

**CE Franklin Ltd.**  
**Interim Statements of Operations**  
**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30 2005	September 30 2004	September 30 2005	September 30 2004
<i>(in thousands of Canadian dollars, except per share data)</i>				
<b>Sales</b>	<b>121,809</b>	78,232	<b>342,080</b>	234,266
<b>Cost of sales</b>	<b>99,832</b>	63,842	<b>278,276</b>	193,077
<b>Gross profit</b>	<b>21,977</b>	14,390	<b>63,804</b>	41,189
<b>Other expenses (income)</b>				
Selling, general and administrative expenses	<b>13,853</b>	11,011	<b>38,966</b>	31,236
Amortization	<b>1,207</b>	1,107	<b>3,553</b>	3,236
Interest expense	<b>443</b>	345	<b>1,445</b>	1,019
Foreign exchange gain	<b>(167)</b>	(41)	<b>(95)</b>	(7)
Other income	<b>(9)</b>	(1)	<b>(9)</b>	(10)
	<b>15,327</b>	12,421	<b>43,860</b>	35,474
<b>Income before income taxes</b>	<b>6,650</b>	1,969	<b>19,944</b>	5,715
<b>Income tax expense (recovery) (note 4)</b>				
Current	<b>2,643</b>	931	<b>8,888</b>	2,961
Future	<b>(207)</b>	(160)	<b>(1,505)</b>	(549)
	<b>2,436</b>	771	<b>7,383</b>	2,412
Income from continuing operations	<b>4,214</b>	1,198	<b>12,561</b>	3,303
Loss from discontinued operations (note 2)	-	-	-	(27)
<b>Net income for the period</b>	<b>4,214</b>	1,198	<b>12,561</b>	3,276
<b>Net income per share (note 3)</b>				
Basic	<b>0.25</b>	0.07	<b>0.73</b>	0.19
Diluted	<b>0.22</b>	0.07	<b>0.68</b>	0.19
<b>Weighted average number of shares outstanding</b>				
Basic	<b>17,328,175</b>	17,191,397	<b>17,256,201</b>	17,185,532
Diluted	<b>18,439,928</b>	17,554,562	<b>18,439,928</b>	17,554,562

**CE Franklin Ltd.**  
**Interim Balance Sheets**  
**(Unaudited)**

	<b>September 30</b>	December 31
<i>(in thousands of Canadian dollars)</i>	<b>2005</b>	2004
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable	<b>79,940</b>	66,573
Inventories	<b>79,453</b>	64,282
Other	<b>2,990</b>	552
	<b>162,383</b>	131,407
<b>Property and equipment</b>	<b>3,737</b>	6,097
<b>Goodwill</b>	<b>7,765</b>	7,765
<b>Future income taxes (note 4)</b>	<b>893</b>	-
<b>Other</b>	<b>195</b>	240
	<b>174,973</b>	145,509
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	<b>3,434</b>	5,270
Bank operating loan	<b>29,162</b>	26,140
Accounts payable	<b>33,160</b>	29,381
Accrued liabilities	<b>34,755</b>	26,136
Income taxes payable	<b>5,676</b>	3,074
Current portion of obligations under capital lease	<b>200</b>	204
	<b>106,387</b>	90,205
<b>Obligations under capital lease</b>	<b>478</b>	626
<b>Future income taxes (note 4)</b>	<b>-</b>	612
	<b>106,865</b>	91,443
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b>	<b>20,431</b>	19,335
<b>Contributed surplus</b>	<b>14,243</b>	13,858
<b>Retained earnings</b>	<b>33,434</b>	20,873
	<b>68,108</b>	54,066
	<b>174,973</b>	145,509

**CE Franklin Ltd.**

## Interim Statements of Cash Flows

(Unaudited)

<i>(in thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	September 30 2005	September 30 2004	September 30 2005	September 30 2004
<b>Cash flows from operating activities</b>				
Income from continuing operations	4,214	1,198	12,561	3,303
Items not affecting cash -				
Amortization	1,207	1,107	3,553	3,236
Gain on disposal of property and equipment	(9)	(1)	(9)	(5)
Future income tax recovery	(207)	(160)	(1,505)	(549)
Increase in inventory write-downs	135	291	126	522
Stock option expense	146	64	439	192
	5,486	2,499	15,165	6,699
Net change in non-cash working capital balances related to operations -				
Accounts receivable	(19,435)	(10,966)	(13,367)	(9,181)
Inventories	(4,099)	970	(16,127)	(9,200)
Other current assets	(143)	266	(2,438)	(158)
Accounts payable	(1,548)	(2,725)	3,779	(9,119)
Accrued liabilities	13,115	5,542	8,619	5,939
Income taxes payable	1,309	511	2,602	1,519
Net cash flow from continuing operations	(5,315)	(3,903)	(1,767)	(13,501)
Net cash flow from discontinued operations (note 2)	-	-	-	(26)
	(5,315)	(3,903)	(1,767)	(13,527)
<b>Cash flows from financing activities</b>				
Issuance of capital stock	777	12	1,042	63
Increase (decrease) in bank operating loan	1,692	(3,956)	3,022	3,080
Increase (decrease) in bank overdraft	3,063	5,492	(1,836)	5,492
Decrease in obligations under capital lease	(79)	(87)	(205)	(296)
	5,453	1,461	2,023	8,339
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(168)	(262)	(286)	(701)
Proceeds on disposal of property and equipment	30	18	30	49
Proceeds on sale of compression operations (note 2)	-	-	-	961
Net cash flow from continuing operations	(138)	(244)	(256)	309
Net cash flow from discontinued operations (note 2)	-	-	-	(2)
	(138)	(244)	(256)	307
<b>Change in cash and cash equivalents during the period</b>	-	(2,686)	-	(4,881)
<b>Cash and cash equivalents - Beginning of period</b>	-	2,686	-	4,881
<b>Cash and cash equivalents - End of period</b>	-	-	-	-
Cash paid during the period for:				
Interest on bank operating loan	430	327	1,410	1,004
Interest on obligations under capital lease	13	18	35	29
Income taxes	1,335	420	6,286	2,818

