BONAL INTERNATIONAL INC

2012
Annual Report

Sample Applications

Mission
To advance the metalworking industry through the use of Bonal's patented Meta-Lax technology.

Ultimate Benefit
Peace of mind in matching or improving the quality of what was previously used.

B O N A L   I N T E R N A T I O N A L , I N C .

2012
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Contents

BONAL INTERNATIONAL, INC.

Bonal International, Inc. (traded under the symbol "**BONL**"), through its wholly-owned subsidiary Bonal Technologies, Inc., is the world's leading provider of sub-harmonic vibratory metal stress relief technology and the 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 56 foreign countries.

FINANCIAL HIGHLIGHTS

Year Ending March 31	2012	2011	2010
Total Revenues	$2,292,408	$2,560,569	$1,804,135
Net Earnings	329,352	510,590	3,978
Total Assets	2,049,771	2,228,911	1,616,082
Working Capital	1,692,164	1,628,093	1,376,378
Earnings per Share	.19	.29	.00
Shareholders' Equity	1,694,366	1,609,723	1,326,363
Trading Activity Hi / Low	2.60 / 1.70	2.60 / .56	1.99 / .56
Dividend Paid per Share	.14	.13	.05

Fiscal 2012 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2012
Total Revenues	$570,385	$672,651	$405,533	$643,839
Gross Profits	433,184	527,100	293,082	518,905
Net Earnings	89,454	175,700	8,043	56,155

Fiscal 2011 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2011
Total Revenues	$529,685	$542,987	$619,500	$868,397
Gross Profits	412,666	414,276	474,808	692,995
Net Earnings	123,960	110,858	109,855	165,917

Sales Breakdown for Fiscal Year 2012

Equipment Sales	Rental Income	Contract Services
$1,850,072	$240,763	$201,573

March 31, 2012
Dear Shareholders,

Fiscal year 2012 was an exciting and challenging year for Bonal International, Inc. Bonal recorded its third best fiscal year in the company's 28 year history in net revenue and fourth best in net income. Additionally, fiscal year 2012 was the eighth consecutive profitable year. Net revenue was $2,292,408, down from last year's record of $2,560,569. Net income was a respectable $329,352, down from $510,590 in 2011. During the fiscal year Bonal paid two dividends marking the seventh consecutive year that the company paid dividends and the second year in a row that it paid two dividends in the same fiscal year. Together the dividends in 2012 amounted to the highest dividends paid in a single fiscal year by Bonal breaking last year's record. In fiscal year 2012, Stockholders Equity increased 5% to a record amount of $1,694,366 or $0.97/share.

Key Accomplishments in 2012

Bonal's current customers set the pace for the year by bringing in more business. Current customers accounted for an impressive 48% of Bonal's sales by unit volume. Numerous customers purchased additional Meta-Lax stress relief equipment and several referred other companies to Bonal. This astounding display of customer loyalty helped make this fiscal year a success and stands as a testament to the quality of Meta-Lax equipment.

Milestones in FY 2012:

- 3rd best year in net revenue
- 4th best year in net income
- 8th consecutive profitable year
- 7th consecutive year paid dividends
- Record amount of dividends paid
- Record Stockholders Equity

Bonal's customers recognize the technological advantage Meta-Lax brings and are willing to put their money and reputations behind that acknowledgement. Bonal will maintain our excellent customer relationships by offering the highest quality vibratory stress relief equipment in the world. This year's customers who purchased additional equipment included SpaceX (space vehicles), Oceaneering (advanced defense vehicles), Honda (automotive), Caterpillar (mining equipment), Baker Hughes (aerospace), Kinross – Fairbanks Gold Div. (gold exploration), GE – Dresser Div. (power), National Oilwell Varco (petro), among others.

Foreign Sales

Sales to foreign markets were consistent all year. Overall foreign sales accounted for about 34% of Bonal's net revenue. This year Bonal had sales in 18 foreign countries with first time sales in Venezuela and Indonesia. Canada once again led all foreign countries in sales by revenue.

Future Plans

Bonal's efforts to help current customers fully implement Meta-Lax technology well beyond the initial sale, and adding or upgrading their equipment when possible, will continue to be a focus. Bonal intends to continue to develop and advance the world's most successful metal vibratory stress relief equipment by utilizing the patented Meta-Lax stress relief process throughout our three product lines. Furthermore, Bonal plans to direct its research effort in support of markets that stand to benefit greatly from its Meta-Lax technology in the global economy.

Based on Bonal's tremendous customer loyalty, our teamwork approach and vision, I am confident that we can achieve our corporate goals. On behalf of the Board of Directors, I thank you for being part of the Bonal team and appreciate your continued support.

