



GARNEAU INC. SECOND QUARTER RESULTS ENDED JUNE 30, 2006

Corporate Highlights

- Garneau announces on June 29, 2006 the extension of the Plan of Arrangement agreement with ShawCor dated April 19, 2006.
- \$3.5 million coating equipment project for the United States secured to commence in the third quarter of 2006.

Summary of Results <i>(In thousands, except per share data, unaudited)</i>	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Revenue	\$ 13,020	\$ 7,953	\$ 31,830	\$ 20,437
Margin	2,505	596	6,387	3,398
Margin %	19.2%	7.5%	20.0%	16.6%
Earnings (loss) before income taxes	(21)	(990)	1,849	117
Net income (loss)	(273)	(990)	857	117
Earnings (loss) per share - basic	(0.02)	(0.09)	0.07	0.01
Earnings (loss) per share - diluted	(0.02)	(0.09)	0.07	0.01

This report includes forward looking statements that are based on the Corporation's current expectations and therefore are subject to uncertainties such as the level of industry drilling and coating activity, foreign exchange fluctuations and world wide economic conditions that may cause actual results to differ materially.

This analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Corporation for the six months ended June 30, 2006 and 2005 and in conjunction with the audited consolidated financial statements and Annual Management Discussion and Analysis for the year ended December 31, 2005.

MANAGEMENT DISCUSSION & ANALYSIS

Financial

Second quarter revenue for the period ended June 30, 2006, totaled \$13.0 million which was a 63.7% increase over \$8.0 million recorded for the comparative quarter ended June 30, 2005, a direct result of increased Camrose coating activity. Year to date revenue for the period ended June 30, 2006 totaled \$31.8 million which is above the June 30, 2005 comparative period total of \$20.4 million, also a direct result of increased Camrose coating activity.

Manufacturing revenues for the quarter ended June 30, 2006 totaled \$4.4 million, a slight decrease of \$0.1 million from the quarter ended June 30, 2005. Manufacturing activity continued to operate near capacity during the second quarter of 2006. Year to date results in manufacturing revenue totaled \$8.1 million for the six month period ended June 30, 2006, a slight increase from the \$8.0 million recorded in the 2005 comparative period.

Pipeline revenues for the quarter ended June 30, 2006, totaled \$8.6 million, an increase of \$5.1 million from the quarter ended June 30, 2005 as small diameter coating activity increased with production on the ACCESS project continuing into the second quarter. Pipeline revenue for the six month period ended June 30, 2006 totaled \$23.8 million, an increase of \$11.4 million over the comparative period total of \$12.4 million, as a result of year to date small diameter coating activity and production on the ACCESS project.

Margin for the quarter ended June 30, 2006 of \$2.5 million is \$1.9 million above the \$0.6 million recorded for the comparative period. The margin increase is directly attributed to increased revenue generated from small diameter coatings and the ACCESS project during the second quarter. Year to date margin of \$6.4 million (20.0%) is \$3.0 million above the \$3.4 million (16.6%) recorded for the comparative six month period and reflects the improvement in coating activity.

Manufacturing margins of \$0.9 million (21.5%) for the quarter ended June 30, 2006 were \$0.2 million below the \$1.1 million (26.6%) recorded for the period ended June 30, 2005. The decrease in margins is attributed to project overruns experienced on new product design being generated in the second quarter of 2006. Year to date margin of \$2.1 million (26.3%) is \$0.1 million above the 2005 six month comparative period total of \$2.0 million (24.9%) with overall margins positively affected by higher activity levels.

Pipeline gross margins of \$1.6 million (18.0%) for the quarter ended June 30, 2006 are \$2.2 million above the comparative period ended June 30, 2005. Increased small diameter revenue and continuation of the ACCESS project during the second quarter of 2006 resulted in increased overall gross margins in the Pipeline division. Gross margin percentages of Pipeline operations remained relatively stable for the comparative period ended June 30, 2005 to the period ended June 30, 2006. Year to date pipeline margins of \$4.3 million (17.9%) were \$2.9 million above the \$1.4 million (11.3%) recorded for the comparative period, and reflect increased coating activity during the first six months of 2006.

