

NEWS RELEASE

FOR IMMEDIATE RELEASE

CE Franklin Ltd. announces 2010 Third Quarter Results

Calgary, Alberta, October 28, 2010 – CE FRANKLIN LTD. (TSX.CFT, NASDAQ.CFK) reported net income of \$2.2 million or \$0.12 per share for the third quarter ended September 30, 2010, compared to net income of \$0.2 million or \$0.01 per share earned in the third quarter ended September 30, 2009.

Financial Highlights

(millions of Cdn. \$ except per share data)	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	Unaudited		Unaudited	
Sales	\$ 132.2	\$ 94.1	\$ 353.9	\$ 344.0
Gross Profit	\$ 19.2	\$ 17.4	\$ 54.5	\$ 61.3
Gross Profit - % of sales	14.5%	18.5%	15.4%	17.8%
EBITDA ⁽¹⁾	\$ 3.8	\$ 0.5	\$ 8.7	\$ 11.7
EBITDA ⁽¹⁾% of sales	2.9%	0.5%	2.5%	3.4%
Net income	\$ 2.2	\$ 0.2	\$ 4.3	\$ 6.8
Per share				
Basic	\$ 0.12	\$ 0.01	\$ 0.24	\$ 0.38
Diluted	\$ 0.12	\$ 0.01	\$ 0.24	\$ 0.38
Net working capital ⁽²⁾	\$ 129.0	\$ 131.1		
Long term debt /Bank operating loan ⁽²⁾	\$ 14.4	\$ 21.3		

“Third quarter sales increased by 40% over the prior year period. Year over year improvement in oil and gas industry well completions and rig counts has continued to strengthen as the year has progressed and has contributed to increased CE Franklin sales. This momentum should continue as the year progresses,” said Michael West, President and CEO.

The Company recorded net income for the third quarter of 2010 of \$2.2 million, an increase of \$2.0 million from the third quarter of 2009. Third quarter sales, which are seasonally stronger than the second quarter, were \$132.2 million, an increase of \$38.1 million (40%) from the third quarter of 2009. Improvements in and stability of oil prices, as well as improved general economic conditions have lead to higher activity levels in the oil and gas industry, which in turn has lead to improved oilfield and oil sands sales compared to the prior year. Increased oilfield supply sales were driven by a 78% increase in industry well completions over the prior year period. Gross profit was up \$1.8 million (10%) as the impact of increased sales activity was partially offset by a 4.0% decline in average sales margins from the prior year period. Lower average margins were attributable to an increased mix of lower margin oil sands sales and the highly competitive oilfield supply industry environment. Selling, general and administrative expenses decreased by \$1.5 million (9%) to \$15.5 million compared to the prior year period due to the one-time integration costs associated with the acquisition of a Western Canadian oilfield supply competitor in June 2009 (the “Oilfield Supply Acquisition”) and lower agent commission costs. Income taxes increased by \$1.6 million in the third quarter of 2010 compared to the prior year period due to higher pre-tax earnings. The weighted average number of shares outstanding (basic) during the third quarter decreased by 0.2 million shares (1%) from the prior year period principally due to shares purchased for cancellation pursuant to the Company’s Normal Course Issuer Bid (“NCIB”). Net income per share (basic) was \$0.12 in the third quarter of 2010, compared to net income per share of \$0.01 earned in the prior year period.

Net income for the first three quarters of 2010 was \$4.3 million, down \$2.6 million from the first three quarters of 2009. Sales were \$353.9 million, an increase of \$9.9 million (3%) from the first three quarters of 2009. Higher sales reflect sales contributed from the Oilfield Supply Acquisition and increased industry demand driven by the 14% increase in well completions over the prior year period. Partially offsetting this was the absence of a \$32.4 million sale of oil sands pipe in the second quarter of 2009 and the rollover of tubular and other steel product prices and margins during 2009. Gross profit was down \$6.9 million (11%) as the increase in sales was offset by a 2.4% decline in average margins from the prior year period. The highly competitive oilfield supply industry environment continues to impact margins. Selling, general and administrative expenses decreased by \$3.8 million (8%) to \$45.8 million for the first three quarters of the year due to the absence of \$1.5 million of costs to integrate the Oilfield Supply Acquisition in 2009, and lower compensation, agent commission and bad debt costs incurred in 2010. Income taxes decreased by \$0.5 million in the first three quarters of 2010 compared to the prior year period due to lower pre-tax earnings. The weighted average number of shares outstanding (basic) during the first nine months decreased by 0.3 million shares (2%) from the prior year period principally due to shares purchased for cancellation pursuant to the Company's NCIB. Net income per share (basic) was \$0.24 in the first three quarters of 2010, compared to \$0.38 earned in the first three quarters of 2009.

Business Outlook

Oil and gas industry activity in 2010 continues to increase modestly from the decade-low levels experienced in 2009. Natural gas prices remain depressed as North American production capacity and inventory levels currently exceed demand. Natural gas capital expenditure activity is focused on the emerging shale gas plays in north eastern British Columbia where the Company has a strong market position. Conventional and heavy oil economics are reasonable at current price levels leading to moderate activity in eastern Alberta and south east Saskatchewan. The reduction in Alberta royalty rates announced during the second quarter is expected to result in improved drilling economics and industry activity. Industry well completions, which drive demand for the Company's capital project related products, have begun to accelerate in response to the significant increase in rig count activity compared to the prior year period. Oil sands project announcements are gaining momentum with the recovery in oil prices and access to capital markets. Approximately 50% to 60% of the Company's total sales are driven by our customer's capital expenditure requirements. CE Franklin's revenues are expected to increase modestly in the remainder of 2010 and into 2011 due to increased oil and gas industry activity and the expansion of the Company's product lines.

