian dollar, have reduced the competitiveness of the western Canadian sedimentary basin relative to other international oil and gas producing regions. This has resulted in reduced oil and gas industry activity in 2007 in western Canada that is expected to continue through 2008. The Company expects these conditions will contribute to increased consolidation of oil and gas customers, coupled with increased competitive activity amongst oilfield equipment distributors. The Company intends to address these conditions by pursuing its strategies while closely managing its costs and net working capital investment levels.

Over the medium to longer term, the Company is optimistic that its strong competitive status will position it favourably to take advantage of available market share when natural gas prices recover to historic energy equivalent price relationships to oil, resulting in renewed conventional industry activity and demand for the Company's products. Effective execution of the Company's oilsands and service diversification strategies provide further opportunities to leverage its supply chain infrastructure.

## A. Operating Results

The following table summarizes the consolidated results of operations of the Company for the last three years:

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

Years-Ended December 31,	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
<b>Sales</b>	\$ 466.3	100.0%	\$ 555.2	100.0%	\$ 484.2	100.0%
Cost of sales	(381.7)	(81.9)%	(451.7)	(81.4)%	(392.9)	(81.1)%
Gross profit	84.6	18.1%	103.5	18.6%	91.3	18.9%
<b>Selling, general and administrative expenses</b>	(58.1)	(12.4)%	(63.3)	(11.4)%	(55.3)	(11.5)%
<b>Foreign exchange loss and other</b>	(0.8)	(0.2)%	(0.1)	0.0%	-	0.0%
<b>EBITDA<sup>(1)</sup></b>	25.7	5.5%	40.1	7.2%	36.0	7.4%
<b>Amortization</b>	(2.8)	(0.6)%	(2.8)	(0.5)%	(4.4)	(0.9)%
<b>Interest</b>	(2.0)	(0.4)%	(2.7)	(0.5)%	(1.9)	(0.4)%
<b>Income before taxes</b>	20.9	4.5%	34.6	6.2%	29.7	6.1%
<b>Income tax expense</b>	(7.3)	(1.6)%	(11.7)	(2.1)%	(10.8)	(2.2)%
<b>Net income</b>	13.6	2.9%	22.9	4.1%	18.9	3.9%
<b>Net income per share</b>						
Basic (Cdn. \$)	\$ 0.74		\$ 1.27		\$ 1.09	
Diluted (Cdn. \$)	\$ 0.72		\$ 1.22		\$ 1.01	
<b>Weighted average number of shares outstanding (000's)</b>						
Basic	18,337		18,099		17,327	
Diluted	18,807		18,724		18,680	

(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, incremental flow through to EBITDA and EBITDA as a percentage of sales because it is used by management as a supplemental measure 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 table above. 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.

### **2007 compared to 2006**

Net income for 2007 was \$13.6 million, down \$9.3 million (41%) from 2006 levels. Sales declined by 16% due to reduced oil and gas industry capital expenditures in 2007 and gross profit margins declined by 3% due to reduced supplier rebates, resulting in an \$18.9 million (18%) decline in gross profit. Selling, general and administrative expenses declined by \$5.2 million (8%) due to lower incentive compensation costs, reduced Sarbanes Oxley compliance costs, and lower selling costs resulting from the acquisition of two agent operated branches during the first half of 2007. Lower interest expense associated with reduced average debt levels in 2007 was offset by foreign exchange losses driven by the rapid appreciation in the Canadian dollar during 2007. Income taxes declined by \$4.4 million in 2007 due to the reduced level of pre-tax earnings. Net income per share (basic) was \$0.74 in 2007, down 42% due principally to the decline in net income combined with a 1% increase in the weighted average number of shares outstanding.

### **2006 compared to 2005**

Net income for 2006 was \$22.9 million, up \$4.0 million (22%) from 2005 levels. Sales increased by 15% and gross profit increased by 13% due to the continuation of very strong oil and gas industry capital expenditure levels from 2005 before subsiding somewhat in the second half of 2006 following the softening of natural gas prices. This resulted in an \$12.2 million (13%) increase in gross profit over 2005. Selling, general and administrative costs increased by \$8.0 million (14%) from 2005 due to increased incentive compensation costs and Sarbanes Oxley compliance costs. Amortization costs declined by \$1.6 million as the amortization of the Company's computer system was substantially completed in 2005. Interest costs increased by \$0.8 million due to higher average borrowing levels and floating interest rates. Income taxes increased by \$0.9 million in 2006 due to the increased level of pre-tax income. Net income per share (basic) reached \$1.27 in 2006, an increase of 17% due to the increase in net income partially offset by the exercise of employee stock options which increased the weighted average number of shares outstanding by 5% over the prior year.

### **Fourth Quarter Results**

Net income for the fourth quarter of 2007 was \$2.4 million, down \$3.0 million (55%) from 2006 levels. Sales declined by 14% due to reduced oil and gas industry capital expenditures in 2007 and gross profit margins declined by 0.9% due to reduced supplier rebates associated with lower purchasing levels, resulting in a \$4.7 million decline in gross profit. Selling, general and administrative expenses remained consistent at \$15.3 million. Lower interest expense was associated with reduced average debt levels in the fourth quarter of 2007. Income taxes declined by \$1.3 million in the fourth quarter due to the reduced level of pre-tax earnings. Net income per share (basic) was \$0.13 in the fourth quarter of 2007, down 55%, due principally to the decline in net income combined with a 1% increase in the weighted average number of shares outstanding.

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

### **Sales**

Sales for 2007 were \$466.3 million, down 16% from 2006 levels, principally due to lower product sales used in customer capital projects due to the decline in oil and gas industry capital expenditures levels

discussed previously in the “Business Outlook” section of this report. In 2006, sales increased by \$71.0 million (15%) due to very strong oil and gas industry capital expenditures experienced through 2005 into 2006.

(in millions of Cdn. \$)

End use sales demand	2007		2006		2005	
	\$	%	\$	%	\$	%
Capital projects	269.6	58	338.8	61	299.1	62
Maintenance, repair and operating supplies (MRO)	196.7	42	216.4	39	185.1	38
<b>Total sales</b>	<b>466.3</b>	<b>100</b>	<b>555.2</b>	<b>100</b>	<b>484.2</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 drive 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. The table below provides well completion, rig count and commodity price information for the last 3 years.

	As at December	Average for the year ended		
	31, 2007	2007	2006	2005
Gas - Cdn. \$/gj (AECO spot)	\$6.44	\$6.47	\$6.55	\$8.80
Oil - Cdn. \$/bbl (Edmonton Light)	\$93.35	\$76.48	\$72.96	\$69.15
Average rig count	n/a	367	498	469
Well completions:				
Gas	n/a	12,717	15,317	15,403
Oil	n/a	5,443	5,609	4,835
Total well completions	n/a	18,160	20,926	20,238

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 \$269.6 million in 2007, down 20% (\$69.2 million) from 2006 levels. Total well completions declined by 13% to 18,160 in 2007 and the average working rig count declined by 26% to 367 in 2007, contributing to lower demand for the Company's capital project related products. Lower oil and gas capital expenditure activity in 2007 reflected the continuation of soft gas prices in 2007, compounded by increased industry capital and operating costs and uncertainty and lower returns resulting from the Alberta government's royalty study and subsequent decision announced in the 4<sup>th</sup> quarter of 2007 to increase royalty rates. Gas wells comprised 70% of the total wells completed in western Canada in 2007 (2006 – 73%, 2005 – 76%). For 2006, sales of capital project related products reached \$338.8 million, an increase of 13% (\$39.7 million) from 2005 levels. This increase was driven principally by the very robust natural gas pricing environment experienced in 2005 and early 2006, which increased natural gas project economics resulting in elevated industry capital expenditures as indicated by the 3% and 6% increase in the number of total well completions and average working rig count in 2006 compared to 2005 respectively.

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 in 2007 were \$196.7 million and comprised 42% of the Company's total sales. This was down 9% (\$19.7 million) from 2006 MRO product sales levels due to reduced industry activity levels. For 2006, MRO product sales reached \$216.4 million, an increase of

17% (\$31.3 million) due to the year over year increase in industry activity levels coupled with the results of an increased branch area sales focus.

The Company services over 3,000 customers of which the top ten customers comprised 43% of total sales (2006 –38%, 2005 - 41%). The Company's largest customer comprised 11% of total sales (2006 – 11%, 2005 - 11%). The increased concentration of sales in 2007 was due to the Company's focus on alliance customer programs coupled with lower capital program activity experienced by smaller oil and gas company's due to reduced access to capital markets resulting from increasingly challenging industry conditions.

The Company distributes approximately 25,000 stock keeping units sourced from over 2,000 suppliers. In 2007, the top 10 suppliers comprised 43% of total cost of goods sold (2006 – 50%, 2005 - 53%) of which two suppliers comprised 28% of total cost of goods sold (2006 – 2 suppliers comprised 30%, 2005 – 1 supplier comprised 20%). Reduced supplier concentration in 2007, was principally due to the decline in capital project related product sales which tend to be more focused across fewer products than MRO product sales.

In 2006, the Company developed and began to execute its strategy to grow profitability through focus on its core western Canadian oilfield equipment service business, complemented by an increase in the product life cycle services provided by the Company to its customers, the focus on the emerging oilsands capital project and MRO sales opportunities, as well as selected sales to international markets. Revenue results of these initiatives to date are provided below:

Sales (\$millions)	2007		2006		2005	
	\$	%	\$	%	\$	%
Western Canada oil field	426.5	92	524.6	95	467.2	97
Oil Sands	23.7	5	19.1	3	5.7	1
Production Services	11.2	2	6.9	1	5.9	1
International	4.9	1	4.6	1	5.4	1
Total Sales	466.3	100	555.2	100	484.2	100

Sales of oilfield products to conventional western Canada oil and gas end use applications were \$426.5 million in 2007, down 19% from 2006 levels, consistent with the decline in year over year industry activity levels described previously. In December 2007, the Company announced the acquisition of JEN Supply, an oilfield equipment distributor that operated four branches in east-central Alberta. Two of these operations were in existing markets where the Company had operations and are being combined. This enabled the Company to grow its market share in these markets while improving its operating efficiency. JEN Supply's other two branch operations are in new market areas and extend the Company's market reach. The integration of JEN Supply is expected to be completed by the end of the first quarter of 2008.

Sales to oilsands end use applications reached \$23.7 million, a 24% increase from 2006 levels. The Company continues to position its sales focus and Edmonton distribution centre to penetrate this emerging market for capital project related products. The Company's Fort McMurray branch continues to build on its position to service oilsands' MRO product requirements.

Production service sales reached \$11.2 million in 2007, more than a 62% increase from 2006 levels. The acquisition of Full Tilt at the end of the 2<sup>nd</sup> quarter of 2007, which provides oilfield engine maintenance and crane equipment services based in Lloydminster, contributed the majority of the increase in revenues. The Company expects to expand Full Tilt's service to other Company branch locations in 2008 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 reached \$4.9 million in 2007, comparable to 2006 and 2005 and are serviced by our Edmonton distribution centre. An agency oilfield equipment distribution joint venture was established during 2007 in Libya with Wilson Supply and a Libyan partner. Sales activity was minimal in 2007 and is anticipated to increase next year as operations gain momentum.

<b>Gross Profit</b>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross profit ( <i>millions</i> )	\$84.6	\$103.5	\$91.3
Gross profit as a % of sales	18.1%	18.6%	18.9%

Gross profit composition by product sales category:

Tubulars	8%	8%	10%
Pipe, flanges and fittings	32%	35%	33%
Valves and accessories	18%	20%	20%
Pumps, production equipment and services	17%	13%	14%
General	<u>25%</u>	<u>24%</u>	<u>23%</u>
Total Gross Profit	100%	100%	100%

Gross profit was \$84.6 million in 2007, down \$18.9 million (18%) from 2006 due to a 16% decline in sales and a 3% decline in gross margin. Gross profit generated in 2006 increased by \$12.2 million (13%) over 2005 due to a 15% increase in sales partially offset by a 2% decrease in average gross margins. Gross profit composition by product sales remained quite stable over the three year period with a slight increase in relative contribution in 2007 from pumps, production equipment and services as well as general product sales reflecting the relative year over year increase in MRO sales and the acquisition of Full Tilt in mid 2007.

### **Selling, General and Administrative (“SG&A”) Costs**

<b>Sales (\$millions)</b>	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	\$	%	\$	%	\$	%
People costs	32.8	57	33.9	54	28.1	52
Selling costs	7.8	13	13.4	21	14.4	26
Facility and office costs	9.7	17	8.6	14	7.6	13
Other	<u>7.8</u>	<u>13</u>	<u>7.4</u>	<u>11</u>	<u>5.2</u>	<u>9</u>
SG&A Costs	58.1	100	63.3	100	55.3	100
SG&A costs a % of sales	12.4%		11.4%		11.5%	

SG&A costs declined 8% (\$5.2 million) in 2007 from the prior year principally due to the reduction in selling costs that resulted from the acquisition of two agent operated branches in early 2007. People costs decreased by 3% due to reduced incentive compensation expenses associated with the Company's lower financial results in 2007 and a 9% reduction of employees in its base operations. This was partially offset by the addition of employees through acquisitions completed in 2007. Facility costs increased 13% (\$1.1 million) in 2007 to \$9.7 million, due to additional branch locations acquired and increased occupancy costs. Facility and office costs are expected to increase in 2008 as the Company moves into a new, larger distribution centre in Edmonton and due to continued occupancy cost pressure being experienced in western Canada. The Company leases 40 of its 44 branch operations as well as its corporate office in Calgary and Edmonton distribution centre. The Company mitigates the cyclical nature of its business by adjusting its variable and fixed (primarily salaries and benefits) SG&A costs as activity levels change. This was evident in 2007 as SG&A costs as a percentage of sales increased slightly from prior year levels to 12.4%, despite a 16% decline in sales from 2006.

### **Amortization Expense**

Amortization expense was \$2.8 million in 2007 and was comparable to 2006. In 2005, amortization expense was higher at \$4.4 million as the amortization of the cost of the Company's computer system was substantially completed in 2005.

### **Interest Expense**

Interest expense was \$2.0 million in 2007, down \$0.6 million (24%) from 2006 due to a 21% decline in average borrowing levels and a 5% decline in average floating interest rates. Interest expense increased in 2006 by \$0.7 million over 2005 due principally to higher average borrowing levels.

