



GARNEAU INC. FIRST QUARTER RESULTS ENDED MARCH 31, 2008

CORPORATE HIGHLIGHTS

Summary of Results <i>(In thousands, except per share data, unaudited)</i>	Three months ended	
	March 31, 2008	March 31, 2007
Revenue	\$ 5,307	\$ 7,245
Margin	1,170	1,466
Margin %	22.0%	20.2%
Earnings (loss) before income taxes	(1,221)	(828)
Net earnings (loss)	(1,221)	(701)
Earnings (loss) per share – basic	(0.10)	(0.06)
Earnings (loss) per share – diluted	(0.10)	(0.06)

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, fluctuations in commodity prices, 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 three months ended March 31, 2008 and 2007 and in conjunction with the audited consolidated financial statements and Annual Management Discussion and Analysis for the year ended December 31, 2007.

MANAGEMENT DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the operating performance and financial condition of Garneau Inc. ("Garneau" or the "Corporation") dated May 15, 2008, should be read in conjunction with the Unaudited Interim Consolidated Financial Statements and related notes thereto as well as the Audited Consolidated Financial Statements and related notes, MD&A and Letter to Shareholders contained in the Corporation's 2007 Annual Report. Additional information on Garneau is available through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and includes the Corporation's Annual Information Form and other required securities filings.

FINANCIAL

First quarter revenue for the period ended March 31, 2008, totaled \$5.3 million which was a \$1.9 million decrease from the \$7.2 million recorded for the comparative quarter ended March 31, 2007, a direct result of decreased Camrose coating activity and Nisku manufacturing activity experienced in the first quarter.

The slowdown of the oil and gas industry throughout 2007 and in the first quarter of 2008 adversely affected the revenue generated by the Corporation.

Manufacturing revenues for the quarter ended March 31, 2008 totaled \$1.6 million, a decrease of \$0.9 million from the quarter ended March 31, 2007. Manufacturing activity decreased during the first quarter of 2008 as industry activity slowed down.

Pipeline revenues for the quarter ended March 31, 2008, totaled \$3.7 million, a decrease of \$1.0 million from the quarter ended March 31, 2007. Small diameter coating activity decreased, as overall industry activity was curtailed. Also, the mainline ACCESS project was completed during the third quarter of 2007.

Margin for the first quarter ended March 31, 2008 totaled \$1.2 million, which is \$0.3 million below the \$1.5 million recorded for the comparative period. The margin decrease is directly attributed to decreased revenue generated from both segmented operations as overall industry activity slowed down.

Manufacturing margins of \$0.3 (20.4%) million for the quarter ended March 31, 2008 were better by \$0.1 million to the \$0.2 million (8.9%) recorded for the period ended March 31, 2007. The Corporation was however able to increase margins slightly with cost saving measures.

Pipeline gross margins of \$0.8 million (22.8 %) for the quarter ended March 31, 2008 were a decrease of \$0.3 million from \$1.2 million (26.2 %) for the comparative period ended March 31, 2007. Decreased small diameter revenue during the first quarter of 2008 together with completion of the ACCESS mainline project in 2007, resulted in decreased overall gross margins in the Pipeline division.

The Corporation's selling, general and administrative expenses totaled \$1.5 million for the three month period ended March 31, 2008, which is relatively consistent with the \$1.6 million from the expenses recorded at March 31, 2007. Reduced expenses offset the cost of inflation year over year.

Amortization expense for the period ended March 31, 2008 showed an increase and totaled \$604 thousand, an increase of \$66 thousand over the \$538 thousand recorded for the comparative period ended March 31, 2007 and reflects increased amortization as a result of capital expenditures incurred during the previous 12 months.

Funds used by operations before changes in non-cash working capital for the quarter ended March 31, 2008 totaled \$(578)thousand, compared to the \$(257) thousand generated for the comparative period, a decrease attributed to decreased overall operational revenue generated by both segments of the Corporation in the first quarter of 2008.

Interest costs on the operating loan and the loan payable of \$184 thousand for the period ended March 31, 2008 was \$61 thousand more than the \$123 thousand recorded for the period ended March 31, 2007. Interest costs increased during the first quarter as usage of operating facilities and loans to finance working capital requirements increased as a result of the decreased revenue generated during the first quarter.

Other income totaled \$32 thousand for the three month period ended March 31, 2008, an increase from the \$22 thousand income for the comparative period.

The decrease in coating revenue and gross margin there from resulted in net losses totaling \$(1.2) million for the three month period ended March 31, 2008, a decrease of \$(0.5) million from the \$(0.7) million net earnings reflected in the comparative period ended March 31, 2007. A future income tax recovery was not recorded in the first quarter of 2008 primarily as a result of the uncertainty of utilizing these future tax assets.

Net losses before tax for the Manufacturing division for the period ended March 31, 2008 totaled \$(196) thousand as compared to the \$(490) thousand of net losses for the comparative period. The \$294 thousand improvement reflects better margins in the first quarter of 2008.

Net losses before tax for the Pipeline division totaled \$(1025) thousand for the period ended March 31, 2008, a decrease of \$688 thousand from the \$(338) thousand net loss generated for the comparative period. This net loss is attributed to the decreased revenue and from coating products together with increased operating costs incurred by the Corporation during the first quarter charged to the coating operations.

No comprehensive income or loss and no opening or closing balances for accumulated comprehensive income or loss is recorded for the period ended March 31, 2008.

