bühler

2006

Annual Report

Chairman's Message

John Buhler,
Chairman

This has been a year of disappointments. We had expected to be back on track for increased revenue and profits, but instead we were hit with a strong Canadian dollar which had the effect of reducing our export revenue by $20 million dollars.

The agricultural economy remained weak as weather played havoc with farmers. When farm income declines, the first impact is on large ticket items resulting in reduced tractor sales. The Company believes it will take another year or two before we see improvement in the farm economy.

Record grain prices should make us optimistic about the future, but it will take a while before these record prices translate into increased sales.

We realized we cannot fight the odds when nation wide high horse power tractor sales are down by over 20%. We watched our inventory climb to levels that demanded action, and in hindsight we did not take action soon enough. We are all very much aware of the challenges that are facing us and we believe that shrinking the size of our operation is the most logical solution.

For the past 13 years, we have been increasing our dividends by one cent per share. It was my intention to continue with the increases for many years with a target of 25 cents. The directors decided to hold the dividends at 15 cents until we see the same consistent net growth in earnings that we experienced previously. We have historically paid out about 33% of our net after tax earnings in dividends and we will need to get close to this ratio before we can justify any further increases.

It is tempting at times to change the format of our annual report, and just show the charts that show improvement, but we will continue to use the same format making it easier for the reader to follow the performance of the Company.

I am grateful for the extra effort that senior management put into managing the affairs of the Company during these difficult times.

This year we are celebrating the 40th anniversary of the Versatile tractor. In 2007, we will be celebrating the 75th anniversary of Buhler Industries. We expect the 50,000th four wheel drive tractor to come rolling off the assembly line next year. This is a story of success and we are hoping that the excitement will carry forward into the future.

The management and employees own about 17% of the shares in Buhler and they recognize that their extra efforts will someday be rewarded by improved stock price for all shareholders. A heartfelt thank you to all.

John Buhler,
Chairman & CEO

Ten Year Highlights

In thousands of Canadian dollars (except per share amounts)

Year ended Sept. 30	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenue	85,375	89,194	79,961	116,700	187,633	232,619	181,162	206,130	202,319	**175,067**
Gross profit	27,060	29,243	26,207	30,302	31,410	49,485	41,233	37,601	37,044	**33,929**
EBITDA	15,668	17,595	14,488	15,882	14,518	26,202	21,874	20,040	17,282	**14,408**
Income from operations	16,313	17,420	14,943	16,789	16,527	29,727	25,098	21,311	20,838	**17,066**
As percentage of revenue	19%	20%	19%	14%	9%	13%	14%	10%	10%	**10%**
Shareholders equity	37,497	44,790	47,327	51,659	53,442	61,998	70,868	92,047	98,113	**98,947**
Capital expenditures-net	12,253	5,917	5,960	17,278	3,593	14,546	7,854	4,470	7,515	**2,815**
Number of employees	600	600	600	1,000	700	800	820	850	850	**800**
Earnings per share	0.26	0.29	0.24	0.30	0.30	0.58	0.51	0.50	0.38	**0.18**
Book value per share	1.57	1.80	1.93	2.13	2.27	2.70	3.08	3.78	3.92	**3.96**
Avg shares issued (millions)	23.9	24.9	24.5	24.2	23.5	23.0	23.0	24.3	25.0	**25.0**
Return on average capital	24%	26%	18%	14%	8%	18%	13%	12%	8%	**5%**
Return on average equity	18%	17%	13%	15%	13%	23%	18%	14%	10%	**5%**

President's Message

Craig Engel,
President

Early on in Fiscal 2006, we were optimistic that the upcoming year was going to be a year of financial success. Unexpectedly, two unfavorable factors came into play. Firstly, tractor sales declined by almost 20% as a result of the weakening US industry sales and as a result of the cancellation of orders from our Eastern European dealers. Consequently, we reduced our tractor production rate in order to reduce inventory and as a result, our tractor operations were not profitable. We are currently working at restructuring Buhler Versatile Inc. to return to profitability.

The second unfavorable factor was the reduced profitability of our grain augers, front end loaders, compact implements and other short line products. Sales of these products held nicely, however, these product lines have a high Canadian cost content. As a result of the declining US dollar, the profitability of the sales of these products into the United States declined from their historic levels leaving us to balance cost reduction efforts and price increases in an attempt to improve profitability without losing market share.

Together, the lower tractor revenues, combined with the lower profitability on the short line products had a significant impact on our F2006 results.

Improvements Underway

In spite of the challenges of decreased sales this past year, management has been able to reduce inventory by $11 million over the past 6 months. Our inventory goal for F2007 is to achieve 2.0 turns with further improvement to follow. This reduction in inventory will also reduce bank debt and related interest expense.

During the year, we were pleased to successfully negotiate a new five year Collective Agreement with the United Steelworkers. The USW represent approximately 144 our of our 800 employees. With the new agreement in place, we are confident that we will be able to meet our customers' delivery expectations, regardless of which plant produces the products.

In order to improve our ability to compete in the North American marketplace, we have cross trained several of our Territory Managers to represent both tractor and short line products. We also made the strategic decision to distribute our products directly to dealers in specific regions of the United States where third party distribution companies previously represented us. The increased Selling, General and Administration (SG&A) costs associated with direct distribution will be offset by future increased sales and profit margin.

Finally, in order to help reduce SG&A, we have streamlined several administrative areas of the Company, including the relocation of our Corporate Head Office into the tractor factory in order to reduce costs and work more efficiently. Further improvements are planned.

New Products

During the year we maintained our product R&D activities staying within our established budgets. We consider product development to be an investment in our future and will continue to ensure that our products are able to meet the increasing demands of the farmers of North America and around the world.

Looking Forward

Our industry is currently being influenced by many significant factors. On the positive side, the recent sharp increases in commodity prices, increased demand for "farm grown" renewable fuels, coupled with the farmer's generally low debt levels and the continuing increase in the value of farm land are all major influences which could favourably impact sales over the next several years. On the negative side, we realize that farm cash receipts have declined, interest rates are higher than in the past, fuel and fertilizer prices, although somewhat relieved, are still considerably higher than historic levels and there is a general uncertainty of the US government subsidy levels going forward. Due to the fact that our industry is currently being affected by such a wide variety of highly influential factors, we have elected not to provide any specific financial forecasts, but instead we have kept our guidance in a more generic form.

Our industry associations are forecasting flat or slightly decreased sales of large tractors over the next 12 months. We anticipate revenue from our short line products to remain flat or slightly increased. In spite of the fragile North American market last year, we are confident that our new High Horsepower Tractor Series (HHT), high capacity grain augers and price competitive tractor attachments will be attractive to farmers both now and in the future.

We will continue to expand our Eastern European marketing efforts and seek out means of delivering products to market in a timely manner and at a lower cost. The consumer appreciates the high value of our equipment and we intend to remain a significant player in this new, largely untapped marketplace.

We continue to maintain a healthy working capital in order to pursue acquisition opportunities. Although many opportunities have presented themselves over the past year, we have not closed any deals. Regardless of our strong cash position, we will resist any acquisition which is not accretive.

