BONAL INTERNATIONAL INC

2017
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.

BONAL INTERNATIONAL, INC.

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2017
Annual Report

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

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 60 foreign countries.

FINANCIAL HIGHLIGHTS

Year Ending March 31	2017	2016	2015
Total Revenues	$1,610,471	$2,093,614	$2,360,696
Net Earnings	54,357	202,651	443,162
Total Assets	1,554,859	1,628,389	1,944,824
Working Capital	1,403,575	1,404,914	1,506,594
Earnings per Share	0.03	0.12	0.25
Stockholders' Equity	1,454,183	1,469,743	1,529,280
Trading Activity Hi / Low	4.50 / 1.05	2.55 / 1.75	2.18 / 1.31
Dividend Declared per Share	0.04	0.15	0.15
Dividend Paid per Share	0.04	0.15	0.20

Fiscal 2017 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2017
Total Revenues	349,406	448,679	393,298	419,088
Gross Profits	239,164	335,372	299,302	305,958
Net Earnings	(21,332)	16,471	(5,060)	64,278

Fiscal 2016 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2016
Total Revenues	698,379	554,057	532,288	308,890
Gross Profits	550,736	409,834	379,563	204,648
Net Earnings	146,215	62,552	18,482	(24,598)

Sales Breakdown for Fiscal Year 2017

Equipment Sales	Rental Income	Contract Services
$1,238,370	$214,400	$157,701

March 31, 2017

Dear Shareholders,

Bonal International's fiscal year 2017 had many positive outcomes despite the challenges throughout the year. Just as our country went through an interesting 12 to 16 months, Bonal followed suit. The good news is, for the thirteenth consecutive year, Bonal was profitable. This year's net income was $54,357, or three percent. For the twelfth consecutive fiscal year, Bonal issued dividends. The board of directors issued a $0.04 per share dividend during the fourth quarter.

Years like this past fiscal year, make me grateful for the incredible Meta-Lax® stress relief technology Bonal developed, the product line we offer, and the dedicated staff we have. The highlight of the year, beyond the consecutive years of making profits and issuing dividends, was that Bonal's current customers accounted for an astounding 55 percent of our sales by volume, up from 42 percent last year. That high level of support helped us weather the unusual economic challenge that we endured throughout the year.

Due to the ongoing depressed Small Business Optimism Index (as recorded from NFIB), and the strength of the US dollar reaching a 14-year high, the metalworking market, both domestic and international, was reluctant to spend money on capital equipment. Yet our loyal Bonal customer base, not only ordered more Meta-Lax® equipment, they also referred and required their suppliers to use our Meta-Lax® technology. Companies that invested in Meta-Lax® equipment this year overwhelmingly selected our top model for its capability to graphically certify stress relief results.

Milestones in FY 2017:

- 13th consecutive profitable year
- 12th consecutive year dividends paid

The year ended with very encouraging economic signs. Since November, the Small Business Optimism Index has rebounded strongly from recessionary levels to near record levels, indicating that growth and expansion are very likely in the near future particularly from the small business sector. Growth and expansion are measured by expectations in increasing capital spending and hiring within six months. Another positive sign is that our latest state-of-the-art computerized model, after a year delay, is expected to be on the market in the second quarter of fiscal year 2018.

Letter from the Chairman

Bonal sold equipment into nine foreign countries last year and signed a foreign agent to work in Norway, Sweden, and Denmark. Bonal exhibited at six trade shows throughout the year in the United States and the UK. These trade shows addressed global industrial markets such as machining, welding, die casting, mining, and motorsports. Two notable companies that bought Meta-Lax® equipment last year were TigerCat, a manufacturer of rugged off-road forestry equipment, and Bombardier, an aerospace company. Bonal customers, with the assistance of our patented Meta-Lax® stress relieving process, continued to set new quality standards within the metalworking industry.

The coming year looks to be a growth year for Bonal. The sizable investment we committed to developing the next generation of computerized stress relief equipment should start to pay off with the expected release of our all new computerized system. The US economy shows signs of growth, which should provide the metalworking sector ample business and funds to purchase Meta-Lax® equipment, thereby supporting a significant recovery. I expect that fiscal year 2018 will be a very exciting year for our company.

