

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-Q**

(MARK ONE)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MAY 31, 2016**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

COMMISSION FILE NUMBER **000-19954**

**JEWETT-CAMERON TRADING COMPANY LTD.**

(Exact Name of Registrant as Specified in its Charter)

**BRITISH COLUMBIA**

(State or Other Jurisdiction of Incorporation or Organization)

**NONE**

(I.R.S. Employer Identification No.)

**32275 N.W. Hillcrest, North Plains, Oregon**

(Address Of Principal Executive Offices)

**97133**

(Zip Code)

**(503) 647-0110**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  **Yes**  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  **No**

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.  
Common Stock, no par value – 2,370,704 common shares as of July 14, 2016.

**Jewett-Cameron Trading Company Ltd.**

**Index to Form 10-Q**

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**PART 1 – FINANCIAL INFORMATION**

Item 1. Financial Statements

**JEWETT-CAMERON TRADING COMPANY LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in U.S. Dollars)**  
**(Unaudited – Prepared by Management)**

**MAY 31, 2016**

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars)  
(Prepared by Management)  
(Unaudited)

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 6,285,575	\$ 4,416,297
Accounts receivable, net of allowance of \$Nil (August 31, 2015 - \$Nil)	4,382,438	3,688,247
Inventory, net of allowance of \$189,761 (August 31, 2015 - \$120,824) (note 3)	7,297,894	8,351,575
Note receivable	-	1,310
Prepaid expenses	780,708	719,459
Prepaid income taxes	-	26,570
Total current assets	18,746,615	17,203,458
<b>Property, plant and equipment, net</b> (note 4)	2,138,800	2,231,711
<b>Intangible assets, net</b> (note 5)	168,720	223,250
<b>Total assets</b>	<b>\$ 21,054,135</b>	<b>\$ 19,658,419</b>

- Continued -

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

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars)  
(Prepared by Management)  
(Unaudited)

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
Continued		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,304,549	\$ 984,955
Litigation reserve (note 12(a))	-	90,671
Accrued liabilities	1,394,191	1,024,358
Total current liabilities	2,698,740	2,099,984
<b>Deferred tax liability</b> (note 6)	4,203	34,300
<b>Total liabilities</b>	2,702,943	2,134,284
<b>Contingent liabilities and commitments</b> (note 12)		
<b>Stockholders' equity</b>		
Capital stock (note 8)		
Authorized		
21,567,564 common shares, without par value		
10,000,000 preferred shares, without par value		
Issued		
2,413,446 common shares (August 31, 2015 – 2,476,832)	1,138,590	1,168,712
Additional paid-in capital	600,804	600,804
Retained earnings	16,611,798	15,754,619
Total stockholders' equity	18,351,192	17,524,135
<b>Total liabilities and stockholders' equity</b>	<b>\$ 21,054,135</b>	<b>\$ 19,658,419</b>

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

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Expressed in U.S. Dollars)  
(Prepared by Management)  
(Unaudited)

	<b>Three Month Period Ended May 31,</b>		<b>Nine Month Period Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>SALES</b>	\$ 14,458,713	\$ 13,289,408	\$ 37,588,354	\$ 30,755,429
<b>COST OF SALES</b>	11,281,973	11,047,607	29,996,180	24,741,485
<b>GROSS PROFIT</b>	3,176,740	2,241,801	7,592,174	6,013,944
<b>OPERATING EXPENSES</b>				
Selling, general and administrative expenses	542,581	465,864	1,616,796	1,438,687
Depreciation and amortization	82,978	71,211	226,961	210,894
Wages and employee benefits	1,046,229	925,386	3,017,643	2,588,420
	(1,671,788)	(1,462,461)	(4,861,400)	(4,238,001)
Income from operations	1,504,952	779,340	2,730,774	1,775,943
<b>OTHER ITEMS</b>				
Gain on sale of property, plant and equipment	-	-	5,600	-
Interest and other income	2,978	8,534	13,538	22,617
Interest expense	-	(658)	(27)	(658)
Litigation expense (Note 12(a))	-	-	(115,990)	-
	2,978	7,876	(96,879)	21,959
Income before income taxes	1,507,930	787,216	2,633,895	1,797,902
Income tax expense	(599,200)	(326,116)	(1,060,960)	(725,455)
<b>Net income</b>	\$ 908,730	\$ 461,100	\$ 1,572,935	\$ 1,072,447
<b>Basic earnings per common share</b>	\$ 0.37	\$ 0.18	\$ 0.64	\$ 0.41
<b>Diluted earnings per common share</b>	\$ 0.37	\$ 0.18	\$ 0.64	\$ 0.41
<b>Weighted average number of common shares outstanding:</b>				
Basic	2,458,170	2,561,702	2,470,566	2,612,199
Diluted	2,458,170	2,561,702	2,470,566	2,612,199

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

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Expressed in U.S. Dollars)  
(Prepared by Management)  
(Unaudited)

<b>Capital Stock</b>					
	Number of Shares	Amount	Additional paid-in capital	Retained earnings	Total
<b>August 31, 2013</b>	3,134,936	\$ 1,479,246	\$ 600,804	\$ 18,517,971	\$ 20,598,021
Shares repurchased and cancelled (note 9)	(430,306)	(203,045)	-	(4,054,723)	(4,257,768)
Net income	-	-	-	1,858,453	1,858,453
<b>August 31, 2014</b>	2,704,630	1,276,201	600,804	16,321,701	18,198,706
Shares repurchased and cancelled (note 9)	(227,798)	(107,489)	-	(2,341,053)	(2,448,542)
Net income	-	-	-	1,773,971	1,773,971
<b>August 31, 2015</b>	2,476,832	1,168,712	600,804	15,754,619	17,524,135
Shares repurchased and cancelled (note 9)	(63,386)	(30,122)	-	(715,756)	(745,878)
Net income	-	-	-	1,572,935	1,572,935
<b>May 31, 2016</b>	2,413,446	\$ 1,138,590	\$ 600,804	\$ 16,611,798	\$ 18,351,192

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

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. Dollars)  
(Prepared by Management)  
(Unaudited)

