

## NEWS RELEASE

### FOR IMMEDIATE RELEASE

#### **CE Franklin Ltd. announces 2008 First Quarter Results**

Calgary, Alberta, April 24, 2008 - CE FRANKLIN LTD. (TSX.CFT, AMEX.CFK) announced its results for the first quarter of 2008

CE Franklin reported net income of \$6.3 million or \$0.34 per share (basic) for the first quarter ended March 31, 2008, comparable to net income of \$6.4 million or \$0.35 per share earned in the first quarter ended March 31, 2007.

#### **Financial Highlights**

(millions of Cdn.\$ except per share data)	Three Months Ended	
	March 31	
	2008	2007
	(unaudited)	
<b>Sales</b>	\$ 140.6	\$ 154.3
<b>Gross Profit</b>	27.1	26.3
<b>Gross Profit - % of sales</b>	19.2%	17.1%
<b>EBITDA<sup>(1)</sup></b>	10.2	11.0
<b>EBITDA<sup>(1)</sup> as a % of sales</b>	7.2%	7.1%
<b>Net Income</b>	\$ 6.3	\$ 6.4
<b>Per Share</b>		
<b>Basic</b>	\$ 0.34	\$ 0.35
<b>Diluted</b>	\$ 0.34	\$ 0.34
<b>Net Working Capital<sup>(2)</sup></b>	\$ 117.4	\$ 124.0
<b>Bank Operating Loan<sup>(2)</sup></b>	21.8	33.6

“The Company’s bottom line performance remained consistent and net working capital efficiency improved in the first quarter compared to the prior year period, despite a 26% decline in western Canadian well completions which adversely impacted demand for CE Franklin’s products,” said Michael West, Chairman, President and CEO.

Net income for the first quarter of 2008 was \$6.3 million, down \$0.1 million (1%) from the first quarter of 2007. Sales declined by 9% due to an overall reduction in industry capital expenditure activity in the first quarter of 2008 as well completions declined by 26% compared to the prior year period. This was partially offset by increased sales from JEN Supply Inc. and Full Tilt Field Services Limited acquired in the last half of 2007. Gross profit increased by \$0.8 million over the prior year period as the impact of lower sales was more than offset by the increase in gross profit margins. Gross profit margins reached 19.2% up from 17.1% in the prior year period due mainly to increased high margin MRO sales and a large, low margin oilsands order in the first quarter of 2007. Selling, general and administrative expenses increased by \$1.6 million to \$16.9 million due mainly to the addition of people and facility costs associated with the two acquisitions completed in the last half of 2007. Lower interest expense was associated with reduced average debt levels and floating interest rates in the first quarter of 2008. Income taxes declined by \$0.3 million in the first quarter compared to the prior year period due to lower pre-tax earnings and a reduction in the income tax rates. The weighted average number of shares outstanding during the first quarter was comparable to the prior year period. Net income per share (basic) was \$0.34 in the first quarter of 2008 compared to \$0.35 in the first quarter of 2007.

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

## **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 reduced oil and gas industry activity in western Canada entering 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.

Through the first quarter of 2008, natural gas and oil prices have continued to firm. On April 10, 2008, the Alberta government announced certain enhancements to royalty rates designed to improve the economics of production from deep wells drilled commencing in 2009. Taken together, industry cash flow economics and activity levels are beginning to improve.

Over the medium to longer term, the Company is optimistic that its strong competitive position will enable it 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.

## **Additional Information**

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

## **Conference Call and Webcast Information**

A conference call to review the 2008 first quarter results, which is open to the public, will be held on Friday, April 25 at 11:00 a.m. Eastern Time (9:00 a.m. Mountain Time).

Participants may join the call by **dialing 1-416-644-3414 in Toronto or dialing 1-800-733-7571 at the scheduled time of 11:00 a.m. Eastern Time**. For those unable to listen to the live conference call, a replay will be available at approximately 1:00 p.m. Eastern Time on the same day by calling **1-416-640-1917 in Toronto or dialing 1-877-289-8525** and entering the pass code of **21267188** followed by the pound sign and may be accessed until midnight Monday, May 5, 2008.

The call will also be webcast live at:

<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2209460> and will be available on the Company's website at <http://www.cefranklin.com>.

