

## NEWS RELEASE

### FOR IMMEDIATE RELEASE

#### **CE Franklin Ltd. announces 2011 Second Quarter Results**

Calgary, Alberta, July 28, 2011 – CE FRANKLIN LTD. (TSX.CFT, NASDAQ.CFK) reported net earnings of \$1.7 million or \$0.10 per share for the second quarter ended June 30, 2011, a significant increase from the \$0.01 loss per share generated in the second quarter ended June 30, 2010.

#### **Financial Highlights**

(millions of Cdn. \$ except per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	June 30		June 30	
	2011	2010	2011	2010
	Unaudited		Unaudited	
<b>Revenues</b>	113.9	99.9	251.6	221.8
<b>Gross Profit</b>	19.3	15.6	41.6	35.2
<b>Gross Profit - % of sales</b>	16.9%	15.6%	16.5%	15.9%
<b>EBITDA<sup>(1)</sup></b>	3.1	0.7	8.4	4.8
<b>EBITDA<sup>(1)</sup>% of sales</b>	2.7%	0.7%	3.3%	2.2%
<b>Net earnings</b>	1.7	(0.1)	5.1	2.1
<b>Per share</b>				
<b>Basic</b>	0.10	(0.01)	0.29	0.12
<b>Diluted</b>	0.09	(0.01)	0.28	0.12
<b>Net working capital<sup>(2)</sup></b>	136.5	111.8		
<b>Long term debt / Bank operating loan<sup>(2)</sup></b>	\$12.2	\$0.3		

“The traditional seasonal activity slowdown caused by spring break up had rig count and well completions drop sequentially from the first quarter by 64% and 28% respectively. Break up was extended this year by an extremely wet spring in the south and forest fires in the North. Despite the weather, second quarter activity levels were up year over year and strengthened as the quarter progressed, momentum that should continue for the remainder of 2011.” said Michael West, President and CEO.

The June 30, 2011 interim consolidated financial statements are prepared under International Financial Reporting Standards (“IFRS”). Consequently the comparative figures for 2010 and the Company’s statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted in Canada (“Canadian GAAP”) to comply with IFRS. The reconciliations from the previously published Canadian GAAP financial statements are summarized in Note 3 to the consolidated interim financial statements, and there were no material differences.

Net earnings for the second quarter of 2011, were \$1.7 million, an increase of \$1.8 million from the second quarter of 2010. Revenues were \$113.9 million, an increase of \$14.0 million (14%) from the second quarter of 2010. Industry activity continued to improve and is focused on oil, oil sands and liquid rich natural gas plays. Well completions increased 26% compared to the second quarter of 2010. Capital project business revenue grew \$2.3 million year over year despite the wet weather which negatively impacted both construction work as well as tubular product related work. Gross profits increased by \$3.7 million (24%) due to the increase in revenues year over year. Average gross profit margins improved sequentially from first quarter 2011 levels and improved over the second quarter 2010 average gross profit margin, as increased purchasing levels contributed to higher volume rebate income. Selling, general and administrative expenses increased by \$1.7 million (12%) to \$16.4 million for the quarter as compensation and operating costs have increased in response to higher revenue levels. The weighted average number of shares outstanding during the second quarter was consistent with the prior year period as the rise in share price during the last year has limited the activity occurring under the normal course issuer bid program. Net income per share (basic) was \$0.10 in the second quarter of 2011, compared to a loss of \$0.01 per share in the second quarter of 2010.

Net income for the first half of 2011, at \$5.1 million, was more than double 2010’s first half net income. Sales were \$251.6 million, an increase of \$29.8 million (13%) over the comparable 2010 period due to improvements in capital project and maintenance repair and operating sales. Well completions have increased 31% year over year as

industry activity continues to build. Gross profit was up \$6.4 million (18%) due to the increase in sales combined with an increase in vendor rebate income due to increased purchasing levels. Selling, general and administrative expenses increased by \$3.1 million (10%) to \$33.4 million for the first half of the year for the same reasons they were higher in the second quarter. Income taxes increased by \$0.8 million in the first half of 2011 compared to the prior year period due to higher pre-tax earnings. The weighted average number of shares outstanding (basic) during the first half was consistent with the prior year period as the rise in share price during the last year has limited the activity occurring under the normal course issuer bid program. Net income per share (basic) was \$0.29 in the first half of 2011, compared to \$0.12 earned in the first half of 2010.

### **Business Outlook**

Oil and gas industry activity in 2011 is expected to increase from 2010 levels. Natural gas prices remain depressed as North American production capacity and inventory levels continue to dominate demand. Natural gas capital expenditure activity is focused on the emerging shale gas plays in north-eastern British Columbia and liquids rich gas plays in north-western Alberta where the Company has a strong market position. Conventional and heavy oil economics are attractive at current price levels leading to moderate increases in capital expenditure activity in eastern Alberta and south-east Saskatchewan. Oil sands project announcements continue to gain momentum at current oil price levels. Approximately 50% to 60% of the Company's total revenues are driven by our customers' capital expenditure requirements. CE Franklin's revenues are expected to continue to increase modestly in 2011 due to increased oil and gas industry activity and the expansion of the Company's product lines.

Gross profit margins are expected to remain under pressure as customers that produce natural gas focus on reducing their costs to maintain acceptable project economics and due to continued aggressive oilfield supply industry competition as industry activity levels remain below the last five year average. The Company will continue to manage its cost structure to protect profitability while maintaining service capacity and advancing strategic initiatives.

Over the medium to longer term, the Company's strong financial and competitive positions will enable profitable growth of its distribution network through the expansion of its product lines, supplier relationships and capability to service additional oil and gas and other industrial end use markets.

- (1) EBITDA represents net earnings before interest, taxes, depreciation and amortization. EBITDA is supplemental non-GAAP financial measure used by management, as well as industry analysts, to evaluate operations. Management believes that EBITDA, as presented, represents a useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. The Company is also presenting EBITDA and EBITDA as a percentage of revenues because it is used by management as supplemental measures of profitability. The use of EBITDA by the Company has certain material limitations because it excludes the recurring expenditures of interest, income tax, and depreciation 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. Depreciation expense is a necessary component of the Company's expenses because the Company uses property and equipment to generate revenues. 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 earnings, 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 earnings is provided within the Company's Management Discussion and Analysis. Not all companies calculate EBITDA in the same manner and EBITDA does not have a standardized meaning prescribed by GAAP. Accordingly, EBITDA, as the term is used herein, is unlikely to be comparable to EBITDA as reported by other entities.
- (2) Net working capital is defined as current assets less cash and cash equivalents, accounts payable and accrued liabilities, current taxes payable and other current liabilities. Net working capital and long term debt / bank operating loan amounts are as at quarter end.

### **Additional Information**

Additional information relating to CE Franklin, including its first quarter 2011 Management Discussion and Analysis and interim consolidated financial statements and its Form 20-F / Annual Information Form, is available under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com) and at [www.cefranklin.com](http://www.cefranklin.com).

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

A conference call to review the 2011 second quarter results, which is open to the public, will be held on Friday, July 29, 2011 at 11:00 a.m. Eastern Time (9:00a.m. Mountain Time).

**Participants may join the call by dialing 1-647-427-7450 in Toronto or dialing 1-888-231-8191 at the scheduled time of 11:00 a.m. Eastern Time.** For those unable to listen to the live conference call, a replay will be available at approximately 2:00 p.m. Eastern Time on the same day by calling **1-416-849-0833** in Toronto or dialing **1-800-642-1687** and entering the Passcode of **75008644** and may be accessed until midnight August 12, 2011.

The call will also be webcast live at: <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=3570600> and will be available on the Company's website at <http://www.cefranklin.com>.