## Foreign Exchange Loss and Other

Foreign exchange losses were \$0.8 million in 2007 (2006 - \$0.1 million, 2005 – nil) and related to the 18% appreciation of the Canadian/U.S. dollar exchange rate on U.S. dollar net working capital balances held during the period. Steps were taken in the fourth quarter to mitigate the Company's net working capital U.S. dollar exposure.

## Income Tax Expense

The Company's effective tax rate for 2007 was 35.0%, compared to 33.7% and 36.4% in 2006 and 2005 respectively, due principally to the relative increase in non deductible expenses resulting from changes in pre-tax income levels. 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	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
<b>Sales</b>	\$ 177.0	\$ 115.9	\$ 131.7	\$ 130.6	\$ 154.3	\$ 82.9	\$ 116.8	\$ 112.3
<b>Gross profit</b>	32.2	22.5	23.7	25.0	26.3	16.8	21.0	20.4
<b>EBITDA</b>	15.1	7.0	8.4	9.6	11.0	2.2	7.4	5.1
<b>EBITDA as a % of sales</b>	8.5%	6.0%	6.4%	7.4%	7.1%	2.7%	6.3%	4.5%
<b>Net income</b>	8.9	3.9	4.7	5.4	6.4	0.6	4.1	2.4
<b>Net income as a % of sales</b>	5.0%	3.4%	3.6%	4.1%	4.1%	0.7%	3.5%	2.1%
<b>Net income per share</b>								
Basic (Cdn. \$)	\$ 0.50	\$ 0.21	\$ 0.26	\$ 0.30	\$ 0.35	\$ 0.03	\$ 0.22	\$ 0.13
Diluted (Cdn. \$)	\$ 0.47	\$ 0.21	\$ 0.25	\$ 0.29	\$ 0.34	\$ 0.03	\$ 0.22	\$ 0.13
<b>Net working capital<sup>(1)</sup></b>	124.7	117.4	130.6	120.2	127.6	126.8	128.7	134.7
<b>Bank operating loan<sup>(1)</sup></b>	54.1	41.0	49.6	34.0	33.6	36.0	35.4	44.3

<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 the 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.

## B. 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 and acquisitions.

As at December 31, 2007, borrowings under the Company's bank operating loan were \$44.3 million, an increase of \$10.3 million from December 31, 2006. Borrowing levels have increased as business acquisitions of \$18.0 million and net investments of \$2.0 million to maintain property and equipment have

been funded principally by bank borrowings and cash flow from operations of \$9.3 million.

In 2006, the Company generated \$27.8 million in cash from cash flow from operating activities, before net change in non-cash working capital balances, and \$1.7 million in the issuance of capital stock from the exercise of employee stock options. This was offset by a \$14.2 million increase in working capital, \$2.6 million to purchase a two branch distribution operation, \$3.1 million in capital and other expenditures, \$0.2 million in repayments on capital leases and \$0.3 million in purchase of shares held in trust. These activities resulted in a \$9.1 million decrease in the bank operating loan.

In 2005, the Company generated \$21.9 million in cash from cash flow from operating activities, before net change in non-cash working capital balances, and \$2.5 million in the issuance of capital stock from the exercise of employee stock options. This was offset by a \$35.3 million increase in working capital, \$0.6 million in capital and other expenditures and \$0.6 million in repayments on capital leases. These activities resulted in a \$11.7 million increase in the bank operating loan.

Business acquisitions completed during 2007 aggregated \$18.0 million and were comprised of \$12.1 million to acquire JEN Supply in December, \$3.4 million to acquire Full Tilt in the third quarter, and \$2.2 million to acquire two agent operated branches early in 2007. See note 2 to the audited consolidated financial statements for further details.

Net working capital was \$134.7 million at December 31, 2007, an increase of \$14.5 million from December 31, 2006. Accounts receivable increased by \$1.8 million (2.0%) to \$89.3 million at December 31, 2007 from December 31, 2006. After adjusting for the acquisition of JEN Supply in December, account's receivable day's sale outstanding increased 12% to 62.0 days for the fourth quarter compared to 55.2 days in the prior year period. Day's sales outstanding is calculated using fourth quarter sales compared to the December 31 accounts receivable balance. Inventory decreased by \$10.9 million (11%) from December 31, 2006 due to a reduction in purchasing levels to align with reduced sales levels. After adjusting for the acquisition of JEN Supply in December, inventory turns were 4.3 times, consistent with the prior years fourth quarter. Inventory turns are calculated using fourth quarter cost of goods sold on an annualized basis compared to the December 31 inventory balance. The company will continue to adjust its investment in inventory in order to align with anticipated lower sales levels in order to improve inventory turnover efficiency. Accounts payable and accrued liabilities decreased by \$21.9 million (33%) from December 31, 2006 to \$44.8 million at December 31, 2007 due to reduced purchasing activity and lower accrued employee incentive compensation.

The Company has a 364 day bank operating loan facility in the amount of \$75.0 million (2006 - \$75.0 million) arranged with a syndicate of four banks that matures in July 2008. The loan facility bears interest based on the floating Canadian bank prime rate 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 debt to 2.25 times trailing twelve month EBITDA. As at December 31, 2007, the Company's debt to EBITDA ratio was 1.7 times (2006 - 1.2 times) which provides a maximum borrowing ability of approximately \$60 million under the facility (2006 - \$75 million). This facility contains certain other restrictive covenants. As at December 31, 2007, the Company was not in compliance with a covenant under its loan facility agreement which has been subsequently waived and amended by the Company's lenders. As at December 31, 2007, the ratio of the Company's debt to total capitalization (debt plus equity) was comprised of 28% debt (2006 - 26% debt).

## **CAPITAL STOCK**

The weighted average number of shares outstanding during 2007 was 18.3 million, an increase of 0.2 million shares (1%) over the prior year due principally to the exercise of stock options. The diluted weighted average number of shares outstanding during 2007 was 18.8 million, a decrease of 0.2 million over the prior period.

As at December 31, 2007 and 2006, the following shares and securities convertible into shares, were outstanding:

<i>(millions)</i>	<b>December 31, 2007</b>	December 31, 2006
	<b>Shares</b>	Shares
<b>Shares outstanding</b>	<b>18.4</b>	18.2
<b>Stock Options</b>	<b>1.3</b>	0.8
<b>Restricted Share units</b>	<b>0.2</b>	0.1
<b>Shares outstanding and issuable</b>	<b>19.9</b>	19.1

The Company has established an independent trust to purchase common shares of the Company on the open market to resource performance and deferred share unit obligations. In 2007, the trust acquired 40,200 common shares (2006 – 24,800 common shares) at an average cost of \$8.08 per share (2006 - \$11.73 per share).

### Contractual Obligations

The following table outlines the Company's contractual obligations for debt, lease and related obligations having initial terms in excess of one year.

<b>Period Due</b>	<b>Long Term Debt and Capital Lease Obligations</b>	<b>Bank Operating Loan</b>	<b>Operating Lease Commitments</b>	<b>U.S.\$ Forward Purchase Contracts</b>	<b>Total</b>
<i>(millions of Canadian dollars)</i>					
2008	1.0	44.3	5.4	2.0	52.7
2009	0.1	-	5.7	-	5.8
2010	-	-	5.2	-	5.2
2011	-	-	4.2	-	4.2
2012	0.5	-	3.9	-	4.4
thereafter	-	-	29.2	-	29.2
	<u>1.6</u>	<u>44.3</u>	<u>53.6</u>	<u>2.0</u>	<u>101.5</u>

Approximately 93% of operating lease obligations relate to office, warehouse, and store facility leases (2006 - 79%) with the remaining lease obligations related to automobile and warehouse equipment leases. Future operating lease commitments at December 31, 2007 of \$53.6 million have more than doubled from the prior year end due principally to the 15 year lease agreement entered into during 2007 for the new Edmonton distribution centre. Capital expenditures in 2008 are anticipated to be in the \$3 million to \$5 million range with expenditures focused on the Company's new Edmonton Distribution Centre, computer system enhancements and expanding production service capability. In management's opinion, the Company's existing working capital position combined with available borrowing capacity under its bank operating loan facility and ongoing cash flow from operations, are sufficient to resource its anticipated contractual commitments. The Company anticipates its 364 day bank operating loan will be extended in 2008 in the normal course.

The Company's bank operating loan bears interest based on the floating Canadian bank prime rate on December 31, 2007 – 6.0%. Based on the Company's borrowings on its bank operating loan as at December 31, 2007, an increase or decrease of one percent in the Canadian bank prime rate would be expected to decrease or increase the Company's annual net income by \$0.3 million.

The Company purchases certain products priced in U.S. dollars and sells such products to its customers typically priced in Canadian dollars. As a result, fluctuations in the value of the Canadian dollar relative to the U.S. dollar can result in foreign exchange gains and losses. As at December 31, 2007, the Company had entered into a contract to purchase in 2008, U.S. \$2.0 million at a fixed exchange rate for the purpose of mitigating its foreign exchange exposure. The Company does not use financial instruments for speculative purposes.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related

disclosure of contingent assets and liabilities. The Company evaluates its estimates on an ongoing basis, based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

The Company believes the following describes the significant judgments and estimates used in the preparation of its consolidated financial statements.

### **Allowance for Doubtful Accounts**

The Company extends credit to customers and other parties in the normal course of business. Management regularly reviews outstanding accounts receivable and provides for estimated losses through an allowance for doubtful accounts. In evaluating the level of the established allowance, management makes judgments regarding a party's ability to make required payments, economic events and other factors. As the financial condition of a party's changes, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

### **Inventory Reserves**

The Company has made significant investments in inventory to service its customers. On a routine basis, the Company uses judgments in determining the level of write-downs required to record inventory at the lower of average cost or market. Management's estimates are primarily influenced by technological innovations, market activity levels and the physical condition of products. Changes in these or other factors may result in a write-down in the carrying value of inventory.

### **Goodwill**

The Company has acquired certain operations which have resulted in the recording of a significant amount of goodwill on the balance sheet. In accordance with Canadian GAAP, the Company is required to perform an annual goodwill impairment evaluation, which is largely influenced by future cash flow projections, earnings and cash flow multiples. Estimating future cash flows of the Company's operations, earnings and cash flow multiples requires management to make judgments about future operating results and working capital requirements. Changes in cash flow assumptions and other factors that negatively impact the fair value of operations to which goodwill relates, would influence the evaluation and may result in the determination that a portion of the goodwill is impaired.

### **Future Tax Assets and Liabilities**

Future tax assets and liabilities are recognized for differences between the book value and tax value of the net assets of the Company. In providing for future taxes, management considers current tax regulations, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax planning strategies vary, adjustments to the carrying value of future tax assets and liabilities may be required. See Note 6 to the consolidated financial statements for the significant components of the future income tax assets and liabilities, and a reconciliation of the Company's income tax provision.

## **RISK FACTORS**

*In addition to the information set forth elsewhere in this MD&A, the following factors should be carefully considered when evaluating CE Franklin.*

**Fluctuations in the overall profitability of the oil and gas industry can affect the demand for CE Franklin's products and services and, therefore, CE Franklin's sales, cash flows and profitability.** CE Franklin's operations are materially dependent upon the level of activity in oil and gas exploration, development and production. Both short-term and long-term trends in oil and gas prices affect the level of such activity. Oil and gas prices and, therefore, the level of drilling, exploration and production activity can influence price fluctuations and the overall profitability of the oil and gas industry include:

- relatively minor changes in, or threats to, the worldwide supply of and demand for oil and natural gas;
- the ability of the members of the Organization of Petroleum Exporting Countries ("OPEC") to maintain price stability through voluntary production limits;

- the level of production by non-OPEC countries;
- North American demand for gas;
- the movement of the Canadian dollar relative to its U.S. counterpart (crude oil and natural gas exports are generally traded in U.S. dollars);
- general economic and political conditions in North America and worldwide; and
- the presence or absence of drilling incentives such as Canadian provincial royalty holidays, availability of new leases and concessions and government regulations regarding, among other things, export controls, environmental protection, changes in royalty rates, taxation, price controls and product allocation.

CE Franklin believes that any prolonged reduction in oil and gas prices or other factors that may impact the profitability of the oil and gas industry, would depress the level of exploration and production activity. This would likely result in a corresponding decline in the demand for CE Franklin's products and services and could have a material adverse effect on CE Franklin's sales, cash flows and profitability. There can be no assurance as to the future level of demand for CE Franklin's products and services or future conditions in the oil and gas and oilfield supply industries.

**Unusual weather conditions could decrease the demand for CE Franklin's products and services.**

CE Franklin's financial performance is tied closely to the seasonality of drilling activity. Higher drilling activity in Canada is generally experienced in the winter months. In the spring and early summer, drilling activity slows due to the difficulty in moving equipment during the spring thaws. To the extent that unseasonable weather conditions such as excessive rain or unusually warm winters affect the ability of CE Franklin's customers to access their oil and gas sites, then the demand for CE Franklin's products and services would temporarily decrease and the Company's sales, cash flows and profitability would be adversely affected.

**CE Franklin operates in a highly competitive industry, which may adversely affect CE Franklin's sales, cash flows and profitability.** The Canadian oilfield supply industry in which CE Franklin operates is very competitive. The Company believes that its future profitability is partially influenced by competitive factors beyond its control, including:

- the ability of some customers to purchase pipe, valves, flanges, fittings, production equipment, tubular products and other general oilfield supplies directly from the manufacturer rather than from the Company;
- the ability of new brokers and distributors to enter the market if the oil and gas industry were to experience significant growth;
- price competition among major supply companies;
- cost of goods being subject to rising or declining commodity prices, such as the price of steel, and the inability of CE Franklin to pass these price increases on to customers, or the risk CE Franklin may have higher-cost inventory during declining commodity prices resulting in a deterioration in gross profit margins.

CE Franklin and its largest competitors generally operate at low profit margins due to price competition. Price competition is due in part to customer price pressure, in addition to the major supply companies competing for the same business.

**The loss of CE Franklin's major suppliers could adversely affect the Company's sales and gross profit.** A portion of CE Franklin's business are sales where product is primarily obtained from two suppliers. Although the Company believes that it has historically had and continues to have a good relationship with these suppliers, there can be no assurance that such relationships will continue. In the event the Company is unable to source products from its existing suppliers, then CE Franklin would need to search for alternate suppliers of these goods. There can be no assurance that suitable alternate suppliers for such goods would be found.