	<b>Three Month Period Ended May 31,</b>		<b>Nine Month Period Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	\$ 908,730	\$ 461,100	\$ 1,572,935	\$ 1,072,447
Items not involving an outlay of cash:				
Depreciation and amortization	82,978	71,211	226,961	210,894
Gain on sale of property, plant and equipment	-	-	(5,600)	-
Deferred income tax expense (recovery)	(33,601)	(2,163)	(30,097)	(4,872)
Interest income on litigation	-	(6,734)	(6,661)	(19,983)
Decrease in litigation reserve	-	-	(84,010)	-
Changes in non-cash working capital items:				
(Increase) decrease in accounts receivable	(597,843)	107,980	(694,191)	(2,483,168)
Decrease in inventory	213,122	2,485,712	1,053,681	536,845
(Increase) decrease in note receivable	-	275	1,310	13,575
(Increase) decrease in prepaid expenses	(271,860)	104,098	(61,249)	41,194
(Increase) decrease in prepaid income taxes	159,031	19,133	26,570	350,863
Increase (decrease) in accounts payable and accrued liabilities	974,527	631,547	689,427	270,805
Net cash provided by (used in) operating activities	1,435,084	3,872,159	2,689,076	(11,400)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(31,618)	(70,543)	(79,520)	(85,240)
Proceeds from sale of property, plant and equipment	-	-	5,600	-
Net cash used in investing activities	(31,618)	(70,543)	(73,920)	(85,240)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from bank indebtedness	-	-	-	875,386
Repayment of bank indebtedness	-	(875,386)	-	(875,386)
Redemption of common stock	(745,878)	(1,101,574)	(745,878)	(2,394,051)
Net cash used in financing activities	(745,878)	(1,976,960)	(745,878)	(2,394,051)
<b>Net increase (decrease) in cash</b>	<b>\$ 657,588</b>	<b>\$ 1,824,656</b>	<b>\$ 1,869,278</b>	<b>\$ (2,490,691)</b>
<b>Cash, beginning of period</b>	<b>\$ 5,627,987</b>	<b>\$ 12,193</b>	<b>\$ 4,416,297</b>	<b>\$ 4,327,540</b>
<b>Cash, end of period</b>	<b>\$ 6,285,575</b>	<b>\$ 1,836,849</b>	<b>\$ 6,285,575</b>	<b>\$ 1,836,849</b>

**Supplemental disclosure with respect to cash flows (note 15)**

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



**JEWETT-CAMERON TRADING COMPANY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

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**1. NATURE OF OPERATIONS**

Jewett-Cameron Trading Company Ltd. was incorporated in British Columbia on July 8, 1987 as a holding company for Jewett-Cameron Lumber Corporation (“JCLC”), incorporated September 1953. Jewett-Cameron Trading Company, Ltd. acquired all the shares of JCLC through a stock-for-stock exchange on July 13, 1987, and at that time JCLC became a wholly owned subsidiary. Effective September 1, 2013, the Company reorganized certain of its subsidiaries. JCLC’s name was changed to JC USA Inc. (“JC USA”), and a new subsidiary, Jewett-Cameron Company (“JCC”), was incorporated.

JC USA has the following wholly owned subsidiaries: MSI-PRO Co. (“MSI”), incorporated April 1996, Jewett-Cameron Seed Company, (“JCSC”), incorporated October 2000, Greenwood Products, Inc. (“Greenwood”), incorporated February 2002, and Jewett-Cameron Company, incorporated September 2013. Jewett-Cameron Trading Company Ltd. and its subsidiaries (the “Company”) have no significant assets in Canada.

The Company, through its subsidiaries, operates out of facilities located in North Plains, Oregon. JCC’s business consists of the manufacturing and distribution of specialty metal products and wholesale distribution of wood products to home centers and other retailers located primarily in the United States. Greenwood is a processor and distributor of industrial wood and other specialty building products principally to customers in the marine and transportation industries in the United States. MSI is an importer and distributor of pneumatic air tools and industrial clamps in the United States. JCSC is a processor and distributor of agricultural seeds in the United States. JC USA provides professional and administrative services, including accounting and credit services, to its subsidiary companies.

These unaudited financial statements are those of the Company and its wholly owned subsidiaries. In the opinion of management, the accompanying Consolidated Financial Statements of Jewett-Cameron Trading Company Ltd., contain all adjustments, consisting only of normal recurring adjustments, necessary to fairly state its financial position as of May 31, 2016 and August 31, 2015 and its results of operations and cash flows for the three and nine month periods ended May 31, 2016 and May 31, 2015 in accordance with generally accepted accounting principles of the United States of America (“U.S. GAAP”). Operating results for the three and nine month periods ended May 31, 2016 are not necessarily indicative of the results that may be experienced for the fiscal year ending August 31, 2016.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Generally accepted accounting principles**

These consolidated financial statements have been prepared in conformity with generally accepted accounting principles of the United States of America.

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, JC USA, JCC, MSI, JCSC, and Greenwood, all of which are incorporated under the laws of Oregon, U.S.A.

All inter-company balances and transactions have been eliminated upon consolidation.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Estimates**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates incorporated into the Company's consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowances for doubtful accounts receivable and inventory obsolescence, possible product liability and possible product returns, and litigation contingencies and claims. Actual results could differ from those estimates.

**Cash and cash equivalents**

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. At May 31, 2016, cash was \$6,285,575 compared to \$4,416,297 at August 31, 2015. At May 31, 2016 and August 31, 2015, there were no cash equivalents.

**Accounts receivable**

Trade and other accounts receivable are reported at face value less any provisions for uncollectible accounts considered necessary. Accounts receivable primarily includes trade receivables from customers. The Company estimates doubtful accounts on an item-by-item basis and includes over aged accounts as part of allowance for doubtful accounts, which are generally ones that are ninety days or greater overdue.

The Company extends credit to domestic customers and offers discounts for early payment. When extension of credit is not advisable, the Company relies on either prepayment or a letter of credit.

**Inventory**

Inventory, which consists primarily of finished goods, is recorded at the lower of cost, based on the average cost method, and market. Market is defined as net realizable value. An allowance for potential non-saleable inventory due to excess stock or obsolescence is based upon a review of inventory components.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. The Company provides for depreciation over the estimated life of each asset on a straight-line basis over the following periods:

Office equipment	3-7 years
Warehouse equipment	2-10 years
Buildings	5-30 years

**Intangibles**

The Company's intangible assets have a finite life and are recorded at cost. The most significant intangible assets are two patents related to gate support systems. Amortization is calculated using the straight-line method over the remaining lives of 21 months and 33 months, respectively, and are reviewed annually for impairment.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Asset retirement obligations**

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and normal use of the long-lived assets. The Company also records a corresponding asset which is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying the obligation (asset retirement cost). The Company does not have any significant asset retirement obligations.

**Impairment of long-lived assets and long-lived assets to be disposed of**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

**Currency and foreign exchange**

These financial statements are expressed in U.S. dollars as the Company's operations are based only in the United States.

The Company does not have non-monetary or monetary assets and liabilities that are in a currency other than the U.S. dollar. Any statement of operations transactions in a foreign currency are translated at rates that approximate those in effect at the time of translation. Gains and losses from translation of foreign currency transactions into U.S. dollars are included in current results of operations.

**Earnings per share**

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per common share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares.

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Earnings per share (cont'd...)**

The earnings per share data for the three and nine month periods ended May 31, 2016 and 2015 are as follows:

	Three Month Period Ended May 31,		Nine Month Period Ended May 31,	
	2016	2015	2016	2015
Net income	\$ 908,730	\$ 461,100	\$ 1,572,935	\$ 1,072,447
Basic weighted average number of common shares outstanding	2,458,170	2,561,702	2,470,566	2,612,199
Effect of dilutive securities Stock options	-	-	-	-
Diluted weighted average number of common shares outstanding	2,458,170	2,561,702	2,470,566	2,612,199

**Comprehensive income**

The Company has no items of other comprehensive income in any year presented. Therefore, net income presented in the consolidated statements of operations equals comprehensive income.

**Stock-based compensation**

All stock-based compensation is recognized as an expense in the financial statements and such costs are measured at the fair value of the award.

No options were granted during the nine month period ended May 31, 2016, and there were no options outstanding on May 31, 2016.

**Financial instruments**

The Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate such values:

*Cash* - the carrying amount approximates fair value because the amounts consist of cash held at a bank and cash held in short term investment accounts.

