

2006

Annual Report

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Bonal International, Inc. and Subsidiary

Bonal International, Inc. (traded under the symbol "BONL.PK"), through its wholly-owned subsidiary Bonal Technologies, is the world's leading provider of sub-harmonic vibratory metal stress relief technology and manufacturer of Meta-Lax stress relieving, Black Magic Distortion Control and Pulse Puddle Arc Welding equipment. Headquartered in Royal Oak, Michigan, Bonal also provides a complete variety of consulting, training, program design and metal stress relief services to several industries including: automotive, aerospace, shipbuilding, machine tool, plastic molding and die casting, to mention a few. Bonal's patented products and services are sold throughout the U.S. and in over 49 foreign countries.

FINANCIAL HIGHLIGHTS

	2006	2005	2004
Total Revenues	\$1,982,071	\$1,511,431	\$977,569
Net Earnings (Loss)	251,058	239,787	(67,900)
Total Assets	1,074,561	861,553	552,124
Working Capital	774,708	616,901	384,765
Capital Expenditures	32,568	48,079	11,511
Long-Term Liabilities	24,265	29,959	21,705
Earnings (Loss) Per Share	.15	.14	(.04)
Shareholder's Equity	798,024	623,462	383,675

QUARTERLY FINANCIAL INFORMATION (unaudited)

Fiscal 2006 Quarters Ended

	JUNE 30	SEPT 30	DEC 31	MAR 31, 2006
Total Revenues	\$455,151	\$462,884	\$528,138	\$535,898
Gross Profit	342,517	335,358	393,718	384,830
Net Earnings	66,716	85,275	81,910	17,157

Fiscal 2005 Quarters Ended

	JUNE 30	SEPT 30	DEC 31	MAR 31, 2005
Total Revenues	\$316,700	\$360,059	\$447,741	\$386,931
Gross Profit	234,217	282,173	340,496	274,688
Net Earnings	35,146	70,241	98,199	36,201

Sales Breakdown for Fiscal Year 2006

Equipment Sales

\$1,606,966

Rental Income

\$167,355

Contract Services

\$207,750

March 31, 2006

Dear Shareholders,

Bonal International Inc. once again has posted a strong set of results. Thanks to the strong United States economy and healthy growth in our foreign sales, Bonal continued to strengthen its business momentum this year.

As the world's leading provider of sub-harmonic vibration technology for metal improvement solutions, Bonal aims to continue to help companies stay competitive by reducing energy costs. Bonal's products help a variety of industries including aerospace, armament, automotive die casting, engine building, machine tool, mining, petroleum, plastic molding, racing, ship building and welding.

Our patented technology and its three product lines include: Meta-Lax® Stress Relief, Pulse Puddle Arc Welding® (PPAW®) and Black Magic® help to reduce energy consumption by 98 percent compared to natural-gas-fired heat treatments.

2006 Key Accomplishments

Bonal increased total unit sales by 34.3 percent. Satisfied repeat customers such as Siemens Westinghouse, Howmet/Alcoa, Lawrence Berkley National Laboratory and Cincinnati, Inc. accounted for 21.1 percent of unit sales. USA sales were 61.1 percent, a 22.2 percent increase in units sold from 2005. Foreign sales were 38.9 percent, a 59.1 percent increase in units sold from 2005.

More than 83 percent of all units sold were sold by our in-house sales staff. We had dollar sales in 40 states and 18 foreign countries and added two new sales agents in South Africa and Sweden to grow our international customer base.

In terms of net profit dollars, Bonal topped its record from 2005, making 2006 our best year. In the year ended March 31, 2006, net sales were up by 31 percent to \$1,982,071 and before tax net income at a strong \$376,058, or \$0.22 per share which is 19 percent of net sales compared to a before tax profit of \$305,787 or \$0.18 per share last year. As a result of our healthy profit, stockholder equity is up 28 percent, the highest it has ever been at \$798,024 or \$0.47 per share. Retained earnings are positive at \$193,072, after paying a \$0.04 dividend totaling \$66,996. Assets increased 24 percent to \$1,074,561 or \$0.64 per share. Working capital increased 25.6 percent.