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

#### **About CE Franklin**

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

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

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

Investor Relations  
800-345-2858  
403-531-5604  
[investor@cefranklin.com](mailto:investor@cefranklin.com)

\*\*\*\*\*

## **Management's Discussion and Analysis as at April 24, 2008**

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

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

### **OVERVIEW**

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

The Company's branch operations service over 3,000 customers by providing the right materials where they are needed, on time, and for the best value. Our branches, supported by our centralized distribution centre in Edmonton, Alberta, stock over 25,000 stock keeping units. This 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 AMEX ("CFK") stock exchanges. Smith International Inc. ("Smith"), a major oilfield service company based in the United States, owns approximately 53% of the Company's shares.

### **Business and Operating Strategy**

The Company is pursuing 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") in December 2007.
- Leverage our existing supply chain infrastructure, product and project expertise by focusing on the emerging oilsands projects and Maintenance, Repair and Operating ("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, positions 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, a wholly owned subsidiary of Smith, 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 reduced oil and gas industry activity in western Canada entering 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.

Through the first quarter of 2008, natural gas and oil prices have continued to firm. On April 10, 2008, the Alberta government announced certain enhancements to royalty rates designed to improve the economics of production from deep wells drilled commencing in 2009. Taken together, industry cash flow economics and activity levels are beginning to improve.

Over the medium to longer term, the Company is optimistic that its strong competitive position will enable it 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.

## Operating Results

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

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

**For the three months ended March 31**

	2008		2007	
	Amount	%	Amount	%
<b>Sales</b>	\$ 140.6	100.0%	\$ 154.3	100.0%
Cost of sales	(113.5)	(80.8)%	(127.9)	(82.9)%
Gross profit	27.1	19.2%	26.4	17.1%
<b>Selling, general and administrative expenses</b>	(16.9)	(12.0)%	(15.3)	(10.0)%
<b>Foreign exchange loss</b>	-	0.0%	(0.1)	0.0%
<b>EBITDA<sup>(1)</sup></b>	10.2	7.2%	11.0	7.1%
<b>Amortization</b>	(0.6)	(0.4)%	(0.8)	(0.5)%
<b>Interest</b>	(0.4)	(0.3)%	(0.6)	(0.4)%
<b>Income before taxes</b>	9.2	6.5%	9.6	6.2%
<b>Income tax expense</b>	(2.9)	(2.0)%	(3.2)	(2.1)%
<b>Net income</b>	6.3	4.5%	6.4	4.1%
<b>Net income per share</b>				
Basic (Cdn. \$)	\$ 0.34		\$ 0.35	
Diluted (Cdn. \$)	\$ 0.34		\$ 0.34	
<b>Weighted average number of shares outstanding (000's)</b>				
Basic	18,333		18,235	
Diluted	18,523		18,735	

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

necessary component of the Company's expenses because the Company borrows money to finance its working capital and capital expenditures. Income tax expense is a necessary component of the Company's expenses because the Company is required to pay cash income taxes. Amortization expense is a necessary component of the Company's expenses because the Company uses property and equipment to generate sales. Management compensates for these limitations to the use of EBITDA by using EBITDA as only a supplementary measure of profitability. EBITDA is not used by management as an alternative to net income, as an indicator of the Company's operating performance, as an alternative to any other measure of performance in conformity with generally accepted accounting principles or as an alternative to cash flow from operating activities as a measure of liquidity. A reconciliation of EBITDA to Net Income is provided within the 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.

## First Quarter Results

Net income for the first quarter of 2008 was \$6.3 million, down \$0.1 million (1%) from the first quarter of 2007. Sales declined by 9% due to an overall reduction in industry capital expenditure activity in the first quarter of 2008 as well completions declined by 26% compared to the prior year period. This was partially offset by increased sales from JEN Supply and Full Tilt acquired in the last half of 2007. Gross profit increased by \$0.8 million over the prior year period as the impact of lower sales was more than offset by the increase in gross profit margins. Gross profit margins reached 19.2% up from 17.1% in the prior year period due mainly to increased high margin MRO sales and a large, low margin oilsands order in the first quarter of 2007. Selling, general and administrative expenses increased by \$1.6 million to \$16.9 million due mainly to the addition of people and facility costs associated with the two acquisitions completed in the last half of 2007. Lower interest expense was associated with reduced average debt levels and floating interest rates in the first quarter of 2008. Income taxes declined by \$0.3 million in the first quarter compared to the prior year period due to lower pre-tax earnings and a reduction in income tax rates. The weighted average number of shares outstanding during the first quarter was comparable to the prior year period. Net income per share (basic) was \$0.34 in the first quarter of 2008 compared to \$0.35 in the first quarter of 2007.