*Accounts receivable* - the carrying amounts approximate fair value due to the short-term nature and historical collectability.

*Notes receivable* - the carrying amounts approximate fair value due to the short-term nature of the amount.

*Accounts payable and accrued liabilities* - the carrying amount approximates fair value due to the short-term nature of the obligations.

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

The estimated fair values of the Company's financial instruments as of May 31, 2016 and August 31, 2015 follows:

	<b>May 31, 2016</b>		<b>August 31, 2015</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash	\$6,285,575	\$6,285,575	\$4,416,297	\$4,416,297
Accounts receivable, net of allowance	4,382,438	4,382,438	3,688,247	3,688,247
Note receivable	-	-	1,310	1,310
Accounts payable and accrued liabilities	2,698,740	2,698,740	2,009,313	2,009,313

The following table presents information about the assets that are measured at fair value on a recurring basis as of May 31, 2016, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset:

	<b>May 31, 2016</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Cash	\$ 6,285,575	\$ 6,285,575	\$ —	\$ —

The fair values of cash are determined through market, observable and corroborated sources.

**Income taxes**

A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and net operating loss carryforwards. Deferred tax expense (benefit) results from the net change during the year of deferred tax assets and liabilities.

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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

**Shipping and handling costs**

The Company incurs certain expenses related to preparing, packaging and shipping its products to its customers, mainly third-party transportation fees. All costs related to these activities are included as a component of cost of goods sold in the consolidated statement of operations. All costs billed to the customer are included as revenue in the consolidated statement of operations.

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Revenue recognition**

The Company recognizes revenue from the sales of lumber, building supply products, industrial wood products, specialty metal products, and other specialty products and tools, when the products are shipped, title passes, and the ultimate collection is reasonably assured. Revenue from the Company's seed operations is generated from seed processing, handling and storage services provided to seed growers, and by the sales of seed products. Revenue from the provision of these services and products is recognized when the services have been performed, products sold and collection of the amounts is reasonably assured.

**Recent Accounting Pronouncements**

Management has reviewed the new accounting guidance and determined that there is not a material impact on our financial statements.

**3. INVENTORY**

A summary of inventory is as follows:

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
Wood products and metal products	\$ 6,621,744	\$ 7,376,505
Industrial tools	394,937	525,667
Agricultural seed products	281,213	449,403
	<u>\$ 7,297,894</u>	<u>\$ 8,351,575</u>

**4. PROPERTY, PLANT AND EQUIPMENT**

A summary of property, plant, and equipment is as follows:

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
Office equipment	600,805	\$ 591,124
Warehouse equipment	1,484,512	1,520,724
Buildings	2,878,849	2,878,849
Land	761,924	761,924
	<u>5,726,090</u>	<u>5,752,621</u>
Accumulated depreciation	<u>(3,587,290)</u>	<u>(3,520,910)</u>
Net book value	<u>\$ 2,138,800</u>	<u>\$ 2,231,711</u>

**JEWETT-CAMERON TRADING COMPANY LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

**4. PROPERTY, PLANT AND EQUIPMENT (cont'd...)**

In the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable and an estimate of future discounted cash flows is less than the carrying amount of the asset, an impairment loss will be recognized. Management's estimates of revenues, operating expenses, and operating capital are subject to certain risks and uncertainties which may affect the recoverability of the Company's investments in its assets. Although management has made its best estimate of these factors based on current conditions, it is possible that changes could occur which could adversely affect management's estimate of the net cash flow expected to be generated from its operations.

**5. INTANGIBLE ASSETS**

A summary of intangible assets is as follows:

	<b>May 31, 2016</b>	<b>August 31, 2015</b>
Patent	\$ 850,000	\$ 850,000
Other	43,655	43,655
	893,655	893,655
Accumulated amortization	(724,935)	(670,405)
Net book value	\$ 168,720	\$ 223,250

**6. DEFERRED INCOME TAXES**

Deferred income tax liability as of May 31, 2016 of \$4,203 (August 31, 2015 – \$34,300) reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**7. BANK INDEBTEDNESS**

There was no bank indebtedness under the Company's \$3,000,000 line of credit as of May 31, 2016 or August 31, 2015.

Bank indebtedness, when it exists, is secured by an assignment of accounts receivable and inventory. Interest is calculated solely on the one month LIBOR rate plus 175 basis points.

**8. CAPITAL STOCK**

**Common Stock**

Holdings of common stock are entitled to one vote for each share held. There are no restrictions that limit the Company's ability to pay dividends on its common stock. The Company has not declared any dividends since incorporation.

## **9. CANCELLATION OF CAPITAL STOCK**

Treasury stock may be kept based on an acceptable inventory method such as the average cost basis. Upon disposition or cancellation, the treasury stock account is credited for an amount equal to the number of shares cancelled, multiplied by the cost per share and the difference is treated as additional paid-in-capital in excess of stated value.

During the 3<sup>rd</sup> quarter of fiscal 2016 ended May 31, 2016, the Company repurchased and cancelled a total of 63,386 common shares under a 10b5-1 share repurchase plan. The total cost was \$745,878 at an average price of \$11.77 per share. The premium paid to acquire these shares over their per share book value in the amount of \$715,756 was recorded as a decrease to retained earnings.

During the 4<sup>th</sup> quarter of fiscal 2015 ended August 31, 2015, the Company repurchased and cancelled a total of 4,778 common shares under a 10b5-1 share repurchase plan. The total cost was \$54,491 at an average price of \$11.41 per share. The premium paid to acquire these shares over their per share book value in the amount of \$52,236 was recorded as a decrease to retained earnings. In addition to the shares repurchased under the 10b5-1 repurchase plan, Donald Boone, President and CEO of the Company, voluntarily returned 15,000 common shares to treasury for cancellation. The Company paid no consideration for the shares. Capital stock was reduced by the book value of the shares in the amount of \$7,077.

During the 3<sup>rd</sup> quarter of fiscal 2015 ended May 31, 2015, the Company repurchased and cancelled a total of 89,051 common shares under a 10b5-1 share repurchase plan. The total cost was \$1,101,574 at an average price of \$12.37 per share. The premium paid to acquire these shares over their per share book value in the amount of \$1,059,554 was recorded as a decrease to retained earnings.

During the 1<sup>st</sup> quarter of fiscal 2015 ended November 30, 2014, the Company repurchased and cancelled a total of 118,969 common shares under a 10b5-1 share repurchase plan. The total cost was \$1,292,477 at an average price of \$10.86 per share. The premium paid to acquire these shares over their per share book value in the amount of \$1,236,340 was recorded as a decrease to retained earnings.

## **10. STOCK OPTIONS**

The Company has a stock option program under which stock options to purchase securities from the Company can be granted to directors and employees of the Company on terms and conditions acceptable to the regulatory authorities of Canada, notably the Ontario Securities Commission and the British Columbia Securities Commission.

Under the stock option program, stock options for up to 10% of the number of issued and outstanding common shares may be granted from time to time, provided that stock options in favor of any one individual may not exceed 5% of the issued and outstanding common shares. No stock option granted under the stock option program is transferable by the optionee other than by will or the laws of descent and distribution, and each stock option is exercisable during the lifetime of the optionee only by such optionee. Generally, no option can be for a term of more than 10 years from the date of the grant.