Sincerely,

A. George Hebel, III
Chairman

plante moran

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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 (the "Company") as of March 31, 2012 and 2011 and the related consolidated statements of operations, stockholders' equity, and cash flows for each year in the three-year period ended March 31, 2012. 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 consolidated 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, 2012 and 2011 and the consolidated results of their operations, changes in stockholders' equity and their cash flows for each year in the three-year period ended March 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 22, 2012

Consolidated Balance Sheet

Assets

	March 31 2012	March 31 2011
Current Assets		
Cash and cash equivalents	$ 395,556	$ 439,716
Investments	894,998	962,645
Accounts receivable	145,568	200,163
Inventory	468,498	470,151
Prepaid expenses and other current assets:		
Prepaid expenses	29,444	26,694
Deferred tax asset (Note 4)	25,000	33,000
Other current assets	27,974	24,381
Total current assets	1,987,038	2,156,750
Property and Equipment - Net (Note 2)	19,519	22,792
Other Assets		
Deferred tax asset (Note 4)	25,200	34,000
Cash surrender value of life insurance	18,014	15,369
Total assets	**$ 2,049,771**	**$ 2,228,911**

See Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity

	March 31 2012	March 31 2011
Current Liabilities		
Accounts payable	$ 28,136	$ 63,270
Accrued and other current liabilities:		
Taxes Payable	38,877	170,314
Accrued compensation	135,484	161,631
Deferred compensation	30,000	30,000
Customer deposits and advances	19,800	49,150
Other accrued liabilities	42,577	54,292
Total current liabilities	294,874	528,657
Other Long-term Liabilities		
Deferred compensation (Note 6)	60,531	90,531
Stockholders' Equity (Note 7)	1,694,366	1,609,723
Total liabilities and stockholders' equity	**$ 2,049,771**	**$ 2,228,911**

Consolidated Statement of Operations

	Year Ended March 31		
	2012	**2011**	**2010**
Net Sales	$ 2,292,408	$ 2,560,569	$ 1,804,135
Cost of Sales	520,137	565,824	495,588
Gross Profit	1,772,271	1,994,745	1,308,547
General and Administrative Expenses	1,272,761	1,279,996	1,319,753
Operating Income (Loss)	499,510	714,749	(11,206)
Nonoperating Income			
Interest income	2,684	3,699	14,853
Other income	4,158	17,142	1,631
Total nonoperating income	6,842	20,841	16,484
Income - Before income taxes	506,352	735,590	5,278
Income Tax Expense	177,000	225,000	1,300
Net Income	**$ 329,352**	**$ 510,590**	**$ 3,978**
Per Share Data - Net Income	$ 0.19	$ 0.29	$ 0.00
Weighted Average Number of Shares Used in per Share Computation	1,747,922	1,747,922	1,747,922

See Notes to Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - April 1, 2009	$ 8,740	$ -	$ 688,212	$ 712,829	$ 1,409,781
Net income	-	-	-	3,978	3,978
Dividends paid ($.05 per share)	-	-	-	(87,396)	(87,396)
Balance - March 31, 2010	8,740	-	688,212	629,411	1,326,363
Net income	-	-	-	510,590	510,590
Dividends paid ($.13 per share)	-	-	-	(227,230)	(227,230)
Balance - March 31, 2011	8,740	$ -	688,212	912,771	1,609,723
Net income	-	-	-	329,352	329,352
Dividends paid ($.14 per share)	-	-	-	(244,709)	(244,709)
Balance - March 31, 2012	**$ 8,740**	-	**$ 688,212**	**$ 997,414**	**$1,694,366**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Year Ended March 31		
	2012	**2011**	**2010**
Cash Flows From Operating Activities			
Net income	$ 329,352	$ 510,590	$ 3,978
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	9,941	13,773	14,536
Bad debt expense	9,532	-	15,418
Change in cash surrender value of life insurance	(2,645)	(2,590)	-
Deferred (payments) compensation expense	(30,000)	(29,469)	75,000
Deferred income taxes	16,800	(24,800)	(13,700)
Net change in:			
Accounts receivable	45,063	(54,058)	(46,253)
Inventory	1,653	(1,806)	(4,825)
Refundable taxes	-	4,486	109,943
Prepaid expenses and other	(6,343)	(8,122)	(16,462)
Accounts payable	(35,134)	13,381	20,488
Accrued liabilities and other	(198,649)	345,557	19,158
Net cash provided by operating activities	139,570	766,942	177,281
Cash Flows from Investing Activities			
Purchase of property and equipment	(6,668)	(10,759)	(1,682)
Proceeds from sales and maturities of investments, net of purchases	67,647	(346,545)	8,396
Net cash provided by (used in) investing activities	60,979	(357,304)	6,714
Cash Flows from Financing Activities - Dividends paid	(244,709)	(227,230)	(87,396)
Net (Decrease) Increase in Cash and Cash Equivalents	(44,160)	182,408	96,599
Cash and Cash Equivalents - Beginning of year	439,716	257,308	160,709
Cash and Cash Equivalents - End of year	**$ 395,556**	**$ 439,716**	**$ 257,308**
Supplemental Cash Flow Information - Cash paid for income taxes	**$ 291,637**	**$ 75,000**	**$ 25,000**

See Notes to Consolidated Financial Statements.

