

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, 2020
- 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 July 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)

MAY 31, 2020

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

| | May 31, 2020 | August 31, 2019 |
|---|-------------------------|----------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 3,269,289 | \$ 9,652,310 |
| Accounts receivable, net of allowance of \$Nil (August 31, 2019 - \$Nil) | 6,880,459 | 2,835,952 |
| Inventory, net of allowance of \$32,538 (August 31, 2019 - \$119,357) (note 3) | 6,786,087 | 6,377,805 |
| Notes receivable (note 9) | 563,010 | 1,197 |
| Prepaid expenses | 1,336,080 | 393,539 |
| Prepaid income taxes | 121,734 | 223,420 |
| Total current assets | 18,956,659 | 19,484,223 |
| Property, plant and equipment, net (note 4) | 2,774,912 | 2,727,406 |
| Intangible assets, net (note 5) | 719 | 3,048 |
| Total assets | \$ 21,732,290 | \$ 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)

| | May 31, 2020 | August 31, 2019 |
|---|-------------------------|----------------------------|
| Continued | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 1,520,610 | \$ 410,027 |
| Current portion of notes payable (note 8) | 302,536 | - |
| Accrued liabilities | 1,650,289 | 1,312,580 |
| Total current liabilities | 3,473,435 | 1,722,607 |
| Long-term liabilities | | |
| Notes payable (note 8) | 378,171 | |
| Deferred tax liability (note 6) | 100,775 | 61,204 |
| Total liabilities | 3,952,381 | 1,783,811 |
| Stockholders' equity | | |
| Capital stock (note 10, 11) | | |
| Authorized | | |
| 21,567,564 common shares, without par value | | |
| 10,000,000 preferred shares, without par value | | |
| Issued | | |
| 3,481,162 common shares (August 31, 2019 – 3,971,282) | 821,284 | 936,903 |
| Additional paid-in capital | 618,707 | 618,707 |
| Retained earnings | 16,339,918 | 18,875,256 |
| Total stockholders' equity | 17,779,909 | 20,430,866 |
| Total liabilities and stockholders' equity | \$ 21,732,290 | \$ 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 Month Period Ended May 31, | | Nine Month Period Ended May 31, | |
|--|---|---------------------|--|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| SALES | \$ 16,241,239 | \$ 16,692,241 | \$ 30,918,345 | \$ 33,615,516 |
| COST OF SALES | 11,931,746 | 13,054,487 | 22,555,253 | 25,907,388 |
| GROSS PROFIT | 4,309,493 | 3,637,754 | 8,363,092 | 7,708,128 |
| OPERATING EXPENSES | | | | |
| Selling, general and administrative expenses | 706,079 | 759,708 | 2,118,999 | 1,721,743 |
| Depreciation and amortization | 54,781 | 47,141 | 160,992 | 143,413 |
| Wages and employee benefits | 1,635,051 | 1,324,267 | 4,343,412 | 3,799,700 |
| | (2,395,911) | (2,131,116) | (6,623,403) | (5,664,856) |
| Income from operations | 1,913,582 | 1,506,638 | 1,739,689 | 2,043,272 |
| OTHER ITEMS | | | | |
| Gain on sale of property, plant and equipment | 2,200 | - | 2,600 | 105,366 |
| Interest and other income | 3,217 | 7,033 | 21,414 | 33,368 |
| | 5,417 | 7,033 | 24,014 | 138,734 |
| Income before income taxes | 1,918,999 | 1,513,671 | 1,763,703 | 2,182,006 |
| Income tax expense | (522,026) | (415,461) | (547,614) | (614,472) |
| Net income | \$ 1,396,973 | \$ 1,098,210 | \$ 1,216,089 | \$ 1,567,534 |
| Basic earnings per common share | \$ 0.40 | \$ 0.27 | \$ 0.33 | \$ 0.36 |
| Diluted earnings per common share | \$ 0.40 | \$ 0.27 | \$ 0.33 | \$ 0.36 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 3,481,162 | 4,022,587 | 3,672,858 | 4,318,128 |
| Diluted | 3,481,162 | 4,022,587 | 3,672,858 | 4,318,128 |

