



GARNEAU INC. -FIRST QUARTER RESULTS ENDED MARCH 31, 2006

Corporate Highlights

- Garneau announces plan of arrangement agreement with ShawCor dated April 19, 2006.
- Record high revenue achieved for Corporation in the first quarter.
- \$5.3 million in large project Domestic Orders received for fabrication in the first quarter of 2006.

Summary of Results <i>(In thousands, except per share data)</i> (Unaudited)	Three months ended	
	March 31, 2006	March 31, 2005
Revenue	\$ 18,810	\$ 12,484
Margin	3,882	2,802
Margin %	20.6%	22.4%
Earnings before income taxes	1,870	1,107
Net earnings	1,130	1,107
Earnings per share - basic	0.10	0.10
Earning per share – diluted	0.09	0.09

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 three months ended March 31, 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

March 31, 2006 first quarter revenue totaled \$18.8 million which was a 50.4% increase over \$12.5 million recorded for the comparative quarter ended March 31, 2005, a direct result of increased Camrose coating activity.

Manufacturing revenues for the quarter ended March 31, 2006 totaled \$3.7 million, an increase of \$0.1 million from the quarter ended March 31, 2005. Manufacturing activity continued to operate near capacity during the first quarter of 2006.

Pipeline revenues for the quarter ended March 31, 2006, totaled \$15.1 million, an increase of \$6.2 million from the quarter ended March 31, 2005 as small diameter coating activity increased substantially during the first quarter with production on the ACCESS project continuing into the second quarter.

Margin for the quarter ended March 31, 2006 of \$3.9 million is \$1.1 million above the \$2.8 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 first quarter together with increased margin percentages reflected in manufacturing revenue.

Manufacturing margins of \$1.2 million (31.9%) for the quarter ended March 31, 2006 were \$0.4 million above the \$0.8 million (22.7%) recorded for the period ended March 31, 2005. The improvement in margins is directly attributed to repetitive larger contract work being generated in 2006 together with improved efficiencies within the fabrication facility.

Pipeline gross margins of \$2.7 million (17.9%) for the quarter ended March 31, 2006 are \$0.7 million above the comparative period ended March 31, 2005. Increased small diameter revenue generated during the first quarter of 2006 resulted in increased overall gross margins in the Pipeline division. Gross margin percentages of Pipeline operations decreased from 22.4% for the period ended March 31, 2005 to 17.9% for the period ended March 31, 2006. This decrease is primarily attributed to increased labor and material costs incurred at the Camrose facility together with plant inefficiencies caused by stringent client delivery requirements.

The Corporation's selling, general and administrative expenses totaled \$1.1 million for the three month period ended March 31, 2006, an increase of \$66 thousand from the expenses recorded at March 31, 2005. Increased wages and increased professional services were incurred during the first quarter of 2006.

Amortization expense for the period ended March 31, 2006 remained relatively unchanged and totaled \$494 thousand, an increase of \$14 thousand over the \$480 thousand recorded for the comparative period ended March 31, 2005.

Funds from operations, representing net earnings adjusted for items not involving cash, generated by the Corporation for the period ended March 31, 2006 totaled \$2.4 million, compared to the \$1.7 million generated for the comparative period, an increase attributed to increased pipeline revenue generated in the first quarter of 2006.

Interest costs on the operating loan and the loan payable of \$147 thousand for the period ended March 31, 2006 were above the \$123 thousand recorded for the period ended March 31, 2005. 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 substantial increase in activity generated in the first quarter.

The increase in coating revenue and gross margin therefrom, together with increased manufacturing margins resulted in net earnings of \$1.1 million for the three month period ended March 31, 2006, which is in line with the \$1.1 million net earnings reflected in the comparative period ended March 31, 2005. A future income tax provision of \$740 was recorded in the first quarter of 2006 primarily as a result of depreciable capital asset pools used for accounting purposes exceeding the undepreciated capital cost of the assets.

Net earnings before tax for the Manufacturing division for the period ended March 31, 2006 totaled \$560 thousand as compared to the \$309 thousand for the comparative period. The \$251 thousand improvement reflects the increased gross margin generated in 2006.

Net earnings before tax for the Pipeline division totaled \$1.3 million for the period ended March 31, 2006, an increase of \$0.5 million over the \$0.8 million generated for the comparative period. This increase is attributed to the increased revenue and margins generated from small diameter coating products together with continuation of the ACCESS project during the first quarter.

Accounts Receivable totaled \$14.9 million at March 31, 2006, an increase of \$0.3 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 on increased overall revenue generated.