**Labour shortages could adversely affect the Company's ability to service its customers.** The Company faces the challenge of attracting and retaining workers to meet any increase in demand for its products and services. In a highly competitive market for employees, the Company may experience

periods of high employee turnover that could result in higher training costs or reduced levels of service to customers. The Company may also experience wage inflation. These could result in increased costs or the loss of customers and market share.

**During periods of high demand for products and services, the Company may experience product shortages.** The frequency and duration of the shortages may impact the financial performance of the Company. Product shortages may impact profit margins or could result in the loss of customers.

**The Company may experience a financial loss if inventory becomes obsolete or otherwise unsaleable.** The rate of product technical innovation and the company's ability to return unsaleable inventory to suppliers may impact financial performance.

**The majority of the Company's sales are generated from customers in the energy sector.** This includes major multinational and independent oil companies, pipeline companies and contract drilling companies operating in Canada. In addition, for the year ended December 31, 2007 11% of sales (2006 – 11%; 2005 – 11%) were derived from sales to one customer.

**The Company may experience a financial loss if its significant customers fail to pay CE Franklin for its products or services.** The Company's ability to collect the proceeds from the sale of its products and services from its customers depends on the payment ability of its customer base.

**Significant downtime at the Company's centralized distribution centre located in Edmonton, Alberta could materially impact net income and cash flow from operations.** The Company operates a hub and spoke distribution model with the distribution centre strategically located within reasonable proximity to a majority of its vendors. In addition, the distribution centre acts as a hub for its 44 branches. Significant downtime at this facility could impact the Company's gross profit margins net income and cash flow from operations.

**A substantial portion of the Company's sales to customers depend on written contracts that are cancelable at any time, or are based on verbal agreements.** The key factors which will determine whether a customer will continue to use the Company are pricing, service quality and availability, strategically located service centers and technical knowledge and experience. There can be no assurance that the Company's relationships with its customers will continue, and a significant reduction or total loss of business from these customers, if not offset by increased sales to new or existing customers, could have a material adverse effect on the Company's net income or cash flow from operations.

**If the Company is unable to successfully address potential material weakness in its internal controls, or any other control deficiencies, its ability to report its financial results on a timely and accurate basis and to comply with disclosure and other requirements may be adversely affected.** The Company has complied with Section 404 of the Sarbanes-Oxley Act of 2002, and is therefore required to make an assessment of the effectiveness of its internal controls over financial reporting for that purpose. A material weakness is defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

CE Franklin will continue to monitor the effectiveness of these and other processes, procedures and controls and will make any further changes management determines appropriate, including to effect compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The steps CE Franklin has taken and will take in the future may not remediate any potential material weakness. In addition, the Company may identify material weaknesses or other deficiencies in our internal controls in the future.

Any material weaknesses or other deficiencies in the Company's control systems may affect its ability to comply with reporting requirements and stock exchange listing standards or cause its financial statements to contain material misstatements, which could negatively affect the market price and trading liquidity of its common stock, cause investors to lose confidence in the Company's reported financial information, as well as subject CE Franklin to civil or criminal investigations and penalties.

**The Company's major shareholder may influence the Company's affairs.** The Company's share ownership is highly concentrated and, as a result, CE Franklin's principal shareholder effectively controls the Company's business. As at the date of this Form 20-F, CE Franklin's largest shareholder, Smith International Inc., owned approximately 53% of the Company's common shares outstanding. As a result,

Smith International Inc. has the voting power to significantly influence the Company's policies, business and affairs and the outcome of any corporate transaction or other matter, including mergers, consolidations and the sale of all, or substantially all, of the Company's assets.

In addition, the concentration of the Company's ownership may have the effect of delaying; deterring or preventing a change in control that otherwise could result in a premium in the price of the Company's common shares.

### **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;
- 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.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

Under revised CICA section 1506, "Accounting Changes" and the Securities and Exchange Commissions (SEC) Staff Bulletin No. 74 (SAB 74), the Company is required to disclose certain information related to recently issued accounting standards. This guidance requires that when a new accounting standard has been issued but has not yet been adopted, the Company should discuss the effect that the new standard will have on the Company's financial statements when adopted.

#### **Canadian GAAP pronouncements**

##### **(i) Financial Instruments (CICA 1530, 3855, 3861, 3865)**

Effective January 1, 2007, the Company adopted Section 1530 - Comprehensive Income, Section 3855 - Financial Instrument Recognition and Measurement, Section 3861 - Financial Instruments Disclosure and Presentation, and Section 3865 - Hedges of the Canadian Institute of Chartered Accountants Handbook in accordance with the transitional provisions in each respective section.

The adoption of Sections 1530, 3855 and 3861 did not have a material impact on the financial statements of the Company and did not result in any adjustments for the recognition, de-recognition or measurement of financial instruments as compared to the financial statements for periods prior to the adoption of these sections. In addition, since the Company currently does not utilize hedge accounting, the adoption of Section 3865 currently has no material impact on the financial statements of the Company.

**(ii) CICA 1506 – Accounting Changes**

Effective January 1, 2007, the Company adopted revised CICA section 1506, “Accounting Changes.” The amendments in the revised standard indicate that voluntary changes in accounting policy are only permitted if they result in financial statements that provide more reliable and relevant information. When a change in accounting policy is made, this change is applied retrospectively unless impractical. Changes in accounting estimates are generally applied prospectively and material prior period errors are corrected retrospectively. This section also outlines additional disclosure requirements when accounting changes are applied including justification for voluntary changes, complete description of the policy, primary source of GAAP and detailed effect on financial statement line items.

**(iii) CICA 1535 – Capital disclosures**

This new section establishes standards for disclosing information regarding an entity’s capital and how it is managed. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The company believes that this section will lead to additional disclosure in the annual financial statements.

**(iv) CICA 3031 – Inventories**

This section replaces CICA Section 3030 and applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, requiring inventories to be measured at the lower of cost and net realizable value. The Company does not expect the adoption of this section to have a material impact on their operations or financial position.

**(v) CICA 3862 – Financial Instruments - Disclosure and CICA 3863 – Financial Instruments - Presentation**

Both sections establish new levels of disclosure required for financial instruments in the financial statements. The section is effective for annual periods beginning on/after October 1, 2007.

**US GAAP pronouncements**

**(i) FAS 141(A) – Business Combinations**

This statement sets out to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is in the process of evaluating the impact of this statement.

**(ii) FAS 157 – Fair Value Measurements**

This statement defines fair value and establishes a framework for measuring fair value for GAAP purposes, while also expanding disclosures about fair value measurements. The statement will also apply to previous accounting pronouncements that require or permit fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007. The company is in the process of evaluating the impact of this statement.

**(iii) FAS 159 – The fair Value option for financial assets and financial liabilities**

The statement allows for the elective measurement of eligible financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings without having to apply complex and detailed hedge accounting rules. This statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the provisions of Statement 159 and have not yet determined the impact this statement will have on our results from operations or financial position.

### **Controls and Procedures**

CE Franklin's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 20-F, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that material information relating to CE Franklin was made known to them by others within the company.

*Report of CE Franklin Management on Internal Control Over Financial Reporting:* CE Franklin's Board of Directors and management are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements.

All internal control systems no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment management has concluded that, as of December 31, 2007, CE Franklin's internal control over financial reporting is effective based on those criteria.

See report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, included under "Item 18. Financial Statements" on page 46.

There were no changes to our internal control over financial reporting that occurred during the period covered by this MD&A that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **OTHER ITEMS**

Additional information relating to the Company, including its Form 20-F, 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).

#### **C. Research and Development, Patents and Licenses, etc.**

Not applicable.

#### **D. Trend Information**

See Item 4B and Item 5A.

#### **E. Off-balance Sheet Arrangements**

The Company has not engaged in off-balance sheet financing arrangements through special purpose entities.

#### **F. Tabular Disclosure of Contractual Obligations**

Information for this item is set forth under the "Contractual Obligations" caption in the Company's "Management Discussion and Analysis", Item 5 set forth in this Form 20-F.

## G. Safe Harbor

### Forward Looking Statements

Information for this item is set forth following the caption "Forward Looking Statements" in the Company's Management Discussion and Analysis" Item 5 set forth in the Form 20-F.

#### Item 6: Directors, Senior Management and Employees

##### (i) Directors and Senior Management

The following table sets forth certain information about our directors and leadership team, as of January 25, 2008

<u>Name and Municipality of Residence</u>	<u>Age</u>	<u>Position with CE Franklin Ltd.</u>
Michael S. West Calgary, Alberta	45	Chairman, President and Chief Executive Officer and Director
W. Mark Schweitzer Calgary, Alberta	46	VP and Chief Financial Officer
James E. Baumgartner Edmonton, Alberta	53	Vice President, Commercial Strategies
Maurice (Ron) Brown Calgary, Alberta	56	Vice President, Sales
Brent W. Greenwood Calgary, Alberta	53	Vice President, Marketing and Supply
Ronald L. Koper Calgary, Alberta	49	Vice President, Business Effectiveness
Timothy M. Ritchie Calgary, Alberta	37	Vice President, Strategic Initiatives
Roderick H. Tatham Calgary, Alberta	49	Vice President, Operations
David A. Dyck <sup>(1)(2)(3)</sup> Calgary, Alberta	46	Director
Michael J.C. Hogan <sup>(1)(4)</sup> Calgary, Alberta	51	Director
John J. Kennedy <sup>(4)</sup> Houston, Texas	55	Director
Robert McClinton <sup>(1)(3)(4)</sup> Calgary, Alberta	57	Director
Douglas L. Rock <sup>(1)(2)</sup> Houston, Texas	61	Director
Victor Stobbe <sup>(2)(3)</sup> DeWinton, Alberta	66	Director

#### Notes:

- 1) Member of Corporate Governance and Nominating Committee.
- 2) Member of Compensation Committee.
- 3) Member of Audit Committee.
- 4) Member of Environment, Health & Safety Committee.

The directors are elected annually at the Company's annual general meeting. The 2008 annual general meeting will be held on April 24, 2008. The following is a summary of the background of each director and member of the Company's leadership team.

**Michael S. West**

Mr. West is Chairman, President and Chief Executive Officer of CE Franklin Ltd. He was appointed President and Chief Executive Officer and to CE Franklin's Board of Directors in January 2002 and was appointed Chairman in December 2003. Mr. West has held executive positions in the oilfield supply and distribution business for 11 years. Prior to joining the oil and gas sector in 1996, he worked for 11 years in various capacities in the automotive aftermarkets industry.

**W. Mark Schweitzer**

Mr. Schweitzer is Vice President and Chief Financial Officer of CE Franklin Ltd and was appointed in August 2007. Prior to joining CE Franklin, Mr. Schweitzer was the Executive Vice President and Chief Financial Officer of a large diversified business income fund and has extensive financial experience in oil and gas, mining and other industry sectors.

**James E. Baumgartner**

Mr. Baumgartner is Vice President, Commercial Strategies and has been with the Company since 2001. Prior to joining CE Franklin, Mr. Baumgartner was the General Manager for a competitor in the oilfield and industrial project supply distribution business. He has over 26 years experience in distribution of pipe, valves and fittings to the energy industry in Canada as well as internationally.

**Maurice (Ron) Brown**

Mr. Brown is Vice President, Sales. He joined the CE Franklin in 2002 and has been in the oilfield supply, distribution and manufacturing sector for 27 years. Mr. Brown fulfilled responsibilities in Sales, Operations and Marketing. Prior to joining the oil and gas sector Mr. Brown spend eight years in the Royal Canadian Mounted Police in British Columbia.

**Brent W. Greenwood**

Mr. Greenwood is Vice President, Marketing and Supply. He started his career with Franklin Supply in 1980 and has held various positions with the Company over the past 25 years. Mr. Greenwood graduated from the University of Saskatchewan with a Masters of Arts in History and from the University of Calgary in 1999 with a Masters of Business Administration (MBA).

**Ronald L. Koper**

Mr. Koper is Vice President, Business Effectiveness and joined the Company in 2000. He has worked with a variety of large and mid-sized corporations in the human resources and organizational development profession. Mr. Koper graduated from the University of Calgary in 1984 with a Bachelor of Commerce degree.

**Timothy M. Ritchie**

Mr. Ritchie is Vice President, Strategic Initiatives. He began his career with Franklin Supply in the field over 14 years ago and has progressively taken on roles that are more senior for the Company. Mr. Ritchie graduated from the University of Lethbridge with a Bachelor of Arts in 1993 and in 2000 earned his Masters of Business Administration from the University of Calgary.

**Roderick H. Tatham**

Mr. Tatham is Vice President, Operations. He is responsible and accountable for overall operational performance. Prior to joining CE Franklin in May 2002, he worked in various management capacities including Business Process & Design, Quality, Branch Management and Materials Management.

**David A. Dyck**

Mr. Dyck was appointed to the Board in May 2004. Mr. Dyck, a resident of Calgary, is President and CEO of LeaRidge Capital Inc., a company providing financial advisory services to corporations including investor relations strategies, structuring and executing of corporate bank facilities, fixed income financings and equity financings. Prior to establishing LeaRidge Capital, Mr. Dyck was the Senior Vice President, Finance and Chief Financial Officer for Western Oil Sands Inc., a position he held from 2000 to 2007. Mr. Dyck previously spent 12 years with Summit Resources Limited, where he held various roles including Senior Vice President, Finance and Administration and Chief Financial Officer. He is a member of the Alberta and Canadian Institutes of Chartered Accountants, the Financial Executives Institute and is a Mentor with the Haskayne School of Business in Calgary.

**Michael J.C. Hogan**

Mr. Hogan, a Professional Engineer, was appointed to the Board in May 2006. A 29 year veteran of the electric power industry, Mr. Hogan is President and Chief Executive Officer of Enact Power Ltd., providing business development support to companies pursuing major electric power investments in Canada and internationally. From 1995 to 1998, Mr. Hogan was President and Chief Executive Officer of SaskPower Commercial Inc., the international development arm of SaskPower. Mr. Hogan is also a member of the L'Arche Calgary Board of Directors, an organization that provides homes and meaningful work for the mentally disabled. He is a member of the Institute of Corporate Directors.