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 11) | (299,263) | (70,598) | - | (2,591,250) | (2,661,848) |
| Net income | - | - | - | 1,567,534 | 1,567,534 |
| May 31, 2019 | 4,015,396 | \$ 947,310 | \$ 600,804 | \$ 18,730,983 | \$ 20,279,097 |
| Shares repurchased and cancelled (note 11) | (46,408) | (10,948) | - | (388,645) | (399,593) |
| Shares issued pursuant to compensation plans (note 12) | 2,294 | 541 | 17,903 | - | 18,444 |
| Net income | - | - | - | 532,918 | 532,918 |
| August 31, 2019 | 3,971,282 | \$ 936,903 | \$ 618,707 | \$ 18,875,256 | \$ 20,430,866 |
| Shares repurchased and cancelled (note 11) | (490,120) | (115,619) | - | (3,751,427) | (3,867,046) |
| Net Income | - | - | - | 1,216,089 | 1,216,089 |
| May 31, 2020 | 3,481,162 | \$ 821,284 | \$ 618,707 | \$ 16,339,918 | \$ 17,779,909 |

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)

| | Nine Month Period Ended May 31, | |
|---|--|---------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 1,216,089 | \$ 1,567,534 |
| Items not involving an outlay of cash: | | |
| Depreciation and amortization | 160,992 | 143,413 |
| (Gain) on sale of property, plant and equipment | (2,600) | (105,366) |
| Deferred income tax expense | 39,571 | 3,997 |
| Changes in non-cash working capital items: | | |
| (Increase) in accounts receivable | (4,044,507) | (2,972,532) |
| (Increase) decrease in inventory | (408,282) | 1,173,224 |
| (Increase) in notes receivable | (561,813) | - |
| (Increase) decrease in prepaid expenses | (942,541) | 21,268 |
| Decrease (increase) in prepaid income taxes | 101,686 | (65,975) |
| Increase (decrease) in accounts payable and accrued liabilities | 1,448,292 | (82,148) |
| Net cash (used in) provided by operating activities | (2,993,113) | (316,585) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (207,469) | (8,112) |
| Proceeds from sale of property, plant and equipment | 3,900 | 327,077 |
| Net cash provided by (used in) investing activities | (203,569) | 318,965 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in notes payable | 680,707 | - |
| Redemption of common stock | (3,867,046) | (2,661,848) |
| Net cash (used in) financing activities | (3,186,339) | (2,661,848) |
| Net (decrease) increase in cash | (6,383,021) | (2,659,468) |
| Cash, beginning of period | 9,652,310 | 6,097,463 |
| Cash, end of period | \$ 3,269,289 | \$ 3,437,995 |

Supplemental disclosure with respect to cash flows (Note 18)

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, 2020
(Unaudited)

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.

On September 1, 2019, the Company decided to permanently close the MSI division and exit the industrial tools business. As of May 31, 2020, the remaining inventory has been liquidated and the division is in the process of being closed.

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 May 31, 2020, cash and cash equivalents were \$3,269,289 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.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
May 31, 2020
(Unaudited)

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.

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 earnings per share data for the three and nine month periods ended May 31, 2020 and 2019 are as follows:

| | Three Month Periods ended May 31, | | Nine Month Periods ended May 31, | |
|---|--|--------------|---|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net income | \$ 1,396,973 | \$ 1,098,210 | \$ 1,216,089 | \$ 1,567,534 |
| Basic weighted average number of common shares outstanding | 3,481,162 | 4,022,587 | 3,672,858 | 4,318,128 |
| Effect of dilutive securities Stock options | - | - | - | - |
| Diluted weighted average number of common shares outstanding | 3,481,162 | 4,022,587 | 3,672,858 | 4,318,128 |

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)
May 31, 2020
(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 stock options were granted during the three and nine month periods ended May 31, 2020, and there were no options outstanding on May 31, 2020.

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 May 31, 2020 and August 31, 2019 follows:

| | May 31, 2020 | | August 31, 2019 | |
|--|-----------------|-------------|-----------------|-------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$3,269,289 | \$3,269,289 | \$9,652,310 | \$9,652,310 |
| Accounts receivable, net of allowance | 6,880,459 | 6,880,459 | 2,835,952 | 2,835,952 |
| Accounts payable and accrued liabilities | 3,170,899 | 3,170,899 | 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 May 31, 2020 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:

| | May 31, 2020 | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|--------------|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | \$ 3,269,289 | \$ 3,269,289 | \$ — | \$ — |

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 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 Company adopted this ASU on September 1, 2019. There was no material impact on the Company's financial statements on adoption.