Accounts Receivable totaled \$3.9 million at March 31, 2008, a decrease of \$0.8 million over the \$4.7 million recorded at December 31, 2007, and is attributed to receivables carried on domestic coating revenue and domestic manufacturing revenue reducing as overall revenue generated reduced in the first quarter. Unbilled revenue totaled \$0.3 million at

March 31, 2008; an increase of \$0.1 million over the \$0.2 million recorded at December 31, 2007 and pertains to increased work in progress on manufacturing projects at March 31, 2008.

On June 27, 2007 new credit facilities were approved by the Corporation's existing lender. At December 31, 2007 the Corporation had available a demand revolving operating line of \$18.0 million. At March 31, 2008, operating and loan payable credit facilities available to the Corporation included a demand revolving operating line of credit of \$9 million (\$3.0 million utilized), which includes contingent letter of credit liabilities, a demand revolving evergreen loan of \$5.0 million (\$2.2 million utilized), a loan lease facility for \$1.8 million (\$0.2 million utilized) pertaining to the manufacture of polyethylene pipe and acquisition of forklifts and demand loans in the amount of \$9.0 million (\$6.4 million utilized). The operating line of credit continues to fluctuate within authorized limits. At March 31, 2008, the Corporation was not in compliance with the debt service covenant related to its bank credit facility. Based on the Corporation's current projections, the Corporation believes it is unlikely that it will be in compliance with the existing financial covenants contained in their loan agreements during 2008 unless they are modified. Future violation of the covenants could result in a requirement to immediately repay the operating and demand loans. The \$20.0 million increase in credit facilities authorized will be used to fund new strategic initiatives expected to be undertaken by the Corporation. For the purposes of the working capital covenant calculation, principal payments on the loans payable scheduled to be repaid after 12 months are not included in the working capital. On February 5, 2008 the Corporation's Bank completed an interim review of the Loans as set out in the Facility Letter issued to the Corporation. Based on the information, representations and documents the Corporation provided to the Bank, the Bank agreed to amend the covenant and conditions governing the Loan(s) on the condition that the Facility Letter be modified as follows:

- The bank herein provides its forbearance for the breach of Debt Service Coverage ratio, without constituting a waiver of default until June 30, 2008. The Bank, however, reserves all rights and remedies for any future covenant violations.
- No further advances under the demand revolving evergreen bank loan and demand non-revolving bank loan without prior approval of the Bank.
- Operating Loan will be restricted to \$6.25 million subject to margin availability until the annual review of facilities is carried out upon receipt of the audited year end financial statements and projections for 2008. The evergreen loan is restricted to \$2.3 million and the Demand loan is restricted to \$6.5 million.

Future operations will remain dependant on the Corporation's ability to generate sustainable profits and the ongoing support of its lender. Management focused on strategic planning and implemented initiatives in 2007 to position the Corporation for further growth. In addition, significant steps are being taken by management to reduce infrastructure costs. In addition, Management has recently obtained appraisals on various property, plant and equipment that indicate there is a significant appraised surplus in the fixed assets, which should provide the Corporation with financing flexibility.

The continuation of a soft market is projected to have a further negative impact on liquidity and bank financing available within the Corporation during 2008. Management is currently reviewing options available to the Corporation to increase liquidity in the Corporation. This includes the possible sale/leaseback of land and buildings, sale of unproductive assets, possible increased sales success from existing business segments and new initiatives, or the raising of further capital.

The covenant is determined quarterly based on the trailing four quarters ending on each determination date.

Net additions to capital equipment were \$595 thousand for the quarter end March 31, 2008, compared to \$315 thousand for the period ended March 31, 2007. Capital expenditures for 2008 were primarily related to increase coating equipment improvements and new strategic indicative currently in progress.

The Corporation's bank working capital covenants have been adjusted. For the purposes of the working capital covenant calculation, principal payments on the loans payable scheduled to be repaid after 12 months are not included in the working capital.

SELECTED QUARTERLY INFORMATION

(In thousands, except per share data)

	Three Months Ended (unaudited)							
	Mar 31/08	Dec. 31/07	Sept. 30/07	Jun. 30/07	Mar. 31/07	Dec. 31/06	Sept. 30/06	Jun. 30/06
Total Revenues	5,307	\$4,351	\$3,793	\$4,772	\$7,245	\$14,134	\$11,078	\$13,020
Net Earnings (loss)	(1,221)	(1,708)	(1,034)	(1,281)	(701)	37	53	(273)
Basic Earnings (loss) per Share	(0.10)	(0.14)	(0.09)	(0.11)	(0.06)	0.00	0.00	(0.02)
Diluted Earnings (loss) per Share	(0.10)	(0.14)	(0.09)	(0.11)	(0.06)	0.00	0.00	(0.02)
Total Assets	28,950	29,885	29,202	28,779	30,501	39,571	34,709	38,424
Long Term Capital Lease Obligations	91	118	-	171	211	241	353	414

The seasonality of the pipe coating business and project nature of international contracts results in wide quarterly fluctuations in revenue generated by the Corporation and net earnings (loss) there from. The second quarter ended June 30 is historically the slowest period for the Corporation with the quarter ended March 31 the most active. Fourth quarter earnings for the period ended December 31, 2007 were also negatively affected by the retirement allowance and corporate bonuses declared. Manufacturing and coating activity experienced a significant slow down in the first quarter of 2008 which resulted in losses being recorded in the first quarter of 2008.

OUTSTANDING SHARES DATA

Outstanding options issued by the Corporation totaled 891,800 (388,710 vested), at December 31, 2007. During the period ended March 31, 2008, 5,250 options expired with a weighted average price of \$0.60. Options outstanding at March 31, 2008 totaled 859,800 (356,710 vested) with a weighted average exercise price of \$1.25.

