

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, 2021
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 000-19954

JEWETT-CAMERON TRADING COMPANY LTD.

(Exact Name of Registrant as Specified in its Charter)

BRITISH COLUMBIA

(State or Other Jurisdiction of Incorporation or Organization)

NONE

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

32275 N.W. Hillcrest, North Plains, Oregon

(Address Of Principal Executive Offices)

97133

(Zip Code)

(503) 647-0110

(Registrant's Telephone Number, Including Area Code)

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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 – 3,492,842 common shares as of January 13, 2022.

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, 2021

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

	November 30, 2021	August 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,235,445	\$ 1,184,313
Accounts receivable, net of allowance of \$0 (August 31, 2021 - \$0)	5,806,987	7,086,503
Inventory, net of allowance of \$250,000 (August 31, 2021 - \$250,000) (note 3)	17,223,927	14,391,365
Prepaid expenses	2,267,341	2,305,820
Prepaid income taxes	355,163	252,958
Total current assets	26,888,863	25,220,959
Property, plant and equipment, net (note 4)	4,407,548	3,886,543
Intangible assets, net (note 5)	30,629	30,897
Total assets	\$ 31,327,040	\$ 29,138,399
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,084,438	\$ 1,349,677
Bank indebtedness (note 7)	5,000,000	3,000,000
Accrued liabilities	1,594,834	1,798,088
Total current liabilities	8,679,272	6,147,765
Deferred tax liability (note 6)	125,834	116,945
Total liabilities	8,805,106	6,264,710
Stockholders' equity		
Capital stock (note 9, 10)		
Authorized		
21,567,564 common shares, no par value		
10,000,000 preferred shares, no par value		
Issued		
3,492,842 common shares (August 31, 2021 –3,489,161)	824,039	823,171
Additional paid-in capital	725,729	687,211
Retained earnings	20,972,166	21,363,307
Total stockholders' equity	22,521,934	22,873,689
Total liabilities and stockholders' equity	\$ 31,327,040	\$ 29,138,399

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, 2021	Three Months Ended November 30, 2020
SALES	\$ 12,917,724	\$ 10,316,284
COST OF SALES	10,452,861	7,353,385
GROSS PROFIT	2,464,863	2,962,899
OPERATING EXPENSES		
Selling, general and administrative expenses	988,288	694,628
Depreciation and amortization	69,638	50,529
Wages and employee benefits	1,874,118	1,593,959
	2,932,044	2,339,116
(Loss) income from operations	(467,181)	623,783
OTHER ITEMS		
Other income	3,000	3,000
Interest expense	(20,276)	-
Total other items	(17,276)	3,000
(Loss) income before income taxes	(484,457)	626,783
Income tax recovery (expense)	93,316	(138,256)
Net (loss) income	\$ (391,141)	\$ 488,527
Basic (loss) earnings per common share	\$ (0.11)	\$ 0.14
Diluted (loss) earnings per common share	\$ (0.11)	\$ 0.14
Weighted average number of common shares outstanding:		
Basic	3,491,103	3,481,162
Diluted	3,491,103	3,481,162

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, 2020	3,481,162	\$ 821,284	\$ 618,707	\$ 17,908,354	\$ 19,348,345
Net income	-	-	-	488,527	488,527
November 30, 2020	3,481,162	\$ 821,284	\$ 618,707	\$ 18,396,881	\$ 19,836,872
Shares issued pursuant to compensation plans (note 10)	7,999	1,887	68,504	-	70,391
Net income	-	-	-	2,966,426	2,966,426
August 31, 2021	3,489,161	\$ 823,171	\$ 687,211	\$ 21,363,307	\$ 22,873,689
Shares issued pursuant to compensation plans (note 10)	3,681	868	38,518	-	39,386
Net loss	-	-	-	(391,141)	(391,141)
November 30, 2021	3,492,842	\$ 824,039	\$ 725,729	\$ 20,972,166	\$ 22,521,934