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 15, 2019. The Company is currently evaluating the impact of ASU No. 2016-13 on its financial position, results of operations and liquidity.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
May 31, 2020
(Unaudited)

3. INVENTORY

A summary of inventory is as follows:

| | May 31, 2020 | August 31, 2019 |
|----------------------------------|-------------------------|----------------------------|
| Wood products and metal products | \$ 6,340,274 | \$ 5,833,047 |
| Industrial tools | - | 239,280 |
| Agricultural seed products | 445,813 | 305,478 |
| | <u>\$ 6,786,087</u> | <u>\$ 6,377,805</u> |

4. PROPERTY, PLANT AND EQUIPMENT

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

| | May 31, 2020 | August 31, 2019 |
|--------------------------|-------------------------|----------------------------|
| Office equipment | \$ 573,977 | \$ 486,038 |
| Warehouse equipment | 1,271,481 | 1,265,532 |
| Buildings | 4,088,328 | 4,072,741 |
| Land | 559,065 | 559,065 |
| | <u>6,492,851</u> | <u>6,383,376</u> |
| Accumulated depreciation | <u>(3,717,939)</u> | <u>(3,655,970)</u> |
| Net book value | <u>\$ 2,774,912</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 is as follows:

| | May 31, 2020 | August 31, 2019 |
|--------------------------|-------------------------|----------------------------|
| Intangible assets | 16,405 | 43,655 |
| Accumulated amortization | <u>(15,686)</u> | <u>(40,607)</u> |
| Net book value | <u>\$ 719</u> | <u>\$ 3,048</u> |

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
May 31, 2020
(Unaudited)

6. DEFERRED INCOME TAXES

Deferred income tax liability as of May 31, 2020 of \$100,775 (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 May 31, 2020 or August 31, 2019. At May 31, 2020, 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. NOTES PAYABLE

On May 4, 2020, the Company entered into loan agreements with U.S. Bank (the "Lender") for two unsecured loans represented by promissory notes (the "Notes"). The loans were made pursuant to the Paycheck Protection Program (the "PPP") as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration ("SBA").

The first loan was made to JCC for \$487,127 and the second loan was made to JC USA for \$193,580. The total principal amount of the two notes is \$680,707. They have a term of 2 years with a 1% annual interest rate. Payments are deferred for 6 months, after which the repayment of principal and interest is required to be made in equal monthly payments over 18 months beginning December 4, 2020. There is no prepayment penalty. If proceeds are used for qualifying expenses as defined by the CARES Act, including payroll costs, health care benefits, rent and utilities, the Company can apply for forgiveness after 60 days of all or any portion of the promissory note used for such qualifying expenses. Although the Company intends to use the proceeds for qualifying expenses, there is no assurance that the Company will obtain forgiveness of the loan. The terms of the promissory note, including eligibility and forgiveness, may be subject to additional requirements adopted by the SBA.

The Company has chosen to account for the loans under FASB ASC 470. Repayment amounts due within 1 year have been recorded as current liabilities, and the remaining amounts due in more than 1 year as long-term liabilities. If the Company is successful in receiving forgiveness for those portions of the loan used for qualifying expenses, those amounts will be recorded as a gain upon extinguishment.

9. NOTES RECEIVABLE

During the 2nd quarter of fiscal 2020 ended February 29, 2020, the Company privately repurchased a total of 490,120 common shares from two large shareholders, including an officer and director of the Company. During the third quarter, it was determined that as a private purchase of a Canadian incorporated company by a foreign entity, a Canadian Federal tax liability to the share sellers was created. The Company determined the outstanding liability was \$562,713. The Company arranged with the share sellers to forward this amount to the Canadian tax authorities on their behalf to minimize possible penalties and interest. The Company received promissory notes from each seller to fully repay the Company for these payments.

Subsequent to the end of the period, the Company received full repayment of these amounts from each share seller totaling \$562,713. See Note 19.

10. 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.

11. 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 2nd quarter of fiscal 2020 ended February 29, 2020, 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 \$3,867,046. The premium paid to acquire those shares over their per share book value in the amount of \$3,751,427 was recorded as a decrease to retained earnings.

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.

12. 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 vested at the discretion of the Board of Directors.

During the quarter ended February 29, 2020, the Company's Board of Directors approved the termination of the stock option program. The Company had no stock options outstanding as of May 31, 2020 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.

13. 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 nine months ended May 31, 2020 and 2019, the 401(k) compensation expense was \$330,208 and \$227,379, respectively.

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14. DISCONTINUED OPERATIONS

Effective September 1, 2019, the Board of Directors decided to permanently close the MSI division and exit the industrial tools business. As of February 29, 2020, the remaining inventory has been liquidated and the division is in the process of being closed. The operations and assets of MSI were significantly immaterial to the Company's overall performance. As such, separate disclosure of MSI's operations as discontinued operations within the Company's statement of operations was not considered necessary.