**John J. Kennedy**

Mr. Kennedy was appointed to the Board of Directors of CE Franklin in May 1999. He is currently President and Chief Executive Officer of Wilson, the distribution unit of Smith. Previously, Mr. Kennedy was Senior Vice President and Chief Financial Officer of Smith. Mr. Kennedy has worked in the energy industry for over 28 years in various executive and management positions. Mr. Kennedy is a member of several professional bodies in both the United Kingdom and United States, including the Energy Institute, the Association of Corporate Treasurers and is a member of the board of directors of the Petroleum Equipment Supplier Association.

**Robert McClinton**

Mr. McClinton was elected to the Board in May 2006. Mr. McClinton has been CFO of CEP International Petroleum Ltd, a private company, since September 2007. Mr. McClinton was a major shareholder and President of BMP Energy Systems from 1992 to 2005, when the company was sold to a public company. During the ten years prior to joining BMP, Mr. McClinton served as a director and senior financial officer of Canadian Turbo Inc. Mr. McClinton began his career in 1969 with Deloitte & Touche in Northern Ireland, where he obtained his Chartered Accountant designation before immigrating to Canada in 1974. He is a member of the Alberta and Canadian Institutes of Chartered Accountants, Financial Executives International and the Board of Calgary HandiBus Association.

**Douglas L. Rock**

Mr. Rock has been a Director of CE Franklin since 1999. He began his career with Smith in 1974 and since then has held numerous positions. He has been Chairman and Chief Executive Officer of Smith since 1991.

**Victor J. Stobbe**

Mr. Stobbe has been a Director of CE Franklin since May 2003. Mr. Stobbe is the Vice President, Corporate Affairs, formerly Chief Financial Officer of Wave Energy Ltd., a private oil and gas company, and a Director of Trican Well Service Ltd. where he serves as Chairman of the Audit Committee. Formerly he was President of American Leduc Petroleum Ltd. from October 1997 to October 2003. Mr. Stobbe, a chartered accountant, has served as a senior officer and/or a director of a number of public companies

## B. Compensation

The following table sets forth the compensation paid by the Corporation to the Chairman, President and Chief Executive Officer and the Vice President and Chief Financial Officer and the three next most high compensated executive officers whose total salary and bonus exceeded \$150,000 in 2007 and who served in such capacities at December 31, 2007, (collectively, the "Named Executive Officers") for services rendered to the Corporation for the three years ended December 31, 2007.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus <sup>(1)</sup> (\$)	Other Annual Compensation <sup>(2)</sup> (\$)	Awards		Payouts	
					Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units (#)	LTIP Payouts (\$)	All Other Compensation <sup>(2)</sup> (\$)
Michael S. West Chairman,	2007	420,000	--	23,970	231,947	29,315	--	--
	2006	377,692	206,000	25,723	--	37,567	--	--
President and Chief Executive Officer	2005	350,000	426,740	23,827	52,405	--	--	--
Mark Schweitzer Vice President and Chief Financial Officer <sup>(3)</sup>	2007	115,385	--	5,942	181,915	8,727	--	--
	2006	--	--	--	--	--	--	--
	2005	--	--	--	--	--	--	--
Randy D. Henderson Vice President and Chief Financial Officer <sup>(4)</sup>	2007	14,769	--	1,329	--	--	--	240,000
	2006	140,308	81,000	15,413	--	11,869	--	--
	2005	--	--	--	--	--	--	--
James E. Baumgartner Vice President, Commercial Strategies	2007	210,000	--	20,071	38,652	4,886	--	--
	2006	196,346	108,000	19,417	--	13,353	--	--
	2005	160,000	226,860	17,288	26,203	--	--	--
Maurice (Ron) Brown Vice President, Sales	2007	196,000	--	23,169	34,789	4,397	--	--
	2006	188,796	108,000	20,640	--	10,386	--	--
	2005	182,735	100,000	14,415	24,019	--	--	--
Timothy M. Ritchie Vice President, Strategic Initiatives	2007	175,000	--	25,709	35,488	4,886	--	--
	2006	148,846	108,000	23,429	--	7,418	--	--
	2005	144,000	226,860	21,156	28,823	--	--	--

### Notes:

- (1) Bonus amounts are disclosed in the year in which they are earned, not in the year in which they were paid.
- (2) For 2007, amounts in these columns include \$9,600 for a car allowance, \$4,770 for parking and \$9,600 for contributions to a group RRSP plan for Mr. West; \$3,692 for a car allowance and \$2,250 for parking for Mr. Schweitzer; \$591 for a car allowance, \$738 for contributions to a group RRSP plan and \$240,000 severance pay for Mr. Henderson; \$9,600 for a car allowance and \$10,471 for contributions to a group RRSP plan for Mr. Baumgartner; \$9,600 for a car allowance, \$4,770 for parking and \$8,799 for contributions to a group RRSP for Mr. Brown; and \$9,600 for a car allowance, \$5,550 for parking and \$10,385 for contributions to a group RRSP plan for Mr. Ritchie.
- (3) Mr. Schweitzer joined the Company on August 13, 2007 as Vice President and Chief Financial Officer.
- (4) Mr. Henderson joined the Company on June 1, 2006 as Vice President and Chief Financial Officer and left the Company on January 22, 2007.

## Stock Options Granted During 2007

Name	Securities, Under Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in the Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security) <sup>(1)</sup>	Expiration Date
Michael S. West	41,991	6%	10.90	10.90	January 31, 2017
	189,956	29%	6.50	5.89	December 11, 2014
Mark Schweitzer	110,683	17%	10.30	10.30	August 13, 2017
	71,232	11%	6.50	5.89	December 11, 2014
James E. Baumgartner	6,996	1%	10.90	10.90	January 31, 2017
	31,656	5%	6.50	5.89	December 11, 2014
Maurice (Ron) Brown	6,297	1%	10.90	10.90	January 31, 2017
	28,492	4%	6.50	5.89	December 11, 2014
Timothy M. Ritchie	6,996	1%	10.90	10.90	January 31, 2017
	28,492	4%	6.50	5.89	December 11, 2014

The stock option grant on January 31, 2007 was for 2007 compensation and the grant on December 11, 2007 is for 2008 compensation. There will not be a grant in January 2008 to the Named Executive Officers.

<sup>(1)</sup> The "Market Value of Securities Underlying Options/SARs on the Date of Grant" is the closing price (exercise price) on the date of grant.

## Aggregate Option Exercises During 2007 and Option Values at December 31, 2007

The following table sets forth information in respect of the aggregate stock options exercised by the Named Executive Officers during 2007 and the value of unexercised, in-the-money options as at December 31, 2007. The actual value of the unexercised in-the-money options will be determined by the market price of the Corporation's Common Shares on the date such options may be exercised by any of the Named Executive Officers. There is no assurance that the values of such in-the-money options shown in this table will be realized.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at December 31, 2007		Value of Unexercised in-the-Money Options/SARs at December 31, 2007 <sup>(1)</sup>	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Michael S. West	51,045	399,279	11,648	237,771	22,248	13,023
Mark Schweitzer	--	--	--	181,915	--	712
James E. Baumgartner	--	--	111,239	47,386	346,312	16,999
Maurice (Ron) Brown	--	--	52,609	42,795	165,275	15,577
Timothy M. Ritchie	--	--	89,178	45,096	281,032	18,636

<sup>(1)</sup> The "Value of Unexercised In-The-Money Options at December 31, 2007" was calculated by determining the difference between the market value of the securities underlying the option at the end of the financial year and the exercise price of such options. At the end of the most recently completed financial year, the closing price of the Corporation's Common Shares on the Toronto Stock Exchange was \$6.51.

## Restricted Share Units Granted and Exercised During 2007

The Restricted Share Unit awards were determined by assessing the relative prior year performance of the Corporation against its market peers. For 2007, the Corporation's 2006 performance was assessed to have exceeded the 90<sup>th</sup> percentile compared to its peers on year over year revenue and earnings growth. The Restricted Share Units granted aligns total compensation earned to the 2006 performance level, as per Restricted Share Unit plan design objectives.

Name	Restricted Share Units Granted (#)	Performance or Other Period Until Maturity or Payout	Value of Restricted Share Units at December 31, 2007 (1)	Restricted Share Units Exercised (#)	Aggregate Value Realized (\$)
Michael S. West	29,315	January 31, 2010	190,841	-	-
Mark Schweitzer	8,727	August 13, 2010	56,813	-	-
Randy D. Henderson	-	-	-	3,956	42,527
James E. Baumgartner	4,886	January 31, 2010	31,808	-	-
Maurice (Ron) Brown	4,397	January 31, 2010	28,624	-	-
Timothy M. Ritchie	4,886	January 31, 2010	31,808	2,473	27,999

(1) The "Value of Restricted Share Units at December 31, 2007" was calculated by multiplying the number of RSU's granted by the closing price of the Corporation's Common Shares on the Toronto Stock Exchange on December 31, 2007 which was \$6.51. There are no specific performance targets associated with the maturation of the units.

## Compensation of Directors

Mr. West, President and Chief Executive Officer of the Corporation, does not receive any additional compensation for being a member and Chairman of the Board of Directors for the Corporation. In addition, Mr. Rock and Mr. Kennedy, as nominees of Smith, do not receive compensation for being members of the Board of Directors of the corporation.

During 2007, directors were compensated based on a retainer of \$30,000 each plus \$25,000 for Audit Committee Chair and \$15,000 for all other chair positions. Meeting fees of \$1,750 per meeting were paid for which they were in attendance.

Mr. Stobbe was paid \$66,000 and granted 7,629 restricted share units for a value of \$87,500, Mr. Dyck was paid \$88,750 and granted 5,231 restricted share units for a value of \$60,000, Mr. McClinton was paid \$83,500 and granted 5,231 restricted share units for a value of \$60,000 and Mr. Hogan was paid \$52,250 and granted 7,193 restricted share units for a value of \$82,500. Directors are also reimbursed for their expenses incurred in respect of each meeting of the directors or special service. No compensation was paid to any director of the Corporation for their services as consultants or experts to the Corporation.

## Employment Contracts

The Corporation has entered into employment contracts with the Chairman, President and Chief Executive Officer and the Vice President and Chief Financial Officer that provides for payment of 24 months, salary, benefits and bonus if employment is terminated for any reason, other than cause, or in the event of a change of control.

### C. Board practices

Directors are elected at each annual meeting to hold office for a term expiring at the close of the next annual meeting of shareholders. No specific term of office is applicable to executive officers; however, they are normally re-appointed annually. The last annual meeting was held May 2, 2007, and the next annual meeting is expected to be held on April 24, 2008.

<b>Number of Meetings Attended</b>						
<b>Name of Director</b>	<b>Board of Directors</b>	<b>Independent Board of Directors</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Corporate Governance and Nominating Committee</b>	<b>Environment, Health and Safety Committee</b>
Michael S. West	7 of 7	N/A	N/A	N/A	N/A	N/A
David A. Dyck	7 of 7	2 of 2	5 of 6	8 of 8	3 of 4	N/A
Michael J.C. Hogan	7 of 7	2 of 2	N/A	N/A	4 of 4	4 of 4
John J. Kennedy	7 of 7	1 of 2	N/A	N/A	N/A	4 of 4
Robert McClinton	7 of 7	2 of 2	5 of 6	N/A	4 of 4	4 of 4
Douglas L. Rock	1 of 7	0 of 2	N/A	3 of 8	1 of 4	N/A
Victor J. Stobbe	6 of 7	2 of 2	6 of 6	8 of 8	N/A	N/A

### Board Composition

The Board is composed of seven members, being a size considered appropriate by the Board, having regard to the Corporation's size and complexity. Under NP 58-201, a director is independent if he or she has no direct or indirect material relationship with the Corporation. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgement. In addition, certain individuals are deemed, for the purposes of NP 58-201, to have material relationships with the Corporation, including any individual who is, or has recently been an employee or executive officer of the Corporation, and an individual whose immediate family members is, or has recently been, an executive officer of the Corporation. Under this definition, the Board has four independent directors as defined under NP 58-201, David A. Dyck, Michael J.C. Hogan, Robert McClinton and Victor J. Stobbe, being a majority of the Board. Messrs. Michael S. West, Douglas L. Rock and John J. Kennedy are executive officers of the Corporation or Smith and are thus not independent as defined under NP 58-201.

To the extent necessary, and subject to the approval of the Board as a whole, any member of the Board is entitled to engage an outside advisor at the expense of the Corporation. Such outside advisor would be available in the event that a director or executive has a material interest in a transaction or agreement under consideration. The Corporation is controlled by Smith, which, as of January 28, 2008, owned 53% of the outstanding Common Shares of the Corporation.

As of January 28, 2008, approximately 47% of the outstanding Common Shares are held by shareholders other than the Corporation's significant shareholder and its affiliates. The four independent directors do not have any interests in or relationships with the significant shareholder or its affiliates. Victor J. Stobbe and Douglas L. Rock and Robert McClinton are also directors of reporting issuers other than the Corporation as set forth below:

<b><u>Name</u></b>	<b><u>Reporting Issuer</u></b>
Douglas L. Rock	<u>MoneyGram International, Inc.</u> Smith International, Inc.
Victor J. Stobbe	Trican Well Service Ltd.
Robert McClinton	CriticalControl Solutions Corp.

### **Board Committees**

The Board has established four committees: the Audit Committee; the Compensation Committee; the Corporate Governance and Nominating Committee; and the Environment, Health and Safety Committee. The Corporation does not have an Executive Committee and utilizes in its place ad hoc committees on an as required basis. The Board has not developed written position descriptions for the chair of each board committee. The Board delineates its roles and responsibilities through the mandate of each committee and through annual evaluations of the Board and each of its committees.

The following is a brief description of the mandate and composition of each Committee.

#### **Audit Committee**

The Audit Committee is composed entirely of independent directors - David A. Dyck, Robert McClinton and Victor J. Stobbe. The Audit Committee is responsible for, among other matters, reviewing the Corporation's financial reporting process (including reviewing annual and quarterly financial statements) and enquiring as to the adequacy of internal controls. Although it is management's responsibility to design and implement an effective internal control system, the Audit Committee ensures that management has properly done so. The Audit Committee is also responsible for reviewing the performance of external auditors. The Audit Committee has direct communication channels with the Corporation's external auditors and meets with them on a regular basis without management of CE Franklin present. The Audit Committee met six times during 2007.