Sales margins are expected to remain under pressure as natural gas exploration customers focus on reducing their costs to maintain acceptable project economics, as well as continued aggressive oilfield supply industry competition and deflation in certain product lines. 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 income 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 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 excluding cash, less accounts payable and accrued liabilities, income taxes payable and other current liabilities, excluding the bank operating loan. Net working capital, bank operating loan and long term debt are as at quarter end.

Additional Information

Additional information relating to CE Franklin, including its second quarter 2010 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 and at www.cefranklin.com.

Conference Call and Webcast Information

A conference call to review the 2010 third quarter results, which is open to the public, will be held on Friday, October 29th, 2010 at 11:00 a.m. Eastern Time (9:00 a.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 1:00 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 **14372283** and may be accessed until midnight Friday, November 12, 2010.

The call will also be webcast live at: <http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=3237300> 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 oil sands, refining, heavy oil, petrochemical, forestry and mining industries. These products are distributed through its 49 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 October 28, 2010

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 and nine month period ended September 30, 2010, the interim consolidated financial statements and MD&A for the three and six month period ended June 30, 2010 and the three month period ended March 31, 2010 and the MD&A and the consolidated financial statements for the year ended December 31, 2009. All amounts are expressed in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), except 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 through its 49 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 required 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 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, a major oilfield service company based in Paris France, owns approximately 55% 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-site needs of large and emerging customers in the energy sector. Organic growth is expected to be complemented by selected acquisitions.
- 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 is expected to 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.

Business Outlook

Oil and gas industry activity in 2010 continues to increase modestly from the decade-low levels experienced in 2009. Natural gas prices remain depressed as North American production capacity and inventory levels currently dominate demand. Natural gas capital expenditure activity is focused on the emerging shale gas plays in north eastern British Columbia where the Company has a strong market position. Conventional and heavy oil economics are reasonable at current price levels leading to moderate activity in eastern Alberta and south east Saskatchewan. The reduction in Alberta royalty rates announced during the second quarter is expected to result in improved drilling economics and industry activity. Industry well completions, which drive demand for the Company's capital project related products, have begun to accelerate in response to the significant increase in rig count activity compared to the prior year period. Oil sands project announcements are gaining momentum with the recovery in oil prices and access to capital markets. Approximately 50% to 60% of the Company's total sales are driven by our customer's capital expenditure

requirements. CE Franklin's revenues are expected to increase modestly in the remainder of 2010 and into 2011 due to increased oil and gas industry activity and the expansion of the Company's product lines.

Sales margins are expected to remain under pressure as natural gas exploration customer's focus on reducing their costs to maintain acceptable project economics, as well as continued aggressive oilfield supply industry competition and deflation in certain product lines. 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.

Third Quarter Operating Results

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

(In millions of Cdn. Dollars except per share data and may not add due to rounding to millions)

	Three Months Ended September 30				Nine Months Ended September 30			
	2010		2009		2010		2009	
Sales	132.2	100.0%	94.1	100.0%	353.9	100.0%	344.0	100.0%
Cost of Sales	(113.0)	(85.5)%	(76.7)	(81.5)%	(299.5)	(84.6)%	(282.7)	(82.2)%
Gross profit	19.2	14.5%	17.4	18.5%	54.4	15.4%	61.3	17.8%
Selling, general and administrative expenses	(15.5)	(11.7)%	(17.0)	(18.1)%	(45.8)	(12.9)%	(49.7)	(14.4)%
other	0.1	0.1%	0.1	0.1%	-	0.0%	0.1	0.0%
EBITDA⁽¹⁾	3.8	2.9%	0.5	0.5%	8.6	2.5%	11.7	3.4%
Amortization	(0.6)	(0.5)%	(0.6)	(0.6)%	(1.8)	(0.5)%	(1.7)	(0.5)%
Interest	(0.1)	(0.1)%	(0.3)	(0.3)%	(0.5)	(0.1)%	(0.7)	(0.2)%
Income (loss) before taxes	3.1	2.4%	(0.4)	(0.5)%	6.3	1.9%	9.3	2.7%
Income tax expense	(0.9)	(0.7)%	0.6	0.6%	(2.0)	(0.6)%	(2.5)	(0.7)%
Net income	2.2	1.7%	0.2	0.1%	4.3	1.3%	6.8	2.0%
Net income per share								
Basic	\$ 0.12		\$ 0.01		\$ 0.24		\$ 0.38	
Diluted	\$ 0.12		\$ 0.01		\$ 0.24		\$ 0.38	
Weighted average number of shares outstanding (000's)								
Basic	17,461		17,647		17,518		17,795	
Diluted	17,783		17,908		17,838		18,036	

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Third Quarter Results

The Company recorded net income for the third quarter of 2010 of \$2.2 million, an increase of \$2.0 million from the third quarter of 2009. Third quarter sales, which are seasonally stronger than the second quarter, were \$132.2 million, an increase of \$38.1 million (40%) from the third quarter of 2009. Improvements in and stability of oil prices, as well as improved general economic conditions have lead to higher activity levels in the oil and gas industry, which in turn has lead to improved oilfield and oil sands sales compared to the prior year. Increased oilfield supply sales were driven by a 78% increase in industry well completions over the prior year period. Gross profit was up \$1.8 million (10%) as the impact of increased sales activity was partially offset by a 4.0% decline in average sales margins from the prior year period. Lower average margins were attributable to an increased mix of lower margin oil sands sales and the highly competitive oilfield supply industry environment. Selling, general and administrative expenses decreased by \$1.5 million (9%) to \$15.5 million compared to the prior year period due to the one-time integration costs associated with the acquisition of a Western Canadian oilfield supply competitor in June 2009 (the "Oilfield Supply Acquisition") and lower agent commission costs. Income taxes increased by \$1.6 million in the third quarter of 2010 compared to the prior year period due to higher pre-tax earnings. The weighted average number of shares outstanding (basic) during the third quarter decreased by 0.2 million shares (1%) from the prior year period principally due to shares purchased for cancellation pursuant to the Company's Normal Course Issuer Bid ("NCIB"). Net income per share (basic) was \$0.12 in the third quarter of 2010, compared to net income per share of \$0.01 earned in the prior year period.