15. 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 nine month periods ended May 31, 2020 and 2019.

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| Sales to unaffiliated customers: | | |
| Industrial wood products | \$ 1,955,669 | \$ 2,993,653 |
| Lawn, garden, pet and other | 27,493,875 | 28,435,820 |
| Seed processing and sales | 1,230,765 | 1,551,427 |
| Industrial tools and clamps | 238,036 | 634,616 |
| | <u>\$ 30,918,345</u> | <u>\$ 33,615,516</u> |
| Income (loss) before income taxes: | | |
| Industrial wood products | \$ (69,619) | \$ 53,624 |
| Lawn, garden, pet and other | 1,626,378 | 1,300,444 |
| Seed processing and sales | (60,458) | (121,164) |
| Industrial tools and clamps | (238,195) | (20,604) |
| Corporate and administrative | 505,597 | 969,706 |
| | <u>\$ 1,763,703</u> | <u>\$ 2,182,006</u> |
| Identifiable assets: | | |
| Industrial wood products | \$ 780,726 | \$ 1,149,255 |
| Lawn, garden, pet and other | 13,346,110 | 13,703,422 |
| Seed processing and sales | 547,496 | 469,466 |
| Industrial tools and clamps | 741 | 450,888 |
| Corporate and administrative | 7,057,217 | 6,682,067 |
| | <u>\$ 21,732,290</u> | <u>\$ 22,455,098</u> |
| Depreciation and amortization: | | |
| Industrial wood products | \$ - | \$ - |
| Lawn, garden, pet and other | 20,777 | 16,585 |
| Seed processing and sales | 4,761 | 6,134 |
| Industrial tools and clamps | 2,241 | 367 |
| Corporate and administrative | 133,213 | 120,327 |
| | <u>\$ 160,992</u> | <u>\$ 143,413</u> |

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

| | <u>2020</u> | <u>2019</u> |
|------------------------------|-------------------|-----------------|
| Capital expenditures: | | |
| Industrial wood products | \$ - | \$ - |
| Lawn, garden, pet and other | - | - |
| Seed processing and sales | - | - |
| Industrial tools and clamps | - | - |
| Corporate and administrative | 207,469 | 8,112 |
| | <u>\$ 207,469</u> | <u>\$ 8,112</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 nine months ended May 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|-------|---------------|---------------|
| Sales | \$ 12,605,112 | \$ 15,042,055 |

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, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|---------------|---------------|
| United States | \$ 30,184,205 | \$ 32,343,957 |
| Canada | 535,049 | 979,510 |
| Mexico / Latin America / Caribbean | 159,926 | 176,858 |
| Europe | 6,867 | 36,138 |
| Asia/Pacific | 32,298 | 79,053 |

All of the Company's significant identifiable assets were located in the United States as of May 31, 2020 and 2019.

16. RISKS

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, 2020, two customers accounted for accounts receivable greater than 10% of total accounts receivable at 56%. At May 31, 2019, two customers accounted for accounts receivable greater than 10% of total accounts receivable at 66%. 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.

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16. RISKS (cont'd...)

Volume of business

The Company has concentrations in the volume of purchases it conducts with its suppliers. For the nine months ended May 31, 2020, there were two suppliers that each accounted for 10% or greater of total purchases, and the aggregate purchases amounted to \$13,119,225. For the nine months ended May 31, 2019, there were two suppliers that each accounted for 10% or greater of total purchases, and the aggregate purchases amounted to \$14,139,344.

17. IMPACT OF COVID-19

In March 2020 the World Health Organization declared the COVID-19 coronavirus a global pandemic. This contagious disease outbreak and the related adverse public health developments have adversely affected workforces, economies, and financial markets globally which has led to an economic downturn.

During the 3rd quarter of fiscal 2020 ended May 31, 2020, the Company recorded lower sales as many of its customers reduced their purchases of products for their traditional brick-and-mortar retail stores amid stay-at-home orders across the United States. However, higher sales from consumer internet purchases resulted in higher margins for the quarter.

It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's future business or results of operations at this time.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Certain cash payments for the nine months ended May 31, 2020 and 2019 are summarized as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-------------|-------------|
| Cash paid during the periods for: | | |
| Interest | \$ - | \$ - |
| Income taxes | \$ 342,897 | \$ 676,000 |

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

19. 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.