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

## Sales

Sales for the quarter ended March 31, 2008 were \$140.6 million, down 9% from the quarter ended March 31, 2007, principally due to lower product sales used in customer capital projects reflecting the decline in oil and gas industry capital expenditures levels discussed previously.

(in millions of Cdn. \$)

### For the three months ended March 31

	2008		2007	
	\$	%	\$	%
<b>End use sales demand</b>				
Capital projects	78.0	55	94.9	61
Maintenance, repair and operating supplies (MRO)	62.6	45	59.4	39
<b>Total sales</b>	<b>140.6</b>	<b>100</b>	<b>154.3</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 first quarter of 2008 and 2007 respectively.

	<b>Average for Q1</b>		<b>% change</b>
	<b>2008</b>	<b>2007</b>	
Gas - Cdn. \$/gj (AECO spot)	\$7.92	\$7.40	7%
Oil - Cdn. \$/bbl (Edmonton Light)	\$97.81	\$67.56	45%
Average rig count	561	563	0%
Well completions:			
Gas	3,293	4,573	(28%)
Oil	1,302	1,627	(20%)
Total well completions	4,595	6,200	(26%)

*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 \$78.0 million in the first quarter of 2008, down 18% (\$16.9 million) from the first quarter of 2007. Total well completions declined by 26% to 4,595 in the first quarter 2008 while the average working rig count remained consistent at 561, despite a slow start to 2008. Gas wells comprised 72% of the total wells completed in western Canada in the first quarter of 2008 compared to 74% in the first quarter of 2007. Lower oil and gas capital expenditure activity continued into the first quarter of 2008 resulting from a continuation of high 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. Well completions for the remainder of 2008 should benefit from the increase in average rig counts experienced during the first quarter of 2008 compared to the prior year period, which should translate into stronger demand for the Company's products. Spot gas and oil prices ended the first quarter at \$9.41 per GJ (AECO spot) and \$108.40 per bbl (Edmonton light), an increase of 19% and 11% respectively over first quarter average prices. This should result in improved industry cash flow and capital expenditure economics, which in turn should increase demand for the Company's products.

MRO product sales are related to overall oil and gas industry production levels and tend to be more stable than capital project sales. MRO product sales for the quarter ended March 31, 2008 increased 5% to \$62.6 million compared to the quarter ended March 31, 2007 and comprised 45% of the Company's total sales. The increase in sales was mainly attributable to the acquisition of JEN Supply and Full Tilt in the last half of 2007.

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 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:

<b>For the three months ended March 31</b>	<b>2008</b>		<b>2007</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Sales (\$millions)</b>				
Western Canada oil field	132.3	94	141.6	92
Oil Sands	2.5	2	9.1	6
Production Services	4.3	3	2.0	1
International	1.5	1	1.5	1
Total Sales	140.6	100	154.2	100

Sales of oilfield products to conventional western Canada oil and gas end use applications were \$132.3 million for the first quarter of 2008, down 7% from the first quarter of 2007 consistent with the decline in industry activity levels described previously. In December 2007, the Company acquired JEN Supply, an oilfield equipment distributor that operated four branches in east central Alberta. These locations contributed approximately \$3 million to sales, reducing the impact of the decline in industry activity for the quarter. Two of these operations were in existing markets where the Company had operations and have been combined. Sales to oilsands end use applications declined by \$6.6 million in the first quarter of 2008

compared to the first quarter of 2007. In the first quarter of 2007, the Company had a large, low margin oilsands order. 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 were \$4.3 million in the first quarter of 2008, more than double the sales in the first quarter of 2007. 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 during the year 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 remained consistent at \$1.5 million in the first quarter of 2008 and are serviced by our Edmonton distribution centre. Sales activity from the Libyan oilfield equipment joint venture established in 2007 has been minimal to date and is anticipated to increase as operations gain momentum.

