BONAL INTERNATIONAL INC

2018
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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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 61 foreign countries.

FINANCIAL HIGHLIGHTS

Year Ending March 31	2018	2017	2016
Total Revenues	$2,292,208	$1,610,471	$2,093,614
Net Earnings	284,753	54,357	202,651
Total Assets	1,809,857	1,554,859	1,628,389
Working Capital	1,527,780	1,403,575	1,404,914
Earnings per Share	0.16	0.03	0.12
Stockholders' Equity	1,564,144	1,454,183	1,469,743
Trading Activity Hi / Low	2.00 / 1.30	4.50 / 1.05	2.55 / 1.75
Dividend Declared per Share	0.10	0.04	0.15
Dividend Paid per Share	0.10	0.04	0.15

Fiscal 2018 Quarters Ended

(unaudited)

	June 30	Sept 30	Dec 31	March 31, 2018
Total Revenues	615,798	527,761	581,603	567,046
Gross Profit	469,952	404,882	444,818	379,994
Net Earnings	109,163	53,469	68,467	53,654

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 Profit	239,164	335,372	299,302	305,958
Net Earnings	(21,332)	16,471	(5,060)	64,278

Sales Breakdown for Fiscal Year 2018

Equipment Sales	Rental Income	Contract Services
$1,899,888	$207,870	$184,450

March 31, 2018

Dear Shareholders,

Fiscal year 2018 was a year of continued progress for Bonal International, Inc. Bonal recorded its sixth best year in both net revenue and net income in our 34 year history. This year's financial results improved with total revenue at $2,292,208, an increase of 42.3 percent from 2017. Net income rose sharply to $284,753 up from $54,357. Shareholder's Equity rose 7.6 percent to $1,564,144, our third highest, up from $1,454,183 last year.

Fiscal year 2018 also boasted new mile-markers in corporate success. The Company achieved its fourteenth consecutive profitable fiscal year and its thirteenth consecutive year issuing dividends, issuing two dividends this fiscal year.

Milestones in FY 2018:

- 14th consecutive profitable year
- 13th consecutive year dividends paid
- Shareholder Equity - Third Highest
- Working Capital - Third Highest
- Net Revenue - Sixth Highest
- Net Income - Sixth Highest

Bonal's patented Meta-Lax process is used in dozens of industries within the metalworking industry. This year, the highest volume of Meta-Lax equipment sales was to the machine and fabrication shops accounting for 51 percent of sales by volume. The aerospace industry added a very strong 12 percent of sales. For the first time, Bonal sold equipment into Northern Ireland as well to 15 other foreign countries, up from 12 the prior year.

Current customers proved they value the quality performance and the cost saving ability from using Meta-Lax equipment. Not only did they account for the majority of our sales through repurchase and referrals, they also contributed to an amazing 63 percent of our sales by volume, up from 54 percent last year. Some of the customers acquiring additional Meta-Lax equipment included the U.S. Army, General Dynamics (satellite dishes), Siemens (power plants), Timken (bearings), Howmet (aerospace), and Masonite (cement), among others.

Looking forward, the U.S. and international economies are growing stronger and are forecast to remain strong. Couple this with the continued support of our loyal customers and diligent staff, fiscal year 2019 is expected to be another profitable year for Bonal International, Inc.

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

Sincerely,

Thomas E. Hebel
Chairman

Cohen & Co

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, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended March 31, 2018, 2017, and 2016, 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 the 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, 2018 and 2017, and the results of their operations and their cash flows for the years ended March 31, 2018, 2017, and 2016 in accordance with accounting principles generally accepted in the United States of America.

June 27, 2018
Detroit, Michigan

Cohen & Company Ltd.