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20. SUBSEQUENT EVENTS

- a. The Paycheck Protection Program Flexibility Act was signed on June 5, 2020. This law modifies the PPP in several ways, including permitting the amendment of the maturity date on PPP loans made before June 5th from two years to five years, extending the PPP Loan forgiveness period from 8 weeks to 24 weeks (168 days) from the loan origination date, and reducing the required amount of payroll expenditures for forgiveness of the loan to 60% of the principal. The Company is evaluating these changes and has not yet determined if it will request to modify its existing loan with the new amendments.
- b. Subsequent to the end of the quarter, the Company received full repayment of \$562,713 pursuant to the promissory notes receivable.

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, 2020 and August 31, 2019 and its results of operations and cash flows for the three and nine month periods May 31, 2020 and 2019 in accordance with U.S. GAAP. Operating results for the three and nine month periods ended May 31, 2020 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 imported and distributed 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 has been 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 from China would be reclassified and exempted from tariff treatment moving forward. This exception applies to many of the products the company imports from China, although some of the Company's imported products remain under tariff. Exemptions from the tariffs are subject to administrative changes and any decisions to curtail or eliminate such tariffs. Since these actions would be instituted by the Federal Government, they are beyond the direct or indirect control of the Company and will be addressed as information becomes available.

RESULTS OF OPERATIONS

The impact of the COVID-19 Coronavirus global pandemic, which began to affect the Company in January, was felt throughout the third quarter. With the shutdown of businesses and imposition of stay-at-home orders across the United States, consumers shifted much of their buying patterns to online shopping. As people stayed at home, DIY home improvement projects have been popular, and so have pet adoptions. This has led to much higher sales volumes beginning in March in certain of the Company's categories, including fencing and pet products.

The Company has continued its campaign to re-brand its business units and products, with the goal to connect the consumer across all retail and eCommerce platforms with a consistent look and explanation of value. Several new products were released in the 3rd quarter, while the new Lucky Dog® Zero Plastic Poop Bags have been very popular with both consumers and retailers. These 100% compostable dog waste bags, which were launched at the Global Pet Show in Orlando in February, have strengthened our conversations with existing sales channels about complementary products. We have also added a significant pet market partner with a strong reach who has rapidly advanced to being one of our stronger customers.

We remain committed to grow our business by developing new products, growing our sales channels, and widening the marketing base. This commitment requires the continued investment in multiple areas to achieve these goals, including our facilities, equipment, and personnel. The rebound in business shown in the 3rd quarter is encouraging, but due to the ongoing COVID-19 situation and its severe effects on the overall economy, the outlook for the 4th quarter and into fiscal 2021 is uncertain.

In response to the COVID-19 pandemic, the Company has instituted strong protocols within its facility consistent with the State of Oregon's requirements and CDC guidelines. This includes appropriate social distancing and cleaning protocols. The entire workforce has been retained without any lay-offs or reductions in shifts or work hours, and there have been no adverse costs related to remote work or the implementation of the new processes needed for the home-based workers. Although some employees previously working remotely have returned to work at the facility, approximately 40% of the workforce continues to work from home. This arrangement of 60/40 work at the facility/work from home will continue where appropriate to the functions of each employee's role and responsibilities.

Due to the adherence to these protocols by our employees, we have not experienced any employee contracting the COVID-19 virus. It is critical to our continuing operations that we do all we can to protect and retain our workforce if and when they might experience exposure to the virus. If any employees working at headquarters or in the warehouse facilities contract the virus, the Company would be forced to curtail those operations, including product shipments, for the required period to thoroughly clean and sanitize the facility without human exposure, which would result in delayed or lost revenue, and increased costs. For this reason, we will continue to be aggressive in ways to protect our operations and cash flows against the virus and take all precautions for any potential shut-downs or adjustments to our operations. Any change to the current State of Oregon orders regarding workplaces and travel restrictions could result in the Company having to temporarily close its facilities altogether. Our suppliers and many of our customers are subject to the same risks.

Three Months Ended May 31, 2020 and May 31, 2019

For the three months ended May 31, 2020, sales totaled \$16,241,239 compared to sales of \$16,692,241 for the three months ended May 31, 2019, which was a decrease of \$451,002, or 3%.