The exercise price of all stock options, granted under the stock option program, must be at least equal to the fair market value (subject to regulated discounts) of such common shares on the date of grant. Options vest at the discretion of the Board of Directors.

The Company had no stock options outstanding as of May 31, 2016 and August 31, 2015.



**11. PENSION AND PROFIT-SHARING PLANS**

The Company has a deferred compensation 401(k) plan for all employees with at least 12 months of service pending a monthly enrollment time. The plan allows for a non-elective discretionary contribution based on the first \$60,000 of eligible compensation. During the second quarter of fiscal 2016 ended February 29, 2016, the Company made an additional 10% contribution for all eligible employees as a one-time compensation bonus. For the nine month periods ended May 31, 2016 and 2015, the 401(k) compensation expense was \$360,275 and \$186,345, respectively.

**12. CONTINGENT LIABILITIES AND COMMITMENTS**

- a) A subsidiary was a plaintiff in a lawsuit filed in Portland, Oregon, entitled, Greenwood Products, Inc. et al v. Greenwood Forest Products, Inc. et al., Case No. 05-02553 (Multnomah County Circuit Court).

During fiscal 2002 the Company entered into a purchase agreement to acquire inventory over a 15 month period with an initial estimated value of \$7,000,000 from Greenwood Forest Products, Inc. During the year ended August 31, 2003, the Company completed the final phase of the inventory acquisition. As partial consideration for the purchase of the inventory the Company issued two promissory notes, based on its understanding of the value of the inventory purchased. The Company believes it overpaid the obligation by approximately \$820,000. The holder counterclaimed for approximately \$2,400,000.

Litigation was completed on March 5, 2007, with the court's general judgment and money award. The net effect was money judgment in favor of Greenwood Forest Products, Inc. for \$242,604. The Company accrued reserves to cover the money judgment related to this dispute. Both parties filed appeals for review of the court's opinion.

During the 1st quarter of fiscal 2011, the Oregon Court of Appeals ruled that the judgment in favor of Jewett Cameron as plaintiffs should be reversed and the judgment in favor of the defendants should stand. The judgment in favor of the Company was for \$819,000 plus attorney's fees. The judgment against the plaintiffs is for \$1,187,137. The Company appealed the decision to the Oregon Supreme Court. During the 1st quarter of fiscal 2011, the Company recorded a litigation loss of \$962,137 and interest of \$391,988 in addition to the existing litigation reserve of \$225,000. Additional interest of \$48,790 was recorded during the remainder of fiscal 2011. During the 1st quarter of fiscal 2012 ended November 30, 2011, additional interest of \$16,204 was accrued.

In February 2012, the Company received the decision from the Oregon Supreme Court which was favorable to Jewett Cameron as plaintiff. As a result, the Company has reversed \$1,459,832 of the litigation reserve and accrued interest during the 2nd quarter of fiscal 2012 ended February 29, 2012. The reversal was treated as a one-time gain during the quarter.

In July 2014, upon remand from the Oregon Supreme Court, the Oregon Court of Appeals has concluded that Greenwood Forest Products, Inc. as defendants are entitled to a new trial, and, as a consequence, ruled that the judgment in favor of Jewett Cameron as plaintiffs should be reversed and the judgment in favor of defendants should stand. The judgment in favor of the Company was for \$819,000 plus attorney's fees. The judgment against plaintiffs was for \$1,187,137. On August 7, 2014, the Company filed a petition with the Oregon Supreme Court for a review of the Oregon Court of Appeals notice. The petition requests the Oregon Supreme Court review the most recent ruling by the Oregon Court of Appeals, reverse the decision, and affirm the original judgment of the trial court. In September 2015, the Oregon Supreme Court ruled on the Company's petition and has reversed the decision of the Oregon Court of Appeals and remanded the case to back to the Court of Appeals for further proceedings. The Court also denied the defendants' request for a new trial.

During the year ended August 31, 2015, the Company recorded \$26,716 of interest income due to the favorable difference in interest rates between the judgments. During the nine months ended May 31, 2016, the Company recorded \$6,661 of interest income.

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

**12. CONTINGENT LIABILITIES AND COMMITMENTS (cont'd...)**

During the quarter ended February 29, 2016, the Company and Greenwood Forest Products, Inc., settled all litigation between the two companies. The Company made a cash payment of \$200,000 to Greenwood Forest Products, Inc., as full settlement and termination of the litigation (the "Settlement Payment"). The litigation expense of \$115,990 represents the difference between the Settlement Payment, and the litigation reserve balance on the date of settlement of \$84,010 which is net of interest income recognized for the period.

A summary of the litigation reserve is as follows:

	May 31, 2016	August 31, 2015
Litigation expense <sup>(1)</sup>	\$ (84,010)	\$ -
Litigation reserve	84,010	117,387
Interest expense	-	-
Interest income	-	(26,716)
<b>Total</b>	<b>\$ -</b>	<b>\$ 90,671</b>

(1) The litigation reserve was reversed in full upon the settlement reached during the nine month period ended May 31, 2016.

b) At May 31, 2016 and August 31, 2015 the Company had an un-utilized line-of-credit of \$3,000,000 (note 7). The line-of-credit has certain financial covenants. The Company is in compliance with these covenants.

**13. SEGMENT INFORMATION**

The Company has four principal reportable segments. These reportable segments were determined based on the nature of the products offered. Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company evaluates performance based on several factors, of which the primary financial measure is business segment income before taxes. The following tables show the operations of the Company's reportable segments.

Following is a summary of segmented information for the nine month periods ended May 31:

	2016	2015
<b>Sales to unaffiliated customers:</b>		
Industrial wood products	\$ 3,810,183	\$ 3,183,802
Lawn, garden, pet and other	30,313,357	24,164,127
Seed processing and sales	2,587,373	2,103,553
Industrial tools and clamps	877,441	1,303,947
	<b>\$ 37,588,354</b>	<b>\$ 30,755,429</b>
<b>Income (loss) before income taxes:</b>		
Industrial wood products	\$ 36,714	\$ 60,543
Lawn, garden, pet and other	2,417,382	1,058,352
Seed processing and sales	(95,840)	50,753
Industrial tools and clamps	(83,839)	68,227
Corporate and administrative	359,478	560,026
	<b>\$ 2,633,895</b>	<b>\$ 1,797,901</b>

**JEWETT-CAMERON TRADING COMPANY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)  
May 31, 2016  
(Unaudited)

**13. SEGMENT INFORMATION (cont'd...)**

	<u>2016</u>	<u>2015</u>
<b>Identifiable assets:</b>		
Industrial wood products	\$ 1,074,934	\$ 1,242,471
Lawn, garden, pet and other	10,215,128	11,342,373
Seed processing and sales	364,294	552,280
Industrial tools and clamps	504,628	747,022
Corporate and administrative	8,895,151	4,762,020
	<u>\$ 21,054,135</u>	<u>\$ 18,616,166</u>
<b>Depreciation and amortization:</b>		
Industrial wood products	\$ 573	\$ 735
Lawn, garden, pet and other	49,318	43,537
Seed processing and sales	7,943	8,209
Industrial tools and clamps	1,528	2,067
Corporate and administrative	167,599	156,346
	<u>\$ 226,961</u>	<u>\$ 210,894</u>
<b>Capital expenditures:</b>		
Industrial wood products	\$ -	\$ -
Lawn, garden, pet and other	-	-
Seed processing and sales	-	-
Industrial tools and clamps	-	-
Corporate and administrative	79,521	85,240
	<u>\$ 79,521</u>	<u>\$ 85,240</u>
<b>Interest expense:</b>		
Lawn, garden, pet and other	\$ 658	\$ 658