The Corporation's selling, general and administrative expenses totaled \$1.2 million for the three month period ended June 30, 2006, an increase of \$0.3 million from the expenses recorded at June 30, 2005. Increased wages and increased professional services were incurred during the second quarter of 2006. Year to date selling, general and administrative expenses total \$2.3 million which is an increase of \$0.3 million over the comparative six month period ended June 30, 2005.

Amortization expense for the period ended June 30, 2006 remained relatively unchanged and totaled \$474 thousand, an increase of \$4 thousand over the \$470 thousand recorded for the comparative period ended June 30, 2005. Year to date amortization of \$968 thousand is comparable with the amortization expense for the comparative six month period ended June 30, 2005.

Funds from operations for the period ended June 30, 2006 totaled \$0.5 million, compared to the -\$0.5 million used for the comparative period, an increase attributed to increased pipeline revenue generated in the second quarter of 2006. Year to date operating funds flow for the period ended June 30, 2006, totaled \$2.9 million, \$1.8 million above the \$1.1 million generated over the comparative period and reflects the increased cash flow generated from increased pipeline revenue.

Interest costs on the operating loan and the loan payable of \$170 thousand for the period ended June 30, 2006 was above the \$50 thousand recorded for the period ended June 30, 2005. Interest costs increased during the second quarter as usage of operating facilities and loans to finance working capital requirements increased as a result of the substantial increase in activity which continued into the second quarter.

Other expenses totaled \$0.7 million for the three month period ended June 30, 2006 and \$0.9 million for the six month year to date period. This reflects an increase of \$0.7 million for the three month period ended June 30, 2006 and \$1.0 million for the six month period. Other expenses are primarily comprised of transaction expenses incurred by the Corporation pertaining to the pending Plan of Arrangement agreement with ShawCor Ltd. Transaction expenses for the three month period ended June 30, 2006 total \$0.6 million and are \$0.9 million year to date. Transaction expenses are primarily comprised of professional expenses incurred to date. Other expenses also include expenses totaling \$258 thousand in the second quarter paid to senior management in lieu of exercising certain options.

The increase in coating revenue and gross margin therefrom, together with manufacturing margins were offset by other expenses and resulted in net losses of \$0.3 million for the three month period ended June 30, 2006, which remained a substantial improvement from the \$1.0 million net loss reflected in the comparative period ended June 30, 2005. A future income tax provision of \$252 was recorded in the second quarter of 2006 primarily as a result of depreciable capital asset pools used for accounting purposes exceeding the undepreciated capital cost of the assets for income tax purposes. Year to date net earnings of \$0.9 million is \$0.8 million improvement from the \$0.1 million net earnings generated from the six month comparative period ended June 30, 2005.

Net earnings before tax for the Manufacturing division for the period ended June 30, 2006 totaled \$378 thousand as compared to the \$684 thousand for the comparative period. The \$306 thousand reduction reflects the reduced gross margin generated in 2006. Year to date net earnings before tax for the Manufacturing division of \$938 thousand has decreased slightly from \$993 thousand for the six month period ended June 30, 2005.

Net losses before tax for the Pipeline division totaled \$0.4 million for the period ended June 30, 2006, an improvement of \$1.3 million over the \$1.7 million loss incurred for the comparative period. This improvement is attributed to the increased revenue and margins generated from small diameter coating products together with

continuation of the ACCESS project during the second quarter. The \$1.3 million improvement in net loss for the Pipeline division does not reflect the further \$0.8 million of other expenses incurred which contributed to the loss of the Pipeline division during the second quarter. Net earnings for the Pipeline division over the six month period ended June 30, 2006, totaled \$0.9 million which reflects a \$1.8 million improvement over the comparative six month period.

Accounts Receivable totaled \$14.2 million at June 30, 2006, a decrease of \$0.4 million over the \$14.6 million recorded at December 31, 2005, and is attributed to receivables carried on domestic coating revenue and domestic manufacturing revenues reducing as overall revenue generated reduced in the second quarter.

At June 30, 2006, operating and loan payable credit facilities available to the Corporation included a demand revolving operating line of credit of \$7.3 million (\$4.6 million utilized), which includes contingent letter of credit liabilities, a demand revolving evergreen loan of \$3.0 million (\$2.4 million utilized), a loan lease facility for \$0.7 million pertaining to the manufacture of polyethylene pipe and acquisition of forklifts and term loans in the amount of \$2.3 million. The operating line of credit continues to fluctuate within authorized limits with peak use occurring in the second quarter based on increased receivables carried through part of the second quarter.