At March 31, 2006, operating and loan payable credit facilities available to the Corporation included a demand revolving operating line of credit of \$6.3 million (fully utilized), a demand revolving evergreen loan of \$3.0 million (\$2.6 million utilized), a loan lease facility for \$0.8 million pertaining to the manufacture of polyethylene pipe and acquisition of forklifts and term loans in the amount of \$2.4 million. The operating line of credit continues to fluctuate within authorized limits with peak use occurring in the first quarter based on increased revenue activity and carrying of receivables therefrom.

Additions to capital equipment were \$451 thousand for the quarter end March 31, 2006, compared to \$362 thousand for the period ended March 31, 2005. Capital expenditures for 2006 were primarily related to additional fabrication, mobile and coating equipment betterments required during the first quarter of 2006.

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 \$1.6 million is recorded at March 31, 2006. Adjusted working capital totals \$5.1 million, and is calculated by deducting \$3.5 million of loans payable, scheduled to be repaid after 12 months. The Corporation operated within all bank covenants at March 31, 2006.

Selected Quarterly Information

Three Months Ended (Unaudited)								
	Mar.31/06	Dec.31/05	Sept.30/05	June 30/05	Mar.31/05	Dec.31/04	Sept.30/04	June 30/04
Total Revenues	\$18,810	\$16,472	\$11,456	\$7,953	\$12,484	\$9,429	\$7,127	\$4,303
Net Earnings (Loss)	1,130	993	511	(990)	1,107	(152)	181	(1,685)
Basic Earnings (Loss) per Share	0.10	0.08	0.05	(0.09)	0.10	(0.01)	0.02	(0.15)
Diluted Earnings (Loss) per Share	0.09	0.08	0.05	(0.09)	0.09	(0.01)	0.02	(0.15)
Total Assets	38,635	38,141	33,499	30,372	35,696	31,427	30,313	28,893
Long Term Capital Lease Obligations	475	535	660	372	431	489	546	602

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 856,725 at March 31, 2006, 730,225 of which are exercisable. During the first quarter of 2006, 70,450 options were exercised at an average price of \$0.70 per share. The 70,450 issued shares increased total common shares outstanding to a total of 11,632,702 at March 31, 2006. There has been no material change to the outstanding common shares to the date of this discussion and analysis.

New Accounting Policies

There have been no new accounting policies adopted by the Corporation this quarter.

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, 2006, significant fabrication contracts in progress include domestic orders for oilfield tanks, buildings and catwalks totaling \$1.8 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 March 31, 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.

Business Risks

At March 31, 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 March 31, 2006 totaled \$220 thousand and will continue to have the potential risk of being encashed until maturity.

Subsequent Event

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 as of the closing date of the transaction. 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 will be asked to approve the transaction at the annual and special meeting of shareholders of Garneau Inc. scheduled to be held on May 30, 2006. The transaction will require the approval by holders of two-thirds of the Garneau Inc. shares and options who vote thereon and by a majority of the minority shareholders who vote thereon, excluding the votes of shares owned by ShawCor and by certain members of the Garneau family. Garneau Inc. will mail a management proxy circular in respect of the meeting to its shareholders in early May. This circular will contain important information respecting this transaction.

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 will be included in the management proxy circular to be mailed to the shareholders of Garneau Inc.

Operational

Small diameter coating activity for the first quarter of 2006 was well above activity recorded in 2005, resulting in Camrose facilities being fully utilized and operating near capacity. Both coating lines were in full operation with four shifts employed during the course of the first quarter.

Domestic manufacturing activity continued to remain active throughout the first quarter at a brisk rate with two shifts continuing to operate in Nisku. These two fabrication shifts are expected to continue throughout the second quarter of 2006.

Outlook

Garneau's coating activity in the first quarter of 2006 increased from 2005 with an outstanding order book entering into April which would indicate that the second quarter coating activity could also exceed 2005 actual results. Completion of the ACCESS project is expected during the second quarter which will also contribute to projected increased coating revenue in the second 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.

No new international contracts were received during the first quarter, although international equipment bidding remains active with one large project being closely pursued by our marketing department.

Domestic manufacturing remains very active with the Nisku fabrication facility expected to operate near capacity for the entire second quarter. Two new contracts totaling in excess of \$5.3 million were announced during the first quarter with both projects currently underway and expected to be completed in the fourth quarter.

As noted in the Subsequent event disclosure of the Management Discussion and Analysis portion of this first 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 is subject to shareholders approval at the Annual and Special Meeting to be held on May 30, 2006 and also subject to regulatory and court approval. If approved, Garneau Inc. will become a wholly owned subsidiary of ShawCor Ltd. and delisted from the Toronto Stock Exchange.