We are determined to improve our financial performance and return to our traditional level of earnings in the future.

Craig Engel,
President,
December 08, 2006

Chief Financial Officer's Message

Dr. Ossama AbouZeid,
Chief Financial Officer

Fiscal 2006 was less than a stellar year. Net sales, gross profit, net earnings, earnings per share, cash flow, EBITDA (Earnings Before Interest, Taxes, and Depreciation and Amortization), return on equity and return on capital were all at lower levels than the past several years.

Despite the setback, we continued to deliver on our unrelenting commitment with respect to the effective utilization of cash. In 2006, we managed to generate cash flow of $10.7 million and maintain a working capital of $82.8 million. We curtailed the capital expenditures during the year to those essential to maintain adequate competitiveness and efficiency and we disposed of surplus assets. A combination of a strong balance sheet and the confidence of our bank allowed us to increase the credit facility available.

The Board of Directors annually reviews the dividend policy. This year, the Board has decided to freeze the dividends at last year's level and not increase dividends in the future, until the company's financial performance has returned to its traditional levels.

More than 65% of revenue continued to be generated in the US dollar. This required disciplined treasury policies and continuous monitoring of debt and equity held in the US dollar to mitigate the exposure to foreign exchange fluctuation.

As the company expands its sales into Eastern Europe we increased our diligence in assessing and negating the associated risks.

We continue to strive for reporting transparency and accountability. Our disclosure policies and procedures are in place and we are continuously evaluating the effectiveness of the internal controls over financial reporting. For us this is not only a regulatory requirement, it is simply a good business practice.

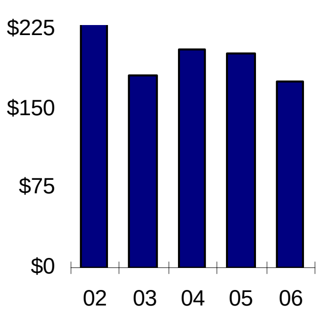
We will continue to focus on positioning our human and fiscal assets for future growth, improved productivity and strengthening our balance sheet. A stronger economy, coupled with good execution of our business plan objectives will no doubt improve the results in 2007.

Ossama AbouZeid

Chief Financial Officer

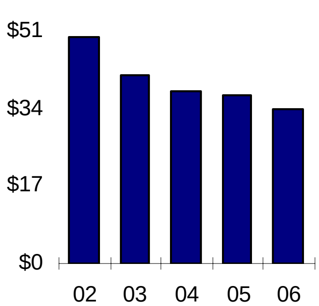
Management Discussion & Financial Analysis

Sales and Growth *(millions)*



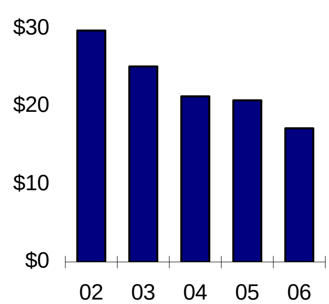
Revenue is down 13.5% to $175.1 million compared with $202.3 million last year. We had forecast flat revenue for 2006, but had not anticipated that high horse power tractor sales would drop off so significantly.

Gross Profit *(millions)*



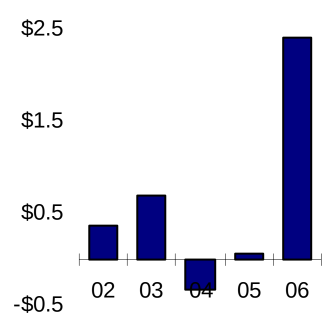
Gross profit decreased to $33.9 million (19.4% of revenue) compared with $37.0 million (18.3% of revenue) last year. The improved gross profit as a percentage is encouraging.

Income from Operations *(millions)*



Operating income of $17.1 million (9.7% of revenue) is down from last year's $20.8 million (10.3% of revenue). Last year, we forecast flat to slightly improved income from operations. The mad cow issues are still lingering and the further strengthening of the Canadian dollar was unexpected.

Net Interest Expense *(millions)*

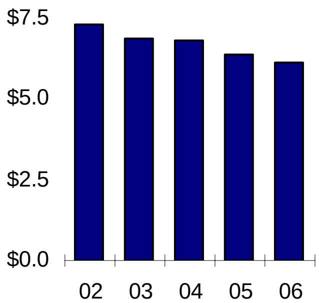


This chart reflects the cost of carrying high receivables and too much inventory.

Increased interest rates were also a factor. This is the most interest the company has ever paid and we expect to see lower interest expense for 2007.

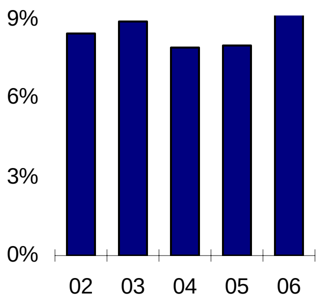
Management Discussion & Financial Analysis

Amortization Expense *(millions)*



Amortization expense of $6.1 million is down from last year's $6.4 million and will continue to reduce in future years until we make some major equipment purchases. The Company does not have any leases and does not record any of its intangible assets or goodwill on the balance sheet.

Selling & Administration Expense *(% of Revenue)*

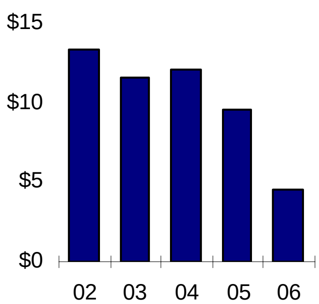


Selling and administration expense as a percentage of revenue increased to 9.6% compared with 8.0% last year and is above the five year average of 8.5%.

Selling and administration expense was $16.9 million compared with $16.2 million last year.

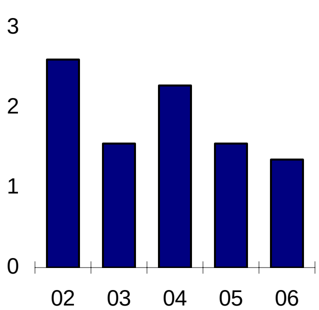
Management has worked diligently to keep this expense under control, however, when faced with a sudden drop in revenue it is difficult to reduce this expense quickly. We do expect that given time we will again see improvements in this ratio.

Net Earnings *(millions)*



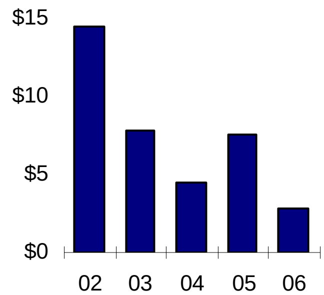
Net earnings decreased 52.1% to $4.6 million ($0.18 per share on 25.0 million shares) compared with $9.6 million ($0.38 per share on 25 million shares) This year's earnings include a $0.8 million gain on sale of capital assets compared with $0.1 million last year.