Outstanding common shares of the Corporation at December 31, 2007 totaled 12,091,777. 26,750 options have been exercised to date in 2008 with outstanding common shares totaling 12,118,527 at the date of this report.

CHANGES IN ACCOUNTING POLICIES

(a) Capital Disclosures:

Effective January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535; Capital Disclosures ("CICA 1535"). CICA 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about the entity in regards to capital and whether the entity has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. Note 12 provides qualitative disclosure regarding objectives, policies and processes for managing capital as well as quantitative on capital as at March 31, 2008. Certain information related to comparative years is not prescribed by these standards and accordingly, the prior comparative period has not been restated.

(b) Financial Instruments:

Effective January 1, 2008, the Corporation adopted CICA Handbook Sections 3862 Financial Instruments – Disclosures (“CICA 3862”) and Handbook Section 3863 Financial Instruments – Presentation (“CICA 3862”, which replaced Section 3861 “Financial Instruments – Disclosure and Presentation”).

CICA 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position and its performance and the nature and extent of risks from financial instruments to which the entity is exposed during the period and a the balance sheet date, and how the entity manages those risks. The presentation requirements under Section 3863 are relatively unchanged from Section 3861.

The adoption of these standards did not have any impact on the classification or measurement of the Company’s financial instruments. The additional disclosures necessary to comply with these standards are provided in Note 13. Certain information related to comparative years is not prescribed by these standards and accordingly the prior comparative period has not been restated.

(c) Inventories:

Effective January 1, 2008, the Corporation adopted CICA Handbook Section 3031, Inventories (“CICA 3031”), which provides new guidance on the recognition, measurement and disclosure of inventories. The recognition and measurement changes include the elimination of the last in first out method, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in a value of inventories.

The Corporation retrospectively adopted the CICA 3031 requirements without restatement. The adoption of CICA 3031 did not have a material effect on the financial statements of the Corporation as of January 1, 2008.

Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and reversals of write-downs are required to be disclosed. These new disclosures are included in Note 6.

(d) General Standards of Financial Statement Presentation;

The CICA approved amendments to Handbook Section 1400, “General Standards of Financial Statement Presentation”. These amendments require management to assess an entity’s ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity’s ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. Effective January 1, 2008, the Corporation has adopted these new requirements, which have been reflected into Note 1 of the Corporation’s interim consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation has historically operated with an implemented system of internal controls over financial reporting that it believes adequately protects the assets of the Corporation and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Corporation’s Chief Executive Officer and Chief Financial Officer believe that the Corporation’s disclosure controls and procedures historically in place, provide a reasonable level of assurance that the system of internal controls are sufficient, they do not guarantee that the disclosure controls and procedures, will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Chief Executive Officer and Chief Financial Officer of the Corporation are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Management of the Corporation commenced an evaluation of these existing internal controls over financial reporting. This evaluation was fully completed at December 31, 2007.

The Corporation's Chief Executive Officer and Chief Financial Officer have concluded based on their evaluation that, partially due to the limited number of staff and resources at Garneau, inherent weaknesses in areas of internal controls over financial reporting are present, including segregation of duties, lack of financial expertise at certain levels in the finance functions, documented review of financial reporting entries and reconciliations, controlled use of spreadsheets, information technology safeguards, risk assessment processes, physical controls, documentation controls and controls at the entity level. The Corporation has put processes and procedures in place to support accounting estimates and documented accounting policies and procedures in accordance with generally accepted accounting principles during 2007. As a result of these weaknesses there is no guarantee that a material misstatement would not be prevented or detected. Implementation of strengthened financial reporting controls will occur during 2008, where required.

DISCLOSURE, CONFIDENTIALITY AND TRADING POLICY

The Corporation has formal disclosure controls and procedures in place which promotes an understanding of the legal requirements among the Corporation's directors, officers and employees as it pertains to the timely, factual and accurate communications with the public for Garneau Inc., together with compliance of trading requirements of Corporation securities and confidentiality of non public disclosed information. The effectiveness of the Corporation's disclosure controls and procedures at March 31, 2008 have been evaluated by senior management and are in compliance with reporting requirements at March 31, 2008. Furthermore, these disclosure controls and procedures are in the process of being enhanced further in 2008.

CRITICAL ACCOUNTING ESTIMATES

The Corporation recognizes revenues related to equipment fabrication contracts based on the percentage-of-completion of the individual contracts. At March 31, 2008, significant fabrication contracts in progress include domestic orders for coating equipment \$1.4 million. Revenues from contracts are determined on the percentage-of-completion method, based on the ratio of costs incurred to date over estimated total costs. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance issues, contract profit can differ from earlier estimates.

The Corporation provides an estimate for amortization of assets based on the expected useful life of assets with coating and extrusion equipment calculated based on a straight-line method. These estimates are made using historical experience and knowledge of current market conditions, however, are subject to change as market conditions shift or technological advances are made.

The Corporation evaluates the probability of collection of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management reasonably believes will be collected. In determining the amount of allowance, the following factors are considered: the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience.

Long lived assets (property, plant and equipment) are assessed for impairment on at least an annual basis or more often if events or circumstances warrant. These impairment tests involve the use of both undiscounted net cash flow analyses to assess the recoverability of the carrying value of these assets and the fair value of long-lived assets, if applicable. These analyses involve estimates of future cash flows, estimated periods of use and applicable discount rates.

The Corporation also provides estimates pertaining to the valuation of long-lived assets, valuation of inventory, valuation of future income taxes and other estimates provided in the normal course of business operations.