<b>For the three months ended March 31</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
<b>Gross Profit</b>		
Gross profit ( <i>millions</i> )	\$27.1	\$26.3
Gross profit margin as a % of sales	19.2%	17.1%
Gross profit composition by product sales category:		
Tubulars	8%	8%
Pipe, flanges and fittings	27%	31%
Valves and accessories	21%	21%
Pumps, production equipment and services	14%	13%
General	<u>30%</u>	<u>27%</u>
Total Gross Profit	100%	100%

Gross profit reached \$27.1 million in the first quarter of 2008, up \$0.8 million (3%) from the first quarter of 2007 due to an increase in higher margin MRO sales and a large, low margin oilsands order in the first quarter of 2007. Gross profit composition in the first quarter of 2008 decreased for pipe, flanges and fittings and increased in the general category consistent with the changes in sales mix described previously. All other categories remained fairly consistent.

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

<b>For the three months ended March 31</b>	<b><u>2008</u></b>		<b><u>2007</u></b>	
<b>Sales (\$millions)</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
People costs	10.3	61	9.0	59
Selling costs	2.1	12	2.1	14
Facility and office costs	2.7	16	2.5	16
Other	<u>1.8</u>	<u>11</u>	<u>1.7</u>	<u>11</u>
SG&A Costs	16.9	100	15.3	100
SG&A costs a % of sales	12%		10%	

SG&A costs increased 10% (\$1.6 million) in the first quarter of 2008 from the prior year period principally due to the increase in people and facility costs associated with the acquisition of JEN Supply and Full Tilt. The integration of JEN Supply was substantially complete by the end of the first quarter of 2008. Selling costs at \$2.1 million were comparable to the prior year period as increased accounts receivable bad debt charges were offset by reduced agent commissions due to the acquisition of two agent operated branches in the first quarter of 2007. Facility and office costs are expected to increase in the second quarter of 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 locations 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.

### Amortization Expense

Amortization expense was \$0.6 million in the first quarter of 2008 down slightly from \$0.8 million in the first quarter of 2007.

### Interest Expense

Interest expense was \$0.4 million in the first quarter of 2008, down \$0.2 million (25%) from the first quarter of 2007 due to lower average borrowing levels and a decline in average floating interest rates.

### Foreign Exchange Loss (Gain)

Foreign exchange gains were nominal in the first quarter of 2008 compared to a \$0.1 million loss in the first quarter of 2007.

### Income Tax Expense

The Company's effective tax rate for the first quarter of 2008 was 31.3%, compared to 34.0% in the first quarter of 2007 due principally to a reduction in tax rates. Substantially all of the Company's tax provision is currently payable.

## SUMMARY OF QUARTERLY FINANCIAL DATA

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

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

Unaudited	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	2006	2006	2006	2007	2007	2007	2007	2008
<b>Sales</b>	\$ 115.9	\$ 131.7	\$ 130.6	\$ 154.3	\$ 82.9	\$ 116.8	\$ 112.3	\$ 140.6
<b>Gross profit</b>	22.5	23.7	25.0	26.3	16.8	21.0	20.4	27.1
<b>EBITDA</b>	7.0	8.4	9.6	11.0	2.2	7.4	5.1	10.2
<b>EBITDA as a % of sales</b>	6.0%	6.4%	7.4%	7.1%	2.7%	6.3%	4.5%	7.2%
<b>Net income</b>	3.9	4.7	5.4	6.4	0.6	4.1	2.4	6.3
<b>Net income as a % of sales</b>	3.4%	3.6%	4.1%	4.1%	0.7%	3.5%	2.1%	4.5%
<b>Net income per share</b>								
Basic (Cdn. \$)	\$ 0.21	\$ 0.26	\$ 0.30	\$ 0.35	\$ 0.03	\$ 0.22	\$ 0.13	\$ 0.34
Diluted (Cdn. \$)	\$ 0.21	\$ 0.25	\$ 0.29	\$ 0.34	\$ 0.03	\$ 0.22	\$ 0.13	\$ 0.34
<b>Net working capital<sup>(1)</sup></b>	117.4	130.6	120.2	124.0	127.0	128.7	134.7	117.4
<b>Bank operating loan<sup>(1)</sup></b>	41.0	49.6	34.0	33.6	36.0	35.4	44.3	21.8

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

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

## **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 required to maintain its operations and growth capital expenditures.

