

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

	Three Months Ended		Six Months Ended	
	June 30	June 30	June 30	June 30
<i>(in thousands of Canadian dollars, except per share data)</i>	2004	2003	2004	2003
<b>Sales</b>	<b>67,002</b>	54,807	<b>156,034</b>	116,605
<b>Cost of sales</b>	<b>54,890</b>	45,187	<b>129,235</b>	97,299
<b>Gross profit</b>	<b>12,112</b>	9,620	<b>26,799</b>	19,306
<b>Other expenses (income)</b>				
Selling, general and administrative expenses	9,621	9,029	20,225	17,483
Amortization	1,085	1,012	2,129	2,022
Interest expense	333	211	674	436
Foreign exchange loss (gain)	86	-252	34	-370
Other expenses (income)	4	-8	-9	-24
	<b>11,129</b>	9,992	<b>23,053</b>	19,547
<b>Income (loss) before income taxes</b>	<b>983</b>	-372	<b>3,746</b>	-241
<b>Income tax expense (recovery)</b>				
Current	632	274	2,030	455
Future	-167	-349	-389	-396
	<b>465</b>	-75	<b>1,641</b>	59
Income (loss) from continuing operations	518	-297	2,105	-300
Loss from discontinued operations (note 5)	-	-179	-27	-238
<b>Net income (loss) for the period</b>	<b>518</b>	-476	<b>2,078</b>	-538
<b>Net income (loss) per share from continuing operations (note 4)</b>				
Basic and diluted	0.03	-0.02	0.12	-0.02
<b>Net income (loss) per share</b>				
Basic and diluted	0.03	-0.03	0.12	-0.03
<b>Weighted average basic number of shares outstanding</b>	<b>17,186,439</b>	17,178,696	<b>17,182,568</b>	17,178,696

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

	<b>June 30</b>	December 31
<i>(in thousands of Canadian dollars)</i>	<b>2004</b>	2003
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	2,686	4,881
Accounts receivable	44,058	45,843
Inventories	57,772	48,054
Other	1,311	887
Assets held from discontinued operations	-	926
	<b>105,827</b>	100,591
<b>Property and equipment</b>	<b>6,852</b>	8,279
<b>Goodwill</b>	<b>7,765</b>	7,765
<b>Other</b>	<b>270</b>	300
<b>Assets held from discontinued operations</b>	<b>-</b>	697
	<b>120,714</b>	117,632
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank operating loan	30,404	23,368
Accounts payable	21,602	27,996
Accrued liabilities	17,473	16,068
Current portion of long-term debt	212	369
Liabilities from discontinued operations	-	644
	<b>69,691</b>	68,445
<b>Long-term debt</b>	<b>114</b>	127
<b>Future income taxes</b>	<b>1,024</b>	1,413
<b>Liabilities from discontinued operations</b>	<b>-</b>	19
	<b>70,829</b>	70,004
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b>	<b>19,319</b>	19,268
<b>Contributed surplus</b>	<b>13,730</b>	13,602
<b>Retained earnings</b>	<b>16,836</b>	14,758
	<b>49,885</b>	47,628
	<b>120,714</b>	117,632

**CE Franklin Ltd.**  
**Interim Statements of Cash Flows**  
**(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30 2004	June 30 2003	June 30 2004	June 30 2003
<i>(in thousands of Canadian dollars)</i>				
<b>Cash flows from operating activities</b>				
Income (loss) from continuing operations	518	-297	2,105	-300
Items not affecting cash -				
Amortization	1,085	1,012	2,129	2,022
Loss (gain) on disposal of property and equipment	5	-6	-4	-14
Future income tax recovery	-167	-349	-389	-396
Increase (decrease) in inventory write-downs	-62	149	231	468
Stock option expense	64	-	128	-
	1,443	509	4,200	1,780
Net change in non-cash working capital balances related to operations -				
Accounts receivable	17,862	3,071	1,785	-1,070
Income taxes recoverable	-	-8	-	134
Inventories	-5,569	-2,049	-10,170	-493
Other current assets	216	-196	-424	-142
Accounts payable	-9,236	1,923	-6,394	2,944
Accrued liabilities	-3,981	1,672	1,405	2,543
Net cash flow from continuing operations	735	4,922	-9,598	5,696
Net cash flow from discontinued operations	-	73	-26	-719
	735	4,995	-9,624	4,977
<b>Cash flows from financing activities</b>				
Issuance of capital stock	51	-	51	-
Increase (decrease) in bank operating loan	3,073	1,200	7,036	-4,200
Decrease in bank overdraft	-827	-5,863	-	-820
Increase (decrease) in long-term debt	-104	146	-209	76
	2,193	-4,517	6,878	-4,944
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	-264	-478	-439	-572
Proceeds on disposal of property and equipment	22	14	31	29
Proceeds on sale of 50% interest in Britannia Industries Inc.	-	-	961	538
Net cash flow from continuing operations	-242	-464	553	-5
Net cash flow from discontinued operations	-	-14	-2	-28
	-242	-478	551	-33
<b>Change in cash and cash equivalents during the period</b>	<b>2,686</b>	<b>-</b>	<b>-2,195</b>	<b>-</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>-</b>	<b>-</b>	<b>4,881</b>	<b>-</b>
<b>Cash and cash equivalents - End of period</b>	<b>2,686</b>	<b>-</b>	<b>2,686</b>	<b>-</b>
Cash paid during the period for:				
Interest on bank operating loan	327	246	677	504
Interest on long-term debt	6	8	11	20
Income taxes	599	238	2,398	238