DISCLOSURE OF CONTRACTUAL OBLIGATIONS

At March 31, 2008, there were no significant changes to the contractual obligations disclosed by the Corporation which were outlined in the Management Discussion and Analysis for the year ended December 31, 2007.

CONTINGENCIES

During the period ended March 31, 2008, the Corporation remained a named defendant in a lawsuit with claims in the aggregate amount of \$1.5 million. In the opinion of management, this matter is without substantial merit and no provisions have been made for this claim in the accounts.

BUSINESS RISKS

At March 31, 2008, there are no significant changes to the business risks outlined in the Management Discussion and Analysis for the year ended December 31, 2007.

RELATED PARTY TRANSACTIONS

The Corporation entered into certain transactions for contract manufacturing design services with a director of the Corporation. For the quarter March 31, 2008, the consulting fees paid for these services were \$18 (2007: \$28), which are recorded as part of selling, general and administrative expenses in the consolidated statement of operations. The Corporation also entered into certain transactions with the wife of a director of the Corporation related to the rental of a loader. For the quarter ended March 31, 2008, the rental fees paid for these services were \$12 (2007: \$12), which are recorded as part of pipeline operating costs in the consolidated statement of operations.

All related party transactions described above were measured at the exchange amount, being the consideration established and agreed to by the related parties.

OUTLOOK

In 2007 drilling activity exceeded 18,576 wells down 20% from the 23,218 wells drilled in 2006. This trend continued throughout the first quarter of 2008 with drilling activity showing a fractional increase from Q1 2007 thanks mainly to more activity in British Columbia, Saskatchewan and Manitoba. Alberta on the other hand whom historically accounts for approximately 75% of the industry's production lagged behind when compared to the same time period in 2007.

Overall the last couple of years has not been kind to the oil and gas industry with the elimination of the Alberta Royalty Tax Credit, the Federal Governments changes on Income Trusts, Alberta's plans to Increase Royalties, an extended period of lower gas prices and lastly but certainly nothing to be over looked a noticeable lack of investor interest and support. The affect of these events has been nothing short of an overall suppression of activity with in the oil and gas sector. The net affect of which was a noticeable slowdown of activity in 2007 and it's continuation into 2008.

These negative events combined with an over abundance of available line pipe on the ground have produced a noticeable downturn in the corporations activity levels and have substantially impacted Garneau Inc's coating revenue as it was well below comparative 2007 levels.

Looking forward the confirmed industry downturn for 2008 may not be as dramatic as anticipated. Gas prices are up for the eighth month in a row, crude oil has continued to surge extending a six year rally that has sent prices up five fold to near \$120 bbl. As well 2008 second quarter drilling forecasts have been increased to 16,500 wells although still behind 2007 numbers the revision does represent an 11% increase. All positive news to build on a negative first quarter.

Initial design and fabrication on the major Camrose capital expenditure program continued during the first quarter of 2008 and is progressing as originally planned. This major upgrade to the Camrose facility is projected to improve production efficiencies and reduce downtime and maintenance costs in the plants. We project improved capabilities for future client orders through these upgrades.

Manufacturing and design of an out put coating plant was started and completed in the 1st quarter. Various oilfield repair work as well as 3 SCR buildings was also completed in the 1st quarter. All projects went well with deliveries and expected margins going as planned.

Garneau will continue to invest in research and development, while actively pursuing potential new markets and focusing on profitable growth by offering specialty products and services to complement our core coating and manufacturing operation.

Enhanced strategic initiatives are currently being reviewed. The implementation of these strategies during 2008 will be the primary focus of the Corporation. The execution of these plans will improve earnings and cash flow, satisfying our lending covenants and enhancing shareholder value.

On behalf of the Board of Directors



Glen Garneau,

President and Chief Executive Officer
May 15, 2008

OPERATIONAL

Small diameter coating activity for the first quarter of 2008 was well below the activity recorded in 2007 as both coating lines were in partial operation for most of the first quarter with only two shifts employed. The order book softened in the fourth quarter of 2007 and continued during the first quarter of 2008 as clients indicated that short term activity would be curtailed. Initial design and fabrication work commenced on the plant upgrades capital program announced in the fall of 2007 for the Camrose plant.

Domestic manufacturing activity also reduced in the first quarter of 2008 as project bidding and activity were curtailed in Nisku. Garneau manufacturing operations plant hours were reduced to 4 day 10 hour shifts with a reduction in overtime premiums as project activity decreased.

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation is disclosing that its auditors have not reviewed the unaudited consolidated financial statements for the period ended March 31, 2008.

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (unaudited)	at March 31, 2008	at December 31, 2007
Assets		
Current Assets:		
Accounts receivable	\$ 3,937	\$ 4,719
Unbilled revenue	284	166
Inventory (Note 6)	3,458	3,427
Prepaid expenses and deposits	33	331
	7,712	8,643
Other assets	66	60
Property, plant and equipment	21,172	21,182
	\$ 28,950	\$ 29,885
Liabilities and Shareholders' Equity		
Current Liabilities:		
Operating loan (Note 8)	\$ 3,003	\$ 3,141
Accounts payable and accrued liabilities	1,797	1,854
Customer deposits	112	112
Loans payable (Note 9)	8,671	8,209
Current portion of capital lease obligations	255	265
	13,838	13,581
Capital lease obligations	91	118
Future income taxes (Note)	-	-
	13,929	13,699
Shareholders' Equity:		
Share capital (Note 7)	21,460	21,438
Contributed surplus	294	260
Deficit	(6,733)	(5,512)
	15,021	16,186
Basis of presentation (Note 1)		
Contingencies (Note 10)		
	\$ 28,950	\$ 29,885