#### **Compensation Committee**

The Compensation Committee is composed of two independent directors, being David A. Dyck and Victor J. Stobbe; and Douglas L. Rock, who is a representative of Smith. The Compensation Committee is responsible for, among other matters, formulating and making recommendations to the Board on compensation issues relating to the directors and senior management, including establishing the compensation philosophy and recommending compensation for the Chief Executive Officer and the leadership team. The Compensation Committee also approves the terms and granting of stock options to the leadership team and employees of the Corporation. The Compensation Committee met eight times during 2007.

#### **Corporate Governance and Nominating Committee**

The Corporate Governance and Nominating Committee is comprised of three independent directors, being David A. Dyck, Michael J.C. Hogan and Robert McClinton and Douglas L. Rock who is a representative of Smith. The Corporate Governance and Nominating Committee is responsible for, among other matters: monitoring and managing the corporate governance process of the Board, including recommending the number of directors to be elected; recommending nominees, including candidates to fill vacancies; reviewing the performance and effectiveness of the Board and each member of the Board, and reviewing the performance of the Chief Executive Officer. The Corporate Governance and Nominating Committee assesses the suitability of potential candidates by way of a selection assessment that includes a wide array of factors deemed appropriate all in the context of the perceived needs of the Board and the Corporation at the time. The Corporation provides formal education programs for new directors and provides such orientation and information as individual directors may request on an ongoing basis. The Corporate Governance and Nominating Committee met four times during 2007.

#### **Environment, Health and Safety Committee**

The Environment, Health and Safety Committee is comprised of two independent directors, being Michael J.C. Hogan, Robert McClinton and John J. Kennedy, who is a representative of Smith. The Environment,

Health and Safety Committee is responsible for, among other matters, monitoring the management of the Corporation's environmental, health and safety risks, liabilities, policies, practices and procedures. The Environment, Health and Safety Committee met four times during 2007.

### **Code of Business Conduct**

All of our officers, employees and directors are required to comply with our Code of Business Conduct (the "Code") to help ensure that our business is conducted in accordance with the highest standards of ethical behaviour. Our Code covers all areas of professional conduct, including customer relationships, conflicts of interest, insider trading, financial disclosure, intellectual property and confidential information, as well as requiring strict adherence to all laws and regulations applicable to our business. Employees may report any violations or suspected violations of the Code by using CE Franklin's hotline. The Code includes an anti-retaliation statement. The full text of the Code is published on our website at [www.cefranklin.com](http://www.cefranklin.com). No waiver of a provision of the Code has been granted to any senior officer or director since its adoption.

### **Expectation of Management**

The Board relies on management to provide the information that the Board requires to properly perform its duties and expects management to keep it apprised of matters affecting the Corporation, significant risks and opportunities available to the Corporation. The Board has developed a written position description for the Chairman and Chief Executive Officer. Due to the relatively small size of the Board and of the Corporation, the effectiveness of management generally and of the Chief Executive Officer specifically can be determined on a more informal basis.

### **Shareholder Feedback**

The Corporation has one employee, Cheryl Bourget, Executive Assistant, with designated responsibility for investor relations. Every shareholder enquiry receives a prompt response and significant shareholder concerns are reported to management and, where appropriate, the Board.

Information for this item is set forth following the caption "Executive Compensation" in the Company's Information Circular.

#### **D. Employees**

<b>Year</b>	<b>Number of Employees as at December 31,</b>	<b>% in Field</b>	<b>% in Head Office</b>
<b>2007</b>	<b>440</b>	<b>85%</b>	<b>15%</b>
2006	427	81%	19%
2005	383	80%	20%

As of December 31, 2007, the Company had 440 employees, including part-time and hourly. The Company does not anticipate any material changes in its employee structure. CE Franklin's personnel are not unionized, and there is very little union activity in the Canadian oilfield supply industry. The Company does not employ a significant number of temporary employees.

## E. Share ownership

The following table sets forth the share ownership of the Company's Named Executive Officers as of January 28, 2008

	Common Shares Owned		Option Awards			Stock Awards	
	Common Shares Owned Directly or Indirectly	% of Total Outstanding Common Shares	Securities Under Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Restricted Share Units (#)	Restricted Share Unit Expiration
Michael S. West	-	-	17,472	\$ 4.60	1/11/2015	37,567	1/1/2009
			41,991	\$ 10.90	1/31/2017	29,315	1/31/2010
			189,956	\$ 6.50	12/11/2014	-	
			<u>249,419</u>			<u>66,882</u>	
Mark Schweitzer	50,000	0.3%	110,683	\$ 10.30	8/31/2017	8,727	8/13/2010
			71,232	\$ 6.50	12/11/2014	-	
			<u>181,915</u>			<u>8,727</u>	
James E. Baumgartner	615	0.0%	27,609	\$ 3.50	1/1/2012	-	
			28,139	\$ 3.49	12/13/2012	-	
			38,022	\$ 2.70	12/12/2013	-	
			26,203	\$ 4.60	1/11/2015	13,353	1/1/2009
			6,996	\$ 10.90	1/31/2017	4,886	1/31/2010
			31,656	\$ 6.50	12/11/2014	-	
			<u>158,625</u>			<u>18,239</u>	
Maurice (Ron) Brown	-	-	6,000	\$ 3.49	12/13/2012	-	
			30,596	\$ 2.70	12/12/2013	-	
			24,019	\$ 4.60	1/11/2015	10,386	1/1/2009
			6,297	\$ 10.90	1/31/2017	4,397	1/31/2010
			28,492	\$ 6.50	12/11/2014	-	
			<u>95,404</u>			<u>14,783</u>	
Timothy M. Ritchie	400	0.0%	28,139	\$ 3.49	12/13/2012	-	
			41,824	\$ 2.70	12/12/2013	-	
			28,823	\$ 4.60	1/11/2015	4,945	1/1/2009
			6,996	\$ 10.90	1/31/2017	4,886	1/31/2010
			28,492	\$ 6.50	12/11/2014	-	
			<u>134,274</u>			<u>9,831</u>	

### Item 7: Major Shareholders and Related Party Transactions

#### A. Major shareholders

The following table sets forth information, as of January 28, 2008, detailing the ownership of the Company's outstanding voting securities by any person known by the Company to own more than 5% of such voting securities:

Title of Class	Identity of Group	Amount Owned	Percent of Class
Common shares	Smith International	9,729,582 <sup>(1)</sup>	53.0
Common shares	Fidelity Management & Research Company	1,655,200 <sup>(2)</sup>	9.0
Common shares	Bear Stearns Asset Management Inc.	960,041 <sup>(3)</sup>	5.3

(1) Based on confirmation received from Smith.

(2) See Fidelity Management & Research Company Early Warning Report filing on SEDAR dated January 9, 2008.

(3) See Bear Stearns Asset Management Inc. SEC filing of SC 13G October 11, 2006.

At January 28, 2008, Smith held approximately 53% of the issued and outstanding shares of CE Franklin. Smith has, by virtue of holding over 50% of the outstanding common shares, the power to elect the board of directors of the Company; however, it has agreed that at least two independent directors will be elected. Smith has the same per share voting rights as other shareholders.

As of, January 28, 2008, the Company had 18,369,817 of common shares outstanding and 37 holders of record of the common shares, of whom 22 were located in the United States, one was located in Mexico and 14 were located in Canada.

#### **B. Related party transactions**

Information for this item is set forth in note 9 to the consolidated financial statements in item 18 of this Form 20-F.

#### **C. Interests of Experts and Counsel**

Not applicable.

### **Item 8: Financial Information**

CE Franklin's consolidated financial statements are stated in Canadian Dollars (Cdn. \$) and are prepared in accordance with Canadian GAAP with reconciliation to U.S. GAAP included under note 15 to the consolidated financial statements under Item 18. In this Form 20-F, unless otherwise specified, all amounts are expressed in Canadian dollars.

#### **A. Financial Statements and Other Financial Information**

The consolidated financial statements of CE Franklin as at and for the Years Ended December 31, 2007, 2006 and 2005, are audited by PricewaterhouseCoopers LLP and include the following:

- Management's Reports dated January 31, 2008
- An Auditors' Report dated January 31, 2008
- Balance Sheets as at December 31, 2007 and 2006
- Statements of Changes in Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005
- Statements of Operations for the years ended December 31, 2007, 2006 and 2005
- Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005
- Notes to the consolidated financial statements

See Part III, Item 18 for detailed information.

#### **Dividend Distributions**

The Company does not currently pay a dividend to shareholders.

#### **B. Significant Changes**

There have been no significant changes since December 31, 2007.

**Item 9: The Offer and Listing****A. Offer and Listing Details**

The following table sets forth the reporting of the high and low closing prices for the CE Franklin shares on the TSX and the AMEX for the periods indicated.

	<u>Toronto Stock Exchange (\$CDN)</u>		<u>American Stock Exchange (\$US)</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<b>2003</b>	3.10	2.61	2.36	1.98
<b>2004</b>	5.88	2.70	4.58	2.19
<b>2005</b>	18.33	4.58	15.25	3.75
<b>2006</b>	20.70	11.00	18.40	9.76
<b>2007</b>				
<b>First Quarter</b>	12.44	9.74	10.65	8.36
<b>Second Quarter</b>	13.57	10.71	12.78	9.31
<b>Third Quarter</b>	13.82	8.80	13.17	8.34
<b>Fourth Quarter</b>	11.61	5.80	11.68	5.76
<b>2007</b>				
<b>July</b>	13.82	10.98	13.17	10.49
<b>August</b>	10.45	8.80	9.72	8.35
<b>September</b>	10.89	8.90	11.30	8.34
<b>October</b>	11.61	9.30	11.68	9.75
<b>November</b>	9.94	7.05	10.77	7.04
<b>December</b>	7.00	5.80	6.89	5.76

On January 28, 2008, the closing price for the Company's common shares was Cdn. \$6.80 per share on the TSX and US \$6.85 per share on the AMEX.

**B. Plan of Distribution**

Not applicable.

**C. Markets**

The Company's common shares are traded on the Toronto Stock Exchange ("TSX") under the symbol "CFT" and also on the American Stock Exchange ("AMEX") under the symbol "CFK". The table above in Item 9A sets forth the range of high and low prices per share for the common shares on both the AMEX and TSX. The Company was initially listed on the AMEX on November 18, 1993, and subsequently began trading on the TSX on September 26, 1996.

**D. Selling shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the issue**

Not applicable.

**Item 10: Additional Information****A. Share capital**

Not applicable.

**B. Memorandum and articles of association**

See Item 4A for history and development of the Company.

The Articles of the Company place no restrictions on business the Company may carry on.

The Articles of the Company and By-Law No. 1 of the Company may be viewed at the Company's registered office, which is 3700, 400 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T2P 4H2.

### **Directors**

Directors need not hold shares in the Company to qualify and be appointed or elected as a director of the Company. The Articles of the Company provide that the minimum number of directors of the Company shall be one and the maximum number of directors of the Company shall be 15.

Pursuant to the Business Corporations Act (Alberta) ("ABCA"), the directors of the Company are required to disclose to the board of the directors of the Company any personal interest that they may have in any material contract prior to the approval of such contract and are required to abstain from voting as a director for the approval of such contract. A director's compensation must be approved by ordinary resolution of the board of directors and the directors are permitted to vote on their own compensation. Any new credit arrangements with lenders must be approved by ordinary resolution of the board of directors.

Every director of the Company is entitled to be indemnified out of the assets of the Company against all costs, charges and expenses, including any amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director of the Company.

### **Shareholders' Rights**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The holders of any common shares are entitled to dividends if, as and when declared by the directors, to one vote per share at meetings of the holders of common shares of the Company and, upon liquidation, to receive such assets of the Company as are distributable to the holders of the common shares.

Holders of the preferred shares are not entitled to vote except at meetings of the holders of preferred shares or as required by the ABCA. The holders of the preferred shares are entitled to dividends in priority to the holders of common shares. Upon liquidation, dissolution or winding up of the Company or other distribution of assets of the Company, holders of preferred shares shall be entitled to receive payments or distributions before any amount shall be paid or distributed to the holders of the common shares.

Amendments to the rights of the shareholders of the Company can only be effected by alteration of the Articles of the Company, which requires a special resolution of the shareholders of the Company. There are no limitations on the rights to own securities of the Company other than pursuant to the *Investment Canada Act* (Canada) described elsewhere in this Form 20-F.

### **Shareholder Meetings**

The requirements to hold meetings of the shareholders of Company are prescribed by the ABCA and By-Law No. 1 of the Company and the Articles of the Company. Shareholders meetings may be held at any place within the Province of Alberta or in Toronto, New York, Chicago or San Francisco. The time and place of shareholders meetings is determined by a resolution of the board of directors.

In certain circumstances, and subject to the provisions of the ABCA, shareholders may requisition a meeting of the shareholders without a resolution of the board of directors of the Company.

The calling of shareholder meetings is also subject to securities legislation in Canada, which prescribes the process by which the Company must send proxy materials to its shareholders. Under such securities legislation, proxy materials will generally be mailed to shareholders not less than 21 days before the date of the shareholders meeting.

The proxy materials relating to any shareholders meeting will include a notice of the meeting setting out the time and place of the meeting and the nature of the business to be transacted at the meeting, a form of proxy and management proxy circular containing, together with certain other prescribed information, sufficient description of the matters to be considered at the meeting such that the shareholder can form a reasoned judgment concerning such matters.

## **Change of Control**

Neither the Articles nor By-Laws of the Company restrict the transfer of shares. Therefore, any change of control of the Company or merger, acquisition or corporate restructuring involving the Company would only be subject to generally applicable laws.

### **C. Material contracts**

See note 4 "Bank Operating Loan" to the Company's December 31, 2007 consolidated financial statements included under Item 18 for a description of the Company's bank operating loan.