On behalf of the Board of Directors



Glen Garneau,
President and Chief Executive Officer
May 9, 2006

CONSOLIDATED BALANCE SHEETS

<i>As at</i>	March 31, 2006	December 31, 2005
<i>(in thousands)</i>	<i>(unaudited)</i>	
ASSETS		
Current Assets:		
Accounts receivable	\$ 14,904	\$ 14,554
Inventory	3,323	3,172
Prepaid expenses and deposits	64	28
	<u>18,291</u>	<u>17,754</u>
Property, plant and equipment	20,344	20,387
	<u>\$ 38,635</u>	<u>\$ 38,141</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Operating loan	\$ 6,263	\$ 5,316
Accounts payable and accrued liabilities	4,836	6,256
Deferred revenue	315	378
Loans payable	4,950	5,761
Current portion of capital lease obligations	351	372
	<u>16,715</u>	<u>18,083</u>
Capital lease obligations	475	535
Future income taxes	868	128
	<u>18,058</u>	<u>18,746</u>
Shareholders' Equity:		
Share capital	20,950	20,901
Contributed surplus	228	225
Deficit	(601)	(1,731)
	<u>20,577</u>	<u>19,395</u>
	<u>\$ 38,635</u>	<u>\$ 38,141</u>

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 ended March 31, 2006</i>	<i>Three months Ended March 31, 2005</i>
Revenue	\$ 18,810	\$ 12,484
Operating costs	14,928	9,682
	3,882	2,802
Other operating expenses:		
Selling, general and administrative	1,124	1,058
Amortization	494	480
Research and development	67	87
	1,685	1,625
	2,197	1,177
Financing:		
Interest on loans payable	93	86
Interest on operating loan	54	37
Write down of property, plant and equipment	-	70
Other expenses (income)	194	(81)
Foreign exchange gains	(14)	(42)
Earnings before income taxes	1,870	1,107
Income taxes:		
Future	740	-
	740	-
Net earnings	1,130	1,107
Deficit, beginning of period	(1,731)	(3,352)
Deficit, end of period	\$ (601)	\$ (2,245)
Earnings per share:		
Basic	\$ 0.10	\$ 0.10
Diluted	\$ 0.09	\$ 0.09

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands, unaudited)</i>	<i>Three months ended March 31, 2006</i>	<i>Three months ended March 31, 2005</i>
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,130	\$ 1,107
Items not involving cash:		
Amortization	494	480
Stock based compensation costs	3	2
Write down of property, plant and equipment	-	70
Future income taxes	740	-
	2,367	1,659
<u>Changes in non-cash operating working capital</u>	<u>(2,020)</u>	<u>(4,329)</u>
	347	(2,670)
Financing:		
Proceeds from exercise of share purchase options	49	7
Advances (repayments) of loans payable and capital lease obligations	(892)	(366)
Increase in operating loan	947	3,391
	104	3,032
Investments:		
Additions to property, plant and equipment	(451)	(362)
	(451)	(362)
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 March 31, 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 March 31, 2006		Three months ended March 31, 2005	
	Manufacturing	Pipeline	Manufacturing	Pipeline
Revenue	\$3,678	\$15,132	\$3,551	\$8,933
Gross margin	1,172 (31.9%)	2,710 (17.9%)	805 (22.7%)	1,997 (22.4%)
Other expenses	612	1,400	496	1,199
Net earnings before income taxes	560	1,310	309	798

3. Share Data

At March 31, 2006, the Corporation had 11,632,702 outstanding common shares and 856,725 outstanding options to acquire common shares. 730,225 of these options were vested and exercisable. During the quarter, 70,450 options were exercised for cash proceeds of \$49. Diluted shares at March 31, 2006 total 12,123,488 and include the dilutive impact of options outstanding at March 31, 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:

	March 31, 2006	December 31, 2005
Due within 12 months	\$1,435	\$1,785
Due after 12 months	\$3,515	\$3,976

5. Interest

	Three Months Ended	
	March 31, 2006	March 31, 2005
Interest Paid	\$147	\$123

6. Subsequent Event

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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 as of the closing date of the transaction. 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 will be asked to approve the transaction at the annual and special meeting of shareholders of Garneau Inc. scheduled to be held on May 30, 2006. The transaction will require the approval by holders of two-thirds of the Garneau Inc. shares and options who vote thereon and by a majority of the minority shareholders who vote thereon, excluding the votes of shares owned by ShawCor and by certain members of the Garneau family.