Year to Date Results

Net income for the first three quarters of 2010 was \$4.3 million, down \$2.6 million from the first three quarters of 2009. Sales were \$353.9 million, an increase of \$9.9 million (3%) from the first three quarters of 2009. Higher sales reflect sales contributed from the Oilfield Supply Acquisition and increased industry demand driven by the 14% increase in well completions over the prior year period. Partially offsetting this was the absence of a \$32.4 million sale of oil sands pipe in the second quarter of 2009 and the rollover of tubular and other steel product prices and margins during 2009. Gross profit was down \$6.9 million (11%) as the increase in sales was offset by a 2.4% decline in average margins from the prior year period. The highly competitive oilfield supply industry environment continues to impact margins. Selling, general and administrative expenses decreased by \$3.8 million (8%) to \$45.8 million for the first three quarters of the year due to the absence of \$1.5 million of costs to integrate the Oilfield Supply Acquisition in 2009, and lower compensation, agent commission and bad debt costs incurred in 2010. Income taxes decreased by \$0.5 million in the first three quarters of 2010 compared to the prior year period due to lower pre-tax earnings. The weighted average number of shares outstanding (basic) during the first nine months decreased by 0.3 million shares (2%) from the prior year period principally due to shares purchased for cancellation pursuant to the Company's NCIB. Net income per share (basic) was \$0.24 in the first three quarters of 2010, compared to \$0.38 earned in the first three quarters of 2009.

Sales

Sales for the third quarter ended September 30, 2010, were \$132.2 million, up 40% from the quarter ended September 30, 2009, as detailed above in the "Third Quarter results" discussion.

(in millions of Cdn. \$)

	Three months ended Sept 30				Nine months ended Sept 30			
	2010		2009		2010		2009	
End use sales demand	\$	%	\$	%	\$	%	\$	%
Capital projects	66.7	50	48.4	51	182.4	52	199.5	58
Maintenance, repair and operating supplies (MRO)	65.5	50	45.7	49	171.5	48	144.5	42
Total Sales	132.2	100	94.1	100	353.9	100	344.0	100

Note: Capital project end use sales are defined by the Company as consisting of the tubular 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 relative level of oil and gas commodity prices are a key driver of industry capital project activity as product 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 nine month periods ended September 30, 2010 and 2009 are provided in the table below.

	Q3 Average			YTD Average		
	2010	2009	% change	2010	2009	% change
Gas - Cdn. \$/gj (AECO spot)	\$ 3.54	\$ 2.97	19%	\$ 4.12	\$ 3.79	9%
Oil - Cdn. \$/bbl (synthetic crude)	\$ 77.37	\$ 73.99	5%	\$ 79.30	\$ 65.93	20%
Average rig count	325	178	83%	309	197	57%
Well completions:						
Oil	1,484	822	81%	3,916	2,198	78%
Gas	1,127	646	74%	3,738	4,491	(17)%
Total well completions	2,611	1,468	78%	7,654	6,689	14%

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

Sales of capital project related products were \$66.7 million in the third quarter of 2010, up 38% (\$18.3 million) from the third quarter of 2009 due to increased industry capital project activity. Total well completions increased by 78% in the third quarter of 2010 and the average working rig count increased by 83% compared to the prior year period. Gas wells comprised 43% of the total wells completed in western Canada in the third quarter of 2010 compared to 44% in the third quarter of 2009. Spot gas prices ended the third quarter at \$3.55 per GJ (AECO), consistent with third quarter average prices. Oil prices ended the third quarter at \$81.17 per bbl (Synthetic Crude), which is a 5% increase from the third quarter average price. Depressed gas prices are expected to continue to negatively impact gas drilling activity over the remainder of 2010 and into 2011, which in turn is expected to constrain 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 September 30, 2010 were \$65.5 million which is a \$19.8 million increase from the \$45.7 million in the quarter ended September 30, 2009 and comprised 50% of the Company's total sales.

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 sales opportunities. Sales results of these initiatives to date are provided below:

Sales (\$millions)	Q3 2010		Q3 2009		YTD 2010		YTD 2009	
	\$	%	\$	%	\$	%	\$	%
Oilfield	104.2	79	87.9	93	292.5	83	282.3	82
Oil sands	23.7	18	3.4	4	49.8	14	54.4	16
Production services	4.3	3	2.8	3	11.6	3	7.3	2
Total sales	132.2	100	94.1	100	353.9	100	344.0	100

Sales of oilfield products to conventional western Canada oil and gas end use applications were \$104.2 million for the third quarter of 2010, up 19% from the third quarter of 2009. This increase was driven by the 78% increase in well completions compared to the prior year period.

Sales to oil sands end use applications were \$23.7 million in the third quarter, an increase of \$20.3 million compared to the third quarter of 2009. On a year to date basis, sales are below 2009 levels as the second quarter of 2009 included a \$32.4 million oil sands pipe sale that did not repeat in 2010. The Company continues to position its sales focus, Edmonton Distribution Centre and Fort McMurray branch to penetrate this emerging market for capital project and MRO products.

Production service sales were \$4.3 million in the third quarter of 2010, an increase of \$1.5 million compared to the third quarter of 2009, reflecting improved oil production economics resulting in increased customer maintenance activities that were deferred in 2009.