Additions to capital equipment were \$733 thousand for the quarter end June 30, 2006, compared to \$20 thousand for the period ended June 30, 2005 and totaled \$1.2 million year to date compared to the \$0.4 million recorded in the comparative period ended June 30, 2005. Capital expenditures for 2006 were primarily related to additional fabrication, mobile and coating equipment betterments required to support increased activity during the second quarter of 2006 together with the purchase of new accounting computer software programs.

The Corporation's bank working capital covenants have been adjusted to remove principal payments due after 12 months from the working capital covenant calculation. Working capital of \$1.2 million is recorded at June 30, 2006. Adjusted working capital totals \$4.5 million, and is calculated by deducting \$3.3 million of loans payable, scheduled to be repaid after 12 months. The Corporation operated within all bank covenants at June 30, 2006.

Selected Quarterly Information

Three Months Ended (Unaudited)								
	Jun.30/06	Mar.31/06	Dec.31/05	Sept.30/05	Jun.30/05	Mar.31/05	Dec.31/04	Sept.30/04
Total Revenues	\$13,020	\$18,810	\$16,472	\$11,456	\$7,953	\$12,484	\$9,429	\$7,127
Net Earnings (Loss)	(273)	1,130	993	511	(990)	1,107	(152)	181
Basic Earnings (Loss) per Share	(0.02)	0.10	0.08	0.05	(0.09)	0.10	(0.01)	0.02
Diluted Earnings (Loss) per Share	(0.02)	0.09	0.08	0.05	(0.09)	0.09	(0.01)	0.02
Total Assets	38,424	38,635	38,141	33,499	30,372	35,696	31,427	30,313
Long Term Capital Lease Obligations	414	475	535	660	372	431	489	546

The seasonality of the pipe coating business results in wide quarterly fluctuations in revenue generated by the Corporation and net earnings (loss) therefrom. The second quarter ended June 30 is historically the slowest period for the Corporation with the March 31 quarter the most active.

Share Information

Outstanding options issued by the Corporation totaled 374,425 at June 30, 2006, 374,425 of which are exercisable. During the second quarter of 2006, 263,450 options were exercised at an average price of \$0.71 per share. A further 200,000 options (exercisable at \$0.90 per option) were redeemed for cash by the Corporation at a price of \$2.19 per option. The 263,450 issued shares increased total common shares outstanding to a total of 11,896,152 at June 30, 2006. There has been no material change to the outstanding common shares to the date of this discussion and analysis.

New Accounting Policies

In January 2005, the CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement", Handbook Section 1530, "Comprehensive Income", and Handbook Section 3865, "Hedges" the new standards will be effective for interim and annual financial statements commencing in fiscal 2007. The Company is currently assessing the impact of the new standards.

Critical Accounting Estimates

The Corporation recognizes revenues related to equipment fabrication contracts based on the percentage of completion of the individual contracts. At June 30, 2006, significant fabrication contracts in progress include domestic orders for oilfield tanks, buildings and catwalks totaling \$0.9 million.

The Corporation provides an estimate for amortization of assets based on expected useful life of the assets with coating and extrusion equipment calculated based on utilization of the equipment to match revenues generated by the equipment.

The Corporation also provides estimates pertaining to the valuation of long-lived assets, valuation of inventory, allowance for doubtful accounts and other estimates provided in the normal course of business operations.

Disclosure of Contractual Obligations

At June 30, 2006, there were no significant changes to the contractual obligations required to be made by the Corporation which were outlined in the Management Discussion and Analysis for the year ended December 31, 2005.

Contingencies

During the three month period ended June 30, 2006, the Company was named defendant in a lawsuit and has received claims in the aggregate amount of \$1.5 million. In the opinion of management, this matter is without substantial merit and no provision has been made for this claim in the accounts.

Business Risks

At June 30, 2006, there are no significant changes to the business risks outlined in the Management Discussion and Analysis for the year ended December 31, 2005.