Inventory Turns



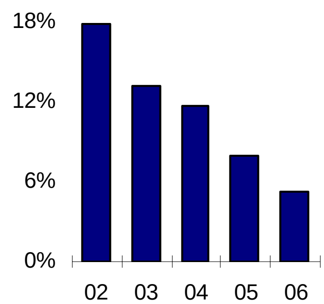
High levels of inventory at year end have impacted this ratio and management is committed to reducing inventory to more normal levels during fiscal 2007. Inventory turns decreased to 1.3 compared with 1.6 last year.

Asset Purchases *(millions)*



Over the past 10 years, the Company has invested $82 million in capital assets. This includes the purchase of the tractor factory in the year 2000 and the Fargo and Saskatoon factories in year 2002. Capital expenditures for other years were mostly for new equipment. The Company invests in state of the art equipment in order to maintain an efficient operation. The Company will continue, on average, to invest the equivalent of the annual amortization on new equipment.

Return on Capital



Return on capital of 5% is down from last year's 8% and lower than our 5 year average of 11.2%. ROC is calculated by dividing the earnings before interest and taxes by the sum of bank debt, long term debt and total equity. The Company has no leases.

Research and Development Expense

The Company continued with its goal and commitment to keep its products modern and competitive in the market place. This year's R&D expense of approximately $3.2 million is expected to continue in the future. ($3.3 million last year).

Evaluation of Disclosure Controls & Procedures

Management has evaluated the effectiveness of Buhler disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of September 30, 2006. Management has concluded that, as of September 30, 2006, Buhler's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to Buhler and its consolidated subsidiaries would be made known to them.

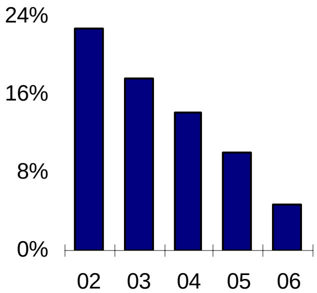
Risks

Management considers fluctuations in commodity prices and fluctuations in the Canadian dollar versus the US dollar to be a normal part of conducting business in this industry.

Going forward, the Company considers the degree of risk to be greater until the exchange rates stabilize.

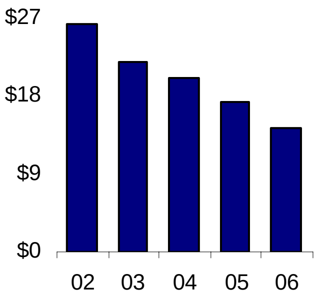
Management Discussion & Financial Analysis

Return on Equity



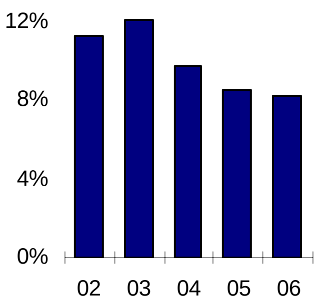
Return on equity of 5% is down compared with last year's 10% and well below our five year average of 13.9%. We believe that we have hit the bottom on this ratio and are expecting small increases going forward.

EBITDA *(millions)*



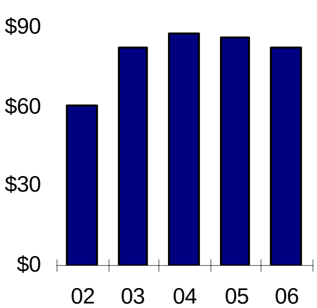
EBITDA of $14.4 million is down from last year's $17.3 million and well below our five year average of $20.0 million. We had projected an improvement in this ratio for fiscal 2006, but we did not succeed.

EBITDA *(as a percentage of revenue)*



EBITDA as a percentage of revenue now stands at 8%, down from last year's 9% and below the 5 year average of 10%.

Liquidity, Working Capital *(millions)*



Working capital is down slightly to $82.8 million compared with $86.0 million last year.

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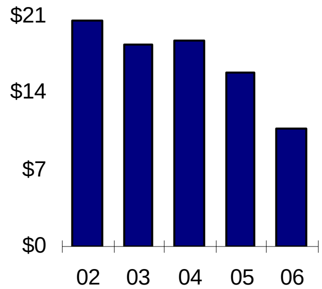
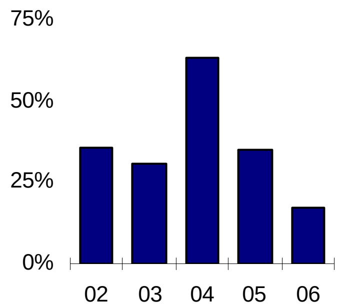
Net Cash Flow *(millions)*



The Company generated cash flow of $10.7 million compared with $16 million last year. Cash flow is lower than our 5 year average of $17 million. Cash flow is the sum of net after tax earnings, plus amortization.

Cash Flow *(as a percentage of debt)*

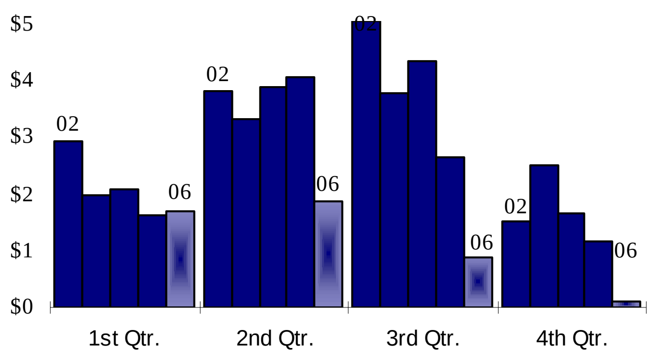


Cash flow as a percentage of debt has decreased to 17% compared with 35% last year. This chart measures the percentage of debt that can be paid with one year's cash flow. The Company can now retire 17% of its' total debt with one year's cash flow.

Quarterly Net Earnings Results *(000's)*

	2002	2003	2004	2005	2006
1st Q	$ 2,950	$ 1,985	$ 2,093	$ 1,647	**$ 1,707**
2nd Q	3,831	3,336	3,915	4,078	**1,875**
3rd Q	5,059	3,782	4,361	2,670	**879**
4th Q	1,520	2,527	1,680	1,171	**123**
Total	**$13,360**	**$11,630**	**$12,049**	**$9,566**	**$4,584**

Net Quarterly Income *(millions)*



The Company has now completed 38 consecutive years and 136 consecutive quarters of profit.

Management's Responsibility For the Financial Statements

The consolidated financial statements of Buhler Industries Inc. were prepared by management in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in note 1 to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board is responsible for reviewing the annual consolidated financial statements and reporting to the Board, making recommendations with respect to the appointment and remuneration of the Company's Auditors and reviewing the scope of the audit.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

Ossama AbouZeid, *Ph. D., MBA*
Chief Financial Officer
November 24, 2006

Larry Schroeder
Vice President

Auditor's Report

To The Shareholders of Buhler Industries Inc.