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, 2021	Three Months Ended November 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (391,141)	\$ 488,527
Items not involving an outlay of cash:		
Depreciation and amortization	69,638	50,529
Stock-based compensation expense	39,386	-
Deferred income taxes	8,889	(40,784)
Changes in non-cash working capital items:		
Decrease in accounts receivable	1,279,516	2,027,469
(Increase) in inventory	(2,832,562)	(223,013)
Decrease in prepaid expenses	38,479	196,255
Increase (decrease) in accounts payable and accrued liabilities	531,507	(454,861)
(Increase) in prepaid income taxes	(102,205)	-
Increase in income taxes payable	-	179,040
Net cash (used by) provided by operating activities	(1,358,493)	2,223,162
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(590,375)	(184,247)
Net cash used in investing activities	(590,375)	(184,247)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank indebtedness	2,000,000	-
Net cash provided by financing activities	2,000,000	-
Net increase in cash	51,132	2,038,915
Cash, beginning of period	1,184,313	3,801,037
Cash, end of period	\$ 1,235,445	\$ 5,839,952

Supplemental disclosure with respect to cash flows (Note 14)

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 incorporated under the laws of the State of Oregon: Jewett-Cameron Seed Company, (“JCSC”), incorporated October 2000, Greenwood Products, Inc. (“Greenwood”), incorporated February 2002, and Jewett-Cameron Company, incorporated September 2013. Former wholly owned subsidiary MSI-PRO was wound-up and dissolved in fiscal 2020. 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 pet, fencing and other products, wholesale distribution to home centers, other retailers, on-line as well as direct to end consumers 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. JCSC is a processor and distributor of agricultural seeds in the United States. MSI was an importer and distributor of pneumatic air tools and industrial clamps in the United States. JC USA provides professional and administrative services, including accounting and credit services, to its subsidiary companies.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, affected the Company’s operations including delays in inventory production and shipping, a change of product mix based on customer demand to fencing, pet and DIY products, an increase in demand from online sales channels, and costs associated with compliance with COVID-19 control protocols. The Company’s operations, including inventory production and sales, have been excluded from business restrictions within the jurisdictions that the Company operates. However, due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company’s business, financial position, and operating results in the future. In addition, it is possible that estimates in the Company’s consolidated financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things valuation of inventory and collectability of accounts receivable. The Company continues to closely monitor the impact of the pandemic on all aspects of its 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 current wholly owned subsidiaries, JC USA, JCC, JCSC, and Greenwood, and its former wholly owned subsidiary MSI, all of which are incorporated under the laws of Oregon, U.S.A.

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

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

Estimates

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

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. At November 30, 2021, cash and cash equivalents were \$1,235,445 compared to \$1,184,313 at August 31, 2021.

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.

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

Asset retirement obligations

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

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

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

Currency and foreign exchange

These financial statements are expressed in U.S. dollars as the Company's operations are 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 available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per common share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

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

Earnings per share (cont'd...)

The earnings per share data for the three month periods ended November 30, 2021 and 2020 are as follows:

	Three Month Periods ended November 30,	
	2021	2020
Net (loss) income	\$ (391,141)	\$ 488,527
Basic weighted average number of common shares outstanding	3,491,103	3,481,162
Effect of dilutive securities		
Stock options	-	-
Diluted weighted average number of common shares outstanding	3,491,103	3,481,162

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

Stock-based compensation

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

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.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

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

Financial instruments (cont'd...)

The estimated fair values of the Company's financial instruments as of November 30, 2021 and August 31, 2021 follows:

	November 30, 2021		August 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$1,235,445	\$1,235,445	\$1,184,313	\$1,184,313
Accounts receivable, net of allowance	5,806,987	5,806,987	7,086,503	7,086,503
Accounts payable and accrued liabilities	3,679,272	3,679,272	3,147,765	3,147,765
Bank Indebtedness	5,000,000	5,000,000	3,000,000	3,000,000

The following table presents information about the assets that are measured at fair value on a recurring basis as of November 30, 2021 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, 2021	Quoted Prices	Significant	Significant
		in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 1,235,445	\$ 1,235,445	\$ —	\$ —

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

Income taxes

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

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Shipping and handling costs

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

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

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

Revenue recognition

The Company recognizes revenue from the sales of lumber, building supply products, industrial wood products, specialty metal products, and other specialty products, 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 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 adopted this ASU on September 1, 2020. There was no material impact on the Company's financial statements on adoption.