Gross Profit

	<u>Q3 2010</u>	<u>Q3 2009</u>	<u>YTD 2010</u>	<u>YTD 2009</u>
Gross profit (<i>millions</i>)	\$ 19.2	\$ 17.4	\$ 54.5	\$ 61.3
Gross profit margin as a % of sales	14.5%	18.5%	15.4%	17.8%

Gross profit composition by product sales category:

Tubulars	3%	3%	2%	6%
Pipe, flanges and fittings	28%	28%	29%	32%
Valves and accessories	20%	21%	20%	20%
Pumps, production equipment and services	15%	12%	14%	11%
General	34%	36%	35%	31%
Total gross profit	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Gross profit was \$19.2 million in the third quarter of 2010, an increase of \$1.8 million (10%) from the third quarter of 2009 as the increase in sales activity was partially offset by a 4.0% decline in average sales margins. Gross profit margins declined from 18.5% in the third quarter of 2009 to 14.5% in the third quarter of 2010. Lower sales margins reflect an increased mix of lower margin oil sands sales combined with a highly competitive oilfield supply industry. Lower year to date tubular gross profit composition reflects the rollover of tubular prices and margins that commenced in the second quarter of 2009.

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

(\$millions)	<u>Q3 2010</u>		<u>Q3 2009</u>		<u>YTD 2010</u>		<u>YTD 2009</u>	
	\$	%	\$	%	\$	%	\$	%
People costs	8.9	57	9.3	55	26.5	58	28.0	56
Facility and office costs	3.3	21	3.4	20	10.1	22	10.1	20
Selling costs	1.8	12	2.4	14	4.5	10	6.0	13
Other	1.5	10	1.9	11	4.7	10	5.6	11
SG&A costs	<u>15.5</u>	<u>100</u>	<u>17.0</u>	<u>100</u>	<u>45.8</u>	<u>100</u>	<u>49.7</u>	<u>100</u>
SG&A costs as % of sales	12%		18%		13%		14%	

SG&A costs have decreased \$1.5 million (9%) in the third quarter of 2010 from the prior year period and represented 12% of sales compared to 18% in the prior year period. Lower people costs reflect one-time stock based compensation costs recorded in the prior year period associated with the implementation of a cash settlement mechanic to the Company's stock option plan. Selling costs in the quarter are lower than the prior year period due to a \$0.6 million reduction in agent commissions (Year to date = \$1.0 million reduction). Other costs are lower in the third quarter of 2010 due to one-time costs incurred to integrate the Oilfield Supply Acquisition in the prior year period. The balance of the selling cost decline on a year to date basis is due to the recovery of a previously written off bad debt.

Amortization Expense

Amortization expense of \$0.6 million in the third quarter of 2010 was comparable to the third quarter of 2009.

Interest Expense

Interest expense of \$0.1 million in the third quarter of 2010 declined \$0.2 million from the prior year period due to lower average borrowing levels.

Foreign Exchange (Gain) Loss

Foreign exchange gains on United States dollar denominated product purchases and net working capital liabilities were \$0.1 million in the third quarter of 2010 and were consistent with the prior year quarter.

Income Tax Expense

The Company's effective tax rate for the third quarter of 2010 was 30.3% compared to 146.1% in the third quarter of 2009. The high effective tax rate in the prior year quarter resulted from implementing a cash settlement mechanism to the Company's stock option plan. Stock option expense was previously non-deductible for income tax purposes. Additionally, non-deductible items had a greater impact on the effective tax rate in the third quarter of 2009 due to the decrease in pre-tax income compared to the current year period. 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 Canadian GAAP. This information is derived from the Company's unaudited quarterly financial statements.

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

Unaudited	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Sales	\$ 161.2	\$ 140.7	\$ 109.1	\$ 94.1	\$ 93.0	\$ 121.9	\$ 99.9	\$ 132.2
Gross profit	33.9	26.4	17.5	17.4	15.3	19.7	15.6	19.2
Gross profit %	21.0%	18.8%	16.0%	18.5%	16.5%	16.1%	15.6%	14.5%
EBITDA	14.3	9.6	1.7	0.5	0.6	4.1	0.7	3.8
EBITDA as a % of sales	8.9%	6.8%	1.6%	0.5%	0.6%	3.4%	0.7%	2.9%
Net income (loss)	8.8	6.0	0.6	0.2	(0.5)	2.2	(0.1)	2.2
Net income (loss) as a % of sales	5.5%	4.3%	0.5%	0.2%	(0.5%)	1.8%	(0.1%)	1.6%
Net income (loss) per share								
Basic	\$ 0.48	\$ 0.33	\$ 0.04	\$ 0.01	(\$0.03)	\$ 0.13	(\$0.01)	\$ 0.12
Diluted	\$ 0.47	\$ 0.33	\$ 0.03	\$ 0.01	(\$0.03)	\$ 0.12	(\$0.01)	\$ 0.12
Net working capital⁽¹⁾	142.8	153.2	137.0	131.1	136.6	113.9	111.8	129.0
Long term debt /Bank operating loan⁽¹⁾	34.9	40.2	25.3	21.3	26.5	1.1	0.0	14.4
Total well completions	6,971	3,947	1,274	1,468	1,576	2,846	2,197	2,611

⁽¹⁾Net working capital, bank operating loan and long term debt 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 decline in sales 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 excluding cash, less accounts payable and accrued liabilities, income taxes payable and other current liabilities, excluding the bank operating loan) and bank operating loan borrowing levels follow similar seasonal patterns as sales.

Liquidity and Capital Resources

The Company's primary internal source of liquidity is cash flow from operating activities before net changes in non-cash working capital balances. Cash flow from operating activities and the Company's revolving term credit facility are used to finance the Company's net working capital, capital expenditures and acquisitions.

As at September 30, 2010, there were \$14.1 million of borrowings under the Company's revolving term bank loan, a decrease of \$12.5 million from December 31, 2009. Borrowing levels have decreased since December 31, 2009 due to the Company generating \$7.5 million in cash flow from operating activities, before net changes in non-cash working capital balances and a \$7.7 million reduction in net working capital. This was offset by \$1.1 million in capital and other expenditures, \$0.4 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.