On behalf of the board of directors, thank you for your continued support.

Sincerely,

Thomas E. Hebel

Thomas E. Hebel
Chairman

BOARD OF DIRECTORS AND STOCKHOLDERS
BONAL INTERNATIONAL, INC. AND SUBSIDIARY

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Bonal International, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of March 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bonal International, Inc. and Subsidiary as of March 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Information

The consolidated financial statements as of March 31, 2015, were audited by Godfrey Hammel Danneels and Company, P.C. who merged with Cohen & Company, Ltd. as of February 1, 2016, and whose report dated July 27, 2015, expressed an unmodified opinion on those statements.

June 27, 2017
Detroit, Michigan

Cohen & Company Ltd.

Consolidated Balance Sheets

Assets

	March 31, 2017	March 31, 2016
Current Assets		
Cash and cash equivalents	$ 830,212	$ 873,842
Accounts receivable-trade, net	80,464	108,027
Inventories, net	469,900	463,309
Prepaid expenses and other current assets:		
Prepaid expenses	24,670	23,169
Refundable taxes	64,800	59,000
Other current assets	34,195	36,213
Total current assets	1,504,241	1,563,560
Property and Equipment - Net	29,008	48,329
Deferred Tax Asset	21,600	16,500
Total assets	**$ 1,554,849**	**$ 1,628,389**

The accompanying notes are an integral part of these consolidated financial statements.

Liabilities and Stockholders' Equity

	March 31, 2017	March 31, 2016
Current Liabilities		
Accounts payable	$ 28,225	$ 46,867
Accrued and other current liabilities:		
Accrued compensation	29,655	81,400
Customer deposits and advances	18,800	9,600
Other accrued liabilities	23,986	20,779
Total current liabilities	100,666	158,646
Stockholders' Equity	1,454,183	1,469,743
Total liabilities and stockholders' equity	**$ 1,554,849**	**$ 1,628,389**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations

	Year End March 31,		
	2017	**2016**	**2015**
Net Sales	$ 1,610,471	$ 2,093,614	$ 2,360,696
Cost of Sales	430,675	548,833	554,549
Gross Profit	1,179,796	1,544,781	1,806,147
General and Administrative Expenses	1,140,599	1,280,026	1,338,211
Operating Income	39,197	264,755	467,936
Nonoperating Income			
Gain on assets	-	8,000	-
Interest income	2,580	2,725	1,350
Other income (expense)	(1,333)	141	100,966
Total nonoperating income	1,247	10,866	102,316
Income - Before income taxes	40,444	275,621	570,252
Income Tax Expense (Benefit)	(13,913)	72,970	127,090
Net Income	**$ 54,357**	**$ 202,651**	**$ 443,162**
Per-Share Data - Net Income	$ 0.03	$ 0.12	$ 0.25
Average Number of Shares Used in per Share Computation	1,747,922	1,747,922	1,747,922

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - April 1, 2014	**$ 8,740**	**$ -**	**$ 688,212**	**$ 651,354**	**$1,348,306**
Net Income	-	-	-	443,162	443,162
Dividends ($0.15 per share)	-	-	-	(262,188)	(262,188)
Balance - March 31, 2015	**8,740**	-	**688,212**	**832,328**	**1,529,280**
Net Income	-	-	-	202,651	202,651
Dividends ($0.15 per share)	-	-	-	(262,188)	(262,188)
Balance - March 31, 2016	**8,740**	-	**688,212**	**772,791**	**1,469,743**
Net Income	-	-	-	54,357	54,357
Dividends ($0.04 per share)	-	-	-	(69,917)	(69,917)
Balance - March 31, 2017	**$ 8,740**	**$ -**	**$ 688,212**	**$ 757,231**	**$1,454,183**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	Year End March 31, 2017	2016	2015
Cash Flows Provided from Operating Activities			
Net income	$ 54,357	$ 202,651	$ 443,162
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,321	21,013	14,119
Change in cash surrender value of life insurance	-	-	24,763
Deferred income taxes	(5,100)	5,700	11,500
Net change in:			
Accounts receivable - Trade, net	27,563	213,723	(230,181)
Inventories, net	(6,591)	(17,352)	(48,279)
Prepaid expenses and other	(5,283)	(37,340)	1,429
Accounts payable	(18,642)	(31,622)	35,163
Accrued liabilities and other	(39,338)	(215,076)	162,066
Deferred Compensation Expense	-	-	(30,531)
Net cash provided by operating activities	26,287	141,697	383,211
Cash Flows used in Investing Activity			
Purchase of property and equipment	-	(36,456)	(20,091)
Cash Flows used in Financing Activity			
Dividends paid	(69,917)	(262,188)	(349,584)
Net Increase (Decrease) in Cash and Cash Equivalents	(43,630)	(156,947)	13,536
Cash and Cash Equivalents - Beginning of year	873,842	1,030,789	1,017,253
Cash and Cash Equivalents - End of year	**$ 830,212**	**$ 873,842**	**$1,030,789**
Supplemental Cash Flow Information - Cash paid for income taxes	**$ 1,493**	**$ 207,472**	**$ 20,837**

