

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 NOVEMBER 30, 2019
- 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

NONE

(State or Other Jurisdiction of Incorporation or Organization)

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

32275 N.W. Hillcrest, North Plains, Oregon

97133

(Address Of Principal Executive Offices)

(Zip Code)

(503) 647-0110

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, no par value	JCTCF	NASDAQ Capital Market

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 – 3,481,162 common shares as of January 14, 2020.

Jewett-Cameron Trading Company Ltd.

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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)

NOVEMBER 30, 2019

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

	November 30, 2019	August 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 8,969,249	\$ 9,652,310
Accounts receivable, net of allowance of \$Nil (August 31, 2019 - \$Nil)	2,164,026	2,835,952
Inventory, net of allowance of \$165,000 (August 31, 2019 - \$119,357) (note 3)	7,280,126	6,377,805
Note receivable	997	1,197
Prepaid expenses	568,815	393,539
Prepaid income taxes	201,956	223,420
Total current assets	19,185,169	19,484,223
Property, plant and equipment, net (note 4)	2,708,144	2,727,406
Intangible assets, net (note 5)	2,912	3,048
Total assets	\$ 21,896,225	\$ 22,214,677

- 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)

	November 30, 2019	August 31, 2019
Continued		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 238,133	\$ 410,027
Accrued liabilities	1,186,744	1,312,580
Total current liabilities	1,424,877	1,722,607
Deferred tax liability (note 6)	47,103	61,204
Total liabilities	1,471,980	1,783,811
Stockholders' equity		
Capital stock (note 8, 9)		
Authorized		
21,567,564 common shares, without par value		
10,000,000 preferred shares, without par value		
Issued		
3,971,282 common shares (August 31, 2019 – 3,971,282)	936,903	936,903
Additional paid-in capital	618,707	618,707
Retained earnings	18,868,635	18,875,256
Total stockholders' equity	20,424,245	20,430,866
Total liabilities and stockholders' equity	\$ 21,896,225	\$ 22,214,677

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)

	Three Months Ended November 30, 2019	Three Months Ended November 30, 2018
SALES	\$ 7,055,178	\$ 9,066,100
COST OF SALES	5,006,835	6,757,014
GROSS PROFIT	2,048,343	2,309,086
OPERATING EXPENSES		
Selling, general and administrative expenses	649,010	556,148
Depreciation and amortization	48,148	50,870
Wages and employee benefits	1,362,059	1,223,059
	2,059,217	1,830,077
Income from continuing operations	(10,874)	479,009
OTHER ITEMS		
Interest and other income	11,615	17,151
Income before income taxes	741	496,160
Income tax expense	(7,362)	(146,466)
Net (loss) income	\$ (6,621)	\$ 349,694
Basic earnings per common share	\$ (0.00)	\$ 0.08
Diluted earnings per common share	\$ (0.00)	\$ 0.08
Weighted average number of common shares outstanding:		
Basic	3,971,282	4,256,361
Diluted	3,971,282	4,256,361

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)

Capital Stock					
	Number of Shares	Amount	Additional paid-in capital	Retained earnings	Total
August 31, 2018	4,314,659	\$ 1,017,908	\$ 600,804	\$ 19,754,699	\$ 21,373,411
Shares repurchased and cancelled (note 9)	(95,671)	(22,571)	-	(870,805)	(893,376)
Net income	-	-	-	349,694	349,694
November 30, 2018	4,218,988	\$ 995,337	\$ 600,804	\$ 19,233,588	\$ 20,829,729
Shares repurchased and cancelled (note 9)	(250,000)	(58,975)	-	(2,109,090)	(2,168,065)
Shares issued pursuant to compensation plans (note 10)	2,294	541	17,903	-	18,444
Net income	-	-	-	1,750,758	1,750,758
August 31, 2019	3,971,282	\$ 936,903	\$ 618,707	\$ 18,875,256	\$ 20,430,866
Net loss	-	-	-	(6,621)	(6,621)
November 30, 2019	3,971,282	\$ 936,903	\$ 618,707	\$ 18,868,635	\$ 20,424,245