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) AND DEFICIT

(In thousands of Canadian dollars except per share data, unaudited)	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenue	\$ 5,307	\$ 7,245
Operating costs	4,137	5,779
	1,170	1,466
Other operating expenses (income):		
Selling, general and administrative	1,496	1,587
Amortization	604	538
Research and development	120	39
Foreign exchange loss (gain)	10	12
Gain on disposal of property, plant and equipment	-	(4)
	2,230	2,172
	(1,060)	(706)
Financing:		
Interest on operating loan	42	38
Interest on loans payable	142	85
Other	9	9
Other expenses (income), net	(32)	(10)
Loss before income taxes	(1,221)	(828)
Income taxes:		
Future (Note 11)	-	(127)
	-	(127)
Net loss and comprehensive income (loss)	(1,221)	(701)
Deficit, beginning of period	(5,512)	(784)
Deficit, end of period	\$ (6,733)	\$ (1,485)
Loss per share:		
Basic	\$ (0.10)	\$ (0.06)
Diluted	\$ (0.10)	\$ (0.06)
Weighted average common shares:		
Basic	12,110,296	12,048,527
Diluted	12,110,296	12,048,527

See accompanying notes to unaudited interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars, unaudited)

Three months ended
March 31, 2008

Three months ended
March 31, 2007

Cash provided by (used in):

Operations:

Net loss	\$ (1,221)	\$ (701)
Items not involving cash:		
Amortization	604	538
Stock-based compensation expense	40	37
Gain on disposal of property, plant and equipment	-	(4)
Future income taxes	-	(127)
	(577)	(257)

Changes in non-cash operating working capital	874	4,110
	297	3,853

Financing:

Proceeds from exercise of share purchase options	16	-
Increase (decrease) in operating loan	(137)	(3,005)
Repayment of loans payable	(338)	(423)
Advances under loans payable	800	-
Repayment of capital lease	(37)	(109)
	304	(3,537)

Investments:

Other assets	(6)	(1)
Proceeds from disposal of property, plant and equipment	-	27
Additions to property, plant and equipment	(595)	(342)
	(601)	(316)

Change in cash	-	-
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Cash, beginning of period	-	-
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Cash, end of period	\$ -	\$ -
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See accompanying notes to unaudited interim consolidated financial statements.

For the three months ended March 31, 2008 and 2007

1) Basis of Presentation – Going Concern

The Corporation is incorporated under the Business Corporations Act of Alberta. Its principal business activities are the coating and distribution of pipe and manufacturing of equipment for use in the oil and gas industry. The Corporation is subject to seasonal fluctuations in operating results that impact quarter-to-quarter operating results and, thus, one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Corporation and its subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian GAAP. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is uncertainty about the appropriateness of the use of the going concern assumption because the Corporation is in breach of its debt service covenant under its loan agreement (including certain capital leases). In addition, the Corporation experienced a substantial reduction in revenues during the current year which contributed to a significant net loss, negative cash flows from operations before adjusting for changes in working capital, and a working capital deficiency as at March 31, 2008. Based on the Corporation's current projections, including budgeted losses for fiscal 2008, the Corporation believes it is unlikely that it will be in compliance with the existing loan agreement financial covenants during 2008. Failure to comply with these debt covenants could result in a requirement to immediately repay the bank loans.

Management is of the opinion that sufficient working capital will be obtained from operations, shareholders and other external financing sources to meet the Corporation's liabilities and commitments as they become payable. Future operations are dependant on the Corporation's ability to generate sustainable profits and the ongoing support of its lender.

The ability of the Corporation to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned by Management, which Management believes will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Corporation's products and services.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2) 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, except as described in note 3. The notes to the consolidated interim financial statements for the period ended March 31, 2008 do not include all disclosures required by Canadian GAAP Principles for annual financial statements. For further detailed information, the reader is advised to refer to Garneau Inc.'s 2007 audited financial statements.

3) Changes in Accounting Policies

For the three months ended March 31, 2008 and 2007

(a) *Capital disclosures:*

Effective January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535; Capital Disclosures (“CICA 1535”). CICA 1535 requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about the entity in regards to capital and whether the entity has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. Note 12 provides qualitative disclosure regarding objectives, policies and processes for managing capital as well as quantitative on capital as at March 31, 2008. Certain information related to comparative years is not prescribed by these standards and accordingly the prior comparative period has not been restated.

(b) *Financial Instruments:*

Effective January 1, 2008, the Corporation adopted CICA Handbook Sections 3862 Financial Instruments – Disclosures (“CICA 3862”) and Handbook Section 3863 Financial Instruments – Presentation (“CICA 3862”, which replaced Section 3861 “Financial Instruments – Disclosure and Presentation”).

CICA 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position and its performance and the nature and extent of risks from financial instruments to which the entity is exposed during the period and a the balance sheet date, and how the entity manages those risks. The presentation requirements under Section 3863 are relatively unchanged from Section 3861.

The adoption of these standards did not have any impact on the classification or measurement of the Company’s financial instruments. The additional disclosures necessary to comply with these standards are provided in Note 13. Certain information related to comparative years is not prescribed by these standards and accordingly the prior comparative period has not been restated.

(c) *Inventories:*

Effective January 1, 2008, the Corporation adopted CICA Handbook Section 3031, Inventories (“CICA 3031”), which provides new guidance on the recognition, measurement and disclosure of inventories. The recognition and measurement changes include the elimination of the last in first out method, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in a value of inventories.