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Nature of Business and Summary of Significant Financial Accounting Policies

Principles of Consolidation – 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.

Nature of Business – Bonal Technologies, Inc. performs design, development, manufacturing, and marketing of metal stress-relieving equipment internationally.

Basis of Accounting – The Company maintains its books on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Concentrations of Credit Risk – The Company primarily deposits cash with a national bank and at times throughout the year may maintain balances that exceed federally insured limits of $250,000, per depositor per insured bank. The total uninsured balance at March 31, 2017, is approximately $86,000. The Company has not experienced any losses in such accounts, and management believes the Company is not exposed to any unusual credit risk on cash and cash equivalents.

Use of Estimates – The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting year. Actual results could differ from those estimates.

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

Accounts Receivable-Trade, Net – 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 collectability of the accounts receivable balance and estimates the portion, if any, of the balance that will not be collected. Uncollectible amounts are written off as a charge against the valuation allowance in the period that such determination is made. The allowance for doubtful accounts as of March 31, 2017 and 2016, was $112 and $151, respectively.

Inventories – Inventories consist of raw materials, work in progress and finished goods and are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market. A valuation allowance is provided for obsolete and slow moving inventory to write down costs to net realizable value (market). The Company has recorded an obsolescence reserve as of March 31, 2017 and 2016 of $62,615 and $65,000, respectively.

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

Property and Equipment – Property and equipment are recorded at cost. Depreciation and amortization are computed over the estimated useful lives of the related assets which range from 3-10 years, using accelerated methods for financial statement purposes. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. The cost and related accumulated depreciation and amortization of assets sold or otherwise disposed of during the year are removed from the accounts. Any gain or loss is reflected in the year of the disposal.

Management reviews these assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

Revenue Recognition – The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability of the selling price is reasonably assured.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax benefits and consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Effective April 1, 2016, the Company has elected to early adopt the provisions in FASB Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes, which requires the Company to classify deferred tax liabilities and assets as noncurrent in a classified balance sheet. The Company has elected to adopt the provisions retrospectively. The retrospective application resulted in a current deferred tax asset of $32,000 and a noncurrent deferred tax liability of $15,500 on the previously reported balance sheet as of March 31, 2017, being presented as a noncurrent deferred tax asset of $16,500 in the accompanying consolidated balance sheet.

The Company recognizes and discloses uncertain tax positions in accordance with GAAP. As of March 31, 2017 and 2016 and for the years then ended, the Company did not have a liability for unrecognized tax benefits.

Earnings per Common Share – Earnings per common share are based on the number of common shares outstanding at the end of the year.

Reclassification – Certain items in the prior years' consolidated financial statements have been reclassified to conform to the presentation in the current year consolidated financial statements.