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)

	Three Months Ended November 30, 2019	Three Months Ended November 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (6,621)	\$ 349,694
Items not involving an outlay of cash:		
Depreciation and amortization	48,148	50,870
Deferred income taxes	(14,101)	4,826
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	671,926	417,942
(Increase) in inventory	(902,321)	(1,121,813)
Decrease in note receivable	200	1,903
(Increase) in prepaid expenses	(175,276)	(157,361)
Increase (decrease) in accounts payable and accrued liabilities	(297,730)	536,032
Decrease in prepaid income taxes	21,464	114,310
Increase in income taxes payable	-	27,330
Net cash provided by (used by) operating activities	(654,311)	223,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(28,750)	-
Net cash used in investing activities	(28,750)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of common stock	-	(893,376)
Net cash used in financing activities	-	(893,376)
Net decrease in cash	(683,061)	(669,643)
Cash, beginning of period	9,652,310	6,097,463
Cash, end of period	\$ 8,969,249	\$ 5,427,820

Supplemental disclosure with respect to cash flows (Note 15)

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

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.

Effective September 1, 2019, the Company decided to permanently close the MSI division and exit the industrial tools business.

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.

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.

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

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. At November 30, 2019, cash and cash equivalents were \$8,969,249 compared to \$9,652,310 at August 31, 2019.

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. Amortization is calculated using the straight-line method over the remaining life of the asset. The intangible assets are reviewed annually for impairment.

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.

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

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 primarily based 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.

(Loss) earnings per share

Basic earnings per common share is computed by dividing net income or loss 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.

The (loss) earnings per share data for the three month periods ended November 30, 2019 and 2018 are as follows:

	2019	2018
Net (loss) income	\$ (6,621)	\$ 349,694
Basic weighted average number of common shares outstanding	3,971,282	4,256,361
Effect of dilutive securities Stock options	-	-
Diluted weighted average number of common shares outstanding	3,971,282	4,256,361
Basic and diluted (loss) earnings per common share	\$ (0.00)	\$ 0.08

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.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2019
(Unaudited)

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

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 three month period ended November 30, 2019, and there were no options outstanding on November 30, 2019.

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.

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

The estimated fair values of the Company's financial instruments as of November 30, 2019 and August 31, 2019 follows:

	November 30, 2019		August 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$8,969,249	\$8,969,249	\$9,652,310	\$9,652,310
Accounts receivable, net of allowance	2,164,026	2,164,026	2,835,952	2,835,952
Accounts payable and accrued liabilities	1,424,877	1,424,877	1,722,607	1,722,607

The following table presents information about the assets that are measured at fair value on a recurring basis as of November 30, 2019 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:

	November 30, 2019	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 8,969,249	\$ 8,969,249	\$ —	\$ —

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

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

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 sales in the consolidated statements of operations. All costs billed to the customer are included as sales in the consolidated statements of operations.

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The ASU is effective for annual reporting periods beginning after December 15, 2017, including interim periods and is to be retrospectively applied. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company adopted this ASU effective September 1, 2018, using the full retrospective approach, prospectively. The adoption had no material impact on its financial statements on adoption as the sale of goods by the Company is performed on a standalone basis and revenue is recognized when the customer obtains control of the goods and in an amount that considers the impact of estimated returns, discounts and after allowances that are variable in nature.

In February 2016, Topic 842, *Leases* was issued to replace the leases requirements in Topic 840, *Leases*. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. Topic 842 will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods and is to be retrospectively applied. Earlier application is permitted. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2019
(Unaudited)

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

Recent Accounting Pronouncements (cont'd...)

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The accounting standard changes the methodology for measuring credit losses on financial instruments and the timing when such losses are recorded. ASU No. 2016-14 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2019. The Company is currently evaluating the impact of ASU No. 2016-13 on its financial position, results of operations and liquidity.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230): a consensus of the FASB’s Emerging Issues Task Force (the “Task Force”). The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. Topic 230 will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods. The Company adopted this ASU on September 1, 2018, prospectively. There was no material impact on the Company’s financial statements on adoption.