As at September 30, 2009, borrowings under the Company's bank revolving term bank loan were \$21.3 million, a decrease of \$13.6 million from December 31, 2008. Borrowing levels decreased due to the Company generating \$10.3 million in cash flow from operating activities, before net changes in non-cash working capital balances and a \$19.8 million reduction in net working capital excluding the impact of the cash settled options and inventory addition related to the acquisition of the Acquired Business. This was offset by \$2.3 million in capital and other expenditures, \$11.3 million related to the Oilfield Supply Acquisition and \$2.9 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 \$129.0 million at September 30, 2010, a decrease of \$7.6 million from December 31, 2009. Accounts receivable increased by \$24.3 million (36%) to \$91.7 million at September 30, 2010 from December 31, 2009 due mainly to a 42% increase in sales partially offset by a 3% improvement in Days Sales Outstanding ("DSO"). DSO in the third quarter of 2010 was 58 days compared to 60 days in the fourth quarter of 2009 and 57 days in the third quarter of 2009. DSO is calculated using average sales per day for the quarter compared to the period end accounts receivable balance. Inventory decreased by \$6.6 million (6%) at September 30, 2010 from December 31, 2009. Inventory turns for the third quarter of 2010 improved to 4.7 turns compared to 3.0 turns in the fourth quarter of 2009 and 2.9 turns in the third quarter of 2009. 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 to align with anticipated industry activity levels and supplier lead times in order to improve inventory turnover efficiency. Accounts payable and accrued liabilities increased by \$25.7 million (66%) to \$64.0 million at September 30, 2010 from December 31, 2009, responsive to increased purchasing and sales levels.

Capital expenditures in the third quarter of 2010 were \$0.6 million, a reduction of \$0.1 million compared to the prior year period. The majority of the capital expenditures in both periods were directed towards branch facility expansions and maintenance.

On July 8, 2010, a new \$60.0 million revolving term bank credit facility was entered into. The credit facility matures in July 2013 and provides lower borrowing costs and improved covenant flexibility. Previously the Company had a \$60 million, 364 day bank operating facility. The maximum amount available to borrow under the Credit Facility is subject to a borrowing base formula applied to accounts receivable and inventories. Under the terms of the Credit Facility, the Company must maintain the ratio of its debt to debt-plus-equity at less than 40% (9% at September 30, 2010) and coverage of net operating free cash flow as defined in the Credit Facility agreement over interest expense for the trailing 12 month period of greater than 1.25 times (9.1 times at September 30, 2010). The Credit Facility contains certain other covenants, which the Company is in compliance with.

Contractual Obligations

There have been no material changes in off-balance sheet contractual commitments since December 31, 2009.

Capital Stock

As at September 30, 2010 and 2009, the following shares and securities convertible into shares were outstanding:

<i>(millions)</i>	September 30, 2010		September 30, 2009	
	Shares		Shares	
Shares outstanding	17.4		17.6	
Stock options	1.1		1.2	
Share unit plan obligations	0.6		0.5	
Shares outstanding and issuable	19.1		19.3	

The weighted average number of shares outstanding during the third quarter of 2010 was 17.5 million, a decrease of 0.2 million shares from the prior year's third quarter due principally to the purchases of common shares under its NCIB and to resource share unit plan obligations. The diluted weighted average number of shares outstanding was 17.8 million, a decrease of 0.1 million shares from the prior year's third 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 nine month periods ended September 30, 2010, 50,000 and 179,300 common shares were acquired by the trust at an average cost per share of \$6.75 and \$6.79 respectively. (Three and nine months ended September 30, 2009 – nil and 75,000 at an average cost per share of \$5.23). As at September 30, 2009, the trust held 471,610 shares (September 30, 2009 – 354,683 shares).

On December 23, 2009, the Company announced the renewal of the NCIB, to purchase up to 880,000 common shares representing approximately 5% of its outstanding common shares. Shares may be purchased up to December 31, 2010. As at September 30, 2010, the Company had purchased 57,878 shares at an average cost of \$6.61 per share (September 30, 2009 – 530,587 shares at an average cost of \$5.14 per share).

The Company settles exercises of stock options through payment of cash in order to manage share dilution while resourcing its long term incentive plan on a tax efficient basis. As a result, the Company's stock option obligations (subject to vesting) are classified as a current liability (September 30, 2010 - \$1.7 million) based on the positive difference between the Company's closing stock price at period end and the underlying option exercise price. The offset to the generation of the current liability is contributed surplus, up to the cumulative expensed Black Scholes valuation, and compensation expense for the excess of the intrinsic value over the cumulative expensed Black Scholes value. The liability is marked to market at each period end, with any adjustment allocated to the relevant account as detailed above. On March 4, 2010, the federal government introduced its 2010 budget which contained provisions which if enacted, could result in future stock option settlement payments no longer being deductible by the Company for tax purposes. This would result in the accounting write off of approximately \$0.5 million of related future tax assets and a compensation expense recovery of \$0.6 million. No accounting recognition will be made until such time and to the extent that proposed changes to the deductibility of stock option payments for tax purposes has been substantively enacted.

Critical Accounting Estimates

There have been no material changes to critical accounting estimates since December 31, 2009. 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

There have been no changes to accounting policies since December 31, 2009.

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.

Project Structure and Governance

A Steering Committee has been established to provide leadership and guidance to the project team, assist in developing accounting policy recommendations and ensure there is adequate resources and training available. Management provides status updates to the Audit Committee on a quarterly basis.

Resources and Training

CE Franklin's project team has been assembled and has developed a detailed work plan that includes training, detailed Canadian GAAP to IFRS analysis, technical research, policy recommendations and implementation. The project team completed initial training and ongoing training will continue through the project as required. The Company's Leadership Team and the Audit Committee have also participated in IFRS awareness sessions.