3. INVENTORY

A summary of inventory is as follows:

	November 30, 2021	August 31, 2021
Wood products and metal products	\$ 16,853,138	\$ 14,257,609
Agricultural seed products	370,789	133,756
	\$ 17,223,927	\$ 14,391,365

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

4. PROPERTY, PLANT AND EQUIPMENT

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

	November 30, 2021	August 31, 2021
Office equipment	\$ 558,703	\$ 551,569
Warehouse equipment	1,379,656	1,385,330
Buildings	5,701,044	5,112,129
Land	559,065	559,065
	<u>8,198,468</u>	<u>7,608,093</u>
Accumulated depreciation	(3,790,920)	(3,721,550)
Net book value	<u>\$ 4,407,548</u>	<u>\$ 3,886,543</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:

	November 30, 2021	August 31 2021
Intangible assets	47,160	47,160
Accumulated amortization	(16,531)	(16,263)
Net book value	<u>\$ 30,629</u>	<u>\$ 30,897</u>

6. DEFERRED INCOME TAXES

Deferred income tax liability as of November 30, 2021 of \$125,834 (August 31, 2021 - \$116,945) 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

Bank indebtedness under the Company's \$10,000,000 line of credit as of November 30, 2021 was \$5,000,000 (August 31, 2021 - \$3,000,000). The Line of Credit was increased during the current quarter from \$5,000,000 to \$10,000,000.

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. As of November 30, 2021, the interest rate was 1.83%

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

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 were originally 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. However, the SBA subsequently revised the due date to either the date that SBA remits the borrower’s loan forgiveness amount to the lender or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness covered period. 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.

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.

During fiscal 2021 ended August 31, 2021, the Company’s applications for loan forgiveness of both loans was approved by the SBA. The Company has recorded a gain of extinguishment of debt of \$687,387 consisting of \$680,707 of principal and \$6,680 of interest.

9. 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.

10. 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 November 30, 2021, the maximum number of shares available to be issued under the Plan was 34,928.

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

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 periods ended November 30, 2021 and 2020 the 401(k) compensation expense was \$146,235 and \$133,102, respectively.

12. SEGMENT INFORMATION

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

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

Following is a summary of segmented information for the three month periods ended November 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Sales to unaffiliated customers:		
Industrial wood products	\$ 534,112	\$ 724,752
Lawn, garden, pet and other	11,845,883	8,929,636
Seed processing and sales	537,729	661,896
	<u>\$ 12,917,724</u>	<u>\$ 10,316,284</u>
Income (loss) before income taxes:		
Industrial wood products	\$ 69,950	\$ (15,224)
Lawn, garden, pet and other	(699,697)	520,208
Seed processing and sales	(101,350)	49,490
Corporate and administrative	246,640	72,309
	<u>\$ (484,457)</u>	<u>\$ 626,783</u>
Identifiable assets:		
Industrial wood products	\$ 548,697	\$ 701,391
Lawn, garden, pet and other	23,762,100	12,969,525
Seed processing and sales	658,972	759,267
Corporate and administrative	5,863,363	8,963,533
	<u>\$ 30,846,045</u>	<u>\$ 23,393,716</u>
Depreciation and amortization:		
Industrial wood products	\$ -	\$ -
Lawn, garden, pet and other	10,676	9,294
Seed processing and sales	1,587	1,587
Corporate and administrative	57,375	39,648
	<u>\$ 69,638</u>	<u>\$ 50,529</u>

JEWETT-CAMERON TRADING COMPANY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)
November 30, 2021
(Unaudited)

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

	<u>2021</u>	<u>2020</u>
Capital expenditures:		
Industrial wood products	\$ -	\$ -
Lawn, garden, pet and other	-	-
Seed processing and sales	-	-
Industrial tools and clamps	-	-
Corporate and administrative	590,375	184,247
	<u>\$ 590,375</u>	<u>\$ 184,247</u>
Interest expense:	\$ 20,276	\$ -

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Sales	\$ 6,393,994	\$ 4,898,298

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
United States	\$ 12,089,619	\$ 10,091,527
Canada	305,205	202,611
Europe	1,950	11,058
Mexico/Latin America/Caribbean	283,187	4,633
Asia/Pacific	237,763	6,455

All of the Company's significant identifiable assets were located in the United States as of November 30, 2021 and 2020.

