



Gitksan Development Corporation

Annual Report
December 31, 2016

Gitxsan Development Corporation

Message from the CEO

During the year the Company made its biggest gains to date with Gitxsan Safety Services (GSS) leading the way. It was very rewarding to see over 120 people on payroll and an honour to see GSS be recognized as BC Aboriginal Business Awards' Community based business of the year for 2016.

GSS became the largest operator of pilot vehicles having safely lead over 600 extraordinary loads coming from the Port of Stewart, while strengthening its traffic management services - the company now operates over 20 vehicles in its traffic services fleet.

In addition, the Company's lone worker monitoring center, BC SafetyLink, established to provide critical work alone monitoring asset tracking services to business, government and others operating in remote environments throughout British Columbia, began a pilot program to monitor WorkSafe BC employees.

Gitxsan Forests Inc also had its best year to date recording over \$6M in sales while reducing its silviculture liabilities by \$9M. While most sawmills around the area have been closed or have been operating at low capacity, GFI has made a conscious business decision to support these local mills and optimize its profitability through export. GFI exports approximately 55% of its harvest production.

GDC's Youth Discoveries Program, now in its fifth year continues to represent the most significant way for the Gitxsan to invest in their future. We expect to see skilled professionals and trades people filling the ranks of GDC, other business firms and in their own enterprises in the coming years.

Looking to 2017, I believe that GDC and its subsidiary company's are positioned to expand operational capacity, and explore new strategic opportunities. I sincerely believe the Gitxsan people are at the dawn of an incredible opportunity to realize the potential of the hard fought battles of the past, and while 2015 and 2016 were exceptional years, 2017 beyond present even greater opportunity and growth.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rick Connors', with a stylized flourish extending to the right.

Rick Connors, President and CEO

Gitxsan Development Corporation

Financial Highlights

The December 31, 2016 year-end consolidated financial statements for the Gitxsan Development Corporation (the “Company”) were audited by Akeroyd Leung Amlani, an independent CPA firm, based in Vancouver, BC, under an unqualified (clean) audit report date of June 30, 2017. An unqualified audit report is issued when the auditor concludes the financial statements have been prepared and presented fairly in accordance with Accounting Standards for Private Enterprises. Selected highlights of the Company’s year-end audited consolidated financial statements have been incorporated into this report.

Duties of Management

The Company maintained its financial record keeping, all adjusting journal entries as well as the preparation and fair presentation of its year-end financial statements. The Company adopted Accounting Standards for Private Enterprises in the prior year and has ensured that its financial statements were prepared in accordance with the aforementioned framework for the current year-end.

Audit of year-end consolidated financial statements

Akeroyd Leung Amlani performed the audit of the Company’s consolidated financial statements for the years ended December 31, 2016 and 2015. Akeroyd Leung Amlani performed the audit, complying with all ethical requirements, in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance regarding whether the consolidated financial statements are free from material misstatement.

Gitxsan Development Corporation
Financial Highlights

Balance Sheet Highlights

As at	December 31, 2016 (audited)	December 31, 2015 (audited)
Assets		
Current Assets	5,321,349	4,388,800
Total Assets	\$ 9,134,030	\$ 16,684,188
Liabilities		
Current Liabilities	8,035,058	8,177,359
Total Liabilities	10,586,743	19,639,342
Shareholders' Equity		
Retained earnings	(1,452,713)	(2,955,154)
Total Shareholders' Equity & Liabilities	\$ 9,134,030	\$ 16,684,188

Income Statement and Retained Earnings Highlights

For the years ended	December 31, 2016 (audited)	December 31, 2015 (audited)
Sales	\$ 15,465,294	\$ 6,701,203
Gross profit	7,796,564	3,953,582
General, Administrative and Other Expenses	6,271,595	4,431,006
Net income (loss)	\$ 1,502,441	\$ (431,240)
Retained earnings, beginning of year	(2,955,184)	(2,523,944)
Retained earnings, end of year	\$ (1,452,743)	\$ (2,955,184)

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Cash Flow Statement Highlights

For the years ended	December 31, 2016 (audited)	December 31, 2015 (audited)
Cash provided by (used in)		
Operating activities	2,504,351	78,366
Investing activities	(1,919,191)	863,052
Financing activities	(8,218)	(504)
Net increase in cash	576,942	940,914
Cash, beginning of the year	1,893,817	952,903
Cash, ending of the year	\$ 2,470,759	\$ 1,893,817

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Abstract notes for Financial Highlights

December 31, 2016

Operations and entities

Gitxsan Development Corporation (the "Company" or "GDC") was incorporated in the Province of British Columbia on June 22, 2011. The Company acts as the main economic vehicle through which the Gitxsan people exercise their rights, affirmed in the landmark Delgamuukw Supreme Court Judgment (1997), on their 33,000 square km traditional territory.