Note 2 - Inventories

Major classes of inventories are as follows:

	2017	2016
Raw materials	$ 229,120	$ 231,125
Work in progress	188,170	181,097
Finished goods	115,225	116,087
Total	**532,515**	**528,309**
Reserve for obsolescence	(62,615)	(65,000)
Total Inventories, Net	**$ 469,900**	**$ 463,309**

Note 3 - Property and Equipment

Major classes of property and equipment are as follows:

	2017	2016
Machinery and equipment	$ 51,719	$ 55,007
Displays	28,272	28,272
Transportation equipment	46,448	46,448
Office furniture and equipment	252,057	252,057
Leasehold improvements	5,367	5,367
Total cost	**383,863**	**387,151**
Accumulated depreciation and amortization	(354,855)	(338,822)
Net Property and Equipment	**$ 29,008**	**$ 48,329**

Depreciation and amortization expense was $19,321, $21,013, and $14,119 for the years ended March 31, 2017, 2016, and 2015, respectively.

Note 4 - Income Taxes

The provision for income taxes consists of the following:

	2017	2016	2015
Current expense (benefit)	$ (8,813)	$ 67,270	$ 115,590
Deferred expense (benefit)	(5,100)	5,700	11,500
Net income tax expense (benefit)	$ (13,913)	$ 72,970	$ 127,090

Note 4 - Income Taxes - (Continued)

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:

	2017	2016	2015
Income tax expense - Computed at 15%, 34%, and 34% of pretax income respectively	$ 6,067	$ 93,710	$ 193,900
State income taxes (benefit)	(307)	(2,000)	3,630
Effect of nondeductible expense	541	1,160	1,700
Effect of nontaxable income	-	-	(34,000)
Effect of tax credits and special deductions	(9,947)	(13,670)	(38,000)
Effect of adjustment of prior year estimates and other	(10,267)	(6,230)	(140)
Net income tax expense (benefit)	$ (13,913)	$ 72,970	$ 127,090

Deferred tax assets result primarily from differences in the year of deductibility of certain expenses. Deferred tax liabilities result from different methods used for depreciation for financial reporting and income tax purposes. The net deferred tax asset totaled $21,600 and $16,500 as of March 31, 2017 and 2016, respectively. The Company had no valuation allowance on its deferred tax asset in either year.

Note 5 - Lease Commitments

The Company leases office and manufacturing space on a month to month basis at the rate of $5,623 per month. In addition the Company is responsible for certain occupancy expenses including utilities and insurance. Rent expense for all leased property totaled $67,476, for each of the three years ended March 31, 2017, 2016, and 2015.

Note 6 - Stockholders' Equity

The Company's stock at March 31, 2017 and 2016 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, 2017 and 2016.
- Class B common, nonvoting stock, 5,000,000 authorized shares, with $.01 par value. There were no shares issued or outstanding at March 31, 2017 and 2016.
- Preferred stock, 200,000 authorized shares, with $.01 par value.
There were no shares issued or outstanding at March 31, 2017 and 2016.

Note 7 - 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. The Company contributed $13,323 to the plan for the year ended March 31, 2015. There were no contributions made by the Company during fiscal years 2017 and 2016.

Note 8 - Insurance Proceeds

During the year ended March 31, 2015, the Company received proceeds from a key-man life insurance policy it held on its former president and chairman, A. George Hebel, III. The amount received, $100,237, was recorded as other income. This was non-taxable income.

Note 9 – Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to March 31, 2017, the most recent Consolidated Balance Sheet presented herein, through June 27, 2017, the date the consolidated financial statements were available to be issued. No such significant events or transactions have been identified.

Corporate Information

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

Directors and Officers

①④ **Thomas E. Hebel**
Chairman, President and CEO

①④ **Paul Y. Hebel**
Director and Vice Chairman

②③④ **Harold Y. Hebel, C.P.A.**
Director and Treasurer

④ **John A. Hebel**
Director and Secretary

①②③④ **George W. Harrison**
Director

④ **Betty Jean Hebel, Ph.D.**
Director

① Executive Committee
② Audit Committee
③ Compensation Committee
④ Nominating Committee

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The Letter from the Chairman within this report contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as: “goal,” “believe,” “focus” and “will” and similar references to future periods. Forward-looking statements are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include economic and industry conditions, actions of competitors, commodity and labor costs, and other factors. Any forward-looking statement made by us in said letter is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any such statements, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

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