As at March 31, 2008, borrowings under the Company's bank operating loan were \$21.8 million, a decrease of \$22.5 million from December 31, 2007. Borrowing levels have decreased due to the Company generating \$7.1 million in cash flow from operating activities, before net change in non-cash working capital balances and a \$17.5 million reduction in net working capital. This was offset by \$0.9 million in capital and other expenditures, \$0.7 million in repayments of long term debt and capital lease obligations and \$0.5 million for the purchase of shares to resource stock compensation obligations.

For the three months ended March 31, 2007, the Company generated \$7.8 million in cash from cash flow from operating activities, before net change in non-cash working capital balances and \$0.2 million in the issuance of capital stock from the exercise of employee stock options. Cash used during the quarter consisted of a \$4.3 million increase in net working capital, \$2.4 million related to the acquisition of two agent operated branches, \$0.3 million on repayment of long term debt, \$0.2 million for the purchase of shares to resource stock compensation obligations, and \$0.4 million in capital and other expenditures. These activities resulted in a \$0.4 million decrease in the bank operating loan.

Net working capital was \$117.4 million at March 31, 2008, a decrease of \$17.2 million from December 31, 2007. Accounts receivable increased by \$23.1 million (26%) to \$112.4 million at March 31, 2008 from December 31, 2007, due to a 25% increase in sales and an 8% increase in days sales outstanding in accounts receivable ("DSO") in the first quarter of 2008 compared to the fourth quarter of 2007. DSO was 67 days for the first quarter of 2008 compared to 62 days in the fourth quarter 2007 and 56 days in the first quarter 2007. The deterioration in DSO performance during the first quarter was due in part to temporary issues associated with the implementation of a new invoicing system. DSO is calculated using annualized sales for the quarter compared to the period end accounts receivable balance. Inventory decreased by \$8.2 million (9%) at March 31, 2008 from December 31, 2007. Inventory turns for the first quarter of 2008 improved to 5.8 times compared to 5.6 times in the first quarter of 2007 and 4.3 times in the fourth quarter of 2007. Inventory turns are calculated using cost of goods sold for the quarter on an annualized basis compared to the period end inventory balance. The company will continue to adjust its investment in inventory in order to align with anticipated activity levels in order to improve inventory turnover efficiency. Accounts payable and accrued liabilities increased by \$27.9 million (62%) in the first quarter of 2008 from December 31, 2007 due to a seasonal increase in purchasing combined with slower payment to suppliers.

The Company has a 364 day bank operating loan facility in the amount of \$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 average debt to 2.25 times trailing twelve month EBITDA. As at March 31, 2008, the Company's average debt to EBITDA ratio was 1.3 times (March 31, 2007 – 1.1 times) which provides a maximum borrowing ability of approximately \$60 million under the facility (March 31, 2007 - \$75 million). As at March 31, 2008, the ratio of the Company's debt to total capitalization (debt plus equity) was 15% (March 31, 2007 – 24%).

### **CAPITAL STOCK**

The weighted average number of shares outstanding during the first quarter 2008 was 18.3 million, an increase of 0.1 million shares over the prior year's first quarter due principally to the exercise of stock options and restricted share units, offset by the purchase of common shares to resource restricted share unit obligations. The diluted weighted average number of shares outstanding at March 31, 2008 was 18.5 million, consistent with the first quarter of 2007.

As at March 31, 2008 and 2007, the following shares and securities convertible into shares, were outstanding:

<i>(millions)</i>	<b>March 31, 2008</b>	March 31, 2007
	<b>Shares</b>	Shares
<b>Shares outstanding</b>	<b>18.3</b>	18.2
<b>Stock Options</b>	<b>1.3</b>	0.8
<b>Restricted Share units</b>	<b>0.2</b>	0.2
<b>Shares outstanding and issuable</b>	<b>19.8</b>	19.2

The Company has established an independent trust to purchase common shares of the Company on the open market to resource restricted share unit obligations. In the first quarter of 2008, the trust acquired 75,000 common shares (Q1 2007 – 15,200 common shares) at an average cost of \$6.62 per share (Q1 2007 - \$11.38 per share).