Sales at JCC were \$15,491,042 for the three months ended May 31, 2020 compared to sales of \$14,983,164 for the three months ended May 31, 2019. This represents an increase of \$507,878, or 3%. The increase in sales is attributable to the launch of several new products in fiscal 2020 and higher consumer demand in the fencing and pet product segments during the COVID-19 crisis. Operating income for JCC in the current quarter was \$1,909,079 compared to income of \$1,286,352 for the quarter ended May 31, 2019.

Sales at Greenwood for the quarter were \$485,678 compared to sales of \$1,030,836 for the three months ended May 31, 2019, which was a decrease of \$545,158, or 53%. The shutdowns of factories and related industries during the COVID-19 crisis severely reduced demand for Greenwood's products in the current quarter. For the three months ended May 31, 2020, Greenwood had an operating loss of (\$24,093) compared to operating income of \$27,136 for the three months ended May 31, 2019.

Sales at JCSC were \$264,520 for the three months ended May 31, 2020 compared to sales of \$461,947 for the three months ended May 31, 2019. This is a decrease of \$197,427, or 43%. Wet weather across North America resulted in poor planting seasons in late 2018 and in 2019 which reduced the demand for the Company's clover seed as a cover crop during both fiscal 2020 and 2019. For the quarter ended May 31, 2020, JCSC had an operating loss of (\$103,639) compared to an operating loss of (\$60,370) in the quarter ended May 31, 2019.

JC USA is the holding company for the wholly-owned operating subsidiaries. For the quarter ended May 31, 2020, JC USA had operating income of \$153,415 compared to operating income of \$281,017 for the quarter ended May 31, 2019. The reduction in operating income is largely due to higher administrative costs related to additional personnel in the current quarter. The results of JC USA are eliminated on consolidation

Gross margin for the three months ended May 31, 2020 was 26.5% compared to 21.8% for the three months ended May 31, 2019. Margins in the current quarter improved due to the increase in sales of higher margin products at JCC during the current period.

Operating expenses increased by \$264,795 to \$2,395,911 from \$2,131,116 for the three months ended May 31, 2019. Selling, General and Administrative declined to \$706,079 from \$759,708 as the Company reduced certain marketing and sales expenditures in the current quarter due to the COVID-19 crisis. Wages and Employee Benefits rose to \$1,635,051 from \$1,324,267 as the Company increased its employee headcount compared to the prior year's quarter. Depreciation rose to \$54,781 from \$47,141. Gain on Sale of Property, Plant and Equipment was \$2,200 in the current quarter, while Interest and Other Income was \$3,217 compared to \$7,033 for the year-ago quarter.

Income tax expense for the three months ended May 31, 2020 was \$522,026 compared to \$415,461 for the three month period ended May 31, 2019. The Company estimates income tax expense for the quarter based on combined federal and state rates that are currently in effect, and the increase in taxes is consistent with the higher income for the current quarter.

Net income for the quarter ended May 31, 2020 was \$1,396,973, or \$0.40 per basic and diluted share, compared to net income of \$1,098,210, or \$0.27 per basic and diluted share, for the quarter ended May 31, 2019.

Nine Months Ended May 31, 2020 and May 31, 2019

For the nine months ended May 31, 2020, sales totaled \$30,918,345 compared to sales of \$33,615,516 for the nine months ended May 31, 2019. This represents a decrease of \$2,697,171, or 8%.

Sales at JCC were \$27,493,875 for the nine months ended May 31, 2020, compared to sales of \$28,435,820 for the nine months ended May 31, 2019, which was a decrease of \$941,945, or 3%. Much of the decline in sales was attributable to slower than normal sales during the first two quarters of fiscal 2020. This period included the initial stages of the COVID-19 pandemic which resulted in lower product demand from certain customers and some shipping delays from Chinese manufacturers in the second quarter. Demand recovered during the third quarter of fiscal 2020, particularly in the fencing and pet product segments. Operating income at JCC was \$1,626,378 compared to income of \$1,300,444 for the nine months ended May 31, 2019, which was an increase of \$325,934, or 25%. 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 Greenwood were \$1,955,669 for the nine months ended May 31, 2020 compared to sales of \$2,993,653 for the nine months ended May 31, 2019. This represents a decrease of \$1,037,984, or 35%. Overall, demand for Greenwood's industrial wood products remains weak, with sales declining significantly during the third quarter of fiscal 2020 as shutdowns of factories during the COVID-19 crisis resulted in less demand for Greenwood's industrial wood products. For the nine months ended May 31, 2019, Greenwood had an operating loss of (\$69,619) compared to operating income of \$53,624 for the nine months ended May 31, 2019.