3. INVENTORY

A summary of inventory is as follows:

	November 30, 2019	August 31, 2019
Wood products and metal products	\$ 6,864,340	\$ 5,833,047
Industrial tools	80,540	239,280
Agricultural seed products	335,246	305,478
	\$ 7,280,126	\$ 6,377,805

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2019
(Unaudited)

4. PROPERTY, PLANT AND EQUIPMENT

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

	November 30, 2019	August 31, 2019
Office equipment	\$ 487,684	\$ 486,038
Warehouse equipment	1,277,049	1,265,532
Buildings	4,088,328	4,072,741
Land	559,065	559,065
	<u>6,412,126</u>	<u>6,383,376</u>
Accumulated depreciation	<u>(3,703,982)</u>	<u>(3,655,970)</u>
Net book value	<u>\$ 2,708,144</u>	<u>\$ 2,727,406</u>

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 as of August 31, 2019 and 2018 follows:

	November 30, 2019	August 31, 2019
Intangible assets	43,655	43,655
Accumulated amortization	<u>(40,743)</u>	<u>(40,607)</u>
Net book value	<u>\$ 2,912</u>	<u>\$ 3,048</u>

6. DEFERRED INCOME TAXES

Deferred income tax liability as of November 30, 2019 of \$47,103 (August 31, 2019 - \$61,204) reflect 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 line-of-credit as of November 30, 2019 or August 31, 2019. At November 30, 2019, the line of credit borrowing limit was \$3,000,000.

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

Holders 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 4th quarter of fiscal 2019 ended August 31, 2019, the Company repurchased a total of 46,408 common shares under a 10b-18 share repurchase plan originally announced on February 7, 2019. The total cost was \$399,593 at an average share price of \$8.61 per share. The premium paid to acquire those shares over their per share book value in the amount of \$388,645 was recorded as a decrease to retained earnings.

During the 3rd quarter of fiscal 2019 ended May 31, 2019, the Company repurchased a total of 195,142 shares under a 10b-18 share repurchase plan originally announced on February 7, 2019. The total cost was \$1,704,543 at an average share price of \$8.73 per share. The premium paid to acquire those shares over their per share book value in the amount of \$1,658,509 was recorded as a decrease to retained earnings.

During the 2nd quarter of fiscal 2019 ended February 28, 2019, the Company repurchased a total of 8,450 shares under the February 2019 10b-18 share repurchase plan. The total cost was \$63,929 at an average share price of \$7.57 per share. The premium paid to acquire those shares over their per share book value in the amount of \$61,936 was recorded as a decrease to retained earnings.

During the 1st quarter of fiscal 2019 ended November 30, 2018, the Company repurchased and cancelled a total of 95,671 shares under a 10b-18 share repurchase plan originally announced on June 6, 2018. The total cost was \$893,376 at an average share price of \$9.34 per share. The premium paid to acquire those shares over their per share book value in the amount of \$870,805 was recorded as a decrease to retained earnings.

10. SHARE-BASED INCENTIVE PLANS

Stock Options

The Company formerly had a stock option program under which stock options to purchase securities from the Company could 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 could 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 November 30, 2019 and August 31, 2019.

Restricted Share Plan

The Company has a Restricted Share Plan (the "Plan") as approved by shareholders on February 8, 2019. The Plan allows the Company to grant, from time to time, restricted shares as compensation to directors, officers, employees and consultants of the Company. The Restricted Shares are subject to restrictions, including the period under which the shares will be restricted (the "Restricted Period") and subject to forfeiture which is determined by the Board at the time of the grant. The recipient of Restricted Shares is entitled to all of the rights of a shareholder, including the right to vote such shares and the right to receive any dividends, except that the shares granted under the Plan are nontransferable during the Restricted Period.

The maximum number of Common Shares reserved for issuance under the Plan will not exceed 1% of the then issued and outstanding number of Common Shares at the time of the grant. As of August 31, 2019, the maximum number of shares available to be issued under the Plan was 39,712.