We have audited the consolidated balance sheet of Buhler Industries Inc. as at September 30, 2006 and 2005 and the consolidated statement of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

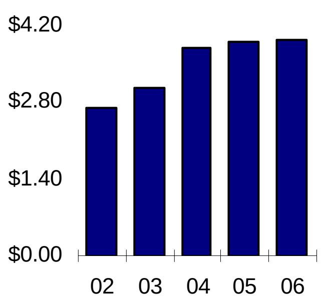
We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

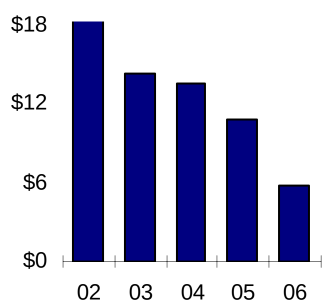
Winnipeg, Manitoba
November 24 , 2006

Gislason Targownik Peters
Certified General Accountants

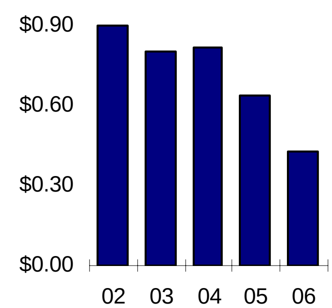
Equity *(per share)*



Pre Tax Earnings *(millions)*



Net Cash Flow *(cents per share)*



Consolidated Statement of Earnings

For the years ended September 30 ($000's)

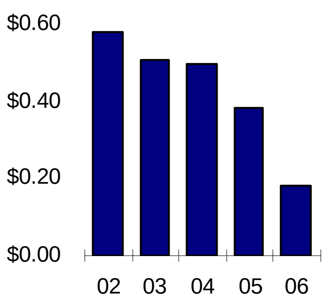
	2006		2005	
Revenue	**$ 175,067**		$ 202,319	
Cost of goods sold	**141,138**		165,275	
Gross Profit	**33,929**	19.4%	37,044	18.3%
Selling & administration expenses	**16,863**	9.6%	16,206	8.0%
Income from Operations	**17,066**	9.7%	20,838	10.3%
Gain on disposal of assets	**(801)**		(119)	
Interest expense (income)	**2,414**		62	
Amortization	**6,133**		6,411	
Research and development costs	**3,183**		3,342	
Non-controlling interest	**276**		333	
Net Earnings before Taxes	**5,861**	3.3%	10,809	5.3%
Provision for Income Taxes (note 10)	**1,277**		1,243	
NET EARNINGS	**$ 4,584**	2.6%	$ 9,566	4.7%

Consolidated Statements of Retained Earnings

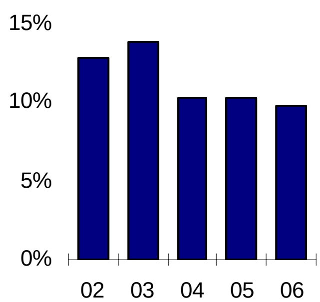
For the years ended September 30 ($000's) except per share amounts

	2006	2005
Retained Earnings beginning of year	**$ 68,113**	$ 62,047
Net earnings for the year	**4,584**	9,566
Dividends	**(3,750)**	(3,500)
Retained Earnings end of year	**$ 68,947**	$ 68,113
Earnings per share		
Basic	**$ 0.18**	$ 0.38
Fully diluted	**$ 0.18**	$ 0.38

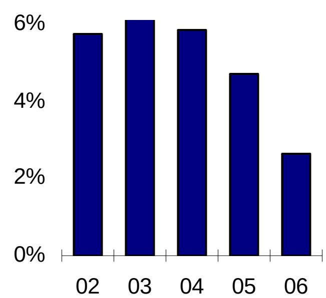
Earnings *(cents per share)*



Operating Income *(% of Revenue)*



Net Earnings *(% of Revenue)*



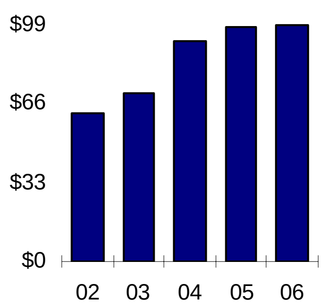
Consolidated Balance Sheets

For the years ended September 30 ($000's)	**2006**	2005
ASSETS		
Current Assets		
Accounts receivable	**42,394**	37,397
Inventories (note 2)	**104,888**	105,979
Prepaid expenses	**808**	741
Total Current Assets	**148,090**	144,117
Property plant and equipment (note 3)	**34,036**	39,156
Future income taxes (note 10)	**2,074**	3,048
Investments - at cost	**166**	191
Total Assets	**$ 184,366**	$ 186,512
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank indebtedness (note 4)	**$ 39,203**	$ 17,129
Account payable and accrued liabilities	**22,840**	37,682
Current portion of long term debt	**3,280**	3,276
Total Current Liabilities	**65,323**	58,087
Advances from related party (note 5)	**235**	2,583
Long term debt (note 7)	**19,095**	22,410
Total Liabilities	**84,653**	83,080
Non-controlling interest (note 8)	**766**	5,319
SHAREHOLDERS' EQUITY		
Share capital (note 12)	**30,000**	30,000
Retained earnings	**68,947**	68,113
Total Shareholders' Equity	**98,947**	98,113
Total Liabilities and Equity	**$ 184,366**	$ 186,512

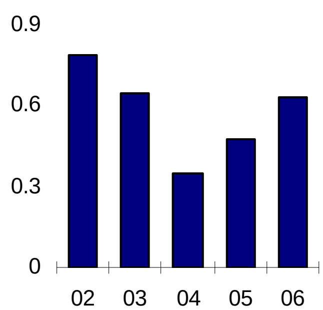
Approved on behalf of the Board:

Director: ***Director:***

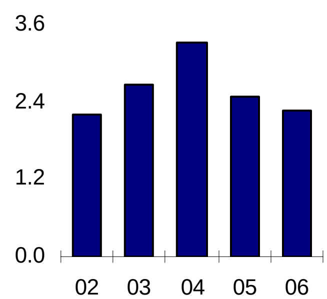
Total Equity *(millions)*



Debt to Equity *(ratio:1)*



Working Capital *(ratio : 1)*



Consolidated Statement of Cash Flows

For the years ended September 30 (000's)	**2006**	2005
Cash provided by (used in) operating activities		
Net earnings	**$ 4,584**	$ 9,566
Add (deduct) non-cash items		
Amortization	**6,133**	6,411
Loss (gain) on disposal of assets	**(801)**	(119)
Loss (gain) on foreign exchange	**(490)**	(2,009)
Future income taxes	**975**	504
	10,401	14,353
Net change in non-cash working capital balances*	**(18,815)**	(31,104)
	(8,414)	(16,751)
Investing activities		
Purchase of capital assets, net of investment tax credits	**(2,815)**	(7,515)
Proceeds on sale of capital assets	**2,605**	401
Investments	**25**	(18)
	(185)	(7,132)
Financing activities		
Repayment of long term debt	**(3,315)**	(3,360)
Increase (decrease) in non-controlling interest	**(4,553)**	(5,515)
Advances (repayment) from related party	**(2,347)**	1,760
Dividends paid	**(3,750)**	(3,500)
	(13,965)	(10,615)
Foreign exchange gain	**490**	2,009
Net cash provided (used) in the year	**(22,074)**	(32,489)
Bank balance (debt), beginning of year	**(17,129)**	15,360
Bank balance (debt), end of year	**$ (39,203)**	$ (17,129)
***Net change in non-cash working capital balances is comprised of:**		
Accounts receivable	**$ (4,997)**	$ (2,306)
Inventories	**1,091**	(32,217)
Prepaid expenses	**(67)**	30
Accounts payable, accrued liabilities and taxes payable	**(14,842)**	3,389
Net cash provided (used)	**$ (18,815)**	$ (31,104)

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and all of its subsidiaries, including a 50% joint venture interest in Bradley Steel Processors Inc., which is accounted for using proportionate consolidation.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. It is the Company's policy to record provisions for obsolete and slow moving inventory based on management estimates. These estimates are necessarily subject to a degree of measurement uncertainty.