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

#### **About CE Franklin**

For more than half a century, CE Franklin has been a leading supplier of products and services to the energy industry. CE Franklin distributes pipe, valves, flanges, fittings, production equipment, tubular products and other general oilfield supplies to oil and gas producers in Canada as well as to the oil sands, refining, heavy oil, petrochemical, forestry and mining industries. These products are distributed through its 45 branches, which are situated in towns and cities serving particular oil and gas fields of the western Canadian sedimentary basin.

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

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

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## Management's Discussion and Analysis at July 28, 2011

*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 MD&A should be read in conjunction with the Company's interim consolidated financial statements for the three and six month period ended June 30, 2011 and the MD&A and the consolidated financial statements for the period ended March 31, 2011 (the Company's first financial statements under IFRS) and the MD&A and consolidated financial statements for the year ended December 31, 2010. All amounts are expressed in Canadian dollars and are in accordance with International Financial Reporting Standards ("IFRS"), except otherwise noted. The June 30, 2011 interim consolidated financial statements are prepared under IFRS. Consequently the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS. The reconciliations from the previously published Canadian GAAP financial statements are summarized in Note 3 to the consolidated interim financial statements, and there were no material differences. In addition, IFRS 1 on first time adoption allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these exemptions have been used they have also been explained in Note 3 to the consolidated interim financial statements.*

### 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 through its 45 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 oil sands, 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 and when they are needed, and for the best value. Our branches, supported by our centralized Distribution Centre in Edmonton, Alberta, stock over 25,000 stock keeping units sourced from over 2,000 suppliers. This supply chain infrastructure enables us to provide our customers 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. Our 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 NASDAQ ("CFK") stock exchanges. Schlumberger Limited ("Schlumberger"), a major oilfield service company based in Paris, France, owns approximately 56% of the Company's shares.

### Business Strategy

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

- Expand the reach and market share serviced by the Company's distribution network. The Company is focusing its sales efforts and product offering on servicing complex, multi-location needs of large and emerging customers in the energy sector. Organic growth is expected to be complemented by selected acquisitions over time.
- Expand production equipment service capability to capture more of the product life cycle requirements for the equipment the Company sells such as down hole pump repair, oilfield engine maintenance, well optimization and on site project management. This will differentiate the Company's service offering from its competitors and deepen relationships with its customers.
- Expand oil sands and industrial project and Maintenance, Repair and Operating Supplies ("MRO") business by leveraging our existing supply chain infrastructure, product and project expertise.
- Increase the resourcing of customer project sales quotation and order fulfillment services provided by our Distribution Centre to augment local branch capacity to address seasonal and project driven fluctuations in customer demand. By doing so, we aim to increase our capacity flexibility and improve operating efficiency while providing consistent service.

### Business Outlook

Oil and gas industry activity in 2011 is expected to increase from 2010 levels. Natural gas prices remain depressed as North American production capacity and inventory levels continue to dominate demand. Natural gas capital expenditure activity is focused on the emerging shale gas plays in north eastern British Columbia and liquids rich gas plays in north-western Alberta where the Company has a strong market position. Conventional and heavy oil economics are attractive at current price levels leading to moderate increases to capital expenditure activity in

eastern Alberta and south-east Saskatchewan. Oil sands project announcements continue to gain momentum at current oil price levels. Approximately 50% to 60% of the Company's total revenues are driven by our customers' capital expenditure requirements. CE Franklin's revenues are expected to continue to increase modestly in 2011 due to increased oil and gas industry activity and the expansion of the Company's product lines.

Gross profit margins are expected to remain under pressure as customers that produce natural gas focus on reducing their costs to maintain acceptable project economics and due to continued aggressive oilfield supply industry competition as industry activity levels remain below the last five year average. The Company will continue to manage its cost structure to protect profitability while maintaining service capacity and advancing strategic initiatives.

Over the medium to longer term, the Company's strong financial and competitive positions will enable profitable growth of its distribution network through the expansion of its product lines, supplier relationships and capability to service additional oil and gas and other industrial end use markets.

## Second Quarter Operating Results

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

(In millions of Canadian Dollars except per share data)

	Three Months Ended June 30				Six Months Ended June 30			
	2011		2010		2011		2010	
<b>Revenues</b>	113.9	100.0%	99.9	100.0%	251.6	100.0%	221.8	100.0%
<b>Cost of Sales</b>	(94.6)	(83.1)%	(84.3)	(84.4)%	(210.0)	(83.5)%	(186.6)	(84.1)%
<b>Gross Profit</b>	19.3	16.9%	15.6	15.6%	41.6	16.5%	35.2	15.9%
<b>Selling, general and administrative expenses</b>	(16.4)	(14.4)%	(14.7)	(14.7)%	(33.4)	(13.3)%	(30.3)	(13.7)%
<b>Foreign exchange and other</b>	0.2	0.2%	(0.2)	(0.2)%	0.2	0.1%	(0.1)	(0.0)%
<b>EBITDA<sup>(1)</sup></b>	3.1	2.7%	0.7	0.7%	8.4	3.3%	4.8	2.2%
<b>Depreciation</b>	(0.6)	(0.5)%	(0.6)	(0.6)%	(1.2)	(0.5)%	(1.2)	(0.5)%
<b>Interest</b>	(0.1)	(0.1)%	(0.2)	(0.2)%	(0.2)	(0.1)%	(0.4)	(0.2)%
<b>Earnings before tax</b>	2.4	2.1%	(0.1)	(0.1)%	7.0	2.7%	3.2	1.4%
<b>Income tax expense</b>	(0.7)	(0.6)%	0.0	(0.0)%	(1.9)	(0.7)%	(1.1)	(0.5)%
<b>Net earnings</b>	1.7	1.5%	(0.1)	(0.1)%	5.1	2.0%	2.1	0.9%
<b>Net earnings per share</b>								
Basic	\$0.10		(\$0.01)		\$0.29		\$0.12	
Diluted	\$0.09		(\$0.01)		\$0.28		\$0.12	
<b>Weighted average number of shares outstanding (000's)</b>								
Basic	17,504		17,514		17,496		17,546	
Diluted	18,225		17,514		18,157		17,818	

(1) EBITDA represents net earnings before interest, taxes, depreciation and amortization. EBITDA is a supplemental non-GAAP financial measure used by management, as well as industry analysts, to evaluate operations. Management believes that EBITDA, as presented, represents a useful means of assessing the performance of the Company's ongoing operating activities, as it reflects the Company's earnings trends without showing the impact of certain charges. The Company is also presenting EBITDA and EBITDA as a percentage of revenues because it is used by management as supplemental measures of profitability. The use of EBITDA by the Company has certain material limitations because it excludes the recurring expenditures of interest, income tax, and depreciation expenses. Interest expense is a necessary component of the Company's expenses because the Company borrows money to finance its working capital and capital income taxes. Depreciation expense is a necessary component of the Company's expenses because the Company is required to pay cash equipment to generate revenues. 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 earnings, 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 earnings 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.

## Second Quarter Results

Net earnings for the second quarter of 2011, were \$1.7 million, an increase of \$1.8 million from the second quarter of 2010. Revenues were \$113.9 million, an increase of \$14.0 million (14%) from the second quarter of 2010. Industry activity continued to improve and is focused on oil, oil sands and liquid rich natural gas plays. Well completions increased 26% compared to the second quarter of 2010. Capital project business revenue grew \$2.3 million year over year despite the wet weather which negatively impacted both construction work as well as tubular product related work. Gross profits increased by \$3.7 million (24%) due to the increase in revenues year over year. Average gross profit margins improved sequentially from first quarter 2011 levels and improved over the second quarter 2010 average gross profit margin, as increased purchasing levels contributed to higher volume rebate income. Selling, general and administrative expenses increased by \$1.7 million (12%) to \$16.4 million for the quarter as compensation and operating costs have increased in response to higher revenue levels. The weighted average number of shares outstanding during the second quarter was consistent with the prior year period as the rise in share price during the last year has limited the activity occurring under the normal course issuer bid program. Net income per share (basic) was \$0.10 in the second quarter of 2011, compared to a loss of \$0.01 per share in the second quarter of 2010.