**CE Franklin Ltd.****Interim Statements of Changes in Shareholders' Equity  
(Unaudited)**

<i>(in thousands of Canadian dollars, except share amounts)</i>	Capital Stock		Contributed surplus	Retained earnings	Shareholders' equity
	Number of Shares	\$			
<b>Balance - December 31, 2003</b>	17,178,696	19,268	13,602	14,758	47,628
Stock options exercised	15,236	63	-	-	63
Stock options granted	-	-	192	-	192
Net income	-	-	-	3,276	3,276
<b>Balance - September 30, 2004</b>	<b>17,193,932</b>	<b>19,331</b>	<b>13,794</b>	<b>18,034</b>	<b>51,159</b>
<b>Balance - December 31, 2004</b>	17,194,934	19,335	13,858	20,873	54,066
Stock options exercised	235,565	1,096	(54)	-	1,042
Stock options granted	-	-	439	-	439
Net income	-	-	-	12,561	12,561
<b>Balance - September 30, 2005</b>	<b>17,430,499</b>	<b>20,431</b>	<b>14,243</b>	<b>33,434</b>	<b>68,108</b>

**CE Franklin Ltd.****Notes to Financial Statements (Unaudited)****Note 1 - Accounting policies**

These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the years ended December 31, 2004 and 2003 and are in accordance with generally accepted accounting principles in Canada.

The disclosures provided below are incremental to those included in the annual audited financial statements. The interim financial statements should be read in conjunction with the annual audited financial statements and the notes thereto for the year ended December 31, 2004.

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

**Note 2 - Discontinued operations**

On March 31, 2004, the Company sold its remaining 50% interest in its small horsepower compression operations for cash proceeds of \$961,000. No gain or loss on disposition resulted from this transaction. The operating loss from discontinued operations in the first quarter of 2004 was \$27,000.

**Note 3 - Share data**

At September 30, 2005 the Company had 17,430,499 common shares outstanding and 1,669,092 options to acquire common shares at a weighted average exercise price of \$3.68 per common share. 788,299 of those options were vested and exercisable at a weighted average exercise price of \$3.64 per common share.

Effective January 1, 2003, the Company adopted prospectively, the fair value method of accounting for common share options granted. Under this method, the Company recognizes compensation expense based on the fair value of the options on the date of grant which is determined by using the Black-Scholes options-pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and contributed surplus. The contributed surplus balance is reduced as options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock.

413,745 common share options were granted in the first quarter of 2005. There were no common share options granted in the second or third quarters. The fair value of the common share options granted in the first quarter was \$1,003,900. The fair value of common share options granted is estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Dividend yield	nil
Risk-free interest rate	4.50%
Expected life	5 years
Expected volatility	65%

The compensation expense recorded in the third quarter of 2005 and in the nine month period ended September 30, 2005 for common share options granted subsequent to December 31, 2002 was \$146,000 and \$439,000 respectively. The compensation expense recorded for the quarter and the nine month period ended September 30, 2004 was \$64,000 and \$192,000 respectively.

No compensation expense is recorded for stock options awarded prior to January 1, 2003 as the Company has continued to apply the intrinsic method of accounting for stock options granted to employees, officers and directors. The consideration paid by option holders on the exercise of these options is and will be credited to capital stock. Had compensation cost been determined on the basis of fair values, net income for the quarter and the nine month period ended September 30, 2005 would have decreased by \$128,000 (\$0.01 per common share) and \$384,000 (\$0.02 per common share) respectively. The net income for the quarter and nine month period ended September 30, 2004 would have decreased by \$200,000 (\$0.01 per common share) and \$598,000 (\$0.03 per common share) respectively.

#### Note 4 - 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 2005		September 30 2004		September 30 2005		September 30 2004	
Income before income taxes	6,650		1,969		19,944		5,715	
Incomes taxes calculated at expected rates	2,285	34.4%	680	34.6%	6,853	34.4%	1,975	34.6%
Non-deductible items	97	1.5%	67	3.4%	550	2.7%	202	3.5%
Capital and large corporations taxes	17	0.2%	18	0.9%	42	0.2%	87	1.5%
Other	37	0.5%	6	0.3%	(62)	-0.3%	148	2.6%
	2,436	36.6%	771	39.2%	7,383	37.0%	2,412	42.2%

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:

	September 30 2005	December 31 2004
<b>Assets</b>		
Financing and investment charges	915	109
Property and equipment	376	-
Other	151	135
	1,442	244
<b>Liabilities</b>		
Property and equipment	-	303
Goodwill	549	553
	549	856
<b>Net future income tax asset (liability)</b>	893	(612)

Realization of future income tax assets is dependent on generating sufficient taxable income during the period in which the temporary differences are deductible. Although realization is not assured, management believes it is more likely than not that all future income tax assets will be realized based on projected operating results and tax planning strategies available.