During the year ended August 31, 2019, the Company issued 2,294 common shares under the Plan to the Company's CEO as a portion of his earned fiscal 2018 bonus as approved by the Board. The value of this award was \$18,444, with the number of shares issued determined by the closing price of the stock on the day of the grant.

11. PENSION AND PROFIT-SHARING PLANS

The Company has a deferred compensation 401(k) plan for all employees with at least 6 months of service pending a monthly enrollment time. The plan allows for a non-elective discretionary contribution plus matching employee contributions up to a specific limit. The percentages of contribution remain the discretion of the Board and are reviewed with management annually. For the three months ended November 30, 2019 and 2018 the 401(k) compensation expense was \$119,568 and \$56,921, respectively.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2019
(Unaudited)

12. DISCONTINUED OPERATIONS

Effective September 1, 2019, the Board of Directors decided to permanently close the MSI division and exit the industrial tools business. The remaining inventory will be liquidated. As of November 30, 2019, the Company has recorded an allowance for obsolete inventory for MSI of \$125,000 (August 31, 2019 - \$85,000).

13. SEGMENT INFORMATION

The Company has four principal reportable segments. Three segments are continuing operations and one, Industrial Tools and Clamps, is considered as a discontinued operation. 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 three month periods ended November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Sales to unaffiliated customers:		
Industrial wood products	\$ 784,868	\$ 1,111,687
Lawn, garden, pet and other	5,577,494	6,993,428
Seed processing and sales	524,595	756,910
Industrial tools and clamps	168,221	204,075
	<u>\$ 7,055,178</u>	<u>\$ 9,066,100</u>
Income (loss) before income taxes:		
Industrial wood products	\$ (15,618)	\$ 33,596
Lawn, garden, pet and other	(77,696)	173,821
Seed processing and sales	49,703	10,433
Industrial tools and clamps	(107,217)	(3,737)
Corporate and administrative	151,569	282,047
	<u>\$ 741</u>	<u>\$ 496,160</u>
Identifiable assets:		
Industrial wood products	\$ 975,468	\$ 933,045
Lawn, garden, pet and other	7,988,756	13,348,769
Seed processing and sales	518,204	367,985
Industrial tools and clamps	119,228	383,565
Corporate and administrative	12,294,569	8,618,705
	<u>\$ 21,896,225</u>	<u>\$ 23,652,069</u>
Depreciation and amortization:		
Industrial wood products	\$ -	\$ -
Lawn, garden, pet and other	6,365	8,009
Seed processing and sales	1,587	2,068
Industrial tools and clamps	122	122
Corporate and administrative	40,074	40,671
	<u>\$ 48,148</u>	<u>\$ 50,870</u>

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2019
(Unaudited)

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

	<u>2019</u>	<u>2018</u>
Capital expenditures:		
Industrial wood products	\$ -	\$ -
Lawn, garden, pet and other	-	-
Seed processing and sales	-	-
Industrial tools and clamps	-	-
Corporate and administrative	28,750	-
	<u>\$ 28,750</u>	<u>\$ -</u>
Interest expense:	\$ -	\$ -

The following table lists sales made by the Company to customers which were in excess of 10% of total sales for the three months ended November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Sales	\$ 2,259,429	\$ 3,758,542

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 three months ended November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
United States	\$ 6,816,250	\$ 8,664,491
Canada	150,486	311,148
Europe	1,818	22,474
Mexico/Latin America	61,109	66,206
Asia/Pacific	25,515	1,781

All of the Company's significant identifiable assets were located in the United States as of November 30, 2019 and 2018.

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 November 30, 2019, three customers accounted for accounts receivable greater than 10% of total accounts receivable for a total of 58%. At August 31, 2019, two customers accounted for accounts receivable great than 10% of total accounts receivable for a total of 56%. 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.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. CONCENTRATIONS (cont'd...)