**CE Franklin Ltd.****Interim Statement 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, 2002</b>	17,178,696	19,268	13,566	14,337	47,171
Net loss	-	-	-	(538)	(538)
<b>Balance - June 30, 2003</b>	17,178,696	19,268	13,566	13,799	46,633
<b>Balance - December 31, 2003</b>	17,178,696	19,268	13,602	14,758	47,628
Stock options exercised	11,566	51	-	-	51
Stock options granted	-	-	128	-	128
Net income	-	-	-	2,078	2,078
<b>Balance - June 30, 2004</b>	17,190,262	19,319	13,730	16,836	49,885

**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 consolidated financial statements for the years ended December 31, 2003 and 2002, except as described in note 3 and are in accordance with generally accepted accounting principles in Canada. Certain comparative figures have been reclassified to conform with the current period's presentation.

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 consolidated financial statements and the notes thereto for the year ended December 31, 2003.

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 - Basis of presentation**

On March 31, 2004, the Company sold its remaining 50% interest in Britannia Industries Inc. for cash proceeds of \$961,000.

On January 31, 2003, the Company transferred the property and equipment and operations of its compression operations into a wholly owned subsidiary, Britannia Industries Inc.. Subsequently, a 50% interest in Britannia was sold for cash proceeds of \$538,000.

**Note 3 - Changes in accounting policy**

Effective January 1, 2004, the Company adopted, prospectively, the Canadian Institute of Chartered Accountants Guideline for "Hedging Relationships". The Company utilizes foreign currency exchange contracts with financial institutions to fix the value of liabilities or future commitments. These foreign currency exchange contracts are not designated as hedges for accounting purposes. The value of the contract is marked to market and the change in the value is recognized in the statements of operations.

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.

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. The consideration paid by option holders on the exercise of these options is and will be credited to capital stock.

**Note 4 - Share data**

At June 30, 2004 the Company had 17,190,262 common shares and 1,658,371 options to acquire common shares outstanding, 700,195 of those options were currently vested and exercisable. There were no common share options granted in the six months ended June 30, 2004. The compensation expense recorded in the second quarter of 2004 and in the six months ended June 30, 2004 for common share options granted subsequent to December 31, 2002 was \$64,000 and \$128,000 respectively.

For all stock options issued prior to January 1, 2003 the Company applied the intrinsic method of accounting for common share options granted to employees, officers and directors. Accordingly, no compensation expense has been recognized in the Statements of Operations. Had compensation cost been determined on the basis of fair values, net income for the quarter ended June 30, 2004 would have decreased by \$199,000 or \$0.01 per common share. The Company's net income for the six months ended June 30, 2004 would have decreased by \$398,000 or \$0.02 per common share.

**Note 5 - Discontinued operations**

On March 31, 2004, the Company sold its 50% interest in Britannia Industries Inc. for cash proceeds of \$961,000. No gain or loss on disposition resulted from the transaction. The proceeds from this transaction were used to reduce the Company's bank operating loan. The results of discontinued operations for the period ended June 30 were as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>	June 30	<b>June 30</b>	June 30
(in thousands of Canadian dollars)	<b>2004</b>	2003	<b>2004</b>	2003
Sales	-	494	444	1,675
Loss before income taxes	-	(223)	(63)	(321)
Income tax recovery	-	(44)	(36)	(83)
Loss for the period	-	(179)	(27)	(238)

**Note 6 - Subsequent event**

On July 8, 2004 the Company announced that it has entered into a non-binding letter of intent with Smith International Inc. ("Smith") to acquire all the common stock of Wilson International Inc., a wholly owned subsidiary of Smith in exchange for common shares of CE Franklin to be issued from treasury. This transaction is considered to be a related party transaction by virtue of Smith's current 55% shareholdings in CE Franklin and is subject to the approval of a majority of CE Franklin's shareholders, excluding Smith. Completion of the transaction, if closed, is expected on or about September 30, 2004.