COHEN & COMPANY, LTD.
800.229.1099 | 866.818.4538 fax | cohencpa.com
Registered with the Public Company Accounting Oversight Board

Consolidated Balance Sheets

Assets

	March 31, 2018	March 31, 2017
Current Assets		
Cash and cash equivalents	$ 985,720	$ 830,212
Accounts receivable-trade, net	145,766	80,464
Inventories, net	568,941	469,900
Prepaid expenses and other current assets:		
Prepaid expenses	28,978	24,670
Refundable taxes	-	64,800
Other current assets	44,088	34,195
Total current assets	1,773,493	1,504,241
Property and Equipment - Net	26,064	29,008
Deferred Tax Asset	10,300	21,600
Total assets	**$ 1,809,857**	**$ 1,554,849**

Liabilities and Stockholders' Equity

	March 31, 2018	March 31, 2017
Current Liabilities		
Accounts payable	$ 51,210	$ 28,225
Accrued and other current liabilities:		
Accrued compensation	106,730	29,655
Customer deposits and advances	16,000	18,800
Taxes payable	38,950	-
Other accrued liabilities	32,823	23,986
Total current liabilities	245,713	100,666
Stockholders' Equity	1,564,144	1,454,183
Total liabilities and stockholders' equity	**$ 1,809,857**	**$ 1,554,849**

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

Consolidated Statements of Operations

	Year End March 31,		
	2018	**2017**	**2016**
Net Sales	$ 2,292,208	$ 1,610,471	$ 2,093,614
Cost of Sales	592,562	430,675	548,833
Gross Profit	1,699,646	1,179,796	1,544,781
General and Administrative Expenses	1,303,443	1,140,599	1,280,026
Operating Income	396,203	39,197	264,755
Nonoperating Income			
Gain on assets	-	-	8,000
Interest income	4,930	2,580	2,725
Other income (expense)	(1,330)	(1,333)	141
Total nonoperating income	3,600	1,247	10,866
Income - Before income taxes	399,803	40,444	275,621
Income Tax Expense (Benefit)	115,050	(13,913)	72,970
Net Income	**$ 284,753**	**$ 54,357**	**$ 202,651**
Per-Share Data - Net Income	$ 0.16	$ 0.03	$ 0.12
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.

Bonal International, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance - April 1, 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**
Net Income	-	-	-	284,753	284,753
Dividends ($0.10 per share)	-	-	-	(174,792)	(174,792)
Balance - March 31, 2018	**$ 8,740**	**$ -**	**$ 688,212**	**$ 867,192**	**$1,564,144**

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

Consolidated Statements of Cash Flows

	Year End March 31,		
	2018	2017	2016
Cash Flows Provided from Operating Activities			
Net income	$ 284,753	$ 54,357	$ 202,651
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,717	19,321	21,013
Deferred income taxes	11,300	(5,100)	5,700
Net change in:			
Accounts receivable - Trade, net	(65,302)	27,563	213,723
Inventories, net	(99,041)	(6,591)	(17,352)
Prepaid expenses and other	50,599	(5,283)	(37,340)
Accounts payable	22,985	(18,642)	(31,622)
Accrued liabilities and other	122,062	(39,338)	(215,076)
Net cash provided by operating activities	339,073	26,287	141,697
Cash Flows Used in Investing Activity			
Purchase of property and equipment	(8,733)	-	(36,456)
Cash Flows Used in Financing Activity			
Dividends paid	(174,792)	(69,917)	(262,188)
Net Increase (Decrease) in Cash and Cash Equivalents	155,508	(43,630)	(156,947)
Cash and Cash Equivalents - Beginning of year	830,212	873,842	1,030,789
Cash and Cash Equivalents - End of year	**$ 985,720**	**$ 830,212**	**$ 873,842**
Supplemental Cash Flow Information -			
Cash paid for income taxes	**$ -**	**$ 1,493**	**$ 207,472**

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 (GAAP).

Concentrations of Credit Risk – The Company primarily deposits cash with national banks 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, 2018, is approximately $202,000. 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.

The Company had four customers that accounted for approximately 52% and three customers that accounted for approximately 51%, of accounts receivable-trade, net at March 31, 2018 and 2017, respectively.

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 individual accounts receivable balance base on historical collectability and estimates the portion, if any, of the individual balances 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, 2018 and 2017, was $13,748 and $112, respectively.

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

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 net realizable value. A valuation allowance is provided for obsolete and slow moving inventory to write down costs to net relizable value. The Company has recorded an obsolescence reserve as of March 31, 2018 and 2017 of $51,025 and $62,615, respectively.

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.

The Company recognizes and discloses uncertain tax positions in accordance with GAAP. As of March 31, 2018 and 2017 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.