(c) Capital assets and amortization

Capital assets are recorded at cost less accumulated amortization and related investment tax credits. Amortization is provided over the estimated useful lives using the following rates and methods:

Buildings	4 to 5%	Straight line
Equipment	20 to 30%	Declining balance
Computers	30%	Declining balance
Software and tools	100%	Year acquired

(d) Foreign currency translation

The accounts of the United States subsidiaries, which are considered integrated foreign operations, have been translated into Canadian dollars on the following basis:

1) monetary assets and monetary liabilities at the year-end rates of exchange;
2) non-monetary assets and related amortization at rates prevailing at dates of transactions;
3) revenue and expense items, other than amortization, at the average rate for year.

The resulting currency translation gains and losses are included in earnings.

(e) Financial instruments

Foreign exchange and interest rate risk

These are the risks to the Company's earnings that arise from fluctuations in interest rates and foreign exchange rates. The Company does not use any derivative financial instruments to reduce its exposure to interest rate or foreign exchange rate risk.

Other risks

The Company is exposed to credit risk on its accounts receivable. Also, as part of the Company's risk management, the Company will assume some risk in insuring some of its widely held assets.

Fair value

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

2. INVENTORIES *(000's)*	**2006**	2005
Land for development	**$ 2,320**	$ 2,451
Finished goods	**57,591**	51,748
Work in process	**4,223**	5,374
Raw materials	**40,754**	46,406
	$ 104,888	$ 105,979

3. CAPITAL ASSETS *(000's)*			**2006**	2005
	Cost	Accum. Amort.	**Net Book Value**	Net Book Value
Land	$ 4,532	$ 0	**$ 4,532**	$ 4,569
Buildings	29,301	12,214	**17,087**	19,337
Equipment	51,661	40,196	**11,465**	13,998
Computers	4,576	3,625	**951**	1,191
Software & tools	2,784	2,783	**1**	61
	$ 92,854	$ 58,818	**$ 34,036**	$ 39,156

4. BANK INDEBTEDNESS

The Company has available a financing facility with the Bank of Montreal in the amount of $60,000,000. The credit facility is secured by a mortgage, debenture, general security agreement and assignment of receivables and inventory. All interest rates are at prime or less.

5. ADVANCES FROM RELATED PARTY

The advances from related party is from the majority shareholder, holding 63% of the shares of the Company. Throughout the year, the majority shareholder advances or borrows funds from the Company with interest calculated at bank prime. The advance has no specific terms of repayment. The Company has provided a letter of credit for $665,000 (2005 - $665,000) to secure a line of credit for an entity in which the majority shareholder has a significant influence.

6. RELATED PARTY TRANSACTIONS *(000's)*	**2006**	2005
Companies Controlled by Officers or Family Members		
Accounts receivable	**$ 34**	$ 49
Revenue	**300**	240
Enterprises Influenced by Controlling Shareholder		
Revenue	**0**	7
Controlling Shareholder		
Fees paid for management services	**0**	300
Immediate Family Members of Controlling Shareholder		
Fees paid for management services	**135**	118

All transactions with related parties are recorded at the exchange amount agreed to by the related parties.

7. LONG TERM DEBT *(000's)*	**2006**	2005
Long term debt	**$ 22,375**	$ 25,686
Current portion	**3,280**	3,276
Long term portion	**$ 19,095**	$ 22,410

The unsecured, interest free, Industry Canada loan is repayable in 120 equal monthly installments of $265 commencing July 31, 2003. The U.S. Bank loan (State of North Dakota interest free loan) is repayable over 10 years and is secured by Company assets. $3,280 is repayable annually over the next 5 years. In the event of default of the Industry Canada Loan, the entire balance then outstanding shall, after the expiry of 30 days, bear interest and become due and payable.

8. NON-CONTROLLING INTEREST

During the 1999 fiscal year, Buhler Industries Inc. created a controlled manufacturing partnership operating as Buhler Manufacturing, through which a significant portion of the manufacturing activity is now conducted. The partnership was formed to optimize the organizational structure and efficiency of the Company.

The non-controlling interest represents a partner's interest in the assets, liabilities & income in the partnership. The partnership's financial activities have been accounted for by consolidation. The Company has provided a $20 million dollar guarantee, for a fee, to the Bank of Montreal to secure a loan to the new partner. These proceeds were used by the new partner to invest in the partnership.

9. INTEREST PAID *(000's)*	**2006**	2005
Operating loan	**$ 2,976**	$ 681
Long term debt	**0**	0
	$ 2,976	$ 681

Notes to Consolidated Financial Statements

10. INCOME TAXES *(000's)*

	2006	2005
At applicable statutory rate	$ 3,369	$ 4,566
Losses utilized during the year	(2,450)	(1,125)
Future taxes		
Loss carry forward	0	618
Timing differences	975	(114)
Total future taxes	975	504
Tax credits and other	(617)	(2,702)
Income tax provision	$ 1,277	$ 1,243

Tax paid and future tax

Income taxes paid during the year were $1,634 (2005 – $2,728)

Future income taxes are recorded to reflect the timing differences arising from deduction of warranty costs for income tax purposes and from the amounts of amortization provided in the year compared to the allowances deducted for income tax purposes. Future tax benefits are composed of a liability of $590 relating to amortization of capital assets and a benefit of $2,664 in respect of provisions for warranty. The Company has income tax recoverable of $2,131 included in accounts receivable.

11. SEGMENTED INFORMATION *(000's)*

The Company has organized its business between agricultural and non-agricultural operations due to the differences in the products and approaches in marketing and manufacturing in both segments. The agricultural equipment segment produces a wide variety of agricultural equipment, whereas the non-agricultural operations consist primarily of custom metal fabrication.

	2006		2005	
	Canada	US	Canada	US
Revenue	$ 153,857	$ 21,210	$ 181,933	$ 20,386
Earnings	4,281	303	8,935	631
Capital Assets	25,902	8,134	29,690	9,466
	Ag	Non-Ag	Ag	Non-Ag
Revenue	$ 166,638	$ 8,429	$ 195,407	$ 6,912
Interest revenue	559	3	594	25
Interest expense	2,244	732	678	3
Earnings	3,953	631	8,770	796
Assets	170,582	13,784	167,505	19,007

Included in Canadian revenue are export sales, primarily to the United States, of $111 million (2005 - $135 million). The accounting policies of the segments are the same as described in the note for significant accounting policies. The Company accounts for inter-segment sales at current market prices. Revenue from the top two customers was $15 million and $14 million, both in the agricultural segments.