IFRS Progress

The project team is advanced in its assessment of the differences between Canadian GAAP and IFRS. A risk based approach was used to identify significant differences based on possible financial impact and complexity. No accounting policy differences have been identified to date that would give rise to significant differences between Canadian GAAP and IFRS except in stock based compensation where the assessment work continues. Similarly, there have been no significant information system change requirements identified in order to adopt IFRS. The project team has substantially completed its assessment of changes to financial statement presentation, disclosure and again no significant differences have been identified to this point. There are some additional disclosures required under IFRS that the company will be presenting in its first IFRS financial statements. Work is ongoing on internal controls over financial reporting that will be required to adopt IFRS. There are a number of IFRS standards in the process of being amended by the International Accounting Standards Board and are expected to continue until the transition date of January 1, 2011. The Company is actively monitoring proposed changes.

At this stage in the project, CE Franklin has determined that the impact of adopting IFRS will be minimal to its financial position and future results.

Controls and Procedures

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Canadian GAAP in its financial statements. The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Company have evaluated whether there were changes to its ICFR during the nine months ended September 30, 2010 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 year ended December 31, 2009 have occurred that would materially change the 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 2010 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 second quarter 2010 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 and at www.cefranklin.com.

CE Franklin Ltd.

Interim Consolidated Balance Sheets - Unaudited

(in thousands of Canadian dollars)	September 30 2010	December 31 2009
Assets		
Current assets		
Accounts receivable	91,706	67,443
Inventories	96,109	102,669
Other	5,321	4,960
	193,136	175,072
Property and equipment	9,847	10,517
Goodwill	20,570	20,570
Future income taxes (note 5)	1,565	1,457
Other	237	339
	225,355	207,955
Liabilities		
Current liabilities		
Bank operating loan (note 6)	-	26,549
Accounts payable and accrued liabilities	63,981	38,489
Income taxes payable (note 5)	126	-
	64,107	65,038
Long term debt (note 6)	14,383	290
	78,490	65,328
Shareholders' Equity		
Capital stock	22,775	23,284
Contributed surplus	17,957	17,184
Retained earnings	106,133	102,159
	146,865	142,627
	225,355	207,955

See accompanying notes to these interim consolidated financial statements.

CE Franklin Ltd.

Interim Consolidated Statements of Operations - Unaudited

<i>(in thousands of Canadian dollars except shares and per share amounts)</i>	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30 2010	September 30 2009	September 30 2010	September 30 2009
Sales	132,159	94,149	353,944	344,014
Cost of sales	112,928	76,702	299,485	282,704
Gross profit	19,231	17,447	54,459	61,310
Other expenses				
Selling, general and administrative expenses	15,511	17,017	45,821	49,658
Amortization	620	635	1,855	1,776
Interest expense	108	322	539	670
Foreign exchange (gain)	(130)	(71)	(45)	(100)
	16,109	17,903	48,170	52,004
Income (loss) before income taxes	3,122	(456)	6,289	9,306
Income tax expense (recovery) (note 5)				
Current	1,120	(215)	2,124	2850
Future	(173)	(451)	(107)	(382)
	947	(666)	2,017	2,468
Net income and comprehensive income	2,175	210	4,272	6,838
Net income per share (note 4)				
Basic	0.12	0.01	0.24	0.38
Diluted	0.12	0.01	0.24	0.38
Weighted average number of shares outstanding (000's)				
Basic	17,461	17,647	17,518	17,795
Diluted (note 4(e))	17,783	17,908	17,838	18,036

See accompanying notes to these interim consolidated financial statements.

CE Franklin Ltd.

Interim Consolidated Statements of Cash Flow - Unaudited

(in thousands of Canadian dollars)	Three months ended		Nine months ended	
	September 30 2010	September 30 2009	September 30 2010	September 30 2009
Cash flows from operating activities				
Net income for the period	2,175	210	4,272	6,839
Items not affecting cash -				
Amortization	620	635	1,855	1,776
Future income tax (recovery)	(173)	(451)	(107)	(382)
Stock based compensation expense	728	1,101	1,520	2,081
Other	(130)	-	(52)	(45)
	3,220	1,495	7,488	10,269
Net change in non-cash working capital balances related to operations -				
Accounts receivable	(30,000)	(7,325)	(24,263)	36,070
Inventories	(788)	13,766	6,560	25,280
Other current assets	(3,340)	(1,441)	(1,454)	6,277
Accounts payable and accrued liabilities	16,555	2,083	25,725	(43,323)
Income taxes payable / receivable	237	(305)	1,156	(4,495)
	(14,116)	8,273	15,212	30,078
Cash flows (used in)/ from financing activities				
Decrease in bank operating loan/revolving term bank loan	14,094	(3,941)	(12,455)	(13,621)
Issuance of capital stock- Stock options exercised	92	-	111	248
Settlement of share unit plan obligations	-	-	(178)	-
Purchase of capital stock through normal course issuer bid	(56)	(465)	(374)	(2,727)
Purchase of capital stock in trust for Share Unit Plans	(347)	-	(1,229)	(394)
	13,783	(4,406)	(14,125)	(16,494)
Cash flows used in investing activities				
Purchase of property and equipment	(629)	(706)	(1,099)	(2,298)
Business acquisition (note 2)	-	(3,161)	12	(11,286)
	(629)	(3,867)	(1,087)	(13,584)
Change in cash and cash equivalents during the period	(962)	-	-	-
Cash and cash equivalents at the beginning of the period	962	-	-	-
Cash and cash equivalents at the end of the period	-	-	-	-
Cash paid during the period for:				
Interest	146	322	393	670
Income taxes	717	450	957	7,230

See accompanying notes to these interim consolidated financial statements.

CE Franklin Ltd.