13. 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 November 30, 2021, three customers accounted for accounts receivable greater than 10% of total accounts receivable at 72%. At November 30, 2020, two customers accounted for accounts receivable greater than 10% of total accounts receivable at 55%. 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
 (Expressed in U.S. Dollars)
 November 30, 2021
 (Unaudited)

13. RISKS (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, 2021, there were two suppliers that each accounted for 10% or greater of total purchases, and the aggregate purchases amounted to \$7,561,452. For the three months ended November 30, 2020, there were two suppliers that each accounted for 10% or greater of total purchases, and the aggregate purchases amounted to \$4,082,187.

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Certain cash payments for the three months ended November 30, 2021 and 2020 are summarized as follows:

	2021	2020
Cash paid during the periods for:		
Interest	\$ 20,276	\$ -
Income taxes	\$ -	\$ -

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

17. 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 the Company. The matter arises out of a dog allegedly escaping from a Jewett-Cameron kennel product and causing personal injuries to three individuals. The Company is currently one of three named Defendants. A trial date has not been set at this time. At the present time it is speculative to predict as to its outcome. It is the Company's intention to vigorously defend the lawsuit. The Company's applicable liability insurer is providing a defense covering the Company's legal fees and costs.

The Company has initiated arbitration against a former distributor asserting a breach of the distribution agreement and seeking damages. Arbitration is scheduled to commence in the first week of August 2022. While the company is robustly pursuing its rights and defending itself against claims, the arbitration and lawsuit are in their initial stages and therefore it is speculative to predict as to its outcome.

18. SUBSEQUENT EVENTS

- a) On January 1, 2022, the Company named Chad Summers as Chief Executive Officer and Mitch Van Domelen as Chief Financial Officer. As previously announced in May 2021, Charles Hopewell transitioned from the CEO position and will continue his positions as a Director and Chairman.
- b) Subsequent to the first quarter ended November 30, 2021, the Company drew an additional \$1 million from its bank line of credit, leaving \$4 million of the \$10 million line available.

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, 2021 and August 31, 2021 and its results of operations and cash flows for the three month periods ended November 30, 2021 and 2020 in accordance with U.S. GAAP. Operating results for the three month period ended November 30, 2021 is not necessarily indicative of the results that may be experienced for the fiscal year ending August 31, 2022. 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 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
- 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, including the municipal and mass transit transportation sectors.

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. JCC operates out of a 5.6 acre owned facility located in North Plains, Oregon that includes offices, a warehouse, and a paved yard. This business is a wholesaler, and a manufacturer and distributor of products that include an array of pet enclosures, kennels, and pet welfare and comfort products, proprietary gate support systems, perimeter fencing, greenhouses, and fencing in-fill products made of wood, metal and composites. Examples of the Company’s brands include Lucky Dog®, for pet products; Adjust-A-Gate™, Fit-Right®, Perimeter Patrol®, and Lifetime Post™ for gates and fencing; Early Start, Spring Gardner™, Greenline®, and Weatherguard for greenhouses. JCC uses contract manufacturers to manufacture these 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 partners, on-line direct consumers as well as 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.

JC USA Inc. (“JC USA”) is the parent company for the 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.

These new tariffs were temporarily reduced on many of the Company’s imported products in September 2019 under a deemed one-year exemption. The 25% tariff rate was restored on the Company’s products in September 2020 when the exemption expired.

RESULTS OF OPERATIONS

Demand for our products remained strong in Q1 of fiscal 2022, as sales were up 25% over Q1 of fiscal 2021. However, our cost of goods sold increased by 42% due to significantly higher costs throughout the supply chain as issues experienced in the second half of fiscal 2021 continued in the first quarter of fiscal 2022. Additional supply chain interruptions occurred within China, including new COVID related issues and restricted electrical supplies to certain manufacturers. These issues resulted in inconsistent shipments of products from China during the quarter. On a dollar basis, our inventory is unusually high for the season due to a large amount of product in transit. Seaborne shipping times and costs remain at historic highs, and the time to receive products from China continues to be both uncertain and extended far beyond normal, with delays occurring all along the supply chain. In order to alleviate some of these issues and have our best-selling products in stock to continue to serve our customers on as much of an uninterrupted basis as possible, the Company increased its ordering and shipment of certain products prior to the annual holidays for Chinese New Year. However, these extra orders and expedited shipment came with higher costs and required higher cash outlays, which required additional borrowing under our bank line of credit. We are also experiencing transportation and logistic issues within the United States, which has caused issues of delivery from our warehouse to customers and their ability to receive and sell through our products.