Note 2 - Inventories

Major classes of inventories are as follows:

	2018	2017
Raw materials	$ 303,670	$ 229,120
Work in progress	202,403	188,170
Finished goods	113,893	115,225
Total	**619,966**	**532,515**
Reserve for obsolescence	(51,025)	(62,615)
Total Inventories, Net	**$ 568,941**	**$ 469,900**

Note 3 - Property and Equipment

Major classes of property and equipment are as follows:

	2018	2017
Machinery and equipment	$ 55,366	$ 51,719
Displays	28,272	28,272
Transportation equipment	46,448	46,448
Office furniture and equipment	253,458	252,057
Leasehold improvements	9,092	5,367
Total cost	**392,636**	**383,863**
Accumulated depreciation and amortization	(366,572)	(354,855)
Property and Equipment - Net	**$ 26,064**	**$ 29,008**

Depreciation and amortization expense was $11,717, $19,231, and $21,013 for the years ended March 31, 2018, 2017, and 2016, respectively.

Note 4 - Income Taxes

The provision for income taxes consists of the following for the years ended:

	2018	2017	2016
Current expense (benefit)	$ 103,750	$ (8,813)	$ 67,270
Deferred expense (benefit)	11,300	(5,100)	5,700
Net income tax expense (benefit)	$ 115,050	$ (13,913)	$ 72,970

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:

	2018	2017	2016
Income tax expense - Computed at 31%, 15%, and 34% of pretax income respectively	$ 123,939	$ 6,067	$ 93,710
State income taxes (benefit)	4,750	(307)	(2,000)
Effect of nondeductible expense	1,103	541	1,160
Effect of tax credits and special deductions	(22,081)	(9,947)	(13,670)
Effect of adjustment of prior year estimates and other	939	(10,267)	(6,230)
Income tax expense (benefit) before effect of TCJA	108,650	(13,913)	72,970
Effect of TCJA on deferred tax assets and liabilities	6,400	-	-
Net income tax expense (benefit)	$ 115,050	$ (13,913)	$ 72,970

At March 31, 2018 and 2017, gross deferred tax assets and gross deferred tax liabilities were comprised of the following:

	2018	2017
Gross deferred tax assets	$ 15,200	$ 30,400
Gross deferred tax liabilities	(4,900)	(8,800)
	$ 10,300	$ 21,600

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 $10,300 and $21,600 as of March 31, 2018 and 2017, respectively. The Company had no valuation allowance on its deferred tax asset in either year.

The Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law on December 22, 2017. Based on the changes in the new tax law, the Company remeasure deferred tax assets and liabilities at the newly enacted rates. As disclosed above, management has recorded tax expense of approximately $6,400 in 2018 due to the re-measurement of deferred tax assets and liabilities.

Note 5 - Lease Commitments

Leases

The Company leases office and warehouse space under a long-term operating lease expiring in 2020. Minimum annual rentals are as follows:

2018	$ 68,190
2019	69,416
2020	70,643
	$ 208,249

Rent expense amounted to $68,190, and $67,476, for the years ended March 31, 2018, and 2017 respectively.

Note 6 - Employment Agreement

During 2018, the Company entered into an employment agreement with its President that expires in June 2020. The agreement can be extended annually thereafter. The Company has also entered into a consulting agreement with the President, which is effective for a five year term upon the retirement of the President from the Company.

Note 7 - Stockholders' Equity

The Company's stock at March 31, 2018 and 2017 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, 2018 and 2017.
- Class B common, nonvoting stock, 5,000,000 authorized shares, with $.01 par value. There were no shares issued or outstanding at March 31, 2018 and 2017.
- Preferred stock, 200,000 authorized shares, with $.01 par value.
  There were no shares issued or outstanding at March 31, 2018 and 2017.

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 2018, 2017, and 2016.

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, 2018, the most recent Consolidated Balance Sheet presented herein, through June 27, 2018, 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

① ④ **Thomas E. Hebel**
Chairman, President and CEO

① ④ **Paul Y. Hebel**
Director and Vice Chairman

② ③ ④ **Harold Y. Hebel, C.P.A.**
Director, Treasurer, and CFO

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

① ② ③ ④ **George W. Harrison**
Director

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

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

Corporate Headquarters

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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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