Sales at JCSC for the nine months ended May 31, 2020 were \$1,230,765 compared to sales of \$1,551,427 for the nine months ended May 31, 2019, which was a decrease of \$320,662, or 21%. Wet weather resulted in poor planting seasons across North America in late 2018 and in 2019 which reduced the demand for the Company's clover seed as a cover crop during both fiscal 2020 and 2019. For the nine-month period ended May 31, 2020, JCSC had an operating loss of (\$60,458) compared to an operating loss of (\$121,164) for the nine months ended May 31, 2019.

Sales at MSI were \$238,036 for the nine months ended May 31, 2020 compared to sales of \$634,616 for the nine months ended May 31, 2019. Effective September 1, 2019, Management decided to exit the industrial tools segment and close MSI. The current nine month's sales represent the final liquidation of all of MSI's remaining inventory, much of which was sold at a significant discount to the Company's carrying value.. For the nine months ended May 31, 2020, MSI had an operating loss of (\$238,195) compared to an operating loss of (\$20,604) for the nine months ended May 31, 2019.

JC USA, the holding company that provides professional and administrative services for the wholly-owned operating subsidiaries had operating income of \$505,597 compared to income of \$969,706 for the nine months ended May 31, 2019. The decrease is due to the addition of new personnel and higher administrative costs in the current period, including the costs related to the implementation of a new ERP software system. The results of JC USA are eliminated on consolidation.

Gross margin for the nine-month period ended May 31, 2020 was 27.0% compared to 22.9% compared for the nine months ended May 31, 2019. The higher margin in the current period was primarily due to higher sales of metal and pet products. Wood sales also contributed to the higher margins in the current period compared to the prior year due to an extremely tight supply market for cedar products.

Operating expenses rose by \$958,547 to \$6,623,403 from operating expense of \$5,664,856 in the nine month period ended May 31, 2019 as the Company added additional staff to support its new sales and marketing initiatives and roll-out of new products. Selling, General and Administrative expenses increased to \$2,118,999 from \$1,721,743, an increase of \$397,256. Wages and Employee Benefits increased to \$4,343,412 from \$3,799,700, an increase of \$543,712. Depreciation and amortization rose to \$160,992 from \$143,413.

Other items in the current nine-month period ended May 31, 2020 included Gain on the Sale of Property, Plant and Equipment of \$2,600 and Interest and Other Income of \$21,414. Other items in the nine month period ended May 31, 2019 was Gain on Sale of Property, Plant and Equipment of \$105,366 which was primarily due to the sale of the Manning property, and Interest and Other Income totaling \$33,368.

Income tax expense in the current nine month period was \$547,614 compared to \$614,472 for the nine months ended May 31, 2019. 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, 2020 was \$1,216,089, or \$0.33 per basic and diluted share, compared to net income of \$1,567,534, or \$0.36 per basic and diluted share, for the nine months ended May 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2020, the Company had working capital of \$15,105,053 compared to working capital of \$17,761,616 as of August 31, 2019, a decrease of \$2,656,563. Cash and cash equivalents totaled \$3,269,289, a decrease of \$6,383,021 from cash of \$9,652,310. Accounts receivable rose to \$6,880,459 from \$2,835,952 due to the seasonal cycle of sales to customers and the related timing of cash receipts. Inventory increased by \$408,282 to \$6,786,087 and prepaid expenses, which is largely related to down payments for future inventory purchases, increased by \$942,541. Notes receivable rose to \$563,010 from \$1,197 due to the Company pre-paying certain tax liabilities on behalf of the private sellers of common shares to the Company. Prepaid income taxes fell to \$121,734 from \$223,420.

Accounts payable was \$1,520,610, an increase of \$1,110,583 due to the timing of inventory purchases. Accrued liabilities increased by \$337,709 to \$1,650,289, and deferred tax liability rose to \$100,775 from \$61,204. Notes payable, which are the promissory notes PPP loans received in the 3rd quarter, totaled \$680,707 compared to \$Nil in the prior year's period.

During the 3rd quarter of fiscal 2020, the Company applied for and received two loans under the Paycheck Protection Program (the “PPP”) as part of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) administered by the U.S. Small Business Administration (“SBA”). The Company felt the PPP funds were necessary because the Company was quickly depleting its available cash in April due to inventory purchases to fulfil customer orders ahead of its busiest selling season, some delays in receiving inventory from China due to reduced availability of ocean shipping, and the danger of potential COVID-19 infections. If any of the Company’s employees on site were to contract the virus during this time, the Company would be required to shut down the facility for a minimum of 14 days to clean and disinfect, and no product would be shipped to customers. Without the cash flow from product sales, the Company would have likely had to immediately layoff or furlough many of its employees, which would further delay the Company’s ability to recover after the shutdown.