Letters of Credit issued and outstanding at June 30, 2006 totaled \$137 thousand and will continue to have the potential risk of being encashed until maturity.

Plan of Arrangement

The Corporation announced on April 20, 2006 that it has entered into a definitive arrangement agreement whereby ShawCor Ltd. ("ShawCor") will acquire all of the outstanding common shares of Garneau Inc. ("Garneau").

The transaction will be effected by means of a court approved plan of arrangement. Under the terms of the arrangement, shareholders of Garneau (other than ShawCor and certain members of the Garneau family) will receive a cash payment of \$2.20 per share of Garneau. Holders of options to acquire common shares of Garneau which are not exercised prior to the effective date of the plan of arrangement will receive a cash payment per share equal to the difference between \$2.20 and the exercise price of the options. Members of the Garneau family will exchange their common shares of Garneau Inc. for non-voting preferred shares of Garneau Inc. which preferred shares will be redeemable after 3 years and retractable after 2 years at a price to be based on future profitability of certain ShawCor pipecoating operations, subject to a minimum of \$2.20 per share, and bear fixed cumulative dividends of 5% per annum.

As part of the plan of arrangement, Garneau Inc. will sell its equipment manufacturing division to Garneau Industries Ltd., a corporation controlled by Glen Garneau, for a purchase price of \$3.0 million. Furthermore, transaction costs incurred by Garneau Inc. will include severance costs of approximately \$1.9 million, retention and transaction bonuses of approximately \$0.8 million and various professional and miscellaneous fees incurred to complete the transaction.

The plan of arrangement calls for the acceleration of the vesting period for all outstanding options to reflect immediate vesting of all outstanding options. The plan of arrangement includes a provision for a termination fee in the amount of \$1.7 million payable to ShawCor Ltd. in the event that ShawCor Ltd. is not in default of any material obligations, representations or warranties under the plan of arrangement and a termination fee event occurs prior to the effective date as follows:

- (a) the Board of Directors withdraws or modifies in a manner materially adverse to ShawCor its approval or recommendation of the Arrangement Resolution or makes a public announcement to that effect;
- (b) the Board of Directors recommends any Alternative Transaction or makes a public announcement to that effect;
- (c) Garneau enters into an agreement with respect to an Alternative Transaction (other than a confidentiality agreement); or
- (d) the Board of Directors fails to reaffirm its recommendation of the Arrangement Resolution by press release within five Business Days after the public announcement or commencement of any Alternative Transaction and within a reasonable period of time of having been requested to do so by ShawCor.

Garneau Inc. established an independent committee of its Board of Directors to consider the transaction. Completion of the plan of arrangement is subject to regulatory approval, court approval, the approval of the shareholders of Garneau Inc. and to other customary conditions. Shareholders approved the transaction at the annual and special meeting of shareholders of Garneau Inc. held on May 30, 2006.

Garneau Inc. engaged Peters & Co. Limited as its financial advisor to assist in the negotiations with ShawCor. The independent committee of the Board of Directors of Garneau Inc. engaged FirstEnergy Capital Corp. to provide a formal valuation of Garneau Inc. and its equipment manufacturing division pursuant to Ontario Securities Commission Rule 61-501 and Regulation Q-27 of the *Authorit  des march s financiers*. The valuation concluded that as of the date indicated in the valuation, subject to the assumptions and qualifications to be set forth in the circular, the fair market value of the Garneau common shares was in the range of \$2.00 to \$2.25 per common share and the fair market value of the equipment manufacturing business was in the range of \$2,700,000 to \$3,100,000. Peters & Co. Limited has provided an opinion that the proposed transaction is fair, from a financial point of view, to the shareholders of Garneau Inc. A copy of the valuation and fairness opinion was included in the management proxy circular mailed to the shareholders of Garneau Inc.

The terms of the Plan of Arrangement were amended on May 18, 2006, May 23, 2006 and June 29, 2006 to permit the Competition Bureau, Canada to complete their inquiry pertaining to the Plan of Arrangement transaction. The Competition Bureau, Canada requested an extension of their original request to August 8, 2006 to consider the proposed acquisition.