12. CAPITAL STOCK AND OPTIONS *(000's C$)*

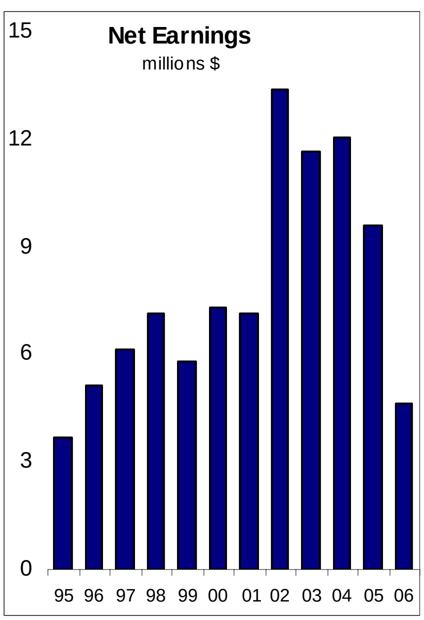
Authorized, an unlimited number of common shares.

	2006 Shares		2005 Shares	
Issued as at Sept. 30	25,000	$30,000	25,000	$30,000

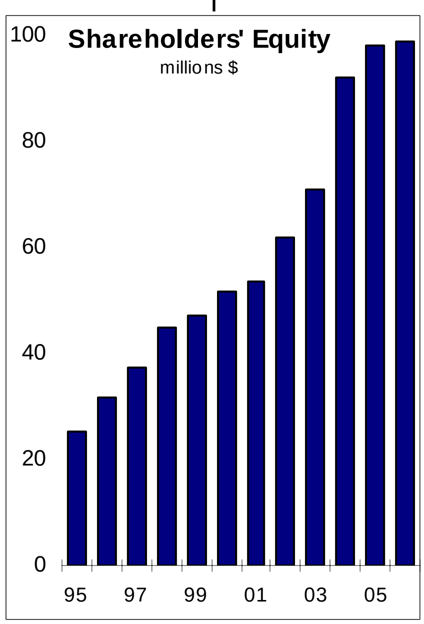
There are no options outstanding as of September 30, 2006.

13. DEFERRED PROFIT SHARING PLAN

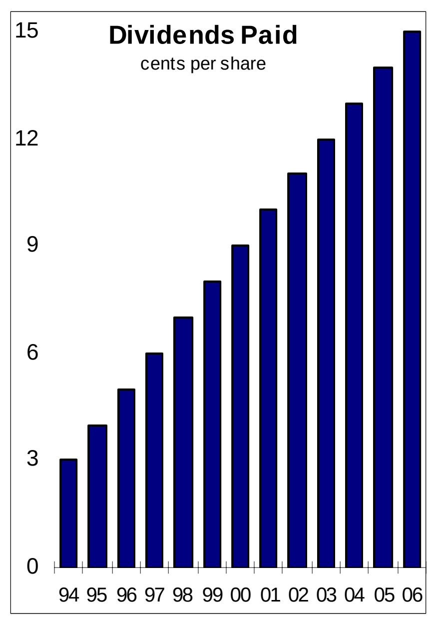
In 1995, the Company established a Deferred Profit Sharing Plan for its employees. The Company contributes funds to the plan annually as determined by the Board of Directors, subject to certain maximum limits established by the plan. Contributions are used to purchase common shares of the Company for the employees from the plan trust. In 2006, the Company contributed $150,000 to the plan (2005-$150,000). The plan trust owns approximately 1.2 million Buhler shares.



Net earnings for 2006 includes a capital gain of $0.8 million on the sale of non operating capital assets. This year marks the 38th consecutive year of profit. The strong Canadian dollar reduced this year's earnings.



Shareholders equity has increased for 38 consecutive years. This year's increase was $0.87 million bringing the total to $99.0 million, just shy of the $100 million mark.



After 13 consecutive year increases, the Company has decided to hold dividends at 15 cents until earnings improve. Dividends will be paid on January 16th. 2007 to shareholders of record on December 4th, 2006.

Company Profile

Buhler Industries Inc. was established in 1932 and operated as Standard Gas Engine Works until the Company was purchased by John Buhler in 1969. The Company has since grown to become a significant player in the farm equipment industry.

Today, the Company operates ten modern manufacturing plants and eight distribution centers totaling over 1.6 million square feet of facilities and employing over 800 people. The Company remains strongly committed to its core business as a manufacturer of a wide range of agricultural equipment marketed overseas and throughout North America under the brand names: "Buhler", "Allied", "Farm King", "Inland" and "Buhler Versatile".

In 2000, the Company purchased the only tractor manufacturing plant in Canada. Ranging from 145 hp to 535 hp, the tractors became the perfect compliment to the Company's long standing portfolio of short line farm equipment, which includes grain augers, 3-point hitch attachments, front-end loaders and haying equipment.

Audit Committee

Philipp R. Ens, Chairman

Albert Appelt

Eugene Demkiw

Allan L.V. Stewart

Legal Counsel

Perlov Stewart Lincoln

Winnipeg, Manitoba

Exchange Listing

The shares of Buhler Industries Inc. are listed on the Toronto Stock Exchange and trading under the symbol "BUI".

Corporate Banker

Bank of Montreal

Winnipeg, Manitoba

Cusip Number

119 918 100

Transfer Agent

Computershare Trust Company of Canada

Calgary, Alberta

Corporate Office

1260 Clarence Avenue

Winnipeg, Manitoba, R3T 1T2

Ph: (204) 284 6100 Fax: (204) 654-2503

Web site: www.buhler.com

Auditors

Gislason Targownik Peters

Winnipeg, Manitoba

Annual Meeting

The annual meeting of shareholders will be held on Saturday, January 27th, 2007 11:00 AM at the Club Regent Casino Hotel, 1415 Regent Avenue West, Winnipeg, MB.