Volume of business

The Company has concentrations in the volume of purchases it conducts with its suppliers. For the three months ended November 30, 2019, there were two suppliers that each accounted for greater than 10% of total purchases, and the aggregate purchases amounted to \$3,531,303. For the three months ended November 30, 2018, there were three suppliers that each accounted for greater than 10% of total purchases, and the aggregate purchases amounted to \$4,254,311.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Certain cash payments for the three months ended November 30 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Cash paid during the periods for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

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

16. CONTINGENCY

The Company is a named party in a Civil Action in Pennsylvania. The matter is an action seeking compensation for personal injuries and is based on theories of product liability as to Jewett-Cameron. The matter arises out of a dog allegedly escaping from a Jewett-Cameron kennel product and causing personal injuries to three individuals. Jewett-Cameron is currently one of three named Defendants. As of this date, no formal responses have been made and no dates have been established governing the litigation proceedings. This matter is in its early stages making it speculative to predict as to its outcome. It is the Company's intention to vigorously defend the lawsuit. Jewett-Cameron's applicable liability insurer is providing a defense covering Jewett-Cameron's legal fees and costs.

17. SUBSEQUENT EVENTS

Repurchase of common shares

Subsequent to the fiscal period ended November 30, 2019, the Company repurchased for cancellation a total of 490,120 common shares from two large shareholders, including an officer and director of the Company. The shares were repurchased privately at a price of \$7.89 per share, calculated as the Volume Weighted Average Price (VWAP) of all the shares traded on NASDAQ during the first quarter of fiscal 2020. The total cost of the share repurchases was \$3,867,047.

Termination of Stock Option Plan

Subsequent to the period ended November 30, 2019, the Company's Board of Directors approved the termination of the Stock Option Program. No Stock Options have been granted or are outstanding as of January 14, 2020.

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 November 30, 2019 and August 31, 2019 and its results of operations and cash flows for the three month periods ended November 30, 2019 and November 30, 2018 in accordance with U.S. GAAP. Operating results for the three month period ended November 30, 2019 are not necessarily indicative of the results that may be experienced for the fiscal year ending August 31, 2020. Overall, the operating results of JCC are seasonal with the first two quarters of the fiscal year historically being slower than the final two quarters of the fiscal year.

The Company’s operations are classified into three reportable operating segments, one discontinued segment (Industrial Tools) and the parent corporate and administrative segment, 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
- Corporate and administration

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 primarily to the transportation industry.

The lawn, garden, pet and other segment reflects the business of Jewett-Cameron Company (JCC), which is a wholesaler of wood products and a manufacturer and distributor of specialty metal products. Wood products are primarily fencing, while metal products include pet enclosures and kennels, proprietary gate support systems, perimeter fencing, greenhouses, canopies and umbrellas. Examples of the Company’s brands include Lucky Dog, Animal House and AKC (used under license from the American Kennel Club) for pet enclosures and kennels; Adjust-A-Gate, Fit-Right, LIFETIME POST™ and Perimeter Patrol for gates and fencing; Early Start, Spring Gardner, and Weatherguard for greenhouses; and TrueShade for patio umbrellas, furniture covers and canopies. JCC uses contract manufacturers to make the specialty metal products. Some of the products that JCC distributes flow through the Company’s facility in North Plains, Oregon, and some are shipped direct to the customer from the manufacturer. Primary customers are home centers, eCommerce 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, saw blades, digital calipers, and laser guides. MSI brands include MSI-Pro, Avenger, and ProMax. Effective September 1, 2019, the Company decided to exit this segment and the remaining inventory is being liquidated.

JC USA Inc. (“JC USA”) is the parent company for the four wholly-owned subsidiaries as described above. JC USA provides professional and administrative services, including warehousing, accounting and credit services, to its subsidiary companies.

Tariffs

The Company’s metal products are manufactured in China and are imported into the United States. The Office of the United States Trade Representative (“USTR”) instituted new tariffs on the importation of a number of products into the United States from China effective September 24, 2018. These new tariffs are a response to what the USTR considers to be certain unfair trade practices by China. The tariffs began at 10%, and subsequently were increased to 25% as of May 10, 2019. A number of the Company’s products manufactured in China have been subject to duties of 25% when imported into the United States.

The company was notified in September 2019 that certain products that it had imported would be excepted from tariff treatment moving forward. This exception applies to many of the products the company imports from China.