Garneau originally perceived gaining regulatory approvals as a formality of the Plan of Arrangement and this assessment has changed over the past 60 days as further in depth questions and information has been supplied to the Competition Bureau to assist with their detailed review of the transaction. There can be no assurances that the Competition Bureau will approve the transaction as outlined in the existing Plan of Arrangement and the probability of such approval is currently undeterminable.

Operational

Small diameter coating activity for the second quarter of 2006 was well above activity recorded in 2005, resulting in increased utilization of the Camrose facilities. Both coating lines were in operation for most of the second quarter with three shifts employed. Work on the ACCESS project continued during the second quarter with the remainder of the project expected to be completed during the third quarter.

Domestic manufacturing activity continued to remain active throughout the second quarter at a brisk rate with two shifts continuing to operate in Nisku. These two fabrication shifts are expected to continue throughout the third quarter of 2006. Availability of trades people remains a large constraint on increasing production in the domestic Manufacturing division.

Outlook

Garneau's coating activity in the second quarter of 2006 increased from 2005 with an outstanding order book entering into July which would indicate that the third quarter coating activity could also exceed 2005 actual results. Completion of the ACCESS project is expected during the third quarter. Drilling forecasts for 2006 exceed 25,000 wells, which would support corporate projections for small diameter coating revenue for the remainder of 2006 being active.

A new international contract for \$3.5 million was received during the second quarter, for completion of coating equipment sold to the United States. This project will commence in July 2006 and is expected to be completed in the fall of 2006.

Domestic manufacturing remains very active with the Nisku fabrication facility expected to operate near capacity for the entire third quarter.

As noted in the Plan of Arrangement disclosure of the Management Discussion and Analysis portion of this second quarter report, Garneau issued a press release on April 20th, 2006 wherein it announced that Garneau has entered into a definitive arrangement agreement whereby ShawCor Ltd. will acquire all of the outstanding common shares of Garneau Inc. This transaction was approved by a shareholders vote at the Annual and Special Meeting held on May 30, 2006. Final court approval is still required and has not been received due to the Competition Bureau review of the transaction. The Competition Bureau is currently reviewing the transaction and has requested an extension for their review to August 8th, 2006. Garneau Inc. and ShawCor Ltd. have mutually agreed to extend their Plan of Arrangement agreement in this regards. Operations continue, for the interim, on a business as usual basis.

On behalf of the Board of Directors

Glen Garneau,
President and Chief Executive Officer

A handwritten signature in black ink, appearing to be 'Glen Garneau', written in a cursive style.

August 1, 2006

CONSOLIDATED BALANCE SHEETS

<i>As at</i> <i>(in thousands)</i>	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current Assets:		
Accounts receivable	\$ 14,197	\$ 14,554
Inventory	3,289	3,172
Prepaid expenses and deposits	146	28
	17,632	17,754
Other assets	189	-
Property, plant and equipment	20,603	20,387
	\$ 38,424	\$ 38,141
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Operating loan	\$ 4,435	\$ 5,316
Accounts payable and accrued liabilities	4,863	6,256
Customer deposits	1,801	-
Deferred revenue	262	378
Loans payable (Note 4)	4,694	5,761
Current portion of capital lease obligations	329	372
	16,384	18,083
Capital lease obligations	414	535
Future income taxes	1,120	128
	17,918	18,746
Shareholders' Equity:		
Share capital (Note 3)	21,106	20,901
Contributed surplus	274	225
Deficit	(874)	(1,731)
	20,506	19,395
Contingencies (Note 6)		
	\$ 38,424	\$ 38,141

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

<i>(In thousands, except per share data, unaudited)</i>	<i>Three months</i>		<i>Three months</i>		<i>Six months</i>		<i>Six months</i>	
	<i>ended</i>		<i>ended</i>		<i>ended</i>		<i>ended</i>	
	<i>June 30, 2006</i>		<i>June 30, 2005</i>		<i>June 30, 2006</i>		<i>June 30, 2005</i>	
Revenue	\$	13,020	\$	7,953	\$	31,830	\$	20,437
Operating costs		10,515		7,357		25,443		17,039
		2,505		596		6,387		3,398
Other operating expenses:								
Selling, general and administrative		1,151		926		2,275		1,984
Amortization		474		470		968		950
Research and development		26		67		93		154
		1,651		1,463		3,336		3,088
		854		(867)		3,051		310
Financing:								
Interest on loans payable		94		92		187		178
Interest on operating loan		76		28		130		65
Write down of property, plant and equipment		-		-		-		70
Other expenses (income)		728		(9)		922		(90)
Foreign exchange (gains) loss		(23)		12		(37)		(30)
Earnings (loss) before income taxes		(21)		(990)		1,849		117
Income taxes:								
Future		252		-		992		-
Net earnings (loss)		(273)		(990)		857		117
Deficit, beginning of period		(601)		(2,245)		(1,731)		(3,352)
Deficit, end of period	\$	(874)	\$	(3,235)	\$	(874)	\$	(3,235)
Earnings (loss) per share:								
Basic	\$	(0.02)	\$	(0.09)	\$	0.07	\$	0.01
Diluted	\$	(0.02)	\$	(0.09)	\$	0.07	\$	0.01