### **Contractual Obligations**

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

### **Critical Accounting Estimates**

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

### **Change in Accounting Policies**

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

Effective January 1, 2008, the Company adopted Section 3031 – Inventories. The standard sets out to prescribe the accounting treatment for inventories and provide guidance on the determination of cost and subsequent recognition of expenses. The adoption of Section 3031 did not impact the determination of inventory cost and expenses recorded by the Company. Inventory obsolescence expense of \$160,000 was recognized in the three month period ending March 31, 2008 (2007- \$175,000). As at March 31, 2008 and December 31, 2007 the Company had recorded reserves for inventory obsolescence of \$2.0 million and \$1.8 million, respectively.

### **Controls and Procedures**

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Canadian GAAP in its financial statements. The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Company have evaluated whether there were changes to its ICFR during the three months ended March 31, 2008 that have materially affected or are reasonably likely to materially affect the ICFR. No such changes were identified through their evaluation.

### **Risk Factors**

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

## Forward Looking Statements

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

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

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

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

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

## Other Items

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

# CE Franklin Ltd.

## Interim Consolidated Balance Sheets - Unaudited

(in thousands of Canadian dollars)

	March 31 2008	December 31 2007
<b>Assets</b>		
<b>Current assets</b>		
Accounts receivable	112,430	89,305
Inventories	78,342	86,414
Other	1,289	3,781
	<b>192,061</b>	<b>179,500</b>
<b>Property and equipment</b>	<b>6,123</b>	<b>6,398</b>
<b>Goodwill</b>	<b>20,809</b>	<b>20,523</b>
<b>Future income taxes (note 3)</b>	<b>1,481</b>	<b>1,403</b>
<b>Other</b>	<b>979</b>	<b>891</b>
	<b>221,453</b>	<b>208,715</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank operating loan	21,762	44,301
Accounts payable and accrued liabilities	72,699	44,807
Income taxes payable	1,956	-
Current portion of long term debt and capital lease obligations	208	805
	<b>96,625</b>	<b>89,913</b>
<b>Long term debt and capital lease obligations</b>	<b>528</b>	<b>582</b>
	<b>97,153</b>	<b>90,495</b>
<b>Shareholders' Equity</b>		
Capital stock	23,870	24,306
Contributed surplus	17,905	17,671
Retained earnings	82,525	76,243
	<b>124,300</b>	<b>118,220</b>
	<b>221,453</b>	<b>208,715</b>

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

## Interim Consolidated Statements of Operations - Unaudited

Three Months Ended March 31

<i>(in thousands of Canadian dollars except shares and per share amounts)</i>	<b>2008</b>	2007
<b>Sales</b>	<b>140,582</b>	154,255
<b>Cost of sales</b>	<b>113,521</b>	127,944
<b>Gross profit</b>	<b>27,061</b>	26,311
<b>Other expenses (income)</b>		
Selling, general and administrative expenses	<b>16,873</b>	15,266
Amortization	<b>617</b>	759
Interest expense	<b>438</b>	583
Foreign exchange (gain)/loss	<b>(2)</b>	54
	<b>17,926</b>	16,662
<b>Income before income taxes</b>	<b>9,135</b>	9,649
<b>Income tax expense (recovery) (note 3)</b>		
Current	<b>2,931</b>	3,227
Future	<b>(78)</b>	49
	<b>2,853</b>	3,276
<b>Net and comprehensive income for the period</b>	<b>6,282</b>	6,373
<b>Net income per share (note 2)</b>		
Basic	<b>0.34</b>	0.35
Diluted	<b>0.34</b>	0.34
<b>Weighted average number of shares outstanding (000's)</b>		
Basic	<b>18,333</b>	18,235
Diluted	<b>18,523</b>	18,735