Net income after tax is \$251,058 or \$0.15 per share compared to a profit of \$239,787 or \$0.14 per share last year.

In 2006, we also invested in new product development to create third generation software for operating Meta-Lax equipment with computers.

This year, we are proud that we were contracted to Meta-Lax stress relieve the motor mounts for the side thrusters from an offshore drilling rig. The repair welding and stress relief were underway, 50 miles south of New Orleans when Hurricane Katrina hit. The whole operation was moved by barge to Port Arthur, Texas where they still had power. Then Hurricane Rita hit Port Arthur on Sept. 24. The three-week project took 10 weeks to complete, making this our largest service contract and boosting service sales by 317 percent over the prior year.

We also participated in five trade shows, expanded public relations efforts and used Internet marketing/advertising and trade journal print advertising to market Bonal's products. These marketing efforts drove more traffic to our website and increased Bonal's name recognition.

2007 Key Initiatives

We will continue to enhance our presence in the global marketplace and continue building the reputation of the Bonal name. We will invest some of our 2006 profits to expand the marketing department and to continue implementing a public relations and marketing plan to generate more sales.

By better leveraging our presence at tradeshow and in trade publications, we expect to attract potential customers to purchase Bonal's products. We also plan to drive more traffic to the Bonal websites to prompt potential customers to ask for more information about our technology.

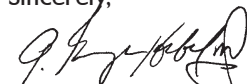
Continuing Ahead

In the next year, we will complete product testing to ensure our equipment is compatible to worldwide standards.

With your support we will continue to provide quality products to our customers worldwide. Our goal is to continue to forge stronger customer relationships that exceed their expectations. We are poised to continue the growth of Bonal as we head into 2007.

Thank you for your continued support.

Sincerely,



A. George Hebel, III
Chairman, C.E.O.



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Independent Auditor's Report

To the Board of Directors
Bonal International, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Bonal International, Inc. and Subsidiary as of March 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity, and cash flows for each year in the three-year period ended March 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bonal International, Inc. and Subsidiary at March 31, 2006 and 2005 and the consolidated results of its operations and its cash flows for each year in the three-year period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

May 12, 2006

Plante & Moran, PLLC

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Bonal International, Inc. and Subsidiary

Consolidated Balance Sheet

	Assets	
	March 31	
	2006	2005
Current Assets		
Cash and cash equivalents	\$ 401,883	\$ 391,343
Investments	120,000	-
Accounts receivable	186,943	79,624
Inventory	282,173	309,466
Prepaid expenses and other current assets:		
Prepaid expenses	17,940	13,101
Deferred tax recovery (Note 6)	6,900	11,000
Other current assets	<u>11,141</u>	<u>20,499</u>
Total current assets	1,026,980	825,033
Property and Equipment (Note 3)	47,580	36,519
Intangible Assets	<u>1</u>	<u>1</u>
Total assets	<u>\$ 1,074,561</u>	<u>\$ 861,553</u>

Liabilities and Stockholders' Equity

	March 31	
	2006	2005
Current Liabilities		
Accounts payable	\$ 28,720	\$ 25,797
Line of credit (Note 4)	-	32,000
Current portion of notes payable (Note 5)	-	3,718
Accrued and other current liabilities:		
Taxes payable	69,301	62,500
Accrued compensation	92,161	48,977
Customer deposits and advances	31,663	14,314
Other accrued liabilities	<u>30,427</u>	<u>20,826</u>
Total current liabilities	252,272	208,132
Notes Payable (Note 5)	-	9,040
Other Long-term Liabilities		
Deferred Revenue (Note 7)	17,065	20,919
Deferred tax liabilities (Note 6)	7,200	-
Stockholders' Equity (Note 2)	<u>798,024</u>	<u>623,462</u>
Total liabilities and stockholders' equity	<u>\$ 1,074,561</u>	<u>\$ 861,553</u>