## Year to date Results

Net Income for the first half of 2011 at \$5.1 million was more than double 2010's first half net income. Sales were \$251.6 million, an increase of \$29.8 million (13%) over the comparable 2010 period due to improvements in capital project and maintenance repair and operating sales. Well completions have increased 31% year over year as industry activity continues to build. Gross profit was up \$6.4 million (18%) due to the increase in sales combined with an increase in vendor rebate income due to increased purchasing levels. Selling, general and administrative expenses increased by \$3.1 million (10%) to \$33.4 million for the first half of the year for the same reasons they were higher in the second quarter. Income taxes increased by \$0.8 million in the first half of 2011 compared to the prior year period due to higher pre-tax earnings. The weighted average number of shares outstanding (basic) during the second quarter was consistent with the prior year period as the rise in share price during the last year has limited the activity occurring under the normal course issuer bid program. Net income per share (basic) was \$0.29 in the first half of 2011, compared to \$0.12 earned in the first half of 2010.

## Revenues

Revenues for the quarter ended June 30, 2011, were \$113.9 million, an increase of 14% from the quarter ended June 30, 2010, as detailed above in the "Second Quarter Results" discussion.

Oil and gas commodity prices are a key driver of industry capital project activity as commodity prices directly impact the economic returns realized by oil and gas companies. 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 general indicator of energy industry activity levels. Average drilling rig counts are also used by management to assess industry activity levels as the number of rigs in use ultimately drives well completion requirements. Well completion, rig count and commodity price information for the three and six month periods ended June 30, 2011 and 2010 are provided in the table below.

	Q2 Average		%	YTD Average		%
	2011	2010		2011	2010	
Gas - Cdn. \$/gj (AECO spot)	\$3.89	\$3.91	(1)%	\$3.83	\$4.42	(13)%
Oil - Cdn. \$/bbl (syntetic crude)	\$109.38	\$78.07	40%	\$104.54	\$80.28	21%
Average rig count	188	161	17%	360	293	25%
Well completions:						
Oil	1,785	1,077	66%	3,986	2,432	64%
Gas	980	1,120	(13)%	2,640	2,611	(1)%
Total well completions	2,765	2,197	26%	6,626	5,043	31%

Average statistics are shown except for well completions.

Sources: Oil and Gas prices – First Energy Capital Corp.; Rig count data – CAODC; well completion data – Daily Oil Bulletin

(in millions of Cdn. \$)

	Three months ended June 30				Six months ended June 30			
	2011		2010		2011		2010	
End use revenue demand	\$	%	\$	%	\$	%	\$	%
Capital projects	56.6	50%	54.3	54%	132.8	53%	115.8	52%
Maintenance, repair and operating supplies ("MRO")	57.3	50%	45.6	46%	118.8	47%	106.0	48%
<b>Total Revenues</b>	<b>113.9</b>	<b>100%</b>	<b>99.9</b>	<b>100%</b>	<b>251.6</b>	<b>100%</b>	<b>221.8</b>	<b>100%</b>

**Note:** Capital project end use revenues are defined by the Company as consisting of the tubular and 80% of pipe, flanges and fittings; and valves and accessories product revenues respectively; MRO revenues 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 revenues respectively.

Revenues from capital project related products were \$56.6 million in the second quarter of 2011, an increase of 4% (\$2.3 million) from the second quarter of 2010. Total well completions increased by 26% in the second quarter of 2011 and the average working rig count increased by 17% compared to the prior year period. Gas wells comprised 35% of the total wells completed in western Canada in the second quarter of 2011 compared to 51% in the second quarter of 2010. Spot gas prices ended the second quarter at \$3.71 per GJ (AECO) a decrease of 5% from second quarter average prices. Oil prices ended the second quarter at \$98.56 per bbl (Synthetic Crude) a decrease of 10% from the second quarter average. Depressed gas prices are expected to continue to negatively impact gas drilling activity over the remainder of 2011, which in turn is expected to constrain demand for the Company's products. Natural gas customers continue to utilize a high level of competitive bid activity to procure the products they require in an effort to reduce their costs. The Company is addressing this industry trend by pursuing initiatives focused on improving revenues quotation processes and increasing the operating flexibility and efficiency of its branch network. The Company is well positioned to support customers who are pursuing oil plays and more particularly tight oil plays. The Company dealt with the impacts of a very wet second quarter particularly in southern Saskatchewan and responsibly bid requests for proposals for drilling and completions programs, which resulted in improved gross profits. The Company's results were also impacted by the forest fires in the North as two branches were closed temporarily in the quarter for evacuation notices. They are both back up and running though the Slave Lake operation was on a limited basis during the quarter.

MRO product revenues are related to overall oil and gas industry production levels and tend to be more stable than capital project revenues. MRO product revenues for the quarter ended June 30, 2011, increased by \$11.7 million (26%) to \$57.3 million compared to the quarter ended June 30, 2010 and comprised 50% of the Company's total revenues (2010 – 46%).

The Company's strategy is to grow profitability by focusing on its core western Canadian oilfield product distribution business, complemented by an increase in the product life cycle services provided to its customers and the focus on the emerging oil sands capital project and MRO revenues opportunities. Revenues from these initiatives to date are provided below:

Revenues (\$millions)	Q2 2011		Q2 2010		YTD 2011		YTD 2010	
	\$	%	\$	%	\$	%	\$	%
Oilfield	89.6	79%	85.6	86%	212.2	84%	188.4	85%
Oil sands	19.4	17%	10.9	11%	29.4	12%	26.1	12%
Production services	4.9	4%	3.4	3%	10.0	4%	7.3	3%
<b>Total Revenues</b>	<b>113.9</b>	<b>100%</b>	<b>99.9</b>	<b>100%</b>	<b>251.6</b>	<b>100%</b>	<b>221.8</b>	<b>100%</b>

Revenues from oilfield products to conventional western Canada oil and gas end use applications were \$89.6 million for the second quarter of 2011, an increase of 5% from the second quarter of 2010. This increase was driven by the 26% increase in well completions compared to the prior year period.

Revenues from oil sands end use applications were \$19.4 million in the second quarter, an increase of \$8.5 million (78%) compared to \$10.9 million in the second quarter of 2010 reflecting the timing of project revenues and a large order of specialized material for an engineering, procurement and construction customer. The Company continues to position its major project execution capability and Fort McMurray branch to penetrate this emerging market for capital project and MRO products.

Production service revenues were \$4.9 million in the second quarter of 2011, a 44% increase from the \$3.4 million of revenues in the second quarter of 2010, reflecting improved oil production economics resulting in increased customer maintenance activities.

## Gross Profit

	<u>Q2 2011</u>	<u>Q2 2010</u>	<u>YTD 2011</u>	<u>YTD 2010</u>
Gross profit (\$ millions)	\$19.3	\$15.6	\$41.6	\$35.2
Gross profit margin as a % of revenues	16.9%	15.6%	16.5%	15.9%

Gross profit composition by product revenue category:

Tubulars	2%	2%	4%	2%
Pipe, flanges and fittings	30%	30%	28%	29%
Valves and accessories	21%	19%	21%	19%
Pumps, production equipment and services	12%	13%	13%	13%
General	35%	36%	34%	37%
Total gross profit	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Gross profit was \$19.3 million in the second quarter of 2011, an increase of \$3.7 million (24%) from the second quarter of 2010 due to increased revenues compared to the prior year period. Gross profit margins for the quarter improved sequentially from first quarter 2011 levels and were better than the prior year period at 16.9% as increased purchasing levels contributed to higher volume rebate income. Increased valves and accessories gross profit composition was due to improved gross profit margins. The decrease in pumps, production equipment and services and general products gross profit composition reflects some larger low margin sales to customers under contract.