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

## Interim Consolidated Statements of Cash Flow - Unaudited

Three Months Ended March 31 (in thousands of Canadian dollars)	2008	2007
<b>Cash flows from operating activities</b>		
Net income for the period	6,282	6,373
Items not affecting cash -		
Amortization	617	759
Future income tax (recovery) expense	(78)	49
Stock based compensation expense	293	386
	7,114	7,567
Net change in non-cash working capital balances related to operations -		
Accounts receivable	(23,039)	(18,277)
Inventories	8,515	6,279
Other current assets	1,620	(786)
Accounts payable and accrued liabilities	27,766	9,376
Income taxes payable	2,646	(714)
	24,622	3,445
<b>Cash flows (used in)/ from financing activities</b>		
(Decrease)/Increase in bank operating loan	(22,539)	3,208
Decrease in capital lease obligations and long term debt	(651)	(340)
Issuance of capital stock	1	214
Purchase of capital stock in trust for RSU Plans	(496)	(173)
	(23,685)	2,909
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment	(937)	(406)
Business acquisitions	-	(2,377)
	(937)	(2,783)
<b>Change in cash and cash equivalents during the period</b>	-	3,571
<b>Cash and cash equivalents- Beginning of period</b>	-	-
<b>Cash and cash equivalents – End of period</b>	-	3,571
Cash paid during the period for:		
Interest on bank operating loan	430	575
Interest on capital lease obligations and long term debt	8	8
Income taxes	163	3,941

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

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

(in thousands of Canadian dollars and number of shares)

	Capital Stock		Contributed Surplus	Retained Earnings	Shareholders' Equity
	Number of Shares	\$			
<b>Balance - December 31, 2006</b>	18,223	23,586	16,213	62,676	102,475
Stock based compensation expense	-	-	386	-	386
Stock options exercised	63	305	(91)	-	214
Restricted share units (RSU's) exercised	10	202	(202)	-	-
Purchase of shares in trust for RSU plans	(15)	(173)	-	-	(173)
Net income	-	-	-	6,373	6,373
<b>Balance - March 31, 2007</b>	<b>18,281</b>	<b>23,920</b>	<b>16,306</b>	<b>69,049</b>	<b>109,275</b>
<b>Balance - December 31, 2007</b>	18,370	24,306	17,671	76,243	118,220
Stock based compensation expense	-	-	293	-	293
Stock options exercised	2	6	(5)	-	1
RSU's exercised	3	54	(54)	-	-
Purchase of shares in trust for RSU Plans	(75)	(496)	-	-	(496)
Net income	-	-	-	6,282	6,282
<b>Balance - March 31, 2008</b>	<b>18,300</b>	<b>23,870</b>	<b>17,905</b>	<b>82,525</b>	<b>124,300</b>

See accompanying notes to these interim consolidated financial statements.

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

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

### Note 1 - Accounting Policies

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

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

Effective January 1, 2008, the Company adopted Section 3031 – Inventories. The standard establishes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition of expenses. The adoption of Section 3031 did not impact the determination of inventory costs and expense recorded by the Company. Inventories consisting primarily of goods purchased for resale are valued at the lower of average cost or net realizable value. Inventory obsolescence expense of \$160,000 was recognized in the period ending March 31, 2008 (March 31, 2007- \$175,000). As at March 31, 2008 and December 31, 2007, the Company had recorded reserves for inventory obsolescence of \$2.0 million and \$1.8 million respectively.

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

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

### Note 2 – Share Data

At March 31, 2008, the Company had 18,296,818 common shares and 1,334,058 options outstanding to acquire common shares at a weighted average exercise price of \$5.81 per common share, of which 606,815 options were vested and exercisable at a weighted average exercise price of \$3.80 per common share.

#### a) Stock options

Option activity for each of the quarters ended March 31 was as follows:

<b>000's</b>	<b>2008</b>	<b>2007</b>
Outstanding at January 1	1,262	804
Granted	75	109
Exercised	(2)	(63)
Forfeited	(1)	(1)
<b>Outstanding at March 31</b>	<b>1,334</b>	<b>849</b>

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

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

The fair value of the options granted during the three month period ended March 31, 2008 was \$274,000 (March 31, 2007- \$521,000). The fair value of common share options granted in the first quarter of 2008 was estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

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

Stock Option compensation expense recorded in the three months ended March 31, 2008 was \$169,900 (2007 - \$118,280).