Other inflationary pressures also negatively affected results in the first quarter. Higher raw material costs squeezed margins, and we were not able to pass through these sudden cost increases to our customers as quickly as they occurred. Entering the second quarter, we have now successfully implemented higher selling prices with our customers which are expected to begin to relieve some margin pressure. Lumber prices also reached historic highs during calendar 2021, which drove our inventory costs much higher than usual, but we are well prepared to meet expected lumber demand entering calendar 2022.

The launch of several important new products planned for the second half of calendar 2021 were delayed due to the supply chain issues. These included new pet products which were originally scheduled to roll-out in time for “Black Friday” and the important holiday shopping season. Other scheduled product introductions for 2022 calendar year have been pushed out to accommodate the supply chain issues and ensure receipt of inventory to support successful launches.

We are pleased with the results of our current sales and marketing strategy. The rebranding of our products has highlighted our brand names and increased consumer awareness of our consistent look and statement of value. We intend to continue to develop new products, particularly those that complement and expand our existing product lines, and we may also seek to acquire products that conform to this strategy. We will also continue our efforts to expand both new and existing sales channels which will broaden our product distribution and grow our connections with the end consumer.

We have also continued to invest in our facilities, equipment, and personnel. The final phases of our 4 planned capital improvement and expansion projects are on schedule for completion by the end of January 2022. These projects have significantly increased and improved functionality of our office space. Additional employees have been added to support our continued growth to ensure quality customer engagement as well as drive enhanced awareness and marketing programs. The website continues to improve in line with our omnichannel commitment offering enhanced accessibility functionality and modernized investor relations and contact sections. Additionally, we have implemented easier navigation of our increased product selection displayed with a more unified brand presentation within a new eCommerce interface.

The transition of our senior management roles as announced in May 2021 occurred on January 1, 2022. Charlie Hopewell has moved from the day-to-day operational role as CEO to his overall strategy positions as a Director and Board Chair. Chad Summers has been appointed as Chief Executive Officer of Jewett-Cameron in addition to his prior position as President, and Mitch Van Domelen, CPA, has been appointed as Chief Financial Officer.

Chad Summers originally joined the Company in October 2019 and was appointed President in May 2021. His prior experience includes participation in start-up ventures in both product and service industries and has a strong background in leadership, consulting, and support. He co-owned and led an international lumber brokering business similar to Jewett-Cameron’s Greenwood division. This experience provided him the opportunity to oversee and actively manage suppliers in China and throughout SE Asia. He also built a successful consulting practice dedicated to growing manufacturers in association with a west coast regional accounting firm which allowed him the opportunity to establish a deep network of manufacturers, professional services and support connections regionally.

Mitch Van Domelen is a Certified Public Accountant who joined Jewett-Cameron in July 2017 as Controller. Mr. Van Domelen has extensive experience in finance and financial reporting for both public and private companies. Prior to joining Jewett-Cameron, he served as Controller for a national beverage brand where he managed the financial processes and full-cycle accounting for the company and its nine brewpub locations. From 2007 to 2012 he worked in public accounting at a large regional public accounting firm in Lake Oswego, Oregon, auditing both public and private companies. From 2005 to 2007, he served as a Sarbanes-Oxley (SOX) compliance consultant for SEC registrants in the Portland metro area, testing their compliance in both US and International regions. He holds a bachelor's degree in Business Administration from Southern Oregon University. He is a licensed CPA in the State of Oregon and is a member of the Oregon Society of CPA's.