The Corporation retrospectively adopted the CICA 3031 requirements without restatement. The adoption of CICA 3031 did not have a material effect on the financial statements of the Corporation as of January 1, 2008.

Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and reversals of write-downs are required to be disclosed. These new disclosures are included in Note 6.

(e) *General Standards of Financial Statement Presentation:*

The CICA approved amendments to Handbook Section 1400, “General Standards of Financial Statement Presentation”. These amendments require management to assess an entity’s ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity’s ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. Effective January 1, 2008, the Corporation has adopted

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these new requirements, which have been reflected into Note 1 of the Corporation's interim consolidated financial statements.

4) Segment Disclosures

Management has determined that the Corporation operates in two reportable business segments which were Manufacturing and Pipeline, which follow the organization, management and reporting structure of the Corporation. The Corporation's reportable segments are strategic business units that offer different products, services, processes and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

(In thousands of Canadian dollars)

	Three months ended March 31, 2008		Three months ended March 31, 2007	
	Manufacturing	Pipeline	Manufacturing	Pipeline
Revenue	\$ 1,620	\$ 3,687	\$ 2,496	\$ 4,749
Gross margin	330(20.4%)	840(22.8%)	223(8.9%)	1,243(26.2%)
Amortization	70	535	43	495
Interest expense	-	184	-	123
Other expenses and income before income taxes	456	1,146	670	963
Earnings (loss) before income taxes	(196)	(1,025)	(490)	(338)
Property, plant and equipment	4,751	38,046	4,552	35,575
Accumulated amortization	2,015	19,609	1,598	17,771
Net book value	2,736	18,437	553	20,205
Capital expenditures	-	595	-	315
Total assets	4,035	24,915	3,436	27,065

Gross margin is determined by deducting operating costs from revenue. Operating costs consist of all direct material, labor and plant overhead costs.

During the three months ended March 31, 2008, 3 customers accounted for 44% of consolidated revenues. During the three months ended March 31, 2007, 5 customers accounted for 62% of consolidated revenues, respectively. Revenue by major customer was earned in both segments: Pipeline and Manufacturing.

5) Supplementary Cash Flow Information

	Three Months Ended	
	March 31, 2008	March 31, 2007
Interest paid	\$ 184	\$ 123

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6) Inventory

Inventories are valued at the lower of cost and estimated net realizable value.

Cost of conversion includes cost of direct labour, direct materials and a portion of direct and indirect overheads allocated based on normal capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of sale.

For the three months ended March 31, 2008, the Corporation recognized \$2.4 million of inventory as an expense which is included in operating costs (2007: \$3.3 million). As at March 31, 2008, \$3.5 amounts of inventories were pledged as security for its operating line of credit.

Inventory consists of the following: <i>(In thousands of Canadian dollars)</i>	March 31, 2008	December 31, 2007
Raw materials	\$1,519	\$1,406
Work-in-progress	12	-
Finished goods	1,927	2,021
	\$3,458	\$3,427

7) Share Data

At December 31, 2007, the Corporation had 12,091,777 outstanding common shares and 891,800 outstanding options to acquire common shares, of which 288,710 of these options were vested and exercisable. During the quarter ended March 31, 2007, no options were exercised. Options outstanding at March 31, 2007 were 859,800 (356,710 vested). Options totaling 5,250 at an average price of \$0.60 expired during the quarter ended March 31, 2008. During the quarter ended March 31, 2008, 26,750 options were exercised for the cash proceeds of \$16 thousand. Stock options exercised during the period ended March 31, 2008 resulted in \$6 thousand being transferred from contributed surplus to share capital. Outstanding common shares totaled 12,118,527 at March 31, 2008.

<u>Share Continuity Schedule</u>	Number of shares	\$ Value
Common shares outstanding at December 31, 2007	12,091,777	\$21,438
Issued for cash during 2007 on exercised of options	26,750	16
Transfer from contributed surplus for stock options exercised	-	6
Common shares outstanding at September 30, 2007	12,118,527	21,460

8) Operation Loan

At March 31, 2008, the Corporation had available a demand revolving operating line of credit of \$18.0 million (\$3.0 million utilized) bearing interest at the lender's prime rate plus 0.375% for the Canadian loan and US prime plus 0.375% or libor plus 1.975% for the USD advances. This interest rate is adjusted to prime if the Corporation covenant ratios are within a certain limit. Interest is paid monthly. The amount available under the facility is subject to a borrowing based formula applied to the levels of accounts receivable and inventories. Letters of guarantee and credit for performance and bid guarantees, when issued, reduce the amount available for borrowing under the loan. No letters of credit were issued as at March 31, 2008. As collateral for the facilities, the

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Corporation has provided a general security agreement creating a first priority charge over all assets, floating charge over all present and after acquired Corporation's real property and assignment of all insurance. At March 31, 2008, the Corporation had further demand revolving operating loans available of \$1.9 million based on margining surplus.

The Corporation was not in compliance with its debt service covenant under its loan agreement (including certain capital leases). The covenant is determined quarterly based on trailing four quarters of net earnings (loss) plus depreciation plus interest expense ending on each determination date. Based on the Corporation's 2008 budget, the Corporation believes it is unlikely that it will be in compliance with the existing financial covenants during 2008 unless they are modified.