The principal amount of the PPP loans totals \$680,707. They have a term of 2 years with a 1% annual interest rate. Payments are deferred for 6 months, after which the repayment of principal and interest is required to be made in equal monthly payments over 18 months beginning December 4, 2020. There is no prepayment penalty. If proceeds are used for qualifying expenses as defined by the CARES Act, including payroll costs, health care benefits, rent and utilities, the Company can apply for forgiveness after 60 days of all or any portion of the promissory note used for such qualifying expenses. On June 5, a Bill modifying the PPP loan conditions was signed into law. This new law permits the extension of the maturity date of existing PPP loans from two to five years, extending the PPP Loan forgiveness period from 8 weeks to 24 weeks from the loan origination date, and reducing the required percentage of payroll expenditures for forgiveness of the loan to 60%. The Company is evaluating these changes and has not yet determined if it will request to modify its existing loan with the new amendments.

As of May 31, 2020, accounts receivable and inventory represented 72% of current assets and 63% of total assets. For the three months ended May 31, 2020, the accounts receivable collection period, or DSO, was 39 compared to 39 for the three months ended May 31, 2019. For the nine-month period ended May 31, 2020, the DSO was 61 compared to 58 for the nine months ended May 31, 2019. Inventory turnover for the three months ended May 31, 2020 was 54 days compared to 72 days for the three months ended May 31, 2019. For the nine months ended May 31, 2020, inventory turnover was 80 days compared to 97 days for the nine months ended May 31, 2019.

External sources of liquidity include a line of credit from U.S. Bank of \$3,000,000. As of May 31, 2020, 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, 2020, the one-month LIBOR rate plus 175 basis points was 3.69% (1.94% + 1.75%). With the phase-out of LIBOR, the Company expects the calculated rate on the line of credit will be changed to another published reference standard before the planned cessation of LIBOR quotations in 2021. However, the Company does not anticipate this change will have any significant effect on the terms and conditions, and ability to access, the line of credit, or on its financial condition. The line of credit also has certain financial covenants. The Company is in compliance with these covenants.

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.

The Company has also continued to use its excess cash to repurchase and cancel common shares. Prior to the spread of the COVID-19 virus from China, the Company repurchased for cancellation a total of 490,120 common shares from two large shareholders during the first month of the second fiscal quarter. 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 \$3,867,046.

After the completion of the private purchase of the common shares detailed above, the Company determined that as a private purchase of a Canadian incorporated company by a foreign entity, a Canadian Federal tax liability to the share sellers was created. The Company determined the outstanding liability to the Canadian tax authorities by the two private share selling parties was \$562,713. The Company arranged with the two parties that it would initially pay this amount on their behalf to minimize possible penalties and interest, and the two parties would issue promissory notes to the Company to repay these amounts. Subsequent to the end of the third quarter, the Company received full repayment of these amounts from each share seller.

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 1,640 shares for the nine months ended May 31, 2020. With this limited trading volume, investors could find it difficult to purchase or sell our common stock.

Risks Related to Our Business

A contagious disease outbreak, such as the recent COVID-19 pandemic emergency, could have an adverse effect on our operations and financial condition

Our business could be negatively affected by an outbreak of an infectious disease due to the consequences of the actions taken by companies and governments to contain and control the virus. These consequences include:

- The inability of our third-party manufacturers in China and elsewhere to manufacture or deliver products to us in a timely manner, if it all.
- Isolation requirements may prevent our employees from being able to report to work or being required to work from home or other off-site location which may prevent us from accomplishing certain functions, including receiving products from our suppliers and fulfilling orders for our customers, which may result in an inability to meet our obligations.
- Our new products may be delayed or require unexpected changes to be made to our new or existing products.
- The effect of the outbreak on the economy may be severe, including an economic downturn and decrease in employment levels which could result in a decrease in consumer demand for our products.

The financial impact of such an outbreak are outside our control and are not reasonable to estimate, but may be significant. The costs associated with any outbreak may have an adverse impact on our operations and financial condition and not be fully recoverable or adequately covered by insurance.

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, 2020, our top ten customers represented 77% 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 May 31, 2020. 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
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- 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: July 14, 2020

/s/ "Charles Hopewell"

Charles Hopewell,
President/CEO/CFO