Bonal International, Inc. and Subsidiary

Consolidated Statement of Operations

	Year Ended March 31		
	2006	2005	2004
Net Sales	\$ 1,982,071	\$ 1,511,431	\$ 977,569
Cost of Sales	<u>525,648</u>	<u>379,857</u>	<u>345,897</u>
Gross Profit	1,456,423	1,131,574	631,672
General and Administrative Expenses	<u>1,080,274</u>	<u>816,216</u>	<u>685,002</u>
Operating Income (Loss)	376,149	315,358	(53,330)
Nonoperating Income (Expense)			
Interest income	2,127	457	132
Loss on disposal of equipment	-	-	(7,988)
Interest expense	(1,414)	(3,034)	(3,144)
Other (expense)	<u>(804)</u>	<u>(6,994)</u>	<u>(3,570)</u>
Total nonoperating income (expense)	<u>(91)</u>	<u>(9,571)</u>	<u>(14,570)</u>
Income (Loss) - Before income taxes	376,058	305,787	(67,900)
Income Tax Expense	<u>125,000</u>	<u>66,000</u>	<u>-</u>
Net Income (Loss)	<u>\$ 251,058</u>	<u>\$ 239,787</u>	<u>\$ (67,900)</u>
Per Share Data - Net Income (loss)	\$ 0.15	\$ 0.14	\$ (0.04)
Weighted Average Number of Shares Used in per Share Computation	1,671,755	1,674,922	1,674,922

See Notes to Consolidated Financial Statements.

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
Balance - April 1, 2003	\$ 8,280	\$ 190	\$ 605,982	\$ (162,877)	\$ 451,575
Net loss	-	-	-	(67,900)	(67,900)
Balance - March 31, 2004	8,280	190	605,982	(230,777)	383,675
Net income	-	-	-	239,787	239,787
Balance - March 31, 2005	8,280	190	605,982	9,010	623,462
Net income	-	-	-	251,058	251,058
Stock Redemption	-	(190)	(9,310)	-	(9,500)
Dividends paid (\$.04 per share)	-	-	-	(66,996)	(66,996)
Balance - March 31, 2006	\$ 8,280	\$ -	\$596,672	\$ 193,072	\$ 798,024

See Notes to Consolidated Financial Statements.

Bonal International, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended March 31		
	2006	2005	2004
Cash Flows From Operating Activities			
Net income (loss)	\$ 251,058	\$ 239,787	\$ (67,900)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	21,507	32,174	12,540
Loss on disposal of property and equipment	-	-	7,988
Bad debt expense	-	-	5,070
Deferred rent incentive	-	-	21,705
Amortization of deferred rent incentive	(3,854)	786	-
Deferred income taxes	11,300	5,000	-
Net change in:			
Accounts receivable	(107,319)	35,246	(19,180)
Inventory	27,293	(45,628)	53,789
Prepaid expenses and other	4,519	(6,283)	727
Accounts payable	2,923	(10,936)	14,545
Accrued liabilities and other	76,935	86,034	7,454
Net cash provided by operating activities	284,362	336,180	36,738
Cash Flows from Investing Activities			
Purchase of property and equipment	(32,568)	(48,079)	(11,511)
Purchase of investments	(120,000)	-	-
Net cash used in investing activities	(152,568)	(48,079)	(11,511)
Cash Flows from Financing Activities			
Proceeds from debt	-	12,758	-
Payment on debt	(12,758)	-	-
Payment on line of credit - Net	(32,000)	(19,000)	(4,000)
Redemption of common stock	(9,500)	-	-
Dividends paid	(66,996)	-	-
Net cash used in financing activities	(121,254)	(6,242)	(4,000)
Net Increase in Cash and Cash Equivalents	10,540	281,859	21,227
Cash and cash equivalents - Beginning of year	391,343	109,484	88,257
Cash and cash Equivalents - End of year	\$ 401,883	\$ 391,343	\$ 109,484
Supplemental Information			
Cash paid for			
Interest	\$ 1,414	\$ 3,034	\$ 3,144
Income taxes	106,899	-	-

See Notes to Consolidated Financial Statements.