The following table lists sales made by the Company to customers which were in excess of 10% of total sales for the nine months ended May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Sales	\$ 18,108,481	\$ 13,426,962

The Company conducts business primarily in the United States, but also has limited amounts of sales in foreign countries. The following table lists sales by country for the nine months ended May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
United States	\$ 34,666,374	\$ 29,044,754
Canada	1,051,116	919,603
Mexico / Latin America	1,774,158	744,775
Middle East	11,686	12,164
Africa	-	2,960
Asia/Pacific	85,020	31,173
	<u>\$ 37,588,354</u>	<u>\$ 30,755,429</u>

All of the Company's significant identifiable assets were located in the United States as of May 31, 2016 and 2015.

**14. CONCENTRATIONS**

*Credit risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash with a high quality financial institution. The Company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated geographically in the United States amongst a small number of customers. At May 31, 2016, one customer accounted for accounts receivable greater than 10% of total accounts receivable at 43%. At May 31, 2015, four customers accounted for accounts receivable greater than 10% of total accounts receivable at 77%. The Company controls credit risk through credit approvals, credit limits, credit insurance and monitoring procedures. The Company performs credit evaluations of its commercial customers but generally does not require collateral to support accounts receivable.

*Volume of business*

The Company has concentrations in the volume of purchases it conducts with its suppliers. For the nine months ended May 31, 2016, there were three suppliers that each accounted for 10% of total purchases, and the aggregate purchases amounted to \$16,016,162. For the nine months ended May 31, 2015, there were three suppliers that each accounted for greater than 10% of total purchases, and the aggregate purchases amounted to \$15,064,820.

**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Certain cash payments for the nine months ended May 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash paid during the periods for:		
Interest	\$ -	\$ -
Income taxes	\$ 895,607	\$ 379,234

There were no non-cash investing or financing activities during the periods presented.

**16. SUBSEQUENT EVENTS**

- a) Subsequent to the end of the third quarter, the Company re-purchased and cancelled a total of 42,742 shares of its common stock pursuant to the Company's 10b5-1 share re-purchase plan, previously announced on March 7, 2016. The total cost was \$489,274 at an average share price of \$11.45 per share.
- b) On June 2, 2016, the Company incorporated a new wholly-owned subsidiary in the State of Oregon.
- c) On June 22, 2016, Donald Boone, President and CEO of the Company, voluntarily returned 15,000 common shares to treasury for cancellation. No consideration was paid to Mr. Boone for the shares.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

These unaudited financial statements are those of the Company and its wholly owned subsidiaries. In the opinion of management, the accompanying consolidated financial statements of Jewett-Cameron Trading Company Ltd., contain all adjustments, consisting only of normal recurring adjustments, necessary to fairly state its financial position as of May 31, 2016 and August 31, 2015 and its results of operations and cash flows for the three and nine month periods ended May 31, 2016 and May 31, 2015 in accordance with U.S. GAAP. Operating results for the three and nine month periods ended May 31, 2016 are not necessarily indicative of the results that may be experienced for the fiscal year ending August 31, 2016.

The Company's operations are classified into four reportable segments, which were determined based on the nature of the products offered along with the markets being served. The segments are as follows:

- Industrial wood products
- Lawn, garden, pet and other
- Seed processing and sales
- Industrial tools

Effective September 1, 2013, the Company reorganized certain of its subsidiaries. Jewett-Cameron Lumber Corporation (JCLC) was changed to JC USA Inc. (JC USA), which has the following four wholly-owned subsidiaries.

The industrial wood products segment reflects the business conducted by Greenwood Products, Inc. (Greenwood), Greenwood is a processor and distributor of industrial wood products. A major product category is treated plywood that is sold to boat manufacturers and the transportation industry.

The lawn, garden, pet and other segment reflects the business of the newly incorporated Jewett-Cameron Company (JCC), which is a manufacturer and distributor of specialty metal products and a wholesaler of wood products formerly conducted by JCLC. Wood products include fencing and landscape timbers, while metal products include dog kennels, proprietary gate support systems, perimeter fencing, and greenhouses. JCC uses contract manufacturers to make the specialty metal products. Some of the products that JCC distributes flow through the Company's distribution center located in North Plains, Oregon, and some are shipped direct to the customer from the manufacturer. Primary customers are home centers and other retailers.

The seed processing and sales segment reflects the business of Jewett-Cameron Seed Company (JCSC). JCSC processes and distributes agricultural seed. Most of this segment's sales come from selling seed to distributors with a lesser amount of sales derived from cleaning seed.

The industrial tools segment reflects the business of MSI-PRO (MSI). MSI imports and distributes products including pneumatic air tools, industrial clamps, and saw blades; that are primarily sold to retailers that in turn sell to contractors and end users.

### **RESULTS OF OPERATIONS**

#### **Three Months Ended May 31, 2016 and May 31, 2015**

For the three months ended May 31, 2016, sales increased by \$1,169,305, or 9%, to \$14,458,713 from sales of \$13,289,408 for the three months ended May 31, 2015.

Sales at Greenwood were \$951,820 for the three months ended May 31, 2016 compared to sales of \$1,063,599 for the three months ended May 31, 2015, which was a decrease of \$111,779, or 11%. The Company continues its efforts to obtain new customers and new uses for its products, including its customers internationally. However, overall demand for Greenwood's products continues to be weak due to the continued weakness in the marine industry. For the three months ended May 31, 2016, Greenwood had an operating loss of (\$7,698), which was a decline of \$50,249 from an operating profit of \$42,551 for the three months ended May 31, 2015.

Sales at JCC were \$12,936,795 for the three months ended May 31, 2016 compared to sales of \$11,430,273 for the three months ended May 31, 2015. This represents an increase of \$1,506,522, or 13%. Several recently introduced products have continued to be well received by customers, while the prior year's results were negatively affected by prolonged winter weather across the United States and slowdowns and shutdowns at West Coast US ports which impacted the delivery of products to the Company from manufacturers in China. Operating income for the current quarter was \$1,368,715 compared to operating income of \$1,062,168 for the quarter ended May 31, 2015.

Sales at JCSC were \$238,904 for the three months ended May 31, 2016 compared to sales of \$416,416 for the three months ended May 31, 2015. This is a decrease of \$177,512, or 43%. The rebound in residential housing in the US resulted earlier shipments to customers during the second quarter of fiscal 2016, while available seed supplies have been restricted by the persistent drought in the Western US which reduced harvested yields in the calendar 2015 growing season. For the quarter, JCSC had an operating loss of (\$44,415) compared to an operating loss of (\$10,408) for the prior year's quarter.