### **D. Exchange controls**

There are no Canadian laws that restrict the export or import of capital, including foreign exchange controls, or that affect the payment of dividends to non-resident holders, except as described in Item 10 E below. The acquisition of control of the Company by non-Canadians is subject to the *Investment Canada Act* (the "Act"). The Act provides, among other things, that any non-Canadian, as defined in the Act, proposing to acquire control of a Canadian business such as the Company through the direct or indirect acquisition of voting interests or the acquisition of all or substantially all the assets of the Canadian business, must give notice in the prescribed form to Investment Canada, an agency of the Canadian government, and may be required to obtain approval from Investment Canada prior to implementation of such acquisition. The term "non-Canadian" is defined in the Act to include an individual who is neither a citizen nor a permanent resident of Canada, a foreign government, or any corporation or other entity that is not Canadian-controlled.

The Act deems that the acquisition of a majority of the voting interests of the Company, or entity that controls the Company, by a non-Canadian constitutes acquisition of control of the Company. The acquisition of one-third or more (but less than a majority) of the voting interests of the Company, or entity that controls the Company, by a non-Canadian is presumed to be an acquisition of control of the Company unless it can be established that the acquirer(s) do(es) not in fact control the Company through the ownership of voting interests. The acquisition of less than one-third of the voting shares of the Company is deemed not to be an acquisition of control of the Company. If an acquisition is made in contravention of the Act, a court of competent jurisdiction may make any order it thinks fit including requiring the acquirer to divest its common shares of the Company.

Except as described above, statutes in Canada and the Province of Alberta and the charter documents of the Company do not restrict the right of non-resident or foreign owners to hold or vote common shares of the Company.

### **E. Taxation**

The following is a summary of certain Canadian federal income tax considerations, pursuant to the *Income Tax Act* (Canada) (the "Tax Act"), generally applicable to holders of common shares who, for purposes of the Tax Act, are not resident and are not deemed to be resident in Canada, do not carry on an insurance business in Canada, hold the common shares as capital property and do not use or hold, and are not deemed to use or hold, common shares in the course of carrying on a business in Canada ("Non-Resident Holders").

Non-Resident Holders will not be subject to Canadian federal income tax on dispositions of common shares unless such holder, together with non-arm's length persons, owned 25% or more of the shares of any class of capital stock of the Company at any time within the previous 5 years. Where the Non-Resident Holder, together with such non-arm's length persons, has held 25% or more of the shares of any class of capital stock of the Company in the previous 5 year period, such holder will be subject to Canadian income tax on such dispositions unless the applicable tax treaty (if any) between Canada and the country in which such holder resides provides that Canadian income tax is not applicable. The Canada-U.S. Income Tax Convention (1980) (the "Canada-US Treaty") provides that Canadian income tax will not be applicable on a disposition of common shares by a holder thereof who is resident in the United States for the purposes of the Canada-U.S. Treaty.

Dividends paid or credited, or deemed to be paid or credited, to Non-Resident Holders will be subject to Canadian withholding tax. The rate of Canadian withholding tax under the Tax Act is 25%, subject to any

reduction in the provisions of a tax treaty between Canada and the country in which the recipient is resident. The Canada-U.S. Treaty provides for a reduction in the rate of Canadian withholding tax to persons who are residents of the United States for the purpose of the Canada-U.S. Treaty. The withholding tax rate on dividends paid to such United States residents, who are beneficial owners of the dividends, is reduced to 15% by the provisions of the Canada-U.S. Treaty. The withholding rate is further reduced to 5% in the case of a recipient that is a United States corporation that beneficially owns at least 10% of the voting stock of the Canadian corporation.

**F. Dividends and paying agents**

Not applicable.

**G. Statements by experts**

Not applicable.

**H. Documents on display**

The articles of the Company and By-Law No. 1 of the Company and the other documents referred to in this Form 20-F may be viewed at the Company's registered office which is 3700, 400 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, Canada, T2P 4H2 and which have been filed on Sedar.

**I. Subsidiary Information**

Not applicable.

**Item 11: Quantitative and Qualitative Disclosures about Market Risk**

Information for this item is set forth under the "Contractual Obligations" caption in the Company's "Management Discussion and Analysis", Item 5 set forth in this Form 20-F.

**Item 12: Description of Securities Other than Equity Securities**

Not applicable.

**PART II**

**Item 13: Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

**Item 14: Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable.

**Item 15: Controls and Procedures**

Information for this item is set forth under the "Controls & Procedures", caption in the Company's "Management Discussion and Analysis", set forth in this Form 20-F.

**Item 16: Reserved**

**Item 16A: Audit Committee Financial Expert**

The Company's audit committee has three financial experts, Mr. David Dyck, Mr. Robert McClinton and Mr. Victor Stobbe. All three are considered independent directors.

**Item 16B: Code of Ethics**

The Company has adopted a formal written code of Business Conduct.

For a copy of the Code of Business Conduct please email [info@cefranklin.com](mailto:info@cefranklin.com) or visit [www.cefranklin.com](http://www.cefranklin.com).

**Item 16C: Principal Accountant Fees and Services**

The following table discloses accounting fees and services of the Company:

Year-Ended December 31,	<u>2007</u>	<u>2006</u>
	(thousands of Cdn. Dollars)	
Audit fees <sup>(1)</sup>	\$ 498	\$ 440
Audit related fees	-	-
Tax fees <sup>(2)</sup>	27	34
All other fees	-	-
	<u>\$ 525</u>	<u>\$ 474</u>

(1) Audit fees include professional services for the audit of financial statements and internal control over financial reporting, review of quarterly financial statements and annual filing documents. The Audit Committee pre approved 100% of these fees.

(2) Tax fees include professional services with respect to reviewing tax returns, tax advice and tax planning. The Audit Committee pre approved 100% of these fees.

The Company's audit committee policy states all auditing services and non-audit services provided to the Company by the Company's auditors shall, to the extent and in the manner required by applicable law or regulation, be pre-approved by the Audit Committee of the Company. In no circumstances, shall the Company's auditor provide any non-audit services that are prohibited by applicable law or regulation.

**Item 16D: Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E: Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**PART III****Item 17: Financial Statements**

See Item 18.

**Item 18: Financial Statements**

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a – 15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, the independent auditors, as stated in their report which appears on page 39 of this Form 20-F/Annual Report.

*"signed"*

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Michael West  
Chairman, President and  
Chief Executive Officer  
January 31, 2008

*"signed"*

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Mark Schweitzer  
Vice President and  
Chief Financial Officer  
January 31, 2008

## MANAGEMENT'S REPORT

The preparation and presentation of the accompanying consolidated financial statements are the responsibility of the management of the Company. The statements have been prepared in accordance with Canadian generally accepted accounting principles as described in note 1 to the consolidated financial statements. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management acknowledges responsibility for the integrity of its financial information. Where appropriate, management has made informed judgments and estimates in accounting for transactions, which were not complete at the balance sheet date. The Company maintains disclosure controls and procedures and internal controls designed to ensure that information required to be disclosed in the consolidated financial statements and annual report is recorded, processed, summarized and reported properly. CE Franklin's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures as at December 31, 2007 to ensure that such disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the evaluation date.

The Board of Directors has appointed an Audit Committee that consists of three directors who are not officers or employees of the Company and have no direct or indirect material relationship with the Company. The committee meets with management and the Company's external auditors to discuss internal control, accounting policies and financial reporting matters. The Audit Committee has reviewed the consolidated financial statements. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

*"signed"*

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Michael West  
Chairman, President and  
Chief Executive Officer  
January 31, 2008

*"signed"*

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Mark Schweitzer  
Vice President and  
Chief Financial Officer  
January 31, 2008

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of CE Franklin Ltd.

We have completed integrated audits of the consolidated financial statements and internal control over financial reporting of CE Franklin Ltd. (the "Company") as of December 31, 2007 and 2006 and an audit of its 2005 consolidated financial statements. Our opinions, based on our audits, are presented below.

### **Consolidated financial statements**

We have audited the accompanying consolidated balance sheets of CE Franklin Ltd. as at December 31, 2007 and December 31, 2006, and the related consolidated statements of operations, retained earnings and cash flows for each of the years in the three year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and December 31, 2006 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

### **Internal control over financial reporting**

We have also audited CE Franklin Ltd.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

"signed"  
PricewaterhouseCoopers LLP  
Chartered Accountants  
Calgary, Alberta  
January 31, 2008

**CE Franklin Ltd.**  
**Consolidated Balance Sheets**  
**As at December 31**

(in thousands of Canadian dollars)

	2007	2006
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	89,305	87,530
Inventories	86,414	97,275
Other	3,781	2,965
	<b>179,500</b>	<b>187,770</b>
<b>Property and equipment (note 3)</b>	<b>6,398</b>	<b>5,546</b>
<b>Goodwill</b>	<b>20,523</b>	<b>10,479</b>
<b>Future income taxes (note 6)</b>	<b>1,403</b>	<b>1,160</b>
<b>Other</b>	<b>891</b>	<b>454</b>
	<b>208,715</b>	<b>205,409</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank operating loan (note 4)	44,301	34,008
Accounts payable and accrued liabilities	44,807	66,744
Income taxes payable	-	819
Current portion of long term debt and obligations under capital lease (note 5)	805	517
	<b>89,913</b>	<b>102,088</b>
<b>Long term debt and obligations under capital lease (note 5)</b>	<b>582</b>	<b>846</b>
	<b>90,495</b>	<b>102,934</b>
<b>Commitments and contingencies (note 10)</b>		
<b>Shareholders' equity</b>		
Capital stock (note 7)	24,306	23,586
Contributed surplus	17,671	16,213
Retained earnings	76,243	62,676
	<b>118,220</b>	<b>102,475</b>
	<b>208,715</b>	<b>205,409</b>

See accompanying notes to these consolidated financial statements.

Approved by the Board:

"signed" Director  
 Victor Stobbe

"signed" Director  
 David Dyck

**CE Franklin Ltd.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the years ended December 31**

*(in thousands of Canadian dollars and number of shares)*

	<b>Capital Stock</b>		<b>Contributed Surplus</b>	<b>Retained Earnings</b>	<b>Shareholders' Equity</b>
	<b>Number of Shares</b>	<b>\$</b>			
<b>December 31, 2004</b>	17,195	19,335	13,858	20,873	54,066
Stock options exercised <i>(note 7)</i>	610	2,579	(129)	-	2,450
Stock based compensation expense <i>(note 7)</i>	-	-	552	-	552
Net income	-	-	-	18,864	18,864
<b>December 31, 2005</b>	17,805	21,914	14,281	39,737	75,932
Stock options exercised <i>(note 7)</i>	443	1,963	(300)	-	1,663
Stock based compensation expense <i>(note 7)</i>	-	-	2,232	-	2,232
Purchase of shares in trust for RSU Plans <i>(note 7)</i>	(25)	(291)	-	-	(291)
Net income	-	-	-	22,939	22,939
<b>December 31, 2006</b>	<b>18,223</b>	<b>23,586</b>	<b>16,213</b>	<b>62,676</b>	<b>102,475</b>
Stock options exercised <i>(note 7)</i>	177	838	(259)	-	579
Restricted share units (RSU) exercised	10	207	(207)	-	-
Stock based compensation expense <i>(note 7)</i>	-	-	1,924	-	1,924
Purchase of shares in trust for RSU Plans <i>(note 7)</i>	(40)	(325)	-	-	(325)
Net income	-	-	-	13,567	13,567
<b>December 31, 2007</b>	<b>18,370</b>	<b>24,306</b>	<b>17,671</b>	<b>76,243</b>	<b>118,220</b>

See accompanying notes to these consolidated financial statements.

**CE Franklin Ltd.**  
**Consolidated Statements of Operations**  
**For the years ended December 31**

<i>(in thousands of Canadian dollars except shares and per share amounts)</i>	<b>2007</b>	2006	2005
<b>Sales</b>	<b>466,275</b>	555,227	484,245
<b>Cost of sales</b>	<b>381,694</b>	451,733	392,931
<b>Gross profit</b>	<b>84,581</b>	103,494	91,314
<b>Other expenses</b>			
Selling, general and administrative expenses	<b>58,053</b>	63,287	55,303
Amortization	<b>2,795</b>	2,819	4,393
Interest expense	<b>2,031</b>	2,661	1,945
Foreign exchange loss and other	<b>837</b>	130	8
	<b>63,716</b>	68,897	61,649
<b>Income before income taxes</b>	<b>20,865</b>	34,597	29,665
<b>Income tax expense (recovery) (note 6)</b>			
Current	<b>7,541</b>	11,783	12,451
Future	<b>(243)</b>	(125)	(1,650)
	<b>7,298</b>	11,658	10,801
<b>Net and comprehensive income for the year</b>	<b>13,567</b>	22,939	18,864
<b>Net income per share</b>			
Basic	<b>0.74</b>	1.27	1.09
Diluted	<b>0.72</b>	1.22	1.01
<b>Weighted average number of shares outstanding (000's)</b>			
Basic	<b>18,337</b>	18,099	17,327
Diluted (Note 7(e))	<b>18,807</b>	18,724	18,680

See accompanying notes to these consolidated financial statements.

**CE Franklin Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31**

(in thousands of Canadian dollars)	2007	2006	2005
<b>Cash flows from operating activities</b>			
Net income	13,567	22,939	18,864
<b>Items not affecting cash</b>			
Amortization	2,795	2,819	4,393
Future income tax recovery	(243)	(125)	(1,650)
Stock based compensation expense	1,924	2,232	552
Other expense <i>(recovery)</i>	-	(36)	(9)
	<b>18,043</b>	<b>27,829</b>	<b>22,150</b>
Net change in non-cash working capital balances related to operations <i>(note 8)</i>	<b>(8,195)</b>	<b>(14,214)</b>	<b>(35,524)</b>
	<b>9,848</b>	<b>13,615</b>	<b>(13,374)</b>
<b>Cash flows from financing activities</b>			
Issuance of capital stock	579	1,663	2,450
Purchase of capital stock in trust for RSU Plans <i>(note 7)</i>	(325)	(291)	-
Increase (decrease) in bank operating loan	10,293	(9,144)	11,742
Decrease in long term debt and obligations under capital lease	(476)	(177)	(261)
	<b>10,071</b>	<b>(7,949)</b>	<b>13,931</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(1,956)	(3,053)	(557)
Business acquisitions <i>(note 2)</i>	(17,963)	(2,613)	-
	<b>(19,919)</b>	<b>(5,666)</b>	<b>(557)</b>
<b>Change in cash and cash equivalents during the year</b>	-	-	-
<b>Cash and cash equivalents – beginning of year</b>	-	-	-
<b>Cash and cash equivalents – end of year</b>	-	-	-
<b>Cash paid during the year</b>			
Interest on bank operating loan	1,999	2,632	1,899
Interest on obligations under capital lease	32	29	46
Income taxes	9,375	18,804	7,685

See accompanying notes to these consolidated financial statements.