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

(\$millions)	Q2 2011		Q2 2010		YTD 2011		YTD 2010	
	\$	%	\$	%	\$	%	\$	%
People Costs	10.0	61	8.7	59	20.3	61	17.6	58
Facility and office costs	3.5	22	3.4	23	7.3	22	6.9	23
Selling Costs	1.1	7	1.0	6	2.6	8	2.7	9
Other	1.8	10	1.6	12	3.2	9	3.1	10
SG&A costs	<u>16.4</u>	<u>100</u>	<u>14.7</u>	<u>100</u>	<u>33.4</u>	<u>100</u>	<u>30.3</u>	<u>100</u>
SG&A costs as % of revenues	14%		15%		13%		14%	

SG&A costs increased \$1.7 million (12%) in the second quarter of 2011 from the prior year period and represented 14% of revenues compared to 15% in the prior year period. The \$1.7 million increase in expenses was attributable to higher people costs reflecting a 9% increase in employee count, to service the additional sales volumes, and higher incentive compensation costs reflecting the improved profit performance of the business year over year.

## Depreciation Expense

Depreciation expense of \$0.6 million in the second quarter of 2011 was comparable to the second quarter of 2010.

## Interest Expense

Interest expense of \$0.1 million in the second quarter of 2011 was \$0.1 million below the second quarter of 2010 due to lower borrowing levels throughout the quarter.

## Foreign Exchange (Gain) Loss and other

Foreign exchange gains and losses on United States dollar denominated product purchases and net working capital liabilities were gains of \$0.1 million for the second quarter ended June 30, 2011 (\$0.2 million - June 30, 2010). In the quarter a number of individually small miscellaneous settlement gains totaling \$0.1 million were realized.

## Income Tax Expense

The Company's effective tax rate for the second quarter of 2011 was 29.4%, up from (2.0%) in the second quarter of 2010 as the prior year tax recovery was offset by the impact of the other adjustments. The current effective tax rate is higher than the statutory rate due to the impact of the non-deductible items and other adjustments. Substantially all of the Company's tax provision is currently payable.

### Summary of Quarterly Financial Data

The selected quarterly financial data is presented in Canadian dollars and in accordance with IFRS. This information is derived from the Company's unaudited quarterly financial statements. As noted above the June 30, 2011 interim consolidated financial statements have been prepared under IFRS. The comparative figures shown in the table below for 2010 and 2009 have been restated from Canadian GAAP. The reconciliations from Canadian GAAP to IFRS have been completed and there were no material differences noted. The conversion from Canadian GAAP to IFRS is further discussed in Note 3 of the interim consolidated financial statements.

(in millions of Cdn. \$ except per share data)

Unaudited	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	2009 <sup>(2)</sup>	2009 <sup>(2)</sup>	2010	2010	2010	2010	2011	2011
<b>Revenues</b>	94.1	93.0	121.9	99.9	132.2	135.6	137.7	113.9
<b>Gross Profit</b>	17.4	15.3	19.7	15.6	19.2	20.5	22.3	19.3
<b>Gross Profit %</b>	18.5%	16.5%	16.1%	15.6%	14.5%	15.1%	16.2%	16.9%
<b>EBITDA</b>	0.5	0.6	4.1	0.7	3.8	3.8	5.3	3.1
EBITDA as a % of revenues	0.5%	0.6%	3.4%	0.7%	2.9%	2.8%	3.8%	2.7%
<b>Net earnings (loss)</b>	0.2	(0.5)	2.2	(0.1)	2.2	1.6	3.4	1.7
Net earnings (loss) as a % of revenues	0.2%	(0.5%)	1.8%	(0.1%)	1.7%	1.2%	2.5%	1.5%
<b>Net earnings (loss) per share</b>								
Basic	\$0.01	(\$0.03)	\$0.13	(\$0.01)	\$0.12	\$0.09	\$0.19	\$0.10
Diluted	\$0.01	(\$0.03)	\$0.12	(\$0.01)	\$0.12	\$0.09	\$0.19	\$0.09
<b>Net working capital<sup>(1)</sup></b>	131.1	136.6	113.9	111.8	129.0	125.7	120.1	136.5
<b>Long term debt/bank operating loan<sup>(1)</sup></b>	21.6	26.8	1.4	0.3	14.4	6.4	0.3	12.2
<b>Total well completions</b>	1,468	1,576	2,846	2,197	2,611	4,760	3,861	2,765

(1) Net working capital and long term debt/bank operating loan amounts are as at quarter end.

(2) prepared using Canadian GAAP

The Company's revenue 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. An exceptionally wet second quarter in 2011 could impact customer capital programs in the third quarter. As a result, the first and fourth quarters typically represent the busiest time for oil and gas industry activity and the highest revenue activity for the Company. Revenue levels drop dramatically during the second quarter until such time as roads have dried and road bans have been lifted. This typically results in a significant reduction in earnings during the second quarter, as the decline in revenue typically out paces the decline in SG&A costs as the majority of the Company's SG&A costs are fixed in nature. Net working capital (defined as current assets less cash and cash equivalents, accounts payable and accrued liabilities, income taxes payable and other current liabilities) and borrowing levels follow similar seasonal patterns as revenue.

### 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 related to operations. Cash flow from operating activities and the Company's \$60.0 million revolving term credit facility are used to finance the Company's net working capital, capital expenditures and acquisitions.

As at June 30, 2011 the Company had \$12.2 million in borrowings under its revolving term credit facility, a net increase of \$5.8 million from December 31, 2010. Borrowing levels have increased as the increase in net working capital levels has outpaced the \$7.2 million in cash flow from operating activities, before net changes in non-cash working capital balances generated year to date. Also contributing to the increase in borrowing levels was \$1.4 million

in capital and other expenditures and \$0.7 million for the purchase of shares to resource stock compensation obligations and the repurchase of shares under the Company's Normal Course Issuer Bid ("NCIB").

As at June 30, 2010, there were no borrowings under the Company's bank operating loan, a decrease of \$26.5 million from December 31, 2009. The Company had cash of \$0.9 million at June 30, 2010 (2009 – nil). Borrowing levels have decreased due to the Company generating \$4.2 million in cash flow from operating activities before net changes in working capital and a \$25.1 million reduction in net working capital. This was offset by \$0.5 million in capital and other expenditures, \$0.2 million for the settlement of share obligations and \$1.2 million for the purchase of shares to resource stock compensation obligations and the repurchase of shares under the Company's NCIB.

Net working capital was \$136.5 million at June 30, 2011, an increase of \$10.8 million from December 31, 2010. Accounts receivable decreased by \$11.8 million to \$81.2 million at June 30, 2011 from December 31, 2010 due to the 16% decrease in revenues in the second quarter compared to the fourth quarter of 2010, partially offset by a weaker Days Sales Outstanding ("DSO"). DSO in the second quarter of 2011 was 60 days compared to 56 days in the fourth quarter of 2010 and 52 days in the second quarter of 2010. DSO is calculated using average revenues per day for the quarter compared to the period end accounts receivable balance. Inventory increased by \$13.2 million (14%) at June 30, 2011 from December 31, 2010. Inventory turns for the second quarter of 2011 decreased to 3.5 turns compared to 4.9 turns in the fourth quarter of 2010, but were comparable to the second quarter of 2010. Inventory turns are calculated using cost of goods sold for the quarter on an annualized basis compared to the period end inventory balance. The Company continues to adjust its investment in inventory and inventory practices to align with anticipated industry activity levels and supplier lead times in order to improve inventory turnover efficiency. Accounts payable and accrued liabilities decreased by \$7.0 million (11%) to \$56.3 million at June 30, 2011 from December 31, 2010 due to the seasonal slowdown in activity.