Interim Consolidated Statements of Changes in Shareholders' Equity - Unaudited

<i>(in thousands of Canadian dollars)</i>	Capital Stock		Contributed	Retained	Shareholders'
	# shares	\$	Surplus	Earnings	Equity
Opening balance 12/31/2008	18,094	22,498	18,835	97,990	139,323
Normal Course Issuer Bid <i>(Note 4(a))</i>	(532)	(693)	-	(2,053)	(2,746)
Stock Based Compensation <i>(Note 4(a) and (b))</i>	-	-	1,270	-	1,270
Stock options exercised <i>(Note 4 (a))</i>	57	248	(86)	-	162
Modification of Stock option plan <i>(Note 4(a))</i>	-	-	(1,329)	-	(1,329)
Purchase of shares in trust for Share Unit Plan <i>(Note 4(c))</i>	(75)	(394)	-	-	(394)
Shares issued from Share Unit Plan <i>(Note 4 (b))</i>	64	1,167	(1,167)	-	-
Net income	-	-	-	6,838	6,838
Closing balance 9/30/09	17,608	22,826	17,523	102,775	143,124
Opening balance 12/31/2009	17,581	23,284	17,184	102,159	142,627
Normal Course Issuer Bid <i>(Note 4 (a))</i>	(58)	(76)	-	(298)	(374)
Stock Based Compensation <i>(Note 4(a) and (b))</i>	-	-	1,485	-	1,485
Modification of Stock option plan <i>(Note 4(a))</i>	-	-	103	-	103
Purchase of shares in trust for Share Unit Plan <i>(Note 4(c))</i>	(179)	(1,229)	-	-	(1,229)
Shares issued from Share Unit Plan <i>(Note 4)</i>	67	464	(464)	-	-
Options exercised from treasury <i>(Note 4(a))</i>	33	259	(100)	-	159
Directors Share Unit Plan exercise <i>(Note 4(b))</i>	-	73	(251)	-	(178)
Net income	-	-	-	4,272	4,272
Closing balance 09/30/10	17,444	22,775	17,957	106,133	146,865

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, 2009. 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, 2009, but do not include all disclosures required by Generally Accepted Accounting Principles (GAAP) for annual financial statements.

Recent Canadian GAAP pronouncements include CICA section 1582 - Business Combinations, CICA section 1601 – Consolidated Financial Statements and CICA section 1602 – Non- Controlling interests. The overall objective of the standards issued is to update the standards pertaining to business combinations and allow convergence with International Financial Reporting Standards by January 1, 2011. The adoption of these standards is expected to have no impact on the Company.

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 oil and gas drilling activity is at its highest levels. Sales then seasonally decline through the second and third quarters, rising again in the fourth quarter when preparation for the next 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- Business Combinations

On June 1st 2009, the Company acquired the net assets of a western Canadian oilfield equipment distributor, for total consideration of \$11.3 million, after \$0.7 million post closing adjustments related principally to inventory reductions.

Using the purchase method of accounting for acquisitions, the Company consolidated the assets from the acquisition and allocated the consideration paid as follows:

Cash consideration paid and payable	11,286
Net assets acquired:	
Inventory	10,462
Property, equipment and other	824
	11,286

Note 3 – Inventory

Inventories consisting primarily of goods purchased for resale are valued at the lower of average cost or net realizable value. Inventory net realizable value reserve expense was recognized in the three and nine months period ending September 30, 2010 of \$105,000 and \$315,000 respectively (2009 – \$105,000 and \$1,050,000 respectively). As at September 30, 2010 and December 31, 2009, the Company had recorded inventory valuation reserves of \$4.9 million and \$6.3 million respectively.

During the three and nine months ended September 30, 2010, inventory valuation reserves of \$0.8 million and \$1.7 million respectively were utilized.

Note 4 – Share Data

At September 30, 2010, the Company had 17.4 million common shares, 1.1 million stock options and 0.6 million share units outstanding.

CE Franklin Ltd.

Notes to Interim Consolidated Financial Statements – Unaudited

a) Stock options

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

000's	2010	2009
Outstanding at January 1	1,195	1,294
Granted	-	-
Exercised	(73)	(57)
Forfeited	(26)	(37)
Outstanding at September 30	1,096	1,200
Exercisable at September 30	824	770

There were no options granted during the three and nine month periods ended September 30, 2010 and September 30, 2009.

During the quarter ended September 30, 2009, the Company modified its stock option plan to include a cash settlement mechanism. As a result, the Company's stock option obligations are now classified as current obligations (subject to vesting) based on the positive difference between the Company's closing stock price at period end and the underlying option exercise price. As at September 30, 2010, the Company's accrued stock option liability was \$1,748,000. As the stock option obligations are now recorded as a liability on the Company's balance sheets, stock options are no longer included in the calculation of the diluted number of shares outstanding (note 4(e)).

Stock option compensation expense recorded in the three and nine month period ended September 30, 2010 was \$517,000 (2009 - \$996,000) and \$1,271,000 (2009 - \$1,351,000) respectively. Stock option compensation expense is included in selling, general and administrative expenses on the Consolidated Statement of Operations.

b) 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"), whereby 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. RSU's and PSU's are granted to the Company's officers and employees and vest one third per year over the three year period from the date of grant. DSU's are granted to the independent members of the Company's Board of Directors ("Board"), vest on the date of grant, and can only be redeemed when the Director resigns from the Board. 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. 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 settled. Share Unit Plan activity for the nine month periods ended September 30 was as follows:

000's	2010			Total	2009			Total
	RSU	PSU	DSU		RSU	PSU	DSU	
Outstanding at January 1	223	53	98	374	161	-	70	231
Granted	145	132	29	306	172	161	28	361
Exercised	(36)	(7)	(49)	(92)	(64)	-	-	(64)
Forfeited	(10)	(4)	0	(14)	(4)	(5)	-	(9)
Outstanding at September 30	322	174	78	574	265	156	98	519
Exercisable at September 30	75	9	78	162	75	-	98	173

Share Unit Plan compensation expense recorded in the three and nine month periods ended September 30, 2010, were \$349,000 (2009- \$105,000) and \$961,000 (2009 -\$733,000).

c) The Company's intention is to settle Share Unit Plan obligations from an independent trust established by the Company to purchase common shares of the Company on the open-market. The trust is considered to be a variable

CE Franklin Ltd.