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

#### 1. Accounting Policies

##### Generally accepted accounting principles

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis. These principles differ in certain respects from accounting principles generally accepted in the United States ("U.S."). The material differences that affect the Company's consolidated financial statements are described in note 15.

Certain comparative figures have been reclassified to conform to the current year's presentation.

##### Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of sales and expenses during the reporting periods.

Management believes the most significant estimates and assumptions are associated with the valuation of accounts receivable, inventories, future tax assets (liability), and goodwill. If the underlying estimates and assumptions, upon which the consolidated financial statements are based, change in future periods, actual amounts may differ from those included in the accompanying consolidated financial statements.

##### Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounting principles applied are consistent with those set out in the Company's annual consolidated financial statements for the year ended December 31, 2006 except as noted below. All significant transactions and balances between the Company and its subsidiaries have been eliminated on consolidation.

##### Change in accounting policy

Effective January 1, 2007, the Company adopted Section 1530 - Comprehensive Income, Section 3855 - Financial Instrument Recognition and Measurement, Section 3861 - Financial Instruments Disclosure and Presentation, and Section 3865 - Hedges of the Canadian Institute of Chartered Accountants Handbook in accordance with the transitional provisions in each respective section. The adoption of Sections 1530, 3855 and 3861 did not have a material impact on the financial statements of the Company and did not result in any adjustments for the recognition, de-recognition or measurement of financial instruments as compared to the financial statements for periods prior to the adoption of these sections. In addition, since the Company currently does not utilize hedge accounting, the adoption of Section 3865 currently has no material impact on the financial statements of the Company.

Effective January 1, 2007, the Company adopted revised CICA section 1506, "Accounting Changes." The amendments in the revised standard indicate that voluntary changes in accounting policy are only permitted if they result in financial statements that provide more reliable and relevant information. When a change in accounting policy is made, this change is applied retrospectively unless impractical. Changes in accounting estimates are generally applied prospectively and material prior period errors are corrected retrospectively. This section also outlines additional disclosure requirements when accounting changes are applied including justification for voluntary changes, complete description of the policy, primary source of GAAP and detailed effect on financial statement line items.

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

#### Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts to provide for receivables which may ultimately be uncollectible. Reserves are determined in light of a number of factors including customer specific conditions, economic events and the Company's historical loss experience. As at December 31, 2007 and 2006, the allowance for doubtful accounts was \$1.5 million and \$0.7 million, respectively.

#### Inventories

Inventories, consisting primarily of goods purchased and held for resale, are valued at the lower of average cost or net realizable value. As at December 31, 2007 and 2006, the Company had recorded a reserve for inventory obsolescence of \$1.8 million and \$1.4 million, respectively.

#### Property and equipment

Property and equipment are recorded at cost less related accumulated amortization. The Company provides for amortization of property and equipment using rates as follows:

Buildings	5% to 10%	straight line
Leasehold improvements	over the term of the lease	straight line
Computer equipment and software	15% to 33%	straight line
Equipment and machinery	10% to 100%	straight line
Furniture and office equipment	15% to 20%	straight line
Automotive equipment	30%	straight line

Assets held under capital lease are amortized by the straight-line method over the term of the lease or the estimated useful life of the assets; whichever is shorter.

#### Goodwill and other intangibles

Goodwill represents the excess of the cost over the fair value of net assets acquired related to an acquisition. In accordance with generally accepted accounting principles, goodwill is not amortized but is instead evaluated annually for a permanent impairment, or when events and circumstances indicate that there might be impairment.

Intangible assets are amortized on a straight line basis over the periods expected to be beneficial from the intangible asset. The intangible asset recorded under other assets in the balance sheet is comprised of a five year exclusive distribution agreement to sell certain products.

#### Revenue recognition

The Company's revenue, which is comprised of product sales, is generally subject to contractual arrangements, which specify price and general terms and conditions. The Company recognizes product sales when title and the related risk of loss transfers to its customers.

#### Vendor rebates

Vendor rebates consist of volume discount incentives earned from the purchase of selected products during the year from specified vendors. These discounts are based on contractual agreements with the vendors which outline price, volume and general terms and conditions. The Company recognizes vendor rebates as a reduction to cost of sales.

#### Stock options

The Company operates a stock option plan that is described in Note 7(b). As of January 1, 2003, the Company adopted prospectively, the fair value method of accounting for common share options

# **CE Franklin Ltd.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2007, 2006 and 2005**

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

granted. Under this method, the Company recognizes a compensation expense based on the fair value of the options on the date of grant which is determined by using the Black-Scholes options pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and contributed surplus. The contributed surplus balance is reduced as options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock.

#### **Other Stock-based Compensation**

Restricted share units ("RSU") and Deferred share units ("DSU") are granted which entitle the participant, at the Company's option, to receive either a common share or cash equivalent in exchange for a vested unit. The vesting period for RSU's is one third per year over the three year period from the grant date. There are no additional performance based conditions associated with the vesting of the units. 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, calculated using a 10 day weighted average stock price, 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 settled.

#### **Foreign currency translation**

Monetary assets and liabilities are translated into Canadian dollars at year-end exchange rates and gains or losses from translation are recognized in the Consolidated Statements of Operations. Sales and expenses are translated at the exchange rate prevailing on the date the transaction occurs.

#### **Derivative Instruments**

In the normal course of business, the Company enters into foreign currency forward exchange contracts with financial institutions to fix the value of liabilities or future commitments. These foreign currency exchange contracts are not designated as hedges for accounting purposes. The values of contracts are marked to market and the change in value is recognized in the Consolidated Statements of Operations.

#### **Income taxes**

The Company uses the liability method of accounting for income taxes under which future tax assets and liabilities are recognized when there are differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using substantively enacted tax rates in effect in the period in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date.

#### **Earnings per share**

Earnings per share are computed based on the weighted average basic number of shares outstanding for the period. Diluted earnings per share have been calculated using the treasury stock method, whereby diluted earnings per share are calculated as if options, RSU's and DSU's were exercised at the beginning of the year and funds received were used to purchase the Company's common shares on the open market at the average price for the year.

#### **Recent Accounting Pronouncements**

Under revised CICA section 1506, "Accounting Changes" and the Securities and Exchange Commissions (SEC) Staff Bulletin No. 74 (SAB 74), the Company is required to disclose certain information related to recently issued accounting standards. This guidance requires that when a new accounting standard has been issued but has not yet been adopted, the Company should discuss the effect that the new standard will have on the Company's financial statements when adopted.

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

#### Canadian GAAP pronouncements

##### (i) CICA 3031 – Inventories

This section replaces CICA Section 3030 and applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, requiring inventories to be measured at the lower of cost and net realizable value. The Company does not expect the adoption of this section to have a material impact on their operations or financial position.

##### (ii) CICA 1535 – Capital disclosures

This new section establishes standards for disclosing information regarding an entity's capital and how it is managed. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The company believes that this section will lead to additional disclosure in the annual financial statements.

##### (iii) CICA 3862 – Financial Instruments - Disclosure and CICA 3863 – Financial Instruments - Presentation

Both sections establish new levels of disclosure required for financial instruments in the financial statements. The section is effective for annual periods beginning on/after October 1, 2007.

#### US GAAP pronouncements

##### (i) FAS 141(A) – Business Combinations

This statement sets out to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is in the process of evaluating the impact of this statement.

##### (ii) FAS 157 – Fair Value Measurements

This statement defines fair value and establishes a framework for measuring fair value for GAAP purposes, while also expanding disclosures about fair value measurements. The statement will also apply to previous accounting pronouncements that require or permit fair value measurements. This statement is effective for fiscal years beginning after November 15, 2007. The company is in the process of evaluating the impact of this statement.

##### (iii) FAS 159 – The fair Value option for financial assets and financial liabilities

The statement allows for the elective measurement of eligible financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings without having to apply complex and detailed hedge accounting rules. This statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the provisions of Statement 159 and have not yet determined the impact this statement will have on our results from operations or financial position.

## 2. Business Acquisitions

On December 3, 2007, the Company acquired the outstanding shares of JEN Supply Ltd. ("JEN Supply"), an oilfield equipment distributor operating in east-central Alberta, for total consideration of \$12.639 million of which \$12.0 million was paid in cash, subject to post closing adjustments. The remaining deferred consideration of \$0.5 million is repayable in five years and bears interest at the bank prime rate. Additional consideration of up to \$2.5 million is contingently payable over a two year period to the extent that revenues from existing JEN Supply customers exceed specified annual

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

amounts. Any future contingent payments will be accounted for as additional consideration as the amount become payable with a corresponding increase to goodwill.

On July 1, 2007, the Company purchased the outstanding shares of Full Tilt Field Services Ltd. ("Full Tilt"), for total consideration of \$3.447 million, subject to post closing adjustments.

On January 31, 2007, the Company purchased the assets of an agent that operated two of the Company's branch locations, for total consideration of \$2.167 million.

On February 1, 2006, the Company purchased the outstanding shares of an agent that operated two of the Company's branch locations, for total consideration of \$3.080 million of which \$2.263 million was paid in cash and \$0.817 million is payable over a two year period. In accordance with the purchase agreement, an additional \$210,000 was paid in the first quarter of 2007 (2006- \$350,000). These amounts were contingent on reaching certain performance conditions and have been accounted for under the purchase method as an addition to goodwill.

Using the purchase method of accounting for acquisitions, the Company consolidated the assets and liabilities from the acquisitions and included earnings as of the closing dates. The consideration paid for these acquisitions has been allocated as follows:

	2007					2006		
	Acquisition of JEN Supply	Acquisition of Full Tilt	Acquisition of Agent	Contingent consideration	Total 2007	Acquisition of Agent	Contingent consideration	Total 2006
Cash Consideration Paid	12,000	3,400	2,167	210	17,777	2,263	350	2,613
Transaction Costs	139	47	-	-	186	-	-	-
<b>Total Cash</b>								
<b>Consideration</b>	<b>12,139</b>	<b>3,447</b>	<b>2,167</b>	<b>210</b>	<b>17,963</b>	<b>2,263</b>	<b>350</b>	<b>2,613</b>
Deferred consideration <sup>(1)</sup>	500	-	-	-	500	817	-	817
<b>Total Consideration</b>	<b>12,639</b>	<b>3,447</b>	<b>2,167</b>	<b>210</b>	<b>18,463</b>	<b>3,080</b>	<b>350</b>	<b>3,430</b>
<b>Net assets acquired</b>								
Accounts Receivable	5,438	1,970	-	-	7,408	-	-	-
Inventory	2,596	371	-	-	2,967	-	-	-
Other Current Assets	46	14	-	-	60	-	-	-
Property, Equipment and Other	805	292	167	-	1,264	369	-	369
Goodwill	5,724	2,110	2,000	210	10,044	2,714	350	3,064
Accounts Payable	(1,970)	(1,310)	-	-	(3,280)	-	-	-
Future Tax Liability	-	-	-	-	-	(3)	-	(3)
	<b>12,639</b>	<b>3,447</b>	<b>2,167</b>	<b>210</b>	<b>18,463</b>	<b>3,080</b>	<b>350</b>	<b>3,430</b>

(1) Deferred consideration is unsecured, and has been included in long term debt and capital lease obligations on the Consolidated Balance Sheets.

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

### 3. Property and Equipment

As at December 31	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land, buildings and leasehold improvements	6,234	3,690	2,544	5,883	3,256	2,627
Computer equipment and software	21,444	20,084	1,360	20,915	19,510	1,405
Equipment and machinery	6,050	4,868	1,182	5,197	4,172	1,025
Furniture and office equipment	2,273	1,580	693	1,895	1,416	479
Automotive equipment	693	74	619	100	90	10
	<b>36,694</b>	<b>30,296</b>	<b>6,398</b>	<b>33,990</b>	<b>28,444</b>	<b>5,546</b>

Included in computer equipment and software at December 31, 2007 are leased assets with a cost of \$1.1 million (2006 – \$1.1 million) and related amortization of \$0.9 million (2006-\$0.7 million).

### 4. Bank Operating Loan

The Company has a 364 day bank operating loan facility in the amount of \$75.0 million (2006 – \$75.0 million) arranged through a syndicate of four banks, that matures in July, 2008. Amounts drawn against this facility bear interest at floating rates based on the Canadian Bank prime rate plus an applicable borrowing margin. The weighted average interest rate as at December 31, 2007 was 6.0% (2006 – 6.0%). The maximum amount available 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 months earnings before interest, amortization and taxes. As at December 31, 2007, the maximum available under this facility, was approximately \$60.0 million (2006 – \$75.0 million).

The facility is collateralized by a general security agreement covering all present and after-acquired property of the Company including accounts receivable, inventories and property and equipment.

This facility contains certain other restrictive covenants. As at December 31, 2007, the Company was not in compliance with a covenant under its loan facility agreement which has been subsequently waived by the Company's lenders.

### 5. Long-Term Debt and Obligations under Capital Leases

	<b>2007</b>	<b>2006</b>
Agent Acquisition (a)	599	860
Obligations under Capital Lease (b)	288	503
JEN Supply deferred consideration (c)	500	-
Total long-term obligation	1,387	1,363
Less current portion	(805)	(517)
Long-term debt and obligation under capital leases	<b>582</b>	<b>846</b>

Principal repayments are due as follows:

Current portion	805
Due in 2009	82
Due in 2012	500
<b>Total</b>	<b>1,387</b>

- The loan is unsecured and bears no interest and is repayable in 2008. The effective interest rate on the loan is 5.65% due to the discount applied on the initial recording of the loan.
- Capital leases bear interest at various rates of up to 8% (2006 – 8%) and are collateralized by the

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

underlying assets.

- c) The JEN Supply deferred consideration was issued as part of the acquisition consideration (see note 2). The deferred consideration is unsecured and bears interest based on the floating Canadian bank prime rate and is repayable in 2012.

#### 6. Income Taxes

- a) Reconciliation of the income tax provision.