RESULTS OF OPERATIONS

During the period ended November 30, 2019, the Company experienced slower than normal sales for the first quarter, which included several major accounts postponing their expected purchases until later in the first quarter and into the second quarter. The delay may be related to the timing of reduced tariffs on many of the Company's products, as the Company received notice during the period that due to one of the Company's suppliers appealing the classification of certain products to the US Customs Service, a number of the Company's metal products imported from China have now been reclassified. As a result, the reclassified metal products are no longer be subject to the 25% tariffs on imported Chinese goods, although some of the Company's imported products remain under tariff. This reclassification will help the Company to remain competitive in both the retail and eCommerce sectors going forward.

Management continued to add to the Company's infrastructure during the quarter. The Company is now focusing on the promotion of the Jewett-Cameron brand for both its individual brands in each segment and the Company's name overall. The intent is to make the consumer more aware of Jewett-Cameron and drive more cross-over business to each segment and product line. This focus involves social media, other online communications, and omnichannel branding. The Company also intends to broaden its product presence in more channels, including retailers and e-commerce, both in the US and internationally. The addition of new personnel and its new Enterprise Resource Planning (ERP) software system will support these marketing and sales initiatives. A new Chief Revenue Officer has been added to focus on integrating marketing strategy and sales, including the introduction of new products, and opening and expanding sales channels. The new position of VP Business Development was filled in October 2019. This key role will focus on tangible ways to leverage current business assets and entities, such as Greenwood's specialty lumber sales and lumber trading, and products and product lines.

The new patented steel fence post, LIFETIME POST™ continues to position the company firmly in the fencing market. The product was specifically designed to complement Jewett Cameron's already long running, successful Adjust-A-Gate™ products, thus building a stronger branding in this market segment. The Company has other products in development, primarily in the fencing and pet segments. Management intends to continue to add new products through its internal development process, but may also seek to acquire products that will provide complementary benefits to its existing products and product lines.

As a result of a strategic review of the Company's secondary business operations and assets initiated in fiscal 2019, management and the Board of Directors decided to exit the industrial tools segment and close the MSI division. MSI has recently been a very minor contributor to the Company's overall sales and has been posting operating losses, Management believes there are greater opportunities for growth in the three remaining operating segments, including the seed division, where the Company will continue to focus on improving and adding to its market share in sales and service. During the first quarter, the Company began to liquidate the remaining MSI inventory. The Company recorded an additional write-down of the remaining MSI inventory in the first quarter, and now expects additional costs related to the liquidation and closure to be incurred in the second quarter of fiscal 2020.

The Company has also continued to use its excess cash to repurchase and cancel common shares. Subsequent to the end of the fiscal period, the Company repurchased for cancelation a total of 490,120 common shares from two large shareholders. 300,000 common shares were repurchased from Michael Nasser, the Company's Co-Founder and current Corporate Secretary and Director, and 190,120 shares were repurchased from the Donald Boone Irrev Trust ("Boone Trust"), a trust established by Company's other Co-Founder, and former CEO and Chairman, Donald Boone. The Boone Trust received Mr. Boone's Jewett-Cameron common shares upon his death in May 2019. Mr. Nasser sold his shares for estate planning purposes, while the Boone Trust sold its shares to provide distributions to the Trust's beneficiaries as required by Mr. Boone's will. By repurchasing such a large number of shares privately instead of through the public marketplace, the Company and the sellers were able to complete the transactions quickly at a fixed price, which may have been difficult to complete in the public market due to the prevailing low trading volume of the Company's shares on NASDAQ. The shares were repurchased by the Company at a price of \$7.89 per share, calculated as the Volume Weighted Average Price (VWAP) of all the shares traded on NASDAQ during the first quarter of fiscal 2020. The total cost of the share repurchases was \$3,867,047.

Three Months Ended November 30, 2019 and 2018

For the three months ended November 30, 2019, sales decreased by \$2,010,922, or 22% to \$7,055,178 from \$9,066,100 for the three months ended November 30, 2018. Gross profit decreased by \$260,743, or 11%.