Sales at MSI for the three months ended May 31, 2016 were \$331,194, which was a decline of \$47,926, or 13%, from sales of \$379,120 for the three months ended May 31, 2015. The segment has recently become more competitive, and the Company has reduced prices on certain of its products which resulted in lower operating margins. MSI had an operating loss of (\$2,577) for the three month period compared to operating income was \$21,325 for the three month period ended May 31, 2015.

Gross margin for the three months ended May 31, 2016 was 22.0% compared 16.9% for the three months ended May 31, 2015.

Operating expenses increased by \$209,327 to \$1,671,788 from \$1,462,461 for the three months ended May 31, 2015. Selling, General and Administrative Expenses rose to \$542,581 from \$465,864. Wages and Employee Benefits increased to \$1,046,229 from \$925,386, and Depreciation and Amortization rose to \$82,978 from \$71,211. Interest and other income fell to \$2,978 from \$8,534, and Interest expense was \$Nil compared to (\$658) for the three months ended May 31, 2015.

Income tax expense for the three months ended May 31, 2016 was \$599,200 compared to \$326,116 for the three month period ended May 31, 2015. The Company estimates income tax expense for the quarter based on combined federal and state rates that are currently in effect.

Net income for the quarter ended May 31, 2016 was \$908,730, or \$0.37 per basic and diluted share, compared to net income of \$461,100, or \$0.18 per basic and diluted share, for the quarter ended May 31, 2015. The current quarter's earnings per share was positively affected by the repurchase of common shares and lower weighted average number of common shares outstanding.

#### **Nine Months Ended May 31, 2016 and May 31, 2015**

For the nine months ended May 31, 2016, sales increased by \$6,832,925, or 22%, to \$37,588,354 from sales of \$30,755,429 in the nine month period ended May 31, 2015.

Sales at Greenwood were \$3,810,183 for the nine months ended May 31, 2016 compared to sales of \$3,183,802 for the nine months ended May 31, 2015. This represents an increase of \$626,381, or 20%. Sales have begun to rebound as the Company has obtained new customers and new uses for its products, but due to the continued weakness in the marine industry, overall demand remains below historical levels. For the nine months ended May 31, 2016, Greenwood had operating income of \$36,714 compared to \$134,231 for the nine months ended May 31, 2015.

Sales at JCC were \$30,313,357 for the nine months ended May 31, 2016 compared to sales of \$24,164,127 for the nine months ended May 31, 2015, which was an increase of \$6,149,230, or 25%. The increase in sales for the current period was primarily due to the market's continued acceptance of recently introduced new products and the addition of new small and mid-sized customers. The Company also received and shipped seasonal orders from certain existing customers earlier than in previous years. The results in the prior year's nine month period were negatively affected by prolonged winter weather across the United States and the West Coast port slowdown which delayed the delivery of product from manufacturers in China. Operating income at JCC was \$2,959,076 for the nine months ended May 31, 2016 compared to operating income of \$2,179,054 for the nine months ended May 31, 2015, which was an increase of \$780,022, or 36%. Overall, the operating results of JCC are seasonal with the first two quarters of the fiscal year being much slower than the final two quarters of the fiscal year.

Sales at JCSC for the nine months ended May 31, 2016 were \$2,587,373, which was an increase of \$483,820, or 23%, from sales of \$2,103,553 for the nine months ended May 31, 2015. Although grass seed demand has risen in conjunction with the improvement in the US residential housing market, the sales environment for the segment remains challenging due to the decline in seed cleaning services as more growers cleaning in-house. Current supplies have also been restricted by the persistent drought in the Western US which reduced harvested yields in the calendar 2015 growing season. For the nine month period ended May 31, 2016, JCSC had an operating loss of (\$69,380) compared to operating income for the nine months ended May 31, 2015 of \$249,055.

Sales at MSI were \$877,441 for the nine months ended May 31, 2016 compared to sales of \$1,303,947 for the nine months ended May 31, 2015, which was a decrease of \$426,506, or 33%. The segment has recently become more competitive, and the Company has reduced prices on certain of its products which reduced operating margins. For the nine months ended May 31, 2016, MSI had an operating loss of (\$64,896) compared to operating income of \$74,252 for the nine months ended May 31, 2015.

Gross margin for the nine month period ended May 31, 2016 was 20.2% compared to 19.6% for the nine months ended May 31, 2015.

Operating expenses rose by \$623,339 to \$4,861,400 from operating expenses of \$4,238,001 in the nine month period ended May 31, 2015. Selling, general and administrative expenses rose to \$1,616,796 from \$1,438,687, an increase of \$178,109. Wages and employee benefits increased to \$3,017,643 from \$2,588,420 as the Company made an additional 10% contribution to each eligible employee's 401(k) plan as a one-time compensation bonus in the current period. Depreciation and amortization increased to \$226,961 from \$210,894.

Other items in the current nine month period ended May 31, 2016 were gain on sale of property, plant and equipment of \$5,600 and interest and other income of \$13,538. Interest expense was a (\$27). Litigation loss of (\$115,990) was related to the settlement of the litigation between the Company and Greenwood Forest Products, Inc. In the nine months ended May 31, 2015, other items were interest and other income of \$22,617 and interest expense of (\$658).

Income tax expense in the current nine month period was \$1,060,960 compared to \$725,455 for the nine months ended May 31, 2015. The Company estimates income tax expense for the period based on combined federal and state rates that are currently in effect.

Net income for the nine months ended May 31, 2016 was \$1,572,935, or \$0.64 per basic and diluted share, compared to net income of \$1,072,477, or \$0.41 per basic and diluted share, for the nine months ended May 31, 2015. The net income in the current nine month period was positively affected by the buyback of common shares which resulted in a lower weighted average number of common shares.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of May 31, 2016, the Company had working capital of \$16,047,875 compared to working capital of \$15,103,474 as of August 31, 2015, an increase of \$944,401. Cash totaled \$6,285,575, an increase of \$1,869,278. Accounts receivable rose to \$4,382,438 from \$3,688,247 which is consistent with the seasonal nature of the Company's sales cycle. Inventory decreased by \$1,053,681 and prepaid expenses, which are largely related to down payments for future inventory purchases, increased by \$61,249. Note receivable declined by \$1,310 as the entire remaining balance of the note was repaid during the period. Prepaid income taxes decreased by \$26,570.

Accounts payable increased by \$319,594 and accrued liabilities increased by \$369,833. Litigation reserve declined by \$90,671 to \$Nil as the Company settled its outstanding litigation during the period and the entire amount was applied against the amount of the settlement.

In May 2016, the Company received its final permits for the construction of a warehouse expansion at its headquarters property in North Plains. Construction commenced immediately upon receipt of the required permits, and will measure 150 feet by 80 feet and a height of 37 feet. The Company anticipates using the new warehouse for several new product lines.

As of May 31, 2016, accounts receivable and inventory represented 62% of current assets and 55% of total assets. For the three months ended May 31, 2016, the accounts receivable collection period, or DSO, was 28 compared to 34 for the three months ended May 31, 2015. For the nine month period ended May 31, 2016, the DSO was 32 compared to 44 for the nine months ended May 31, 2015. Inventory turnover for the three months ended May 31, 2016 was 60 days compared to 82 days for the three months ended May 31, 2015. For the nine months ended May 31, 2016, inventory turnover was 71 days compared to 98 days for the nine months ended May 31, 2015.