Capital expenditures in the second quarter of 2011 were \$1.0 million, \$0.7 million higher than the prior year period and were comprised primarily of vehicles, warehouse equipment replacements and branch improvements.

The Company has a \$60.0 million revolving term credit facility that matures in July 2013 (the "Credit Facility"). The loan facility bears interest based on floating interest rates and is secured by a general security agreement covering all assets of the Company. The maximum amount available under the Credit Facility is subject to a borrowing base formula applied to accounts receivable and inventories. The Credit Facility requires the Company to maintain the ratio of its debt to debt plus equity at less than 40%. As at June 30, 2011, this ratio was 7%. The Company must also maintain coverage of its net operating cash flow as defined in the Credit Facility agreement over interest expense for the trailing twelve month period of greater than 1.25 times. As at June 30, 2011 this ratio was 28.5 times. The Credit Facility contains certain other covenants with which the Company is in compliance. As at June 30, 2011 the Company had available undrawn borrowing capacity of \$48.1 million under this Credit facility.

### Contractual Obligations

There have been no material changes in off-balance sheet contractual commitments since March 31, 2011.

### Capital Stock

As at June 30, 2011 and 2010, the following shares and securities convertible into shares were outstanding:

<i>(millions)</i>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
	<b>Shares</b>	<b>Shares</b>
<b>Shares outstanding</b>	17.5	17.4
<b>Stock options</b>	0.9	1.2
<b>Share unit plan obligations</b>	0.7	0.6
<b>Shares outstanding and issuable</b>	19.1	19.2

The weighted average number of shares outstanding during the second quarter of 2011 was 17.5 million, which was consistent with the prior year period as the rise in the Company's share price during the last year has limited the activity occurring under the normal course issuer bid program. The diluted weighted average number of shares outstanding was 18.2 million, which is also consistent with the prior year quarter.

The Company has established an independent trust to purchase common shares of the Company on the open market to resource share unit plan obligations. During the three and six month periods ended June 30, 2011, 50,000 common shares and 75,000 common shares were acquired by the trust at an average cost per share of \$9.25 and \$9.27 per share respectively (Three and six months ended June 30, 2010 – 92,500 and 129,300 common shares at an average cost per share of \$6.85 and \$6.83 respectively). As at June 30, 2011, the trust held 511,895 shares (June 30, 2010 – 448,581 shares).

On December 21, 2010, the Company announced the renewal of the NCIB, to purchase up to 850,000 common shares representing approximately 5% of its outstanding common shares. Shares may be purchased up to December

31, 2011. As at June 30, 2011 the Company had purchased 3,102 shares at an average cost of \$7.56 per share (June 30, 2010 – 49,278 shares at an average cost of \$6.61 per share).

### **Critical Accounting Estimates**

There have been no material changes to critical accounting estimates since December 31, 2010. The Company is not aware of any environmental or asset retirement obligations that could have a material impact on its operations.

### **Change in Accounting Policies**

These interim consolidated financial statements for the period ended June 30, 2011 are prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP.

### **Transition to International Financial Reporting Standards (“IFRS”)**

In February 2008, the Canadian Accounting Standards Board confirmed that the basis for financial reporting by Canadian publicly accountable enterprises will change from Canadian GAAP to IFRS effective for January 1, 2011, including the preparation and reporting of one year of comparative figures. This change is part of a global shift to provide consistency in financial reporting in the global marketplace.

Over the transition period the Company assessed the differences between Canadian GAAP and IFRS. A risk based approach was used to identify possibly significant differences based on possible financial impact and complexity. As described in Note 3 to the interim consolidated financial statements no material differences were identified. As such there are no reconciling items that materially changed the reporting requirements upon the transition from Canadian GAAP to IFRS. Similarly, no significant information system changes were required in order to adopt IFRS.

IFRS 1 allows first time adopters of IFRS to take advantage of a number of voluntary exemptions from the general principal of retroactive restatement. In adopting IFRS, the Company did take advantage of the following voluntary exemptions under IFRS 1.

#### ***Property and equipment***

The Company has elected to use the historic cost model, as presently used under Canadian GAAP and acceptable under IFRS. Therefore the historical cost of Property and Equipment has been brought forward into the consolidated interim financial statements for the period ended June 30, 2011. The Company wanted to maintain as much comparability as possible upon transition given the nature and magnitude of the Company's property and equipment.

#### ***Business Combinations***

The Company has not applied IFRS 3, the Business Combinations standard to acquisitions of subsidiaries that occurred before January 1, 2010, the Company's transition date to IFRS. As such there is no retrospective change in accounting for business combinations. The Company used this exemption to simplify its IFRS conversion plan and improve comparability between its Canadian GAAP statements and its IFRS statements.

#### ***Borrowing Costs***

IAS 23 requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) be capitalized as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company has elected to account for such transactions on a go forward basis, and as such there is no retrospective change in accounting for borrowing standards. The Company used this exemption to simplify its IFRS conversion plan and improve comparability between its Canadian GAAP statements and its IFRS statements.

#### ***Stock Options***

The Company has assessed and quantified the difference in accounting for stock based compensation under IFRS compared to Canadian GAAP and has deemed the difference to be immaterial. The Company has elected to not apply IFRS 2 to share based payments granted and full vested before the Company's date of transition to IFRS. The Company used this exemption to simplify its IFRS conversion plan and improve comparability between its Canadian GAAP statements and its IFRS statements.

## **Controls and Procedures**

Internal control over financial reporting (“ICFR”) is designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its compliance with IFRS in its financial statements. The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Company have evaluated whether there were changes to its ICFR during the six months ended June 30, 2011 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

## **Risk Factors**

The Company is exposed to certain business and market risks including risks arising from transactions that are entered into the normal course of business, which are primarily related to interest rate changes and fluctuations in foreign exchange rates. During the reporting period, no events or transactions since the year ended December 31, 2010 have occurred that would materially change the business and market risk information disclosed in the Company’s Form 20F.

## **Forward Looking Statements**

The information in the 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 2011 and beyond;
- 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 circumstance after the date of filing this MD&A, except as required by law.

## **Additional Information**

Additional information relating to CE Franklin, including its first quarter 2011 Management Discussion and Analysis and interim consolidated financial statements and its Form 20-F/ Annual Information Form, is available under the Company’s profile on the SEDAR website at [www.sedar.com](http://www.sedar.com) and at [www.cefranklin.com](http://www.cefranklin.com).

**CE Franklin Ltd.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - UNAUDITED**

<i>(in thousands of Canadian dollars)</i>	<b>As at June 30 2011</b>	As at December 31 2010
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable (Note 4)	81,194	92,950
Inventories (Note 5)	108,047	94,838
Other	3,619	1,625
	<b>192,860</b>	189,413
<b>Non-current assets</b>		
Property and equipment	9,711	9,431
Goodwill	20,570	20,570
Deferred tax assets (Note 6)	1,408	1,116
Other assets	104	147
<b>Total Assets</b>	<b>224,653</b>	220,677
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	56,344	63,363
Current taxes payable	-	348
	<b>56,344</b>	63,711
<b>Non current liabilities</b>		
Long term debt (Note 8)	12,225	6,430
<b>Total liabilities</b>	<b>68,569</b>	70,141
<b>Shareholders' equity</b>		
Capital stock (Note 11)	23,060	23,078
Contributed surplus	20,245	19,716
Retained earnings	112,779	107,742
	<b>156,084</b>	150,536
<b>Total liabilities and shareholders' equity</b>	<b>224,653</b>	220,677

See accompanying notes to these condensed interim consolidated financial statements

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - UNAUDITED***(in thousands of Canadian dollars and number of shares)*