In February, 2008, the Corporations' lender completed an interim review of the loan(s) (Note 8 and Note 9) as set out in the Facility Letter issued to the Corporation, which resulted in the following restriction to the Corporation's credit facilities:

- The lender provides its forbearance for the breach of Debt Service Coverage ratio, without constituting a waiver of default until June 30, 2008. The lender, however, reserves all rights and remedies for any future covenant violations.
- No further advances under the demand revolving evergreen bank loan and demand non-revolving bank loan without prior approval of the lender (See Note 9).
- Operating Loan (line of credit \$18.0 million)will be restricted to \$9.0 million subject to margin availability until the annual review of facilities is carried out upon receipt of the audited year end financial statements and Management's projections for 2008.

9) Loans Payable

<i>(In thousands of Canadian dollars)</i>	2008	2007
1. Demand revolving evergreen bank loan, payable in monthly principal installments of \$71. Interest is charged at the rate of bank prime plus 0.875%, secured as described in Note 8.	\$ 2,226	\$ 1,599
2. Demand non-revolving bank loan, payable in monthly principal installments of \$55. Interest is charged at the rate of bank prime plus 0.875%, secured as described in Note 8.	6,445	6,610
	\$ 8,671	\$ 8,209

The demand revolving evergreen bank loan is for financing the cost of capital upgrades and is limited to the lesser of 100% of the total cost of upgrades and \$5.0 million. Subject to the restrictions in Note 8, the authorized amount of the demand non-revolving loan bank loan is \$9.0 million paid in monthly installments of principal and interest based upon an amortization period of 20 years.

Throughout the period ended March 31, 2008, the Corporation was not in compliance with its debt service coverage covenant under its credit facilities, including loans payable, as described in Note 8.

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

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(In thousands of Canadian dollars)

	2008	\$	1,060
	2009		1,118
	2010		926
	2011		767
	2012		610
	And subsequent years		4,190
Total scheduled repayments beyond 12 months		\$	<u>8,671</u>

As at March 31, 2008, the Corporation has a loan lease facility for \$1.8 million (\$0.2 million utilized pertaining to the manufacture of polyethylene pipe and acquisition of forklifts) bearing prime plus 0.875%, which is due on demand and has been classified as a current liability.

In February, 2008, the Corporations' lender completed an interim review of the loan(s) (Note 8 and Note 9) as set out in the Facility Letter issued to the Corporation, which resulted in the following restriction to the Corporation's credit facilities:

- The lender provides its forbearance for the breach of Debt Service Coverage ratio, without constituting a waiver of default until June 30, 2008. The lender, however, reserves all rights and remedies for any future covenant violations.
- No further advances under the demand revolving evergreen bank loan and demand non-revolving bank loan without prior approval of the lender (See Note 9).
- Evergreen loan (line of credit \$5.0 million) will be restricted to \$2.3 million and Demand Loan (line of credit \$9.0 million) will be restricted to \$6.5 million subject to margin availability until the annual review of facilities is carried out upon receipt of the audited year end financial statements and Management's projections for 2008.

10) Contingencies

The Corporation 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.

11) Income Taxes

The future income tax asset has been reduced by a valuation allowance to the extent that it is more likely than not that some portion or all of the assets will not be realized.

12) Capital Disclosures

The Corporation's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Corporation defines capital that it manages as its operating loans, its loan payables and the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus and deficit. In order to maintain or adjust the capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, raise or repay debt or sell non-core assets to reduce debt.

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The Corporation monitors capital on the basis of its debt-to-tangible net worth covenant as defined within its operating loan and loans payable facilities. This ratio is calculated as total debt divided by equity. Total debt is calculated as the total of current liabilities, long-term liabilities less future income taxes. Equity comprises all components of shareholders' equity (*i.e.* share capital, contributed surplus and deficit) less intangible assets and goodwill. There were no significant changes to our capital structure during the three months ended March 31, 2008. The Corporation has not distributed, nor does it currently plan to distribute, any dividends to its shareholders. During the three month period ended March 31, 2008, the Corporation's strategy which was unchanged from 2007, was to maintain the debt-to-equity ratio below 2.5:1. The debt-to-tangible net worth ratio calculation at March 31, 2008 and at December 31, 2007, were as follows:

<i>(In thousands of Canadian dollars)</i>	March 31, 2008	December 31, 2007
Operating loan	\$ 3,003	\$ 3,141
Loans payable	8,671	8,209
Other liabilities	2,255	2,349
Total debt	13,929	13,699
Share capital	\$ 21,460	\$ 21,438
Add contributed surplus	294	260
Retained earnings	(6,732)	(5,512)
Equity	\$ 15,021	\$ 16,186
Debt- to-equity	.92-1	.84-1

The Corporation is subject to restrictive covenants related to its operation loan (Note 8) and its loans payable (Note 9) that are measured on a quarterly basis. These covenants include, but are not limited to, the ratio of debt to tangible net worth, the ratio of current assets to current liabilities and the debt service coverage ratio. The Corporation was not in compliance with its debt service coverage ratio under this agreement as at and throughout the quarter ended March 31, 2008 (see Notes 1, 8, and 9). Failure to meet the terms of one or more of these covenants may constitute a default, potentially resulting in accelerating the repayment of the debt obligation. Other than the restrictive covenants associated with our debt obligations noted above, and certain capital leases, the Corporation is not subject to any contractual or regulatory imposed capital requirements.

13) Financial Instruments

a) Fair Values

The carrying values of accounts receivable, unbilled revenue, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The fair values of the Company's obligations under capital leases, operating loan and loans payable are not significantly different than their carrying values as they bear interest at floating rates and are due on demand.