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B O N A L I N T E R N A T I O N A L

Note I - Nature of Business and Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of Bonal International, Inc. and its wholly owned subsidiary, Bonal Technologies, Inc. (collectively, the "Company"). All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. Bonal Technologies, Inc. performs design, development, manufacturing, and marketing of metal stress-relieving equipment internationally.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments consist of certificates of deposit with an original maturity in excess of three months.

Trade Accounts Receivable - The Company values its accounts receivable at invoice amounts. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Management assesses the collectibility of the accounts receivable balance and estimates the portion, if any, of the balance that will not be collected. Uncollectible amounts are written off in the period that such determination is made. The allowance for doubtful accounts as of March 31, 2006 and 2005 was \$4,800.

Inventories - Inventories consist primarily of work in process and are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization are computed over the estimated useful lives of the assets, using accelerated methods for financial purposes.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

Earnings per Common Share - Earnings per common share are based on the weighted average number of common shares outstanding during each year.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Reclassification - Certain 2005 and 2004 amounts have been reclassified to conform to the 2006 presentation.

Note 2 - Stockholders' Equity

The Company's common stock at March 31, 2006 and 2005 consists of the following:

5,000,000 authorized shares of Class A common, voting stock with \$.005 par value. 1,655,922 shares were issued and outstanding at March 31, 2006 and 2005.

5,000,000 authorized shares of Class B common, nonvoting stock with \$.01 par value. There were no shares issued or outstanding at March 31, 2006. 19,000 shares were issued and outstanding at March 31, 2005.

200,000 authorized shares of preferred stock with \$.01 par value. There were no shares issued and outstanding at March 31, 2006 and 2005.

Note 3 - Property and Equipment

Major classes of property and equipment are as follows:

	<u>2006</u>	<u>2005</u>
Machinery and equipment	\$ 48,407	\$ 48,093
Displays	16,097	16,097
Transportation equipment	25,675	25,675
Office furniture and equipment	263,324	278,645
Leasehold improvements	<u>5,367</u>	<u>5,367</u>
Total cost	358,870	373,877
Accumulated depreciation	<u>(311,290)</u>	<u>(337,358)</u>
Net property and equipment	<u>\$ 47,580</u>	<u>\$ 36,519</u>

Depreciation expense was \$21,507, \$32,174, and \$12,540 for the years ended March 31, 2006, 2005, and 2004, respectively.

Note 4 - Line of Credit

During fiscal 2005, the Company's demand line of credit converted into a demand note with required monthly principal payments of \$2,000 plus interest at 8.75 percent. During fiscal year 2006, the demand note was increased to \$100,000 bearing interest at 1 percent above the bank's prime rate and the requirement for monthly payments was removed. The demand note is collateralized by substantially all assets of the Company. There is no amount outstanding at March 31, 2006.

Note 5 - Note Payable

Note Payable at March 31, 2006 and 2005 is as follows:

	2006	2005
Term note payable in monthly installments through May 5, 2008. The note was paid in full during fiscal 2006.	\$ -	\$ 12,758
Less current portion	<u>-</u>	<u>3,718</u>
Long-term portion	<u>\$ -</u>	<u>\$ 9,040</u>

Note 6 - Income Taxes

The provision for income taxes consists of the following:

	2006	2005	2004
Current expense	\$ 113,700	\$ 61,000	\$ -
Deferred expense (benefit)	11,300	11,000	(6,000)
Valuation allowance	<u>-</u>	<u>(6,000)</u>	<u>6,000</u>
Total income tax expense	<u>\$ 125,000</u>	<u>\$ 66,000</u>	<u>\$ -</u>

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal tax rate to income before taxes is as follows:

	2006	2005	2004
Income tax expense (recovery) - Computed at 34 percent of pretax income (loss)	\$ 127,900	\$ 113,100	\$ (10,185)
Effect of nondeductible expense	1,400	6,300	242
Valuation allowance	-	-	6,000
Effect of net operating loss carryforwards	-	(47,804)	-
Effect of adjustment of prior year estimates	<u>(4,300)</u>	<u>(5,596)</u>	<u>3,943</u>
Total income tax expense	<u>\$ 125,000</u>	<u>\$ 66,000</u>	<u>\$ -</u>

Note 6 - Income Taxes (Continued)

Deferred tax assets result primarily from differences in the period of deductibility of certain expenses and net operating losses. The deferred tax asset totaled \$ 6,900, and \$11,000, as of March 31, 2006, and 2005, respectively. The deferred tax liability as of March 31, 2006 was \$7,200. There were no deferred tax liabilities as of March 31, 2005.