Note 1 - 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, 2012 and 2011 was $527 and $623, respectively.

Inventories - Inventories consist primarily of purchased component parts 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 accounting principles generally accepted in the United States of America 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.

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

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

Accounting for Uncertainty in Income Taxes - As of March 31, 2012 and 2011, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized during the year or accrued at year end.

The Company files income tax returns in U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for fiscal years before 2009.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including June 22, 2012, which is the date the consolidated financial statements were available to be issued.

Note 2 - Property and Equipment

Major classes of property and equipment are as follows:

	2012	2011
Machinery and equipment	$ 57,637	$ 56,952
Displays	27,931	26,415
Transportation equipment	25,675	25,675
Office furniture and equipment	248,401	245,566
Leasehold improvements	5,367	5,367
Total cost	365,011	359,975
Accumulated depreciation	(345,492)	(337,183)
Net property and equipment	$ 19,519	$ 22,792

Depreciation and amortization expense was $9,941, $13,773, and $14,536 for the years ended March 31, 2012, 2011, and 2010, respectively.

Note 3 - Line of Credit

The Company has a line of credit with a bank under which the Company has available borrowings of $100,000 bearing interest at 1 percent above the bank's prime rate. The demand note is collateralized by substantially all assets of the Company. There was no amount outstanding at either March 31, 2012 or 2011.

Note 4 - Income Taxes

The provision for income taxes consists of the following:

	2012	2011	2010
Current expense	$ 160,200	$ 249,800	$ 15,000
Deferred expense (benefit)	16,800	(24,800)	(13,700)
Net income tax expense	$ 177,000	$ 225,000	$ 1,300

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:

	2012	2011	2010
Income tax expense - Computed at 34 percent of pretax income	$ 172,000	$ 250,000	$ 2,000
Effect of nondeductible expense	2,500	3,000	1,000
Effect of nontaxable income	(4,000)	(10,000)	(2,000)
Effect of adjustment of prior year estimates	6,500	(18,000)	300
Net income tax expense	$ 177,000	$ 225,000	$ 1,300

Deferred tax assets result primarily from differences in the period of deductibility of certain expenses. The deferred tax asset totaled $50,200 and $67,000 as of March 31, 2012 and 2011, respectively. The Company had no valuation allowance on its deferred tax asset in either period.

Note 5 - Lease Commitments

The Company leases office and manufacturing space under an operating lease agreement through September 30, 2012. Rent expense through the 2012 expiration date will be $33,737.

Rent expense for all leased property totaled $67,474, $67,474 and $65,036 for the fiscal years ended March 31, 2012, 2011 and 2010, respectively.

Note 6 - Deferred Compensation

During fiscal year 2008, the Company entered into an employment and deferred compensation agreement with the Company's former president. The employment agreement covered the two-year period beginning April 1, 2008 through March 31, 2010 with provisions for renewal on a year-to-year basis and for early retirement. Additionally, the contract includes provisions for payments of approximately $30,000 per year for the five-year period subsequent to the officer's retirement. The cost of the deferred compensation was expensed over the term of the employment agreement. The deferred compensation was fully expensed as of the fiscal year ended March 31, 2010 and cash payments to the former president commenced April 1, 2010. Cash payments totaled $30,000 and $29,469 during the fiscal year ended March 31, 2012 and 2011 respectively.

Note 7 - Stockholders' Equity

The Company's stock at March 31, 2012 and 2011 consists of the following:

- Class A common, voting stock, 5,000,000 authorized shares, with $.005 par value. A total of 1,747,922 shares were issued and outstanding at March 31, 2012 and 2011.
- Class B common, nonvoting stock, 5,000,000 authorized shares with $.01 par value. There were no shares issued or outstanding at March 31, 2012 and 2011.
- Preferred stock, 200,000 authorized shares, with $.01 par value. There were no shares issued and outstanding at March 31, 2012 and 2011.

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. Contributions made by the Company totaled $5,827 during fiscal year 2012. There were no contributions made by the Company during fiscal years 2011 and 2010.

Note 9 - 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.

Note 10 - Subsequent Events

On April 26, 2012, the Company declared a dividend in the amount of $.10 per share to stockholders of record as of May 14, 2012, payable June 1, 2012.

Corporate Information

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

Directors and Officers

① ② **A. George Hebel, III**
Chairman

Thomas E. Hebel
Director and Interim 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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