Sales at JCC were \$5,577,494 for the three months ended November 30, 2019 compared to sales of \$6,993,428 for the three months ended November 30, 2018, which was a decrease of \$1,415,934, or 20%. Several of the Company's largest customers delayed their usual Q1 orders into later into the quarter or into the second quarter. The delay may be related to the status of tariffs on the Company's metal products, as during the period the Company was notified that many of its metal products made in China have been reclassified and are no longer subject to the new tariffs. Operating loss for JCC was (\$77,696) for the quarter ended November 30, 2019 compared to net income of \$173,821 in the quarter ended November 30, 2018. Overall, the operating results of JCC are seasonal with the first two quarters of the fiscal year historically being slower than the final two quarters of the fiscal year.

Sales at Greenwood were \$784,868 for the three months ended November 30, 2019 compared to sales of \$1,111,687 for the three months ended November 30, 2018, which was a decrease of \$326,819, or 29%. Management has worked to refine the product mix by focusing on the most in demand products and redirecting sales directly to end users. For the quarter, Greenwood had an operating loss of (\$15,618) compared to a profit of \$33,596 in the three months ended November 30, 2018.

Sales at JCSC were \$524,595 for the three months ended November 30, 2019 compared to sales of \$756,910 for the three months ended November 30, 2018. This represents a decrease of \$232,315, or 31%. A poor 2019 planting season across much of the United States has reduced the demand for the Company's clover seed as a cover crop during the fall and winter. Operating income for JCSC for the quarter was \$49,703 compared to income of \$10,433 for the quarter ended November 30, 2018.

Sales at MSI were \$168,221 for the quarter ended November 30, 2019 compared to sales of \$204,075 for the quarter ended November 30, 2018. Effective September 1, 2019, the Company decided to close the MSI division and exit the Industrial Tools segment. During the quarter, the Company wrote-down a portion of the carrying value of the remaining inventory and began liquidation sales, which significantly reduced revenue. The operating loss for the quarter was (\$107,217) compared to an operating loss of (\$3,737) for the three months ended November 30, 2018.

JC USA is the holding company for the wholly-owned operating subsidiaries. For the quarter ended November 30, 2019, JC USA had operating income of \$151,569 compared to operating income of \$282,047 for the quarter ended November 30, 2018. The decline in income is largely due to higher administrative costs related to additional personnel in the current quarter and the implementation of a new software system. The results of JC USA are eliminated on consolidation.

Gross margin for the three month period ended November 30, 2019 was 29.0% compared to 25.5% for the three months ended November 30, 2018. The current margins were higher due to a more favorable product mix of higher metal product sales and lower wood product sales.

Operating expenses rose by \$229,140 to \$2,059,217 from \$1,830,077 for the three months ended November 30, 2019 as the Company added additional staff and has begun training to implement-its new ERP software system. Selling, General and Administrative Expenses increased to \$649,010 from \$556,148. Depreciation and Amortization decreased to \$48,148 from \$50,870. Wages and Employee Benefits increased to \$1,362,059 from \$1,223,059. Interest and other income decreased to \$11,614 from \$17,151.

Income before income taxes was \$741 for the quarter ended November 30, 2019 compared to \$496,160 for the quarter ended November 30, 2018. The Company's income tax expense in the current quarter was \$7,362 compared to \$146,466 for the three months ended November 30, 2018. The Company estimates income tax expense for the quarter based on combined federal and state rates that are currently in effect. The net loss for the three months ended November 30, 2019 was (\$6,621), or (\$0.00) per share, compared to net income of \$349,694, or \$0.08 per share, for the three months ended November 30, 2018.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2019, the Company had working capital of \$17,760,292 compared to working capital of \$17,761,616 as of August 31, 2019, a decrease of \$1,324. Cash and cash equivalents totaled \$8,969,249, a decrease of \$683,061 from cash of \$9,652,310. Accounts receivable fell to \$2,164,026 from \$2,835,952 due to the seasonal cycle of sales to customers and the related timing of cash receipts. Inventory increased by \$902,321 to \$7,280,126 as certain customers delayed their usual purchases to the second quarter. Prepaid expenses, which is largely related to down payments for future inventory purchases, increased by \$175,276. Note receivable fell to \$997 from \$1,197, and prepaid income taxes declined to \$201,956 from \$223,420.