	Capital Stock		Contributed Surplus	Retained Earnings	Shareholders' Equity
	Number of Shares	\$			
<b>Balance - January 1, 2010</b>	17,581	23,284	17,184	102,159	142,627
Stock based compensation expense <i>(Note 11 (b) and (c))</i>	-	-	1,183	-	1,183
Normal Course Issuer Bid <i>(Note 11 (d))</i>	(49)	(65)	0	(261)	(326)
Share Units exercised <i>(Note 11 (c))</i>	38	281	(281)	0	0
Purchase of shares in trust for Share Unit Plans <i>(Note 11 (c))</i>	(129)	(883)	0	0	(883)
Options exercised from treasury	3	20	-	-	20
Deferred stock unit exercise	-	-	(178)	-	(178)
Net earnings	-	-	-	2,105	2,105
<b>Balance - June 30, 2010</b>	<b>17,444</b>	<b>22,637</b>	<b>17,908</b>	<b>104,003</b>	<b>144,548</b>
<b>Balance - January 1, 2011</b>	17,474	23,078	19,716	107,742	150,536
Stock based compensation expense <i>(Note 11 (b) and (c))</i>	-	-	1,222	-	1,222
Normal Course Issuer Bid <i>(Note 11 (d))</i>	(3)	(4)	-	(19)	(23)
Stock options exercised <i>(Note 11 (b))</i>	87	611	(611)	-	-
Share Units exercised <i>(Note 11 (c))</i>	14	82	(82)	-	-
Purchase of shares in trust for Share Unit Plans <i>(Note 11 (c))</i>	(75)	(707)	-	-	(707)
Net earnings	-	-	-	5,056	5,056
<b>Balance - June 30, 2011</b>	<b>17,497</b>	<b>23,060</b>	<b>20,245</b>	<b>112,779</b>	<b>156,084</b>

See accompanying notes to these condensed interim consolidated financial statements

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME - UNAUDITED**

<i>(in thousands of Canadian dollars except per share amounts)</i>	<u>Three months ended</u>		<u>Six months ended</u>	
	<b>June 30 2011</b>	June 30 2010	<b>June 30 2011</b>	June 30 2010
<b>Revenue</b>	<b>113,866</b>	99,905	<b>251,567</b>	221,784
<b>Cost of sales</b>	<b>94,587</b>	84,335	<b>210,011</b>	186,554
<b>Gross profit</b>	<b>19,279</b>	15,570	<b>41,556</b>	35,230
<b>Other expenses</b>				
Selling, general and administrative expenses <i>(Note 14)</i>	<b>16,399</b>	14,700	<b>33,380</b>	30,304
Depreciation	<b>601</b>	618	<b>1,203</b>	1,235
	<b>17,000</b>	15,318	<b>34,583</b>	31,539
<b>Operating profit</b>	<b>2,279</b>	252	<b>6,973</b>	3,691
Foreign exchange (gain) loss and other	<b>(182)</b>	161	<b>(172)</b>	85
Interest expense	<b>78</b>	191	<b>172</b>	431
<b>Earnings before tax</b>	<b>2,383</b>	(100)	<b>6,973</b>	3,175
<b>Income tax expense (recovery) <i>(Note 6)</i></b>				
Current	<b>808</b>	61	<b>2,168</b>	1,076
Deferred	<b>(107)</b>	(59)	<b>(251)</b>	(6)
	<b>701</b>	2	<b>1,917</b>	1,070
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>1,682</b>	(102)	<b>5,056</b>	2,105
<b>Net earnings (loss) per share <i>(Note 12)</i></b>				
Basic	<b>0.10</b>	(0.01)	<b>0.29</b>	0.12
Diluted	<b>0.09</b>	(0.01)	<b>0.28</b>	0.12
<b>Weighted average number of shares outstanding <i>(000's)</i></b>				
Basic	<b>17,504</b>	17,514	<b>17,496</b>	17,546
Diluted <i>(Note 12)</i>	<b>18,225</b>	17,514	<b>18,157</b>	17,818

See accompanying notes to these condensed interim consolidated financial statements

**CE Franklin Ltd.**

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS - UNAUDITED**

(in thousands of Canadian dollars)	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>	<b>June 30</b>	<b>June 30</b>	<b>June 30</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	1,682	(102)	5,056	2,105
Items not affecting cash -				
Amortization	601	618	1,203	1,235
Future income tax (recovery)	(107)	(59)	(251)	(6)
Stock based compensation expense	656	418	1,122	792
Foreign exchange and other	(24)	189	46	113
	<b>2,808</b>	<b>1,064</b>	<b>7,176</b>	<b>4,239</b>
Net change in non-cash working capital balances related to operations -				
Accounts receivable	12,316	13,144	11,756	5,737
Inventories	(7,357)	(5,442)	(13,209)	7,348
Other current assets	(1,894)	(731)	(1,994)	1,966
Accounts payable and accrued liabilities	(19,238)	(4,682)	(7,019)	9,099
Current taxes payable	(361)	(62)	(348)	948
	<b>(13,726)</b>	<b>3,291</b>	<b>(3,638)</b>	<b>29,337</b>
<b>Cash flows used in investing activities</b>				
Purchase of property and equipment	(980)	(327)	(1,472)	(458)
Proceeds on disposal of property and equipment	45	-	45	-
	<b>(935)</b>	<b>(327)</b>	<b>(1,427)</b>	<b>(458)</b>
<b>Cash flows (used in) from financing activities</b>				
(Decrease) in bank operating loan	-	(1,078)	-	(26,549)
Increase in long term debt	11,935	-	5,795	-
Issuance of capital stock - stock options exercised	-	19	-	19
Settlement of share unit plan obligations	-	(178)	-	(178)
Purchase of capital stock through normal course issuer bid	-	(131)	(23)	(326)
Purchase of capital stock in trust for Share Unit Plans	(488)	(634)	(707)	(883)
	<b>11,447</b>	<b>(2,002)</b>	<b>5,065</b>	<b>(27,917)</b>
<b>Change in cash and cash equivalents during the period</b>	<b>(3,214)</b>	<b>962</b>	<b>-</b>	<b>962</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>3,214</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>-</b>	<b>962</b>	<b>-</b>	<b>-</b>
Cash paid during the period for:				
Interest	40	191	134	431
Income taxes	1,189	240	2,449	240

See accompanying notes to these condensed interim consolidated financial statements

# CE Franklin Ltd.

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## Notes to Condensed Interim Consolidated Financial Statements - Unaudited

*(Tabular amounts in thousands of Canadian dollars, except share and per share amounts)*

### 1. General information

CE Franklin Ltd. (the "Company") is headquartered and domiciled in Calgary, Canada. The Company is a subsidiary of Schlumberger Limited, a global energy services company. The address of the Company's registered office is 1900, 300 5th Ave SW, Calgary, Alberta, Canada and it is incorporated under the Alberta Business Corporations Act. The Company is a distributor of pipe, valves, flanges, fittings, production equipment, tubular products and other general industrial supplies primarily to the oil and gas industry through its 45 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 oil sands, refining, and petrochemical industries and non-oilfield related industries such as forestry and mining.

### 2. Accounting policies

#### Basis of preparation and adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these interim financial statements are the same as those applied in the Company's interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported equity as at June 30, 2010 and comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of July 28, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in the restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010, and the Company's interim financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS applicable to interim financial statements.

### 3. Explanation of transition to IFRS

The Company does not have any material differences between IFRS and Canadian GAAP. As such there are no reconciling items that would materially change the reporting requirements under Canadian GAAP to IFRS.

The interim consolidated financial statements for the period ended March 31, 2011 were the Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

# CE Franklin Ltd.

## Notes to Condensed Interim Consolidated Financial Statements - Unaudited

### *Property and equipment*

The Company has continued to use the historic cost model, as was used under Canadian GAAP and acceptable under IFRS. Therefore the historical cost of Property and Equipment has been brought forward into these financial statements, as was previously recorded under Canadian GAAP.