### b) Restricted share units

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

<b>000's</b>	<b>2008</b>		<b>2007</b>	
	<b>RSU</b>	<b>DSU</b>	<b>RSU</b>	<b>DSU</b>
Outstanding at January 1	178	37	120	12
Granted	-	-	65	-
Exercised	(3)	-	(10)	-
Forfeited	-	-	-	-
<b>Outstanding at March 31</b>	<b>175</b>	<b>37</b>	<b>175</b>	<b>12</b>

RSU compensation expense recorded in the three months ended March 31, 2008 was \$122,700 (2007- \$268,250).

The Company purchases its common shares on the open market to satisfy performance share unit obligations through an independent trust. The trust is considered to be a variable interest entity and is consolidated in the Company's financial statements with the number and cost of shares held in trust, reported as a reduction of capital stock. During the first quarter of 2008, 75,000 common shares were acquired by the trust (2007 – 15,200 common shares) at a cost of \$496,000 (2007 - \$173,000).

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

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

	<b>Three Months Ended</b>	
	<b>2008</b>	<b>2007</b>
Weighted average common shares outstanding- basic	18,333	18,235
Effect of Stock options and RSU Plans	190	500
<b>Weighted average common shares outstanding- diluted</b>	<b>18,523</b>	<b>18,735</b>

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

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

### Note 3 – Income taxes

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

	Three Months Ended			
	March 31 2008	%	March 31 2007	%
Income before income taxes	9,135		9,649	
Income taxes calculated at expected rates	2,736	29.9	3,147	32.6
Non-deductible items	83	0.9	135	1.4
Capital and large corporations taxes	8	0.1	11	0.1
Adjustments on filing returns & other	26	0.3	(17)	(0.1)
	2,853	31.2	3,276	34.0

As at March 31, 2008, income taxes payable are \$1.956 million (December 31 2007 – Income taxes receivable included in other current assets were \$0.848 million).

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

	March 31 2008	December 31 2007
<b>Assets</b>		
Financing charges	95	103
Property and equipment	891	874
Stock compensation expense & Other	870	786
	1,856	1,763
<b>Liabilities</b>		
Goodwill	375	360
<b>Net future income tax asset</b>	1,481	1,403

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

### Note 4- Capital Management

The Company's primary source of capital is its shareholder's equity and cash flow from operating activities before net changes in non-cash working capital balances. The Company augments these capital sources with a \$75 million, 364 day operating facility which is used to finance its net working capital and general corporate requirements. The Company's bank operating facility limits its annual average debt to EBITDA ratio to 2.25 times.

As at March 31, 2008, this ratio was 1.3 times (December 31, 2007 – 1.4 times). In management's opinion, the Company's available borrowing capacity under its bank operating facility and ongoing cash flow from operations, are sufficient to resource its anticipated contractual commitments. The facility contains certain other restrictive covenants, which the Company was in compliance with as at March 31, 2008. The Company anticipates that its 364 day bank operating loan will be extended in 2008 in the normal course.

### Note 5 – Financial Instruments and Risk Management

#### a) Fair Values

The Company's financial instruments recognized on the consolidated balance sheet consist of accounts

# CE Franklin Ltd.

## Notes to Interim Consolidated Financial Statements - Unaudited

---

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

receivable, accounts payable and accrued liabilities, bank operating loan, long term debt and obligations under capital leases. The fair values of these financial instruments, excluding the bank operating loan, long term debt and obligations under capital leases, approximate their carrying amounts due to their short- term maturity. At March 31, 2008, the fair value of the bank operating loan, long term debt and obligations under capital leases approximated their carrying values due to their floating interest rate nature and short term maturity.

### b) Credit Risk

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

### c) Market Risk

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

### d) Risk Management

From time to time the Company enters into foreign exchange forward contracts to manage its foreign exchange market risk by fixing the value of its liabilities and future commitments. As at March 31, 2008, the Company had contracted to purchase US\$2.0 million at a fixed exchange rate maturing in September, 2008. The fair market value of the contract is nominal.

### Note 6 – Related Party Transactions

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

	<b>March 31</b>	<b>March 31</b>
	<b>2008</b>	<b>2007</b>
Cost of sales for the Three months ended	3,056	2,304
Inventory	4,295	3,851
Accounts Payable and accrued liabilities	943	953

### Note 7 - Segmented reporting

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