Accounts payable was \$238,133, a decline of \$171,894 due to the timing of inventory purchases. Accrued liabilities declined by \$125,836 to \$1,186,744, and deferred tax liability fell to \$47,103 from \$61,204.

As of November 30, 2019, accounts receivable and inventory represented 49% of current assets and 43% of total assets. For the three months ended November 30, 2019, the accounts receivable collection period, or DSO, was 28 days compared to 37 days for the three months ended November 30, 2018. Inventory turnover to the three months ended November 30, 2019 was 124 days compared to 140 days for the three months ended November 30, 2018.

External sources of liquidity include a line of credit from U.S. Bank of \$3,000,000. As of November 30, 2019, 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 November 30, 2019, the one month LIBOR rate plus 175 basis points was 3.44% (1.69% + 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 in order to increase shareholder value. No common shares were repurchased in the quarter ended November 30, 2019. Subsequent to the end of the period, the Company privately repurchased for cancellation a total of 490,120 common shares from two large shareholders, including a current officer and director of Jewett-Cameron. The shares were repurchased by the Company at a price of \$7.89 per share, calculated as the Volume Weighted Average Price (VWAP) of all the shares traded on NASDAQ during the first quarter of fiscal 2020. The total cost of the share repurchases was \$3,867,047.

Based on the Company's current working capital position, its policy of retaining earnings, and the line of credit available, the Company has adequate working capital to meet its needs for the coming fiscal year.

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 1,570 shares for the three months ended November 30, 2019. 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 three months ended November 30, 2019, our top ten customers represented 74% 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.

Governmental actions, such as tariffs, and/or foreign policy actions could adversely and unexpectedly impact our business.

Since the bulk of our products are supplied from other countries, political actions by either our trading country or our own domestic policy could impact both availability and cost of our products. Currently, we see this in regard to tariffs being levied on foreign sourced products entering into the United States, including from China. The continuing tariffs by the United States on certain Chinese goods include some of our products which we purchase from suppliers in China. The company has multiple options to assist in mitigating the cost impacts of these government actions. However, we cannot control the duration or depth of such actions which may increase our product costs which would reduce our margins and potentially decrease the competitiveness of our products. These actions could have a negative effect on our business, results of operations, or financial condition.

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.

Our information technology systems are susceptible to certain risks, including cyber security breaches, which could adversely impact our operations and financial condition.

Our operations involve information technology systems that process, transmit and store information about our suppliers, customers, employees, and financial information. These systems face threats including telecommunication failures, natural disasters, and cyber security threats, including computer viruses, unauthorized access to our systems, and other security issues. While we have taken aggressive steps to implement security measures to protect our systems and initiated an ongoing training program to address many of the primary causes of cyber threat with all our employees, such threats change and morph almost daily. There is no guarantee our actions will secure our information systems against all threats and vulnerabilities. The compromise or failure of our information systems could have a negative effect on our business, results of operations, or financial condition.

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, 2019. 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 November 30, 2019. 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 currently conducted in currencies other than U.S. dollars, and the Company may experience an increase in foreign exchange risk as they expand their international sales. 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

The Company is a named party in a Civil Action in Pennsylvania. The matter is an action seeking compensation for personal injuries and is based on theories of product liability as to Jewett-Cameron. The matter arises out of a dog allegedly escaping from a Jewett-Cameron kennel product and causing personal injuries to three individuals. Jewett-Cameron is currently one of three named Defendants. As of this date, no formal responses have been made and no dates have been established governing the litigation proceedings. This matter is in its early stages making it speculative to predict as to its outcome. It is the Company's intention to vigorously defend the lawsuit. Jewett Cameron's applicable liability insurer is providing a defense covering Jewett-Cameron's legal fees and costs.

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

---No Disclosure Required---

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, Charles Hopewell
- 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), Charles Hopewell

- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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)

Date: January 14, 2020

/s/ "Charles Hopewell"

Charles Hopewell,
President/CEO/CFO