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands, unaudited)</i>	<i>Three months ended June 30, 2006</i>	<i>Three months ended June 30, 2005</i>	<i>Six months ended June 30, 2006</i>	<i>Six Months ended June 30, 2005</i>
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ (273)	\$ (990)	\$ 857	\$ 117
Items not involving cash:				
Amortization	474	470	968	950
Write down of property, plant and equipment	-	-	-	70
Stock based compensation costs	46	2	49	4
Future income taxes	252	-	992	-
	499	(518)	2,866	1,141
Changes in non-cash operating working capital	2,434	4,367	414	38
	2,933	3,849	3,280	1,179
Financing:				
Proceeds from exercise of share purchase options	156	-	205	7
Repayments of loans payable and capital lease obligations	(339)	(254)	(1,231)	(620)
Decrease in operating loan	(1,828)	(3,575)	(881)	(184)
	(2,011)	(3,829)	(1,907)	(797)
Investments:				
Other assets	(189)	-	(189)	-
Additions to property, plant and equipment	(733)	(20)	(1,184)	(382)
	(922)	(20)	(1,373)	(382)
Decrease in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -

See accompanying notes to interim consolidated financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

The Corporation is incorporated under the Business Corporations Act of Alberta. Its principal business activities are the coating of pipe and the manufacturing of equipment for use in the oil and gas industry. The company is subject to seasonal fluctuations in operating results.

These consolidated interim financial statements have been prepared assuming that future operations will allow for the realization of assets and discharge of liabilities in the normal course of business. Management is of the opinion that sufficient working capital will be obtained from operations to meet the Corporation's liabilities and commitments as they become payable. These consolidated interim financial statements do not include any adjustments to the carrying value of assets and liabilities that might be necessary should the Corporation not continue operating in the normal course of business.

1. Significant Accounting Policies:

These unaudited consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements. Notes to the consolidated interim financial statements for the period ended June 30, 2006 do not include all disclosures required by Canadian Generally Accepted Accounting Principles for annual financial statements. For further detailed information, the reader is advised to refer to Garneau Inc.'s 2005 audited financial statements.

2. Segment Disclosures

Management has determined that the Corporation operates in two reportable business segments which are Manufacturing and Pipeline.

Three months ended June 30, 2006			Three months ended June 30, 2005	
	Manufacturing	Pipeline	Manufacturing	Pipeline
Revenue	\$4,375	\$8,645	\$4,463	\$3,490
Gross margin	942 (21.5%)	1,563 (18.1%)	1,187 (26.6%)	(591) (-16.9%)
Other expenses	564	1,962	503	1,083
Net earnings (loss) before income taxes	378	(399)	684	(1,674)
Six months ended June 30, 2006			Six months ended June 30, 2005	
	Manufacturing	Pipeline	Manufacturing	Pipeline
Revenue	\$8,053	\$23,777	\$8,014	\$12,423
Gross margin	2,114 (26.3%)	4,273 (18.0%)	1,992 (24.9%)	1,406 (11.3%)
Other expenses	1,176	3,362	999	2,282
Net earnings (loss) before income taxes	938	911	993	(876)

Substantially all of the carrying value of the property, plant and equipment, and amortization expense relate to the Pipeline segment.