### *IFRS 2 Share based payments*

The Company has elected to not apply IFRS 2 to share based payments granted and fully vested before the Company's date of transition to IFRS. The Company has assessed and quantified the difference in accounting for stock based compensation under IFRS compared to Canadian GAAP and has deemed the difference to be immaterial.

### *IFRS 3 Business combinations*

This standard has not been applied to acquisitions of subsidiaries that occurred before January 1, 2010, the Company's transition date to IFRS. As such, there is no retrospective change in accounting for business combinations.

### *IAS 23 Borrowing costs*

Borrowing costs requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The Company has elected to account for such transactions on a go forward basis. As such there is no retrospective change in accounting for borrowing costs.

## 4. Accounts receivable

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Current	45,222	40,014
Less than 60 days overdue	27,379	41,253
Greater than 60 days overdue	7,889	5,519
Total Trade receivables	<u>80,490</u>	<u>86,786</u>
Allowance for credit losses	<u>(1,551)</u>	<u>(1,887)</u>
Net trade receivables	78,939	84,899
Other receivables	2,255	8,051
	<u>81,194</u>	<u>92,950</u>

A substantial portion of the Company's accounts receivable balance is with customers within the oil and gas industry and is subject to normal industry credit risks. Concentration of credit risk in trade receivables is limited as the Company's customer base is large and diversified. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

The Company has established procedures in place to review and collect outstanding receivables. Significant outstanding and overdue balances are reviewed on a regular basis and resulting actions are put in place on a timely basis. Appropriate provisions are made for debts that may be impaired on a timely basis.

The Company maintains an allowance for possible credit losses that are charged to selling, general and administrative expenses by performing an analysis of specific accounts.

## 5. Inventories

The Company maintains net realizable value allowances against slow moving, obsolete and damaged inventories that are charged to cost of goods sold on the statement of earnings. These allowances are included in the inventory value disclosed above. Movement of the allowance for net realizable value is as follows:

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	Six months ended June 30, 2011	Year ended December 31, 2010
Opening balance as at January 1,	5,000	6,300
Additions	630	900
Utilization through (write downs) / recoveries	(1,230)	(2,200)
Closing balance	<u>4,400</u>	<u>5,000</u>

### 6. Taxation

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

	Three Months Ended				Six Months Ended			
	June 30				June 30			
	2011	%	2010	%	2011	%	2010	%
Earnings before income taxes	<u>2,383</u>		(100)		<u>6,973</u>		3,175	
Income taxes calculated at statutory rates	635	26.6%	(29)	28.5%	1,862	26.6%	905	28.5%
Non-deductible items	15	0.6%	28	(28.0)%	33	0.6%	55	1.7%
Share based compensation	48	2.0%	55	(55.0)%	62	0.9%	130	4.1%
Capital taxes	2	0.1%	-	-	5	0.1%	-	-
Adjustments for filing returns and others	1	0.1%	(52)	52.5%	(45)	(0.6)%	(20)	(0.6)%
	<u>701</u>	<u>29.4%</u>	<u>2</u>	<u>(2.0)%</u>	<u>1,917</u>	<u>27.6%</u>	<u>1,070</u>	<u>33.7%</u>

As at June 30, 2011, income taxes receivable was \$21,000 (June 30, 2010 – \$111,000 receivable). Income tax expense is based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

Significant components of deferred tax assets and liabilities are as follows:

As at	June 30, 2011	December 31, 2010
<b>Assets</b>		
Property and equipment	907	870
Stock based compensation expense	768	487
Other	135	156
	<u>1,810</u>	<u>1,513</u>
<b>Liabilities</b>		
Goodwill and other	402	397
<b>Net Deferred tax asset</b>	<u>1,408</u>	<u>1,116</u>

Deductible temporary differences are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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## Notes to Condensed Interim Consolidated Financial Statements - Unaudited

### 7. Accounts payable and accrued liabilities

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
<u>Current</u>		
Trade payables	23,304	23,966
Other payables	5,660	7,057
Accrued compensation expenses	2,175	2,434
Other accrued liabilities	25,205	29,906
	<u>56,344</u>	<u>63,363</u>

### 8. Long term debt and bank operating loan

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
JEN Supply debt	290	290
Bank operating loan	11,935	6,140
Long term debt	<u>12,225</u>	<u>6,430</u>

In July of 2010, the Company entered into a \$60.0 million revolving term Credit Facility that matures in July 2013. The Credit Facility replaced the existing \$60.0 million, 364 day bank operating loan. Borrowings under the Credit Facility bear interest based on floating interest rates and are secured by a general security agreement covering all assets of the Company. The maximum amount available under the Credit Facility is subject to a borrowing base formula applied to accounts receivable and inventories. The Credit Facility requires that the Company maintains the ratio of its debt to debt plus equity at less than 40%. As at June 30, 2011, this ratio was 7% (December 31, 2010 – 4%). The Company must also maintain coverage of its net operating cash flow as defined in the Credit Facility agreement, over interest expense for the trailing twelve month period, at greater than 1.25 times. As at June 30, 2011, this ratio was 28.5 times (December 31, 2010 – 14.1 times). The Credit Facility contains certain other covenants, with which the Company is in compliance and has been for the comparative periods. As at June 30, 2011, the Company had borrowed \$11.9 million and had available undrawn borrowing capacity of \$48.1 million under the Credit Facility. In management's opinion, the Company's available borrowing capacity under its Credit Facility and ongoing cash flow from operations, are sufficient to resource its ongoing obligations.

The JEN Supply debt is unsecured and bears interest at the floating Canadian bank prime rate and is repayable in 2012.

### 9. Capital management

The Company's primary source of capital is its shareholders' equity and cash flow from operating activities before net changes in non-cash working capital balances. The Company augments these capital sources with a \$60 million, revolving bank term loan facility maturing in July 2013 (see Note 8) which is used to finance its net working capital and general corporate requirements. The Company's objective is to maintain adequate capital resources to sustain current operations including meeting seasonal demands of the business and the economic cycle. The Company's capital is summarised as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Shareholders' equity	156,084	150,536
Long term debt / Bank operating loan	12,225	6,430
Net working capital	136,516	125,702

*Net working capital is defined as current assets less cash and cash equivalents, accounts payable and accrued liabilities, income taxes payable and other current liabilities.*

### 10. Related party transactions

Schlumberger owns approximately 56% 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 Schlumberger. Purchases of such equipment conducted in the normal course on commercial terms were as follows:

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## Notes to Condensed Interim Consolidated Financial Statements - Unaudited

<b>For the six months ended June 30</b>	<b>2011</b>	<b>2010</b>
Cost of sales for the three months ended	<b>1,803</b>	1,582
Cost of sales for the six months ended	<b>4,088</b>	3,697
Inventory	<b>4,842</b>	3,631
Accounts payable and accrued liabilities	<b>1,141</b>	601
Accounts receivable	<b>2</b>	-

### 11. Capital Stock

a) The Company has authorized an unlimited number of common shares with no par value. At June 30, 2011, the Company had 17.5 million common shares, 0.9 million stock options and 0.7 million share units outstanding.

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.

Option activity for each of the six month periods ended June 30 was as follows:

<b>000's</b>	<b>2011</b>	<b>2010</b>
Outstanding - January 1	<b>1,073</b>	1,195
Granted	-	-
Exercised	<b>(87)</b>	(15)
Forfeited	<b>(54)</b>	(7)
<b>Outstanding at June 30</b>	<b>932</b>	1,173
<b>Exercisable at June 30</b>	<b>799</b>	870

Stock based compensation expense recorded for the three and six month period ended June 30, 2011 was \$164,000 (2010 – \$117,000) and \$231,000 (2010 - \$171,000) respectively and is included in selling, general and administrative expenses on the Consolidated Statement of Earnings and Comprehensive Income. No options were granted during the six month period ended June 30, 2011 or the year ended December 31, 2010. Options vest one third or one fourth per year from the date of grant.