External sources of liquidity include a line of credit from U.S. Bank of \$3,000,000. As of May 31, 2016, the Company had no borrowing balance leaving the entire amount available. Borrowing under the line of credit is secured by an assignment of accounts receivable and inventory. The interest rate is calculated solely on the one month LIBOR rate plus 175 basis points. As of May 31, 2016 the one month LIBOR rate plus 175 basis points was 2.21% (0.46% + 1.75%). The line of credit has certain financial covenants. The Company is in compliance with these covenants.

The Company has been utilizing its cash position by repurchasing common shares under formal repurchase plans in order to increase shareholder value. The Company has repurchased common shares through share repurchase plans approved by the Board of Directors in accordance with Rule 10b-18 under the U.S. Securities Exchange Act of 1934.

On January 13, 2014, the Company announced the Board of Directors had authorized a share repurchase plan to purchase for cancellation up to 313,493 common shares through the facilities of NASDAQ Stock Market ("NASDAQ"). Transactions may involve Jewett-Cameron insiders or their affiliates executed in compliance with Jewett-Cameron's Insider Trading Policy. The share repurchase plan will be effected in accordance with Rule 10b-18 under the U.S. Securities Exchange Act of 1934, which contains restrictions on the number of shares that may be purchased on a single day, subject to certain exceptions for block purchases, based on the average daily trading volumes ("ADTV") of Jewett-Cameron's shares on NASDAQ. Purchases shall be limited to one "Block" purchase per week in lieu of the 25% of ADTV limitation for compliance with Rule 10b-18(b)(4). A "block" as defined under Rule 10b-18(a)(5) means a quantity of stock that, among other things, is at least 5,000 shares and has a purchase price of at least US\$50,000. The share repurchase plan commenced on January 20, 2014 and terminated on March 24, 2014. A total of 313,493 common shares were repurchased under this plan. The total cost of the shares acquired was \$3,055,591 at an average price of \$9.75 per share.

On April 9, 2014, the Company announced the Board of Directors had authorized a share repurchase plan to purchase for cancellation up to 300,000 common shares through the facilities of NASDAQ under similar terms as the January 13, 2014 repurchase plan. This share repurchase plan commenced on April 14, 2014 and terminated on November 14, 2014. Under the Plan, the Company repurchased a total of 235,782 common shares at a cost of \$2,494,654 which is an average price of \$10.58 per share.

On February 11, 2015, the Company announced the Board of Directors had authorized a new share repurchase plan to purchase for cancellation up to 300,000 common shares through the facilities of NASDAQ under similar terms to the January 13, 2014 repurchase plan. The plan commenced on February 17, 2015 and was terminated by the Board on July 17, 2015. Under the Plan, the Company repurchased a total of 93,829 common shares at a cost of \$1,156,066 which is an average price of \$12.32.

On March 7, 2016, the Company announced the Board of Directors approved a new share purchase plan to purchase for cancellation up to 250,000 common shares through the facilities of NASDAQ. The terms of the plan are similar to the January 13, 2014 repurchase plan. The plan commenced on March 10, 2016 and remains in place until August 25, 2016, but may be limited or terminated at any time without prior notice. During the 3<sup>rd</sup> quarter of fiscal 2016 ended May 31, 2016, the Company repurchased and cancelled 63,386 common shares at a cost of \$745,878 which is an average price of \$11.77. Subsequent to the end of the period, the Company repurchased and cancelled an additional 42,742 common shares at a cost of \$489,274 which is an average price of \$11.45 per share.

In addition to the Rule 10b-18 share repurchases, Donald M. Boone, CEO, President and Director, voluntarily returned 15,000 common shares to the Company's treasury for cancellation in August 2015. In June 2016, Mr. Boone voluntarily returned an additional 15,000 to treasury for cancellation. The Company paid no consideration for these shares.



## **Business Risks**

This quarterly report includes “forward-looking statements” as that term is defined in Section 21E of the Securities Exchange Act of 1934. Forward-looking statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” “anticipates,” or “hopeful,” or the negative of those terms or other comparable terminology, or by discussions of strategy, plans or intentions. For example, this section contains numerous forward-looking statements. All forward-looking statements in this report are made based on management’s current expectations and estimates, which involve risks and uncertainties, including those described in the following paragraphs.

### **Risks Related to Our Common Stock**

*We may decide to acquire assets or enter into business combinations, which could be paid for, either wholly or partially with our common stock and if we decide to do this our current shareholders would experience dilution in their percentage of ownership.*

Our Articles of Incorporation give our Board of Directors the right to enter into any contract without the approval of our shareholders. Therefore, our management could decide to make an investment (buy shares, loan money, etc.) without shareholder approval. If we acquire an asset or enter into a business combination, this could include exchanging a large amount of our common stock, which could dilute the ownership interest of present stockholders.

*Future stock distributions could be structured in such a way as to be 1) diluting to our current shareholders or 2) could cause a change in control to new investors.*

If we raise additional funds by selling more of our stock, the new stock may have rights, preferences or privileges senior to those of the rights of our existing stock. If common stock is issued in return for additional funds, the price per share could be lower than that paid by our current stockholders. The result of this would be a lessening of each present stockholder’s relative percentage interest in our company.

Our shareholders could experience significant dilution if we issue our authorized 10,000,000 preferred shares.

The Company’s common shares currently trade within the NASDAQ Capital Market in the United States. The average daily trading volume of our common stock on NASDAQ was 2,180 shares for the nine months ended May 31, 2016. With this limited trading volume, investors could find it difficult to purchase or sell our common stock.

### **Risks Related to Our Business**

*We could experience a decrease in the demand for our products resulting in lower sales volumes.*

In the past we have at times experienced decreasing products sales with certain customers. The reasons for this can be generally attributed to: increased competition; general economic conditions; demand for products; and consumer interest rates. If economic conditions deteriorate or if consumer preferences change, we could experience a significant decrease in profitability.

*If our top customers were lost, we could experience lower sales volumes.*

For the nine months ended May 31, 2016, our top ten customers represented 80% of our total sales. We would experience a significant decrease in sales and profitability and would have to cut back our operations, if these customers were lost and could not be replaced. Our top ten customers are in the U.S., Canada and Mexico and are primarily in the retail home improvement industry.

*We could experience delays in the delivery of our products to our customers causing us to lose business.*

We purchase our products from other vendors and a delay in shipment from these vendors to us could cause significant delays in our delivery to our customers. This could result in a decrease in sales orders to us and we would experience a loss in profitability.

*We could lose our credit agreement and could result in our not being able to pay our creditors.*

We have a line of credit with U.S. Bank in the amount of \$3,000,000, of which \$3,000,000 is available. We are currently in compliance with the requirements of our existing line of credit. If we lost this credit it could become impossible to pay some of our creditors on a timely basis.

*If we fail to maintain an effective system of internal controls, we may not be able to detect fraud or report our financial results accurately, which could harm our business and we could be subject to regulatory scrutiny.*

We have completed a management assessment of internal controls as prescribed by Section 404 of the Sarbanes-Oxley Act, which we were required to do in connection with our year ended August 31, 2015. Based on this process we did not identify any material weaknesses. Although we believe our internal controls are operating effectively, we cannot guarantee that in the future we will not identify any material weaknesses in connection with this ongoing process.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Interest Rate Risk**

The Company does not have any derivative financial instruments as of May 31, 2016. However, the Company is exposed to interest rate risk.