In response to the COVID-19 pandemic, the State of Oregon originally lifted all of its mask and social distancing requirements in June 2021. However, as a response to the surge in COVID-19 infections, indoor masking requirements for businesses were reinstated in August 2021 and remain in effect. The Company will remain vigilant in regard to the COVID virus and its variants. 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. To date, we have not had any incidents of transmissions within the confines of our facilities due to our clear and consistent protocols during the restrictive period, as well as our employees' remarkable support of our procedures which has been critical to our success in keeping our workplace safe and running. This has directly led to our ability to retain our workforce through these challenging times as well as create an environment in which people feel safe. The assistance of the PPP program provided us the ability to assist sound employee decisions when they either felt they had an external exposure or perhaps even tested positive due to such external exposure. The loans the Company received under the Paycheck Protection Program were essential in supporting the Company's ability to operate without interruption during the crisis and retain 100% of its workforce. All of the borrowed funds were spent on qualifying employee payroll expenses, and the Company's loans were fully forgiven by the SBA in April 2021.

The outlook for the remainder of fiscal 2022 remains uncertain. The ongoing supply chain, international shipping and logistic issues are hampering the receipt of our products from China and final delivery to customers. We have increased our inventory levels to try to mitigate these risks and any additional risks from the worldwide emerging Omicron variant of COVID. However, this inventory increase has resulted in higher costs which will continue to negatively impact our margins in fiscal 2022. Although we have now negotiated higher selling prices with our customers, inflation, particularly in the form of higher raw material costs combined with higher shipping costs, will continue to pressure our margins. These selling price increases for our products may continue to lag any future increases in our product and operating costs, as they did during the first quarter, which may further compress our margins.

Three Months Ended November 30, 2021 and 2020

For the three months ended November 30, 2021, sales increased by \$2,601,440, or 25%, to \$12,917,724 from \$10,316,284 for the three months ended November 30, 2020. Gross profit decreased by \$498,036, or 17%, due to higher raw material and shipping costs.

Sales at JCC were \$11,845,884 for the three months ended November 30, 2021 compared to sales of \$8,929,636 for the three months ended November 30, 2020, which was an increase of \$2,916,248, or 33%. Sales during the current quarter were negatively affected by temporary shortages of certain products due to manufacturing issues in China and ongoing supply chain issues. The scheduled launch of several new product introductions for 2022 calendar year have been pushed out to accommodate the supply chain issues and ensure receipt of inventory to support successful launches. Operating loss for JCC was (\$699,697) compared to an operating profit of \$520,208 for the quarter ended November 30, 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.

Sales at Greenwood were \$534,112 for the three months ended November 30, 2021 compared to sales of \$724,752 for the three months ended November 30, 2020, which was a decrease of \$190,640, or 26%. Greenwood's sales have been heavily impacted by the COVID-19 shutdowns, as many of their products are sold to municipalities and larger transit operators. Greenwood is currently introducing new products to both existing and new customers. Management is also actively seeking new brokers to both open new sales channels and broaden its customer base, particularly in the housing and construction sectors. For the quarter, Greenwood's operating income was \$69,949 compared to an operating loss of (\$15,224) in the three months ended November 30, 2020.

Sales at JCSC declined to \$537,729 for the three months ended November 30, 2021 compared to sales of \$661,896 for the three months ended November 30, 2020. Management continues to refocus JCSC to better provide local growers with cleaning, seed brokering and sales services. However, the historic heat wave across the Pacific Northwest during the summer of 2021 damaged many crops and reduced harvested yields, which resulted in lower cleaning volumes in the current quarter. Operating loss for JCSC for the quarter was (\$101,350) compared to operating income of \$49,490 for the quarter ended November 30, 2020.

JC USA is the holding company for the wholly-owned operating subsidiaries. For the quarter ended November 30, 2021, JC USA had operating income of \$246,640 compared to operating income of \$72,309 for the quarter ended November 30, 2020. The results of JC USA are eliminated on consolidation.

Gross margin for the three month period ended November 30, 2021 was 19.1% compared to 28.7% for the three months ended November 30, 2020. The higher material and shipping costs resulted in significantly higher costs during the current quarter.

Operating expenses rose by \$592,928 to \$2,932,044 from \$2,339,116 for the three months ended November 30, 2021. Selling, General and Administrative Expenses increased to \$988,288 from \$694,628, and wages and employee benefits rose to \$1,874,118 from \$1,593,959 as the Company added additional staff. Depreciation and Amortization increased to \$69,638 from \$50,529. Interest and other income decreased to a cost of (\$17,276) from income of \$3,000 due to interest expense of (\$20,276) related to the borrowing on the Company's bank line of credit.