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

<b>For the Years Ended December 31</b>	<b>2007</b>	<b>%</b>	<b>2006</b>	<b>%</b>	<b>2005</b>	<b>%</b>
Income before income taxes	<b>20,865</b>		34,597		29,665	
Income taxes calculated at expected rates	<b>6,807</b>	<b>32.6</b>	11,459	33.1	10,193	34.4
Non-deductible items	<b>434</b>	<b>2.1</b>	410	1.2	634	2.1
Effect of reduction in tax rates on future tax asset (liability)	<b>82</b>	<b>0.4</b>	120	0.3	-	-
Adjustments of filing prior year returns	<b>(67)</b>	<b>(0.3)</b>	(343)	(1.0)	-	-
Capital and large corporations taxes	<b>44</b>	<b>0.2</b>	59	0.2	66	0.2
Other	<b>(2)</b>	-	(47)	(0.1)	(92)	(0.3)
	<b>7,298</b>	<b>35.0</b>	11,658	33.7	10,801	36.4

As at December 31, 2007, included in other current assets are income taxes receivable of \$0.848 million (2006 - Income taxes payable of \$0.819 million).

- b) Significant components of future income tax assets and liabilities are as follows:

<b>As at December 31</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Financing charges	103	263
Property and equipment	874	610
Other	786	785
	1,763	1,658
<b>Liabilities</b>		
Goodwill and other	360	498
<b>Net future income tax asset</b>	<b>1,403</b>	<b>1,160</b>

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

#### 7. Capital Stock

- a) The Company has authorized an unlimited number of common shares with no par value.
- b) The Board of Directors may grant options to purchase common shares to substantially all employees, officers and directors and to persons or corporations who provide management or consulting services to the Company. The exercise period and the vesting schedule after the grant date are not to exceed 10 years.

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**Notes to Consolidated Financial Statements**  
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Option activity for each of the years ended December 31 was as follows:

	2007		2006		2005	
	Number of Options (000's)	Weighted average exercise price per share	Number of Options (000's)	Weighted average exercise price per share	Number of Options (000's)	Weighted average exercise price per share
Outstanding – beginning of year	803.6	3.59	1,295.0	3.65	1,626.7	3.63
Granted	646.2	7.90	-	-	413.7	4.61
Exercised	(176.6)	3.24	(443.2)	3.75	(609.6)	4.02
Forfeited	(11.7)	10.18	(48.2)	3.78	(135.8)	7.62
<b>Outstanding – end of year</b>	<b>1,261.5</b>	<b>5.78</b>	<b>803.6</b>	<b>3.59</b>	<b>1,295.0</b>	<b>3.65</b>
<b>Exercisable – end of year</b>	<b>589.6</b>	<b>4.11</b>	<b>596.4</b>	<b>3.24</b>	<b>729.9</b>	<b>3.31</b>

A summary of stock options outstanding at December 31, 2007 is set out below:

			Outstanding stock options (000's)		Exercisable stock options		
Range of Exercise price			Number	Weighted average remaining contractual life	Weighted average exercise price	Number	Weighted average exercise price
\$2.70	to	\$4.90	625.6	3.1 years	3.69	537.2	3.53
\$6.50	to	\$10.90	635.9	7.8 years	7.85	52.4	10.04
			<u>1,261.5</u>	<u>5.5 years</u>	<u>5.78</u>	<u>589.6</u>	<u>4.11</u>

The non cash stock option compensation expense recorded in 2007 was \$528,000 (2006 – \$529,000; 2005 – \$552,000). The fair value of common share options granted is estimated as at the grant date using the Black-Scholes option-pricing model, using the following assumptions:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend yield	Nil	Nil	Nil
Risk-free interest rate	3.93%	4.08%	4.08%
Expected life	5 years	5 years	5 years
Expected volatility	50%	56%	56%

- c) For all stock options issued prior to January 1, 2003 the Company applied the intrinsic method of accounting for common share options granted to employees, officers and directors. Accordingly, no compensation expense has been recognized in the Statements of Operations. Had the Company adopted the fair value based method of accounting, the amount expensed in each period would be the fair value of the options, calculated using the Black-Scholes options-pricing model and net of options forfeited in the period, amortized over the expected life of the options. The proforma net income and proforma net income per share attributable to common shareholders of the Company would be as follows:

**CE Franklin Ltd.**  
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(tabular amounts in thousands of Canadian dollars except share and per share amounts)

	<u>2007</u>	2006	2005
<b>Net and comprehensive income</b>			
As reported	13,567	22,939	18,864
Compensation expense related to stock options issued prior to 2003	-	196	551
Proforma	<u>13,567</u>	<u>22,743</u>	<u>18,313</u>
<b>Net income per share</b>			
<b>Basic</b>			
As reported	<b>0.74</b>	1.27	1.09
Proforma	<b>0.74</b>	1.26	1.06
<b>Diluted</b>			
As reported	<b>0.72</b>	1.22	1.01
Proforma	<b>0.72</b>	1.21	0.98

- d) Effective May 2, 2006, the Company adopted the Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans approved by shareholders on that date (collectively the "RSU Plans"). Under these RSU plans, RSU's and DSU's are granted which entitle the participant, at the Company's option, to receive either a common share or cash equivalent in exchange for a vested unit. RSU's are granted to the Company's officers and employees and vest one third per year over the three year period from the date of grant. DSU's, are granted to the independent members of the Company's Board of Directors ("Board"), vest on the date of grant, and can only be redeemed when the Director resigns from the Board. 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 settled. For 2007, the fair value of the RSU and DSU units granted was \$802,000 (2006 - \$2,393,718) and \$1,396,000 of compensation expense was recorded (2006 - \$1,703,000).

RSU Plan activity for the year ended December 31, 2007 and 2006 was as follows:

<i>(in 000's)</i>	<u>2007</u>		<u>2006</u>	
	<u>Number of Units</u>		<u>Number of Units</u>	
	<u>RSU</u>	<u>DSU</u>	<u>RSU</u>	<u>DSU</u>
Outstanding at January 1	120	12	-	-
Granted	78	25	120	12
Exercised	(10)	-	-	-
Forfeited	(10)	-	-	-
<b>Outstanding at December 31, 2007</b>	<u>178</u>	<u>37</u>	<u>120</u>	<u>12</u>

The Company has established an independent trust to purchase common shares of the Company on the open-market to satisfy performance share unit obligations. The trust is considered to be a variable interest entity and is consolidated in the Company's financial statements with the cost of the shares held in trust reported as a reduction to capital stock. During 2007, 40,200 common shares were purchased by the trust (2006 - 24,800 common shares) at an average cost of \$8.08 per share (2006 - \$11.73 per share).

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

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e) Reconciliation of Weighted Average Number of Diluted Common Shares Outstanding (000's)

	2007	2006	2005
Weighted average common shares outstanding- basic	18,337	18,099	17,327
Effect of Stock options and RSU Plans	470	624	1,353
Weighted average common shares outstanding- diluted	18,807	18,723	18,680

#### 8. Net Change in Non-cash Working Capital Balances Related to Operations

For the years ended December 31	2007	2006	2005
Accounts receivable	5,633	8,978	(29,935)
Inventories	12,974	(18,019)	(17,321)
Other current assets	79	33	(2,446)
Accounts payable and accrued liabilities	(25,214)	1,815	9,412
Income taxes payable	(1,667)	(7,021)	4,766
	<b>(8,195)</b>	<b>(14,214)</b>	<b>(35,524)</b>

#### 9. Related Parties

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:

(in thousands of Canadian dollars)

For the years ended December 31	2007	2006	2005
Cost of sales	9,253	8,943	7,830
Inventory	4,295	3,767	3,166
Accounts Payable and accrued liabilities	313	1,076	1,083

#### 10. Commitments and Contingencies

- a) The Company leases certain office, warehouse and store facilities and automobiles under long-term operating leases. Commitments for such operating leases for the next five years and thereafter are as follows:

Years ending December 31,	2008	5,429
	2009	5,653
	2010	5,156
	2011	4,230
	2012	3,856
	Thereafter	29,226
		<b>53,550</b>

- b) The Company is involved in various lawsuits, the losses from which, if any, are not anticipated to be material to the financial statements.

#### 11. Financial Instruments

The Company's financial instruments recognized in the Balance Sheets consist of accounts receivable, accounts payable and accrued liabilities, bank operating loan, long-term debt and obligations under capital lease. The fair values of these recognized financial instruments, excluding

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

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

the bank operating loan, obligations under capital lease and long-term debt, approximate their carrying amounts due to the short-term maturity of these instruments. At December 31, 2007, the fair value of the bank operating loan, long-term debt and obligations under capital lease approximated their carrying values due to their floating rate nature and their short term maturity.

The Company is exposed to market risks from changes in the Canadian prime interest rate and foreign exchange rates with respect to the Canadian dollar and the U.S. dollar. From time to time the Company enters into foreign exchange forward contracts to fix the value of its liabilities and future commitments. As at December 31, 2007, the Company had contracted to purchase US \$2.0 million at a rate of \$0.9947 Canadian maturing in 2008. The fair market value of the contract was nominal.

#### 12. Economic Dependency

In respect of the Company's sales, 11% (2006 – 11%; 2005 – 11%) is derived from sales to one customer.

In respect of the Company's suppliers, 28% (2006 – 30%) of the Company's sales are derived from product purchased from two suppliers. In 2005, 20% of the Company sales were derived from the purchase of products from one supplier.

#### 13. Defined Contribution Pension Plan

The Company has a defined contribution pension plan for eligible employees and contributes amounts based on employee salaries to a maximum of 6% (6% in 2006; 5% in 2005) and the amount deductible under the Income Tax Act, to the individuals' registered retirement savings plans. Contributions in respect of this plan incurred and paid during the year were \$737,000 (2006 – \$673,000; 2005 – \$557,000).

#### 14. Segment Reporting

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

#### 15. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (GAAP)

These consolidated financial statements have been prepared in accordance with Canadian GAAP. The Company's accounting policies are consistent with U.S. GAAP with the following exceptions:

##### a) Statement of Operations

For the years ended December 31	2007	2006	2005
Net income for the year under Canadian GAAP	13,567	22,939	18,864
Share based compensation expense (b)(iii)	-	(196)	-
Net income for the year under U.S. GAAP	13,567	22,743	18,864
<b>Net income per share under US GAAP</b>			
Basic	0.74	1.26	1.09
Diluted	0.72	1.21	1.01

##### b) Statements of Changes in Shareholders' Equity

# CE Franklin Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2007, 2006 and 2005

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

<b>As at December 31</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Shareholders' equity under Canadian GAAP	118,220	102,475	75,932
Restructuring provision adjustment (i)	(324)	(324)	(324)
Benefit of deferred tax assets applied to goodwill (ii)	(1,058)	(1,058)	(1,058)
Share based compensation expense (iii)	196	196	-
<b>Shareholders' equity under U.S. GAAP</b>	<b>117,034</b>	<b>101,289</b>	<b>74,550</b>

- i) The restructuring provision adjustment relates to a 1995 transaction where restructuring expenditures were recorded in the purchase equation as goodwill under Canadian GAAP but were expensed in the statement of operations for U.S. GAAP.
- ii) In 1996, the Company realized the benefit of certain deferred tax assets on which a 100% valuation provision had been recorded in 1995. This benefit was recorded as a reduction of goodwill for U.S. GAAP.
- iii) Under Canadian GAAP, it is permissible to use the intrinsic method to account for stock options issued prior to January 1, 2003. As a result, no compensation expense was recorded in the statement of operations for stock options issued prior to January 1, 2003. Commencing in 2006 U.S. GAAP compensation expense must be recognized in the current year earnings for all stock options issued and the restatement of prior year earnings is not required. The fair value of the stock options issued prior to January 1, 2003 was calculated using the Black-Scholes options-pricing model. As at December 31, 2007, all stock options issued prior to January 1, 2003 were fully vested and recognized under the modified prospective application of U.S. GAAP.

#### c) Balance Sheets

The following table indicates the restated amounts for the items in the Balance Sheets of the Company that would be affected had the consolidated financial statements been prepared in accordance with U.S. GAAP.

<b>As at December 31</b>	<b>2007</b>	<b>2006</b>
Goodwill (b)(i) and (b)(ii)	<b>19,141</b>	9,097
Contributed surplus (b)(iii)	<b>17,867</b>	16,409
Retained earnings (b)(i), (b)(ii) and (b)(iii)	<b>74,665</b>	61,098

The following table indicates additional disclosure required had the consolidated financial statements been prepared in accordance with U.S. GAAP.

<b>As at December 31</b>	<b>2007</b>	<b>2006</b>
Trade payables	<b>9,571</b>	36,252
Accrued liabilities	<b>35,236</b>	30,492

#### d) Statements Of Cash Flows

Under U.S. GAAP, the disclosure of total cash flows from operating activities prior to changes in non-cash working capital balances related to operations is not permitted.

## Item 19. Exhibits

The following exhibits are filed as part of this report on Form 20-F and are incorporated by reference:

- 1.1 Certificate and Articles of Amalgamation as amended, incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1, as amended (33-68944).
- 1.2 Bylaws incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form F-1, as amended (33-68944).
- 12.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

"signed"

Name: Mark Schweitzer  
Title: Chief Financial Officer  
Date: February 12, 2008

## Exhibit 12.1

### **CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael West, certify that;

1. I have reviewed this annual report of CE Franklin Ltd. on Form 20-F;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 12, 2008

By: "signed" \_\_\_\_\_

Name: Michael West

Title: Chairman, President and  
Chief Executive Officer

## Exhibit 12.2

### **CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Schweitzer, certify that;

1. I have reviewed this annual report of CE Franklin Ltd. on Form 20-F;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: February 12, 2008

By: "signed" \_\_\_\_\_

Name: Mark Schweitzer

Title: Chief Financial Officer

## Exhibit 13.1

### CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CE Franklin Ltd. (the "Company") on Form 20-F for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael West, Chairman, President and Chief Executive Officer of CE Franklin Ltd., certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2008

By: "signed"

Name: Michael West

Title: Chairman, President and  
Chief Executive Officer

## Exhibit 13.2

### CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CE Franklin Ltd. (the "Company") on Form 20-F for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Schweitzer, Chief Financial Officer of CE Franklin Ltd. certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 12, 2008

By: "signed" \_\_\_\_\_

Name: Mark Schweitzer

Title: Chief Financial Officer