3. Share Data

At June 30, 2006, the Corporation had 11,896,152 outstanding common shares and 374,425 outstanding options to acquire common shares. 374,425 of these options were vested and exercisable. During the quarter, 263,450 options were exercised for cash proceeds of \$156. A further 200,000 options (exercisable at \$0.90 per option) were redeemed for cash by the Corporation at a price of \$2.19 per option for net payment of \$258. Diluted shares at June 30, 2006 total 11,817,229 and include the dilutive impact of options outstanding at June 30, 2006 on overall shares outstanding.

4. Loans Payable

Loans payable to the Corporation's bank are payable upon demand and are classified as a current liability. Scheduled repayments are as follows:

	June 30, 2006	December 31, 2005
Due within 12 months	\$1,435	\$1,785
Due after 12 months	\$3,259	\$3,976

5. Interest

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Interest Paid	\$170	\$120	\$317	\$243

6. Contingencies

The Company has been named defendant in a lawsuit and has received claims in the aggregate amount of \$1.5 million. In the opinion of management, this matter is without substantial merit and no provision has been made for the claim in the accounts.

7. Plan of Arrangement

The Corporation announced on April 20, 2006 that it has entered into a definitive arrangement agreement whereby ShawCor Ltd. ("ShawCor") will acquire all of the outstanding common shares of Garneau Inc. ("Garneau").

The transaction will be effected by means of a court approved plan of arrangement. Under the terms of the arrangement, shareholders of Garneau (other than ShawCor and certain members of the Garneau family) will receive a cash payment of \$2.20 per share of Garneau. Holders of options to acquire common shares of Garneau which are not exercised prior to the effective date of the plan of arrangement will receive a cash payment per share equal to the difference between \$2.20 and the exercise price of the options. Members of the Garneau family will exchange their common shares of Garneau Inc. for non-voting preferred shares of Garneau Inc. which preferred shares will be redeemable after 3 years and retractable after 2 years at a price to be based on future profitability of certain ShawCor pipecoating operations, subject to a minimum of \$2.20 per share, and bear fixed cumulative dividends of 5% per annum.

As part of the plan of arrangement, Garneau Inc. will sell its equipment manufacturing division to Garneau Industries Ltd., a corporation controlled by Glen Garneau, for a purchase price of \$3.0 million. Furthermore, transaction costs incurred by Garneau Inc. will include severance costs of approximately \$1.9 million, retention and transaction bonuses of approximately \$0.8 million and various professional and miscellaneous fees incurred to complete the transaction.

The plan of arrangement calls for the acceleration of the vesting period for all outstanding options to reflect immediate vesting of all outstanding options. The plan of arrangement includes a provision for a termination fee in the amount of \$1.7 million payable to ShawCor Ltd. in the event that ShawCor Ltd. is not in default of any material obligations, representations or warranties under the plan of arrangement and a termination fee event occurs prior to the effective date as follows:

- (a) the Board of Directors withdraws or modifies in a manner materially adverse to ShawCor its approval or recommendation of the Arrangement Resolution or makes a public announcement to that effect;
- (b) the Board of Directors recommends any Alternative Transaction or makes a public announcement to that effect;
- (c) Garneau enters into an agreement with respect to an Alternative Transaction (other than a confidentiality agreement); or

- (d) the Board of Directors fails to reaffirm its recommendation of the Arrangement Resolution by press release within five Business Days after the public announcement or commencement of any Alternative Transaction and within a reasonable period of time of having been requested to do so by ShawCor.

Completion of the plan of arrangement is subject to regulatory approval, court approval, the approval of the shareholders of Garneau Inc. and to other customary conditions. Shareholders approved the transaction at the annual and special meeting of shareholders of Garneau Inc. held on May 30, 2006. Final court approval is still required and has not been received due to the Competition Bureau review of the transaction. The Competition Bureau is currently reviewing the transaction and has requested an extension for their review to August 8, 2006. Garneau Inc. and ShawCor Ltd. have mutually agreed to extend their Plan of Arrangement agreement in this regards.

Garneau originally perceived gaining regulatory approvals as a formality of the Plan of Arrangement and this assessment has changed over the past 60 days as further in depth questions and information has been supplied to the Competition Bureau to assist with their detailed review of the transaction. There can be no assurances that the Competition Bureau will approve the transaction as outlined in the existing Plan of Arrangement and the probability of such approval is currently undeterminable.