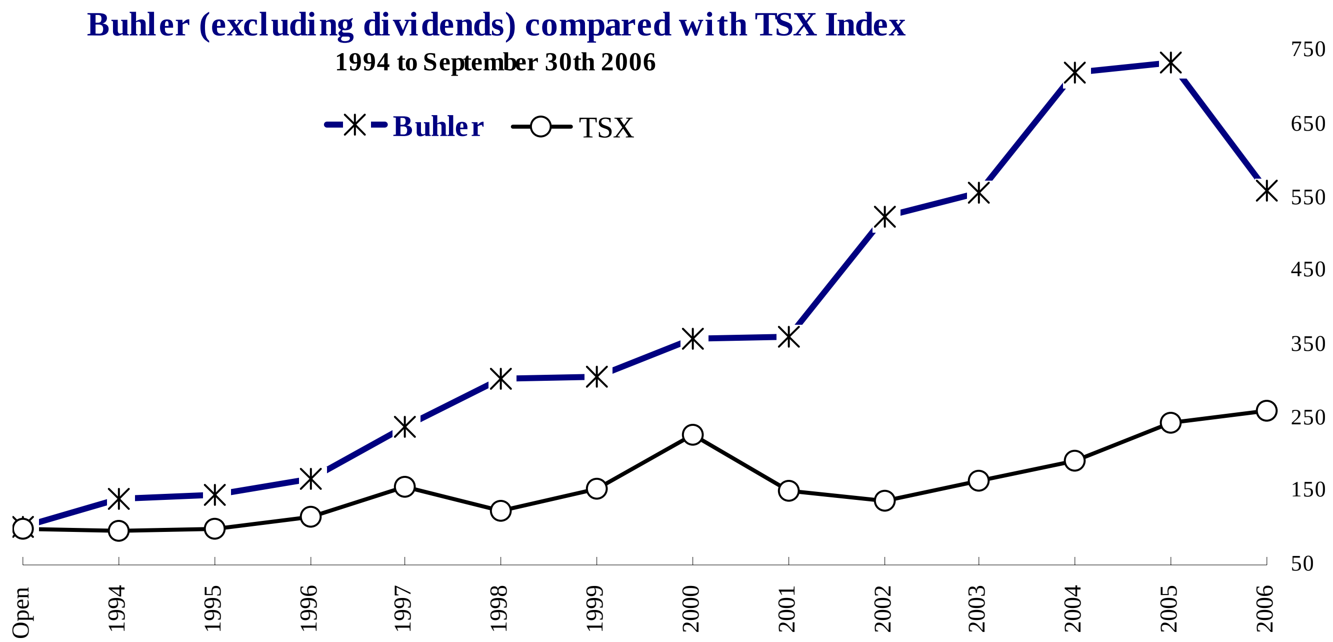
Directors, Officers and Senior Management

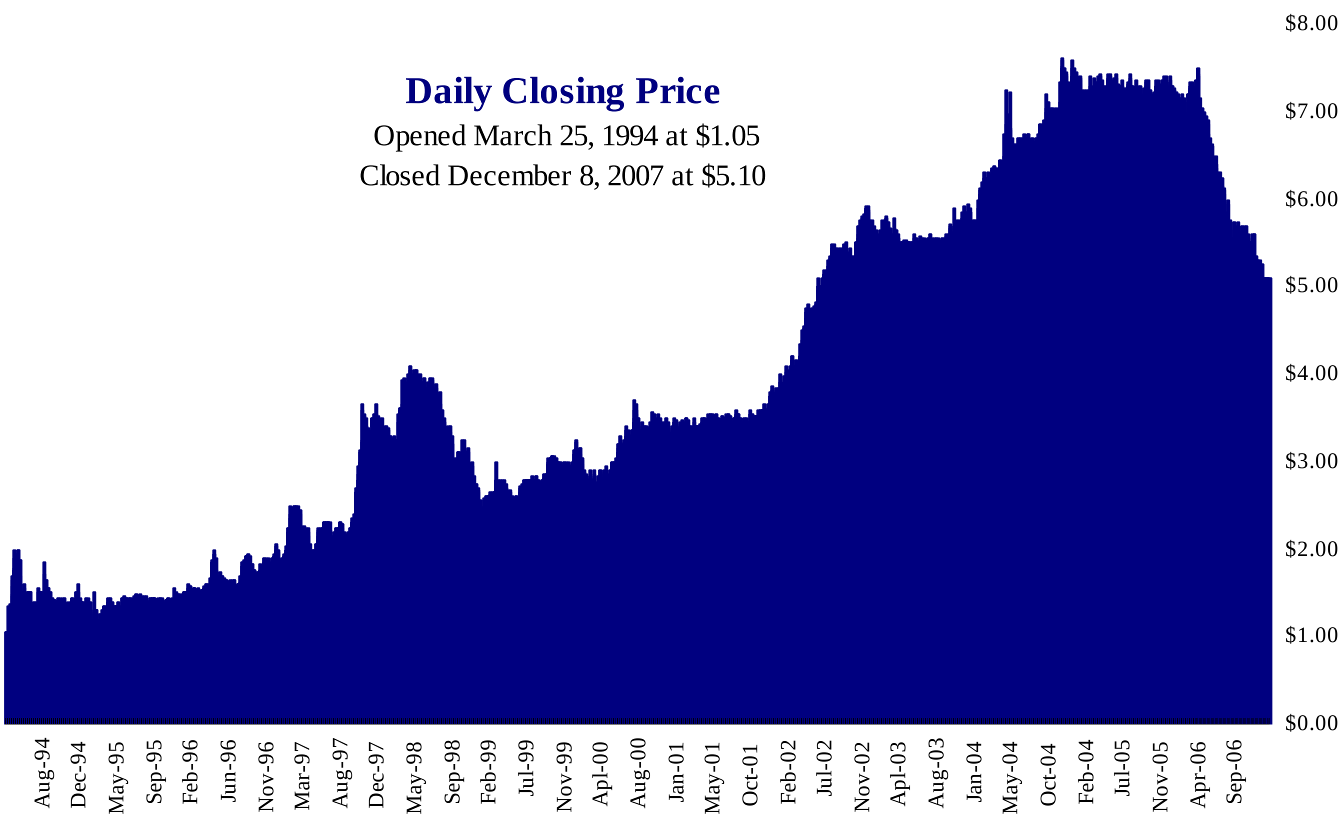
Name	Office	Principal Occupation
John Buhler	Chairman/Officer	CEO, Buhler Industries Inc.
Bonnie Buhler	Director	Retired
Craig Engel, *P.Eng.*	Director/Officer	President, Buhler Industries Inc.
Ossama AbouZeid *Ph. D., MBA*	Director/Officer	Secretary and CFO, Buhler Industries Inc.
Allan Stewart, *B.A., LL.B.*	Director	Lawyer, Perlov Stewart Lincoln
Philipp Ens	Director	Chairman, Triple E Canada Inc.
Bert Appelt	Director	President, Appelt Jewellers Ltd.
Eugene Demkiw	Director	Retired CEO, Ezee-on Manufacturing Ltd.
Larry Schroeder	Officer	Vice President Marketing, Buhler Industries Inc.
Grant Adolph, *P.Mgr.*	Management	COO, Buhler Industries Inc.
Eric Allison	Management	International Sales Manager
Helen Bergen, *C.H.R.P.*	Management	Manager, Human Resources, Buhler Industries Inc.
Rick Kneeshaw, *C.I.M.*	Management	Operations Manager, Morden Division
Min Lee, *I.S.M.*	Management	Chief Information Officer, Buhler Industries Inc.