The Company's interest income and expense are most sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on the Company's cash.

The Company has a line of credit whose interest rate may fluctuate over time based on economic changes in the environment. The Company is subject to interest rate risk and could be subject to increased interest payments if market interest rates fluctuate. The Company does not expect any change in the interest rates to have a material adverse effect on the Company's results from operations.

#### **Foreign Currency Risk**

The Company operates primarily in the United States. However, a relatively small amount of business is conducted in currencies other than U.S. dollars. Also, to the extent that the Company uses contract manufacturers in China, currency exchange rates can influence the Company's purchasing costs.

### **Item 4. Controls and Procedures**

#### ***Disclosure Controls and Procedures***

Management of the Company, including the Company's Principal Executive and Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our Principal Executive and Financial Officer has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### ***Changes in Internal Control Over Financial Reporting***

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

- a) A subsidiary was a plaintiff in a lawsuit filed in Portland, Oregon, entitled, Greenwood Products, Inc. et al v. Greenwood Forest Products, Inc. et al., Case No. 05-02553 (Multnomah County Circuit Court).

During fiscal 2002 the Company entered into a purchase agreement to acquire inventory over a 15 month period with an initial estimated value of \$7,000,000 from Greenwood Forest Products, Inc. During the year ended August 31, 2003, the Company completed the final phase of the inventory acquisition. As partial consideration for the purchase of the inventory the Company issued two promissory notes, based on its understanding of the value of the inventory purchased. The Company believes it overpaid the obligation by approximately \$820,000. The holder counterclaimed for approximately \$2,400,000.

Litigation was completed on March 5, 2007, with the court's general judgment and money award. The net effect was money judgment in favor of Greenwood Forest Products, Inc. for \$242,604 and an award of contested intellectual property rights of the Company. The Company accrued reserves to cover the money judgment related to this dispute. Both parties filed appeals for review of the court's opinion.

During the 1st quarter of fiscal 2011, the Oregon Court of Appeals ruled that the judgment in favor of Jewett Cameron as plaintiffs should be reversed and the judgment in favor of the defendants should stand. The judgment in favor of the Company was for \$819,000 plus attorney's fees. The judgment against the plaintiffs was for \$1,187,137. The Company appealed the decision to the Oregon Supreme Court. During the 1st quarter of fiscal 2011, the Company recorded a litigation loss of \$962,137 and interest of \$391,988 in addition to the existing litigation reserve of \$225,000. Additional interest of \$48,790 was recorded during the remainder of fiscal 2011. During the 1st quarter of fiscal 2012 ended November 30, 2011, additional interest of \$16,204 was accrued.

In February 2012, the Company received the decision from the Oregon Supreme Court which was favorable to Jewett Cameron as plaintiff. As a result, the Company has reversed \$1,459,832 of the litigation reserve and accrued interest during the 2nd quarter of fiscal 2012 ended February 29, 2012. The reversal was treated as a one-time gain during the quarter.

In July 2014, upon remand from the Oregon Supreme Court, the Oregon Court of Appeals has concluded that Greenwood Forest Products, Inc. as defendants are entitled to a new trial, and, as a consequence, ruled that the judgment in favor of Jewett Cameron as plaintiffs should be reversed and the judgment in favor of defendants should stand. The judgment in favor of the Company was for \$819,000 plus attorney's fees. The judgment against plaintiffs was for \$1,187,137. On August 7, 2014, the Company filed a petition with the Oregon Supreme Court for a review of the Oregon Court of Appeals notice. The petition requests the Oregon Supreme Court review the most recent ruling by the Oregon Court of Appeals, reverse the decision, and affirm the original judgment of the trial court. In September 2015, the Oregon Supreme Court ruled on the Company's petition and has reversed the decision of the Oregon Court of Appeals and remanded the case to back to the Court of Appeals for further proceedings. The Court also denied the defendants' request for a new trial.

During the year ended August 31, 2015, the Company recorded \$26,716 of interest income due to the favorable difference in interest rates between the judgments. During the nine months ended May 31, 2016, the Company recorded \$6,661 of interest income.

During the period ended February 29, 2016, the Company and Greenwood Forest Products, Inc., settled all litigation between the two companies. The Company made a cash payment of \$200,000 to Greenwood Forest Products, Inc., as full settlement and termination of the litigation (the "Settlement Payment"). The litigation expense of \$115,990 represents the difference between the Settlement Payment, and the litigation reserve balance on the date of settlement of \$84,010 which is net of interest income recognized for the period.

The Company does not know of any other material, active or pending legal proceedings against them; nor is the Company involved as a plaintiff in any other material proceeding or pending litigation. The Company knows of no other active or pending proceedings against anyone that might materially adversely affect an interest of the Company.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table details the Company's repurchase of its common shares during the quarter ended May 31, 2016.

Period	Total Number of Shares purchased	Average Price Paid per Share	Total number of shares purchased as part of publicly announced plans or programs <sup>(1)</sup>	Maximum Number of shares that may yet be purchased under the plans or programs
March	4,246	\$ 11.20	4,246	245,754
April	13,654	\$ 11.62	17,900	232,100
May	45,486	\$ 11.87	63,386	186,614
<b>Total</b>	<b>63,386</b>	<b>\$ 11.77</b>	<b>63,386</b>	<b>186,614</b>

<sup>(1)</sup> The Company announced a 10b-18 share repurchase plan on March 7, 2016. The Plan allowed for the repurchase of up to 250,000 common shares commencing March 10, 2016 and remains in place until August 25, 2016, but may be limited or terminated at any time without prior notice.

## Item 3. Defaults Upon Senior Securities

---No Disclosure Required---

## Item 4. Mine Safety Disclosures

---No Disclosure Required---

## Item 5. Other Information

---No Disclosure Required---

## Item 6. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of Jewett-Cameron Lumber Corporation  
-- Filed as an exhibit to the 10-Q Quarterly Report filed on January 13, 2014 --
- 3.2 Articles of Incorporation of Jewett-Cameron Company.  
-- Filed as an exhibit to the 10-Q Quarterly Report filed on January 13, 2014 --
- 31.1 Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act, Donald M. Boone
- 32.1 Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C., 1350 (Section 906 of the Sarbanes-Oxley Act), Donald M. Boone

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Jewett-Cameron Trading Company Ltd.  
(Registrant)

July 14, 2016

/s/ "Donald M. Boone"  
Donald M. Boone,  
President/CEO/Treasurer/Director/CFO

## CERTIFICATIONS

I, Donald M. Boone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Jewett-Cameron Trading Company Ltd;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2016

By: /s/ "Donald M. Boone"  
**Donald M. Boone,**  
**Chief Executive Officer, President and Treasurer**  
**and Principal Financial Officer**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Jewett-Cameron Trading Company Ltd. (the "Company") on Form 10-Q for the period ended May 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company does hereby certify, to such officer's knowledge, that, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 14, 2016

Signed: "Donald M. Boone"  
**Donald M. Boone,**  
**Chief Executive Officer, President and Treasurer**  
**and Principal Financial Officer**