Fair values of financial instruments are determined by reference to quoted bid or asking price, as appropriate, in active markets at period-end dates. In the absence of an active market, the Company determines fair value by using valuation techniques that refer to observable market data or estimated market prices. These include comparisons with similar instruments that have observable market prices and other valuation techniques used by market participants. Fair values determined using valuation models require the use of assumptions about the amount and timing of estimated future cash flows and discount rates.

(i) Fair values versus carrying amounts

For the three months ended March 31, 2008 and 2007

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

<i>(In thousands of Canadian dollars)</i>	March 31, 2008	
	Carrying amount	Fair value
Receivables	3,936	3,936
CSV Life Insurance	65	65
Financing and other loans	(8,671)	(8,671)
Operating loan	3,003	3,003
Capital lease and financing loans	(345)	(345)
Trade and other payables	(1,796)	(1,796)
	(6,811)	(6,811)
Unrecognized loss	-	-

b) *Credit risk*

Credit risk is the risk of financial loss that the Corporation would experience if counterparty to a financial instrument, in which the Corporation has an amount owing from the counterparty, failed to meet its obligations in accordance with the terms and conditions of its contract with the Corporation. The carrying amount of financial assets represents the maximum credit exposure to the Corporation.

(i) Trade and other receivables

Substantially all the Corporation's accounts receivable are with companies in the oil and gas industry in Western Canada and with two international customers. The Corporation regularly monitors the activity and balances in these accounts to manage its credit risk. The Corporation's 10 largest customers accounted for 85% of accounts receivable outstanding at March 31, 2008. Four customers accounted for 31%, 19%, 7%, and 5% of total accounts receivable, respectively. During the year ended December 31, 2007, four customers accounted for 27%, 15%, 14% and 12% of total accounts receivable, respectively

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Corporation's standard payment and delivery terms and conditions are offered. The Corporation's review includes external ratings, where available, and in certain cases bank references. Credit limits are established for each customer and these limits are reviewed periodically. Customers that fail to meet the Corporation's benchmark creditworthiness may transact with the Corporation only on prepayment basis. The Corporation evaluates the probability of collection of accounts receivable and records an allowance for doubtful accounts, which reduces the receivables to the amount management reasonably believes will be collected. In determining the amount of allowance, the following factors are considered: the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience.

The aging of accounts receivables as at March 31, 2008 is as follows:

<i>(In thousands of Canadian dollars)</i>	March 31, 2008		
	Gross	Allowance	Net
Not past due	2,151		2,151
Past due 0-30 days	599		599

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Past due 31-45 days	228		228
Past due 46-90 days	823		823
More than 90 days	278	142	136
Total	4,079		3,937

The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential losses in respect of trade and other receivables. The main components of this allowance are specific provision that relates to individually significant exposures. For the three month period ended March 31, 2008, the Corporation's allowance for doubtful accounts totaled \$142 thousand.

c) *Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. Typically the Corporation ensures that it has sufficient cash or available credit lines to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disaster. In addition, the Corporation maintains an operation loan facility (Note 8) and loans payable (see Note 9).

The following are the contractual maturities of financial liabilities, excluding interest payments and the impact of any option to purchase equipment at the end of the term:

March 31, 2008	Carrying amount	Contractual cash flows	9 months or less	2009-2010	2011-2012	Thereafter
<i>(In thousands of Canadian dollars)</i>						
Financing and other loans	8,671	8,671	1,060	2,045	1,376	4,190
Capital leases	345	345	143	202	-	-
Trade and other payables	1,796	1,796	1,796	-	-	-
Total	10,812	10,812	2,999	2,247	1,376	4,190

d) *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Foreign exchange risk

On revenues of \$100 thousand of a 10.0 percent strengthening of CDN dollar against the U.S. dollar at March 31, 2008 would have increase equity and net income by approximately \$2 thousand. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10.0 percent weakening of the CDN dollar against the above currencies at March 31, 2008 would have had the equal but opposite effect At March 31, 2008, the Corporation has entered into any derivative agreements to foreign exchange risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market rate interest. The Corporation is subject to interest rate cash

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flow risk to the extent that its credit facilities are based on floating rates of interest. At March 31, 2008, the Corporation has not entered into any derivative agreements to mitigate these risks. A change of 100 basis points increase in the interest rates on the Corporation's operating loan and loans payable as at March 31, 2008, would have decreased net income by approximately \$87 thousand. If interest rates decreased by 100 basis points, there would have been an equal and opposite impact on net income.

14) Related Party Transactions

The Corporation entered into certain transactions for contract manufacturing design services with a director of the Corporation. For the quarter ended March 31, 2008, the consulting fees paid for these services were \$18 (2007: \$132), which are recorded as part of selling, general and administrative expenses in the consolidated statement of operations. The Corporation also entered into certain transactions with the wife of a director of the Corporation related to the rental of a loader. For the quarter ended March 31, 2008, the rental fees paid for these services were \$12 (2007: \$31), which are recorded as part of pipeline operating costs in the consolidated statement of operations.

All related party transactions described above were measured at the exchange amount, being the consideration established and agreed to by the related parties.

15) Seasonality of Operations

The seasonality of the pipe coating business and project nature of international contracts results in wide quarterly fluctuations in revenue generated by the Corporation and net earnings (loss) there from. The second quarter ended June 30 is historically the slowest period for the Corporation with the quarter ended March 31 the most active. An industry slowdown occurred throughout 2007 which had a negative effect on revenues and the results of operations for all four quarters.

16) Comparative Figures

Certain of the Comparative figures have been reclassified to conform to the current year's presentation.