Note 7 - Lease Commitments

The Company leases office and manufacturing space under various operating lease agreements. In connection with the operating lease for its office and manufacturing space, the Company was granted a period of free rent. For financial reporting purposes, annual expense for this lease is recorded on a straight-line basis over the term of the lease. The difference between the annual expense for financial reporting purposes and the annual payments is reflected as a deferred lease obligation and amortized over the life of the lease.

Rent expense for all leased property totaled \$62,598, \$62,598, and \$48,228 for the years ended March 31, 2006, 2005, and 2004, respectively.

As of March 31, 2006, future minimum lease payments required under lease agreements are as follows:

Years Ending March 31	Amount
2007	\$ 67,474
2008	67,474
2009	67,474
2010	<u>33,737</u>
Total	<u>\$ 236,159</u>

Note 8 - Employee Benefit Plan

The Company sponsors a 401(k) plan that provides retirement benefits for its employees according to the provisions of the plan document. There were no contributions made by the Company during fiscal years 2006, 2005, and 2004.

Note 9 - Stock Options

During 1998, the Company entered into a stock option agreement for directors. The agreement granted directors the option to purchase a total of 280,000 shares of previously authorized but unissued Class A common stock for \$1 per share at any time prior to June 25, 2008. All 280,000 shares were outstanding and unexercised as of March 31, 2006 and 2005.

During 1997, the Company entered into two stock option agreements for directors, officers, and employees. The first stock option agreement granted directors the option to purchase a total of 210,000 shares of previously authorized but unissued Class A common stock for \$1.50 per share at any time prior to January 23, 2007. The second agreement also granted officers and employees the option to purchase a total of 98,200 shares of previously authorized but unissued Class A common stock for \$1 per share at any time prior to January 23, 2007. Both stock option agreements were outstanding and unexercised in their entirety as of March 31, 2006 and 2005.

Stock Based Compensation - The Company has elected to follow Accounting Principles Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123 (SFAS 123), Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing stock options. Under APB 25, compensation expense is measured as the excess of the market price of the underlying stock over the exercise price on the date of the grant, if any.

Pro forma information regarding net earnings and earnings per share is required by SFAS 123. However, since the stock options issued would have an antidilutive effect on earnings per share, the required pro forma information has been omitted for the years ended March 31, 2006, 2005, and 2004. The impact of using the fair value approach of accounting for the stock options on earnings per share and net income is nominal.

Note 10 - Recently Issued Accounting Standard

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement No. 123R (“SFAS 123R”), a revision to Statement No. 123, Accounting for Stock-Based Compensation. This standard requires the Company to measure the cost of employee services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. The Company is required to adopt SFAS 123R beginning April 1, 2006. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the date of adoption. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair values previously calculated for disclosure purposes.

Note 11 - Fair Values of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Short-term Financial Instruments - The fair values of short-term financial instruments, including cash and cash equivalents, certificates of deposits, trade accounts receivable and payable, and accrued liabilities approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.

Line of Credit and Notes Payable - The fair value of the Company’s line of credit and notes payable approximates the carrying amounts in the accompanying consolidated financial statements as the current borrowing rates reflect market rates.

Trading Symbol: BONL.PK
CUSIP Number: 097-770-200

Directors and Officers

① ② **A. George Hebel, III**
Chairman, President and C.E.O.

Thomas E. Hebel
Director and Vice President

Paul Y. Hebel
Director and Asst. Secretary

② ③ **Brian F. York, C.P.A.**
Director and Treasurer

① **Betty Jean Hebel, Ph.D.**
Director, Secretary, and
Vice President of International Sales

- ① Executive Committee
- ② Finance Committee
- ③ Compensation Committee

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