The loss before income taxes was (\$484,457) for the quarter ended November 30, 2021 compared to income of \$626,783 for the quarter ended November 30, 2020. The Company recorded income tax recovery in the current quarter of \$93,316 compared to income tax expense of \$138,256 for the three months ended November 30, 2020. 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 quarter ended November 30, 2021 was (\$391,141), or (\$0.11) per share, compared to net income for the quarter ended November 30, 2021 of \$488,527, or \$0.14 per share.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2021, the Company had working capital of \$18,209,591 compared to working capital of \$19,073,194 as of August 31, 2021, a decrease of \$863,603. Cash and cash equivalents totaled \$1,235,445, an increase of \$51,132 from cash of \$1,184,313. Accounts receivable fell to \$5,806,987 from \$7,086,503 due to the seasonal cycle of sales to customers and the related timing of cash receipts. Inventory increased by \$2,832,562 to \$17,223,927 from \$14,391,365 as the global supply chain issues delayed the delivery of products from China. Prepaid expenses, which is largely related to down payments for future inventory purchases, decreased by \$38,479. Prepaid income taxes rose to \$355,163 from \$252,958 due to the income tax recovery in the current quarter. Deferred tax liability increased slightly to \$125,834 from \$116,945.

Current liabilities increased to \$8,679,272 from \$6,147,765, with most of the increase due to the additional draw of \$2,000,000 from the Company's bank line of credit to \$5,000,000 as of November 30, 2021 from \$3,000,000 as of August 31, 2021. Accounts payable rose to \$2,084,438 from \$1,349,677, and accrued liabilities declined slightly to \$1,594,834 from \$1,798,088.

As of November 30, 2021, accounts receivable and inventory represented 86% of current assets and 74% of total assets. As of November 30, 2020, accounts receivable and inventory represented 67% of current assets and 58% of total assets. For the three months ended November 30, 2021, the accounts receivable collection period, or DSO, was 42 days compared to 37 days for the three months ended November 30, 2020. Inventory turnover to the three months ended November 30, 2021 was 135 days compared to 115 days for the three months ended November 30, 2020.

External sources of liquidity include a line of credit from U.S. Bank of \$10,000,000, which was increased during the period from \$5,000,000. As of November 30, 2021, the Company had a borrowing balance of \$5,000,000, leaving \$5,000,000 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, 2021, the one month LIBOR rate plus 175 basis points was 1.83% (0.08% + 1.75%). With the expected 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 2022. 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 has certain financial covenants. The Company is in compliance with these covenants.

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 believed 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 have been 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. All of the proceeds from the PPP loans were used for employee payroll expenses.

The principal amount of the PPP loans was \$680,707. They had a term of 2 years with a 1% annual interest rate. Payments were originally 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. However, the SBA subsequently revised the due date to either the date that SBA remits the borrower’s loan forgiveness amount to the lender or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness covered period. In April 2021, the SBA approved the Company’s application for forgiveness of the entire amount of both loans. For the year ended August 31, 2021, the Company recorded a one-time gain on the extinguishment of debt of \$687,387 consisting of the principal of \$680,707 and accrued interest of \$6,680.

The Company has historically used a portion of its excess cash to repurchase and cancel common shares. No common shares were repurchased during the first quarter of fiscal 2022 ended November 30, 2021. During the quarter, the Company issued 3,681 common shares to officers, directors and employees as compensation under the Company’s Restricted Share Plan at a deemed price of \$10.70 per share.

Current Working Capital Requirements

Based on the Company’s current working capital position, the continued global shipping and logistical issues, and the utilization of its current line of credit, the Company may require additional working capital to meet its needs for fiscal 2022. Management recently increased its line of credit to \$10 million of which \$4 million is currently available if needed. This additional credit, combined with the expected timing of accounts receivable is expected to be sufficient to meet the Company’s working capital requirements in fiscal 2022.

OTHER MATTERS

Inflation

Inflation did not have a material impact during fiscal 2020. Beginning in fiscal 2021, a number of product costs increased substantially, including raw materials, energy, and transportation/logistical related costs.