Notes to Interim Consolidated Financial Statements – Unaudited

interest entity and is consolidated in the Company's financial statements with the number and cost of shares held in trust, reported as a reduction of capital stock. During the three and nine month periods ended September 30, 2010, 50,000 and 179,300 common shares were acquired respectively, by the trust (2009 – nil and 75,000) at a cost of \$337,500 for the three month period and \$1,218,000 for the nine month period. (2009 \$nil and \$394,000)

d) Normal Course Issuer Bid ("NCIB")

On December 23, 2009, the Company announced the renewal of the NCIB to purchase up to 880,000 common shares through the facilities of NASDAQ, representing approximately 5% of its outstanding common shares. Shares may be purchased up to December 31, 2010. As at September 30, 2010, the Company has purchased 57,878 shares (2009 - 75,739) at an average cost of \$6.61 per share (2009 - \$6.13) for an aggregate cost of \$370,000 (2009- \$465,000).

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

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Weighted average common shares outstanding- basic	17,461	17,647	17,518	17,795
Effect of Stock options (note 4(a))	-		-	
Effect of Share Unit Plans	322	261	320	241
Weighted average common shares outstanding- diluted	17,783	17,908	17,838	18,036

Note 5 – Income taxes

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

	Three Months Ended				Nine Months Ended			
	September 30				September 30			
	2010	%	2009	%	2010	%	2009	%
Income (loss) before income taxes	3,121		(456)		6,289		9,306	
Income taxes calculated at expected rates	887	28.4	(134)	29.4	1,787	28.4	2,735	29.4
Non-deductible items	25	0.8	31	(6.8)	80	1.3	91	1.0
Share based compensation	46	1.5	(324)	71.1	159	2.5	(324)	(3.5)
Adjustments on filing returns & other	(11)	(0.4)	(239)	52.4	(8)	(0.1)	(34)	(0.4)
	947	30.3	(666)	146.1	2,017	32.1	2,468	26.5

As at September 30, 2010, income taxes payable were \$126,000. As at December 31, 2009, income taxes receivable of \$1,029,000 were included in Other Assets.

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

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	September 30 2010	December 31 2009
Assets		
Property and equipment	890	852
Share based compensation	933	856
Other	143	127
	1,966	1,835
Liabilities		
Goodwill and other	401	378
Net future income tax asset	1,565	1,457

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

Note 6- 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 term bank credit facility (the "Credit Facility") that is used to finance its net working capital and general corporate requirements. The Credit Facility was entered into on July 8, 2010 and matures in July, 2013. Previously, the Company had a \$60 million, 364 day bank operating borrowing facility.

The maximum amount available to borrow under the Credit Facility is subject to a borrowing base formula applied to accounts receivable and inventories. Under the terms of the Credit Facility, the Company must maintain the ratio of its debt to debt-plus-equity at less than 40% (9% at September 30, 2010) and coverage of net operating free cash flow as defined in the Credit Facility agreement over interest expense for the trailing 12 month period of greater than 1.25 times (9.1 times at September 30, 2010). The Credit Facility contains certain other covenants, which the Company is in compliance with. 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 anticipated contractual commitments.

Note 7 – Financial Instruments and Risk Management

a) Fair Values

The Company's financial instruments recognized on the consolidated balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities, bank operating loan 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 September 30, 2010, the fair value of the long term debt approximated its carrying value due to its floating interest rate nature and short term maturity. There is no active market for these financial instruments.

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. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

The Company maintains provisions for possible credit losses that are charged to selling, general and administrative expenses by performing an analysis of specific accounts. Movement of the allowance for credit losses for the nine months ended September 30, 2010 and September 30, 2009 was as follows:

As at September 30	2010	2009
Opening balance	2,335	2,776
Write-offs	(268)	(425)
Change in provision for credit losses	(275)	310
Closing balance	1,792	2,661

Included in the change in provision for credit losses for the nine month period ended September 30, 2010 are recoveries of \$675,000 for items previously provided for (2009 – nil).

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Trade receivables outstanding greater than 90 days were 6% of total trade receivables as at September 30, 2010 (2009 – 8%).

c) Market Risk

The Company's long term debt bears interest based on floating rates. As a result the Company is exposed to market risk from changes in the Canadian prime interest rate which can impact borrowing costs. The Company purchases certain products in US dollars and sells such products to its customers typically priced in Canadian dollars, thus leading to accounts receivable and accounts payable balances that are subject to foreign exchange gains and losses upon translation. 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 purchase commitments. The Company's foreign exchange risk arises principally from the settlement of United States dollar denominated net working capital balances as a result of product purchases denominated in United States dollars. As at September 30, 2010, the Company had contracted to purchase US\$9.4 million at fixed exchange rates with terms not exceeding six months. The fair market values of the contracts were nominal.

Note 8 – Related Party Transactions

Schlumberger Limited ("Schlumberger") owns approximately 55% 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:

	September 30 2010	September 30 2009
Cost of sales for the three months ended	2,232	1,491
Cost of sales for the nine months ended	5,929	4,773
Inventory	3,323	3,712
Accounts payable and accrued liabilities	953	538

The Company pays facility rental expense to an operations manager in the capacity of landlord, reflecting market based rates. For the three and nine month period ended September 30, 2010, these costs totaled \$188,000 and \$613,000 (2009: \$157,000 and \$550,000).

Note 9 - Segmented reporting

The Company distributes oilfield products principally through its network of 49 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.