Prior to the fourth quarter of 2010, the Company's stock option plan included a cash settlement mechanism. Stock options were revalued at each period end using the Black Scholes pricing model, using the following assumptions:

	<b>2010</b>
Dividend yield	Nil
Risk-free interest rate	3.48%
Expected life	5 years
Expected volatility	63.2%

*Note: Expected volatility is based on historical volatility.*

During the fourth quarter of 2010, the Company discontinued the settlement of stock option obligations with cash payments in favour of issuing shares from treasury. At the time of this plan modification, the current liability of \$2,075,000 was transferred to contributed surplus on the Company's consolidated statement of financial position.

### c) Share Unit Plans

The Company has Restricted Share Unit ("RSU"), Performance Share Unit ("PSU") and Deferred Share Unit ("DSU") plans (collectively the "Share Unit Plans"), where by RSU's, PSU's and DSU's are granted entitling the participant, at the Company's option, to receive either a common share or cash equivalent in exchange for a vested unit. For the PSU plan the number of units granted is dependent on the Company meeting certain return on net asset ("RONA") performance thresholds during the year of grant. The multiplier within the plan ranges from 0% - 200% dependent on performance. RSU and PSU grants vest one third per year over the three year period following the date of the grant. DSU's vest on the date of grant, and can only be redeemed when the Director resigns from the Board.

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## Notes to Condensed Interim Consolidated Financial Statements - Unaudited

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 contributed surplus. The contributed surplus balance is reduced as the vested units are exchanged for either common shares or cash. During the six month period ended June 30, 2011 and 2010, the fair value of the RSU, PSU and DSU units granted was \$2,009,000 (2010 - \$1,956,000) and compensation expense recorded in the three and six month period ended June 30, 2011, were \$433,000 (2010 - \$301,000) and \$791,000 (2010 - \$621,000).

Share Unit Plan activity for the periods ended June 30, 2011, and December 31, 2010 was as follows:

(000's)

	June 30, 2011				December 31, 2010			
	Number of Units				Number of Units			
	<u>RSU</u>	<u>PSU</u>	<u>DSU</u>	<u>Total</u>	<u>RSU</u>	<u>PSU</u>	<u>DSU</u>	<u>Total</u>
Outstanding at January 1	273	97	80	450	223	53	98	374
Granted	116	101	22	239	145	132	31	308
Performance adjustments	-	-	-	-	-	(77)	-	(77)
Exercised	(10)	(3)	-	(13)	(82)	(7)	(49)	(138)
Forfeited	-	-	-	-	(13)	(4)	-	(17)
<b>Outstanding at end of period</b>	<b>379</b>	<b>195</b>	<b>102</b>	<b>676</b>	<b>273</b>	<b>97</b>	<b>80</b>	<b>450</b>
<b>Exercisable at end of period</b>	<b>116</b>	<b>43</b>	<b>102</b>	<b>261</b>	<b>30</b>	<b>10</b>	<b>80</b>	<b>120</b>

The Company has established an independent trust to purchase common shares of the Company on the open-market to satisfy Share Unit Plan obligations. The Company's intention is to settle all share based obligations with shares delivered from the trust. The trust is considered to be a special 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. For the six month period ended June 30, 2011, 75,000 common shares were purchased by the trust (2010 - 129,300) at an average cost of \$9.27 per share (2010 - \$6.83). As at June 30, 2011, the trust held 511,895 shares (2010 - 448,581).

### d) Normal Course Issuer Bid ("NCIB")

On December 21, 2010, the Company announced a NCIB to purchase for cancellation up to 850,000 common shares representing approximately 5% of its outstanding common shares. During the six months ended June 30, 2011, the company purchased 3,102 shares at an average cost of \$7.56 (2010: 49,278 shares purchased at an average cost of \$6.61).

## 12. Earnings per share

### Basic

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

### Dilutive

Diluted earnings per share are calculated using the treasury stock method, as if RSU's, PSU's, DSU's and stock options 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.

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	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
Total Comprehensive income attributable to shareholders	<b>1,682</b>	(102)	<b>5,056</b>	2,105
Weighted average number of common shares issued (000's)	<b>17,504</b>	17,514	<b>17,496</b>	17,546
Adjustments for:				
Stock options	<b>295</b>	326	<b>256</b>	326
Share Units	<b>426</b>	(55)	<b>405</b>	(53)
Weighted average number of ordinary shares for dilutive	<b>18,225</b>	17,785	<b>18,157</b>	17,819
Net earnings per share: Basic	<b>0.10</b>	(0.01)	<b>0.29</b>	0.12
Net earnings per share: Diluted	<b>0.09</b>	(0.01)	<b>0.28</b>	0.12

### 13. Financial instruments

#### a) Fair values

The Company's financial instruments recognized on the consolidated statements of financial position consist of accounts receivable, accounts payable and accrued liabilities and long term debt. The fair values of these financial instruments, excluding long term debt, approximate their carrying amounts due to their short- term maturity. At June 30, 2011, the fair value of the long term debt approximated their carrying values due to their floating interest rate nature and short term maturity. Long term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

#### b) Credit Risk is described in Note 4.

#### c) Market Risk and Risk Management

The Company's long term debt bears interest based on floating interest rates. As a result the Company is exposed to market risk from changes in the Canadian prime interest rate which can impact its borrowing costs. Based on the Company's borrowing levels as at June 30, 2011, a change of one percent in interest rates would decrease or increase the Company's annual net income by \$0.1 million.

From time to time the Company enters into foreign exchange forward contracts to manage its foreign exchange market risk by fixing the value of its liabilities and future commitments. The Company is exposed to possible losses in the event of non-performance by counterparties. The Company manages this credit risk by entering into agreements with counterparties that are substantially all investment grade financial institutions. The Company's foreign exchange risk arises principally from the settlement of United States dollar dominated net working capital balances as a result of product purchases denominated in United States dollars. As at June 30, 2011, the Company had contracted to purchase US\$19.4 million at fixed exchange rates with terms not exceeding nine months (December 31, 2010 - \$6.5 million). The fair market values of the contracts were nominal at June 30, 2011 and December 31, 2010 respectively. As at June 30, 2011, a one percent change in the Canadian dollar relative to the US dollar would be expected to not have a material impact on net earnings.

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### 14. Selling, general and administrative ("SG&A") Costs

Selling, general and administrative costs for the three and six month periods ended June 30 are as follows:

	Three months ended				Six months ended			
	2011		2010		2011		2010	
	\$	%	\$	%	\$	%	\$	%
Salaries and Benefits	10,021	61%	8,699	59%	20,313	61%	17,565	58%
Selling Costs	1,081	7%	940	6%	2,553	8%	2,739	9%
Facility and office costs	3,540	22%	3,436	23%	7,252	22%	6,865	23%
Other	1,757	10%	1,625	12%	3,262	9%	3,135	10%
SG&A costs	16,399	100%	14,700	100%	33,380	100%	30,304	100%

### 15. Segmented reporting

The Company distributes oilfield products principally through its network of 45 branches located in western Canada primarily to oil and gas industry customers. Accordingly, the Company has determined that it operated through a single operating segment and geographic jurisdiction.

### 16. Seasonality

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. Revenue levels drop dramatically during the second quarter until such time as roads have dried and road bans have been lifted. This typically results in a significant reduction in earnings during the second quarter, as the decline in revenues typically out paces the decline in SG&A costs as the majority of the Company's SG&A costs are fixed in nature. Net working capital (defined as current assets less cash and cash equivalents, accounts payable and accrued liabilities, income taxes payable and other current liabilities) and bank revolving loan borrowing levels follow similar seasonal patterns as revenues.