These higher costs have negatively affected the Company’s gross margins in the shorter term. Typically, the Company passes cost increases on to the customer, and is currently raising its product prices as much as the market will bear. Retailers are currently more receptive to such increases than in the past due to a mutual understanding of the current inflationary environment and the objective reasons for such. Since the ability of the Company to pass through all of the current increase in its product costs to its customers are somewhat limited and occur after such costs are first incurred, management expects that its gross margins will remain under pressure in fiscal 2022.

Environmental, Social and Corporate Governance (ESG)

Jewett-Cameron endeavors to be a good steward and provide sustainable products with a positive impact. We strive to operate and grow in a way that honors our environment and relationships for the long term. This also aligns with one of our three value pillars: sustainability.

Environmental

For our products, the goal is that 90% of materials can be recycled. Our suppliers are audited to strict commercial and fair practice standards, including our own supplier qualifications regarding facilities, capacity, labor practices, and environmental awareness. Packaging is designed to maximize recyclability and re-use and minimize non-recycled materials, and all waste materials in our own facilities are segregated to maximize recycling. Our facilities have replaced high energy consumption infrastructure with energy efficient HVAC and lighting during our recent remodel.

Active products and designs utilize either recycled or non-petroleum-based plastics to enhance recycling and composting. This includes the recently introduced compostable dog waste bag, a plant-based product, that is less reliant on fossil fuels used in traditional plastic bags. We also dedicate a percentage of sales to a sustainability coalition to drive industry research and development into more environmentally conscious products and raw material science.

Social

Our social responsibilities include cultural standards of operations and values which we establish in conjunction with our employees. We regularly provide employees with a corporate engagement survey to benchmark their engagement, satisfaction, and ideas for change. We support educational programs that build the future workforce through active participation in regional and statewide organizations, including the CTE/STEM Employer Coalition and assisting teachers to connect traditional school subjects to practical job site applications. The Company also actively participates in the local community, supported by a Corporate Charitable Giving Charter.

Governance

As a public company, our processes are outlined and governed by multiple regulations, including Sarbanes-Oxley. Our financial controls are mapped, executed, self-audited as well as regularly audited by outside experts as part of our annual process. We have established risk mitigations that allows for condensed reviews of risks and impacts with our systems in place. An IT Governance Committee aligns execution and security both for ourselves and also for parties with whom we communicate and do business.

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 4,030 shares for the three months ended November 30, 2021. 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 three months ended November 30, 2021, our top ten customers represented 75% 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 located in North America and are primarily in the retail home improvement and pet industries.

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 \$10,000,000, of which \$4,000,000 is available. We are currently in compliance with the requirements of our existing line of credit. If we lost access to 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, 2021. 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, 2021. 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 Officer and Principal 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 Principal Financial Officer have 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 the Company. The matter arises out of a dog allegedly escaping from a Jewett-Cameron kennel product and causing personal injuries to three individuals. The Company is currently one of three named Defendants. A trial date has not been set at this time. At the present time it is speculative to predict as to its outcome. It is the Company's intention to vigorously defend the lawsuit. The Company's applicable liability insurer is providing a defense covering the Company's legal fees and costs.

The Company has initiated arbitration against a former distributor asserting a breach of the distribution agreement and seeking damages. Arbitration is scheduled to commence in the first week of August 2022. While the company is robustly pursuing its rights and defending itself against claims, the arbitration and lawsuit are in their initial stages and therefore it is speculative to predict as to its outcome.

A consortium of California District Attorneys has contacted the Company in regard to possible liabilities related to environmental labeling of its plant-based Lucky Dog Poop Bags previously sold in the State of California. The Company has since modified its product marketing statements in response to their concerns, and any penalties in this regard is not able to be predicted at this time.

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 pursuant to Section 302 of the Sarbanes-Oxley Act, Chad Summers
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act, Mitch Van Domelen
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C., 1350 (Section 906 of the Sarbanes-Oxley Act), Chad Summers
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C., 1350 (Section 906 of the Sarbanes-Oxley Act), Mitch Van Domelen

- 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 13, 2022

/s/ "Chad Summers"

Chad Summers,
President and Chief Executive Officer

Date: January 13, 2022

/s/ "Mitch Van Domelen"

Mitch Van Domelen,
Chief Financial Officer