Ten Year Summary

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SUMMARY OF OPERATIONS					In thousands of Canadian dollars (except per share amounts)					
Revenue	85,375	89,194	79,961	116,700	187,633	232,619	181,162	206,130	202,319	**175,067**
Cost of goods sold	58,315	59,951	53,754	86,398	156,223	183,134	139,929	168,529	165,275	**141,138**
Gross profit	27,060	29,243	26,207	30,302	31,410	49,485	41,233	37,601	37,044	**33,929**
Selling & admin. expense	10,747	11,823	11,264	13,513	14,883	19,758	16,135	16,290	16,206	**16,863**
Income from operations	16,313	17,420	14,943	16,789	16,527	29,727	25,098	21,311	20,838	**17,066**
Gain on sale of capital assets	-	(727)	(346)	(1,039)	(733)	(134)	(726)	(2,010)	(119)	**(801)**
Interest expense (Income)	457	458	434	671	1,032	369	703	(328)	62	**2,414**
Amortization	4,809	4,808	5,126	5,520	7,684	7,339	6,894	6,812	6,411	**6,133**
Research & development exp.	645	552	577	1,043	1,895	2,850	3,683	2,903	3,342	**3,183**
Non-controlling interest	-	-	224	903	847	809	267	378	333	**276**
Net Earnings before taxes	10,402	12,329	8,928	9,691	5,802	18,494	14,277	13,556	10,809	**5,861**
Income taxes	4,271	5,216	3,131	2,393	(1,313)	5,134	2,647	1,507	1,243	**1,277**
NET EARNINGS	**6,131**	**7,113**	**5,797**	**7,298**	**7,115**	**13,360**	**11,630**	**12,049**	**9,566**	**4,584**
CASH FLOW SUMMARY										
Capital asset purchases	12,253	5,917	5,960	17,278	3,593	14,546	7,854	4,470	7,515	**2,815**
Long-term debt incurred	1,201	-	2,417	31,656	-	-	-	-	-	**-**
Reduction of long-term debt	-	7,696	-	-	2,894	795	1,657	3,628	3,360	**3,315**
Dividends Paid	1,432	1,703	1,992	2,209	2,435	2,584	2,760	2,990	3,500	**3,750**
Net cash flow	10,940	11,921	10,923	12,818	14,799	20,699	18,524	18,861	15,977	**10,717**
Cash (Bank indebtedness)	(2,724)	(2,348)	(4,043)	(12,040)	(9,939)	(14,258)	(16,560)	15,360	(17,129)	**(39,203)**
BALANCE SHEET SUMMARY										
Acc'ts rec, cash & ppd. exp.	12,352	12,996	13,793	46,789	27,277	40,094	41,777	51,222	38,138	**43,202**
Inventory	16,586	19,014	20,610	52,846	60,179	70,361	90,495	73,762	105,979	**104,888**
Total current assets	28,938	32,010	34,403	99,635	87,456	110,455	132,272	124,984	144,117	**148,090**
Total assets	60,716	61,139	74,843	149,073	127,531	156,305	178,281	167,044	186,512	**184,366**
Total current liabilities	16,131	13,004	14,195	54,038	41,783	49,860	49,742	37,570	58,087	**65,323**
Total short and long term debt	11,246	5,741	7,587	47,240	42,245	57,743	60,409	29,870	45,398	**61,813**
Total liabilities	23,219	16,349	27,516	97,414	74,089	94,307	107,413	74,997	88,399	**85,419**
Total shareholders equity	37,497	44,790	47,327	51,659	53,442	61,998	70,868	92,047	98,113	**98,947**
Shares o/s (avg. in millions)	23.9	24.9	24.5	24.2	23.5	23.0	23.0	24.3	25.0	**25.0**
Working capital	12,807	19,006	20,208	45,597	45,673	60,595	82,530	87,414	86,030	**82,767**
DATA PER COMMON SHARE										
Revenue	$ 3.57	$ 3.57	$ 3.27	$ 4.82	$ 7.98	$ 10.11	$ 7.88	$ 8.47	$ 8.09	**$ 7.00**
EBITDA	0.66	0.71	0.59	0.66	0.62	1.14	0.95	0.82	0.69	**0.58**
Price to EBITDA	3.6	4.3	5.2	5.4	5.8	4.6	5.9	8.7	10.6	**9.7**
EBIT	0.45	0.51	0.38	0.43	0.29	0.82	0.65	0.54	0.43	**0.33**
Net earnings	0.26	0.29	0.24	0.30	0.30	0.58	0.51	0.50	0.38	**0.18**
Price to earnings	9.32	10.68	12.91	11.85	11.90	9.04	11.02	14.54	19.21	**30.54**
Cash flow	0.46	0.48	0.45	0.53	0.63	0.90	0.81	0.78	0.64	**0.43**
Dividends Paid	0.06	0.07	0.08	0.09	0.10	0.11	0.12	0.13	0.14	**0.15**
Closing share price	2.39	3.05	3.06	3.57	3.60	5.25	5.57	7.20	7.35	**5.60**
Shareholders' equity	1.57	1.80	1.93	2.13	2.27	2.70	3.08	3.78	3.92	**3.96**
STATISTICAL DATA										
Current ratio	1.8	2.5	2.4	1.8	2.1	2.2	2.7	3.3	2.5	**2.3**
Interest bearing debt to equity ratio	0.3	0.1	0.1	0.2	0.2	0.2	0.2	-	0.2	**0.4**
Number of shareholders	1,600	1,700	1,700	1,600	1,600	1,600	1,600	1,600	1,600	**1,500**
Inventory turnover	3.5	3.2	2.7	2.8	2.6	2.6	1.5	2.3	1.6	**1.3**
Gross margin (% of revenue)	31.7%	32.8%	32.8%	26.0%	16.7%	21.3%	22.8%	18.2%	18.3%	**19.4%**
Selling & Admin. (% of revenue)	13%	13%	14%	12%	8%	8%	9%	8%	8%	**10%**
EBITDA (% of revenue)	18%	20%	18%	14%	8%	11%	12%	10%	9%	**8%**
Net earnings (% of revenue)	7%	8%	7%	6%	4%	6%	6%	6%	5%	**3%**
Return on average capital	24%	26%	18%	14%	8%	18%	13%	12%	8%	**5%**
Return on average equity	18%	17%	13%	15%	13%	23%	18%	14%	10%	**5%**

Stock Data





Year end Sept. 30	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
High	2.10	1.60	1.98	2.54	4.25	3.25	3.74	3.75	5.50	5.92	7.30	7.63	**7.60**
Low	1.05	1.10	1.37	1.70	2.45	2.35	2.70	3.00	3.48	5.20	5.48	7.00	**4.35**
Close	1.40	1.45	1.66	2.39	3.05	3.06	3.57	3.60	5.25	5.57	7.20	7.35	**5.60**
Trading Volume *(000's)*	1,311	867	1,927	3,015	4,134	2,274	1,092	2,800	1,836	1,321	5,024	1,703	**3,010**

06

Buhler Versatile Genesis II 2145 FWD
Built by Buhler Versatile at 1260 Clarence Avenue in Winnipeg

Buhler Allied 2895 True Self-Leveling Front-End Loader
Manufactured by Buhler Allied at 1201 Regent Avenue in Winnipeg

Buhler Farm King 960 Snowblower
Manufactured by Buhler Farm King at 301 Mountain St. S. in Morden
Built by Buhler Inland at 675 Washington Avenue in Winnipeg

bühler

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Telephone: 204.661.8711 :: Fax: 204.654.2503 :: E-mail: info@buhler.com :: **www.buhler.com**