The Company has two main, wholly owned subsidiary businesses, Gitxsan Forests Inc. (GFI) and Gitxsan Safety Services Inc. (GSS).

The main operations of GFI consist of timber harvesting, reforestation and forest management on its lands located in Northern British Columbia, near the Hazeltons. The Company has a wide variety of customers, both small and large corporations, for its raw forestry products such as timber and logs. GFI operations are facilitated through a joint venture partnership with Brinkman Forest Ltd. through its offices in Terrace, BC.

The main operations of GSS consist of flagging, pilot car transport, general traffic management services and safety monitoring through its BC Safetylink division. Operations are centered out of the Hazelton office and cover a wide area of western Canada as its success continues to expand. This is one of the core businesses and largest employer for GDC.

Additionally, GDC has setup several other wholly-owned subsidiaries.

Gitxsan Environmental Services Inc. ("GES"), incorporated in the Province of British Columbia on May 7, 2013, is the subsidiary under which the Company offers environmental services, socio-economic studies, and other work to various regional customers including the Province of BC, Telus, BC Hydro, TransCanada and other various companies. Most business is on a regional basis, however, plans are in place to expand our scope and staff in 2017.

Gitxsan Energy Inc. ("GEI"), incorporated in the Province of British Columbia on November 13, 2009, is the subsidiary under which the Company conducts its alternate-energy objectives, such as biomass heating projects.

Gitxsan Transportation Inc. ("GTI"), incorporated in the Province of British Columbia on March 14, 2014 was established for the purpose of providing fuel, primarily for helicopter transportation, from its heliport facility at South Hazelton, BC.

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Gitxsan Properties Inc. ("GPI"), was incorporated in the Province of British Columbia on September 24, 2009, and was established to develop and hold property.

Involvement in joint operations

Lax Yip Forestry Limited Partnership

On March 17, 2014, the Lax Yip Forestry Limited Partnership ("LYF LP") was formed between the Company, Brinkman and Lax Yip Forestry Ltd. (general partner), for the purpose of harvesting, clearing, forest engineering, marketing and selling of timber, with material operations set to begin in 2015.

The percentage of net income/losses as well as assets and obligations of the partnership are split 60% / 39% / 1% for the Company/Brinkman/general partner, respectively. During the year-ended December 31, 2016, LYF LP incurred net income of \$258,498 (2015- \$236,524) as per GDC's 60% allocation of total net income.

Gitxsan Pipeline Services Joint Venture

The Company and Brinkman Forests Ltd. ("Brinkman"), signed an agreement on February 28, 2014, to form a joint venture, the Gitxsan Pipeline Services Joint Venture ("GPS") for the purposes of pursuing opportunities that may arise from natural gas pipeline development in the region.

The percentage of net income/losses as well as assets and obligations of the venture are split 60%/40% for the Company/Brinkman respectively. At December 31, 2016, the GPS venture had generated net loss of \$924 (2015- \$6,439) as per GDC's 60% allocation of total net income.

Intangible assets

Gitxsan Forests Inc. ("GFI") acquired Forest License A16831 ("FL") from Sunwave Forest Products Ltd., on April 19, 2007. Along with the acquisition of the FL, GFI assumed any silviculture liabilities as of the date of acquisition, on any lands under the aforementioned FL as well as Timber Development Assets and Forest Roads on those lands. The Gitxsan Treaty Society, initially provided funds to enable GFI to make the acquisition, on behalf of the Gitxsan Hereditary Chiefs.

In 2009, GFI engaged an independent 3rd party consultant to prepare an estimate of the value of the silviculture obligation, which was approximated to be \$3,151,047.

In Q4 2012, management engaged their joint venture partner, Brinkman, to complete a silviculture obligation assessment. The estimated obligation increased to \$14,567,308 which was recorded as an

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adjustment to the carrying value of the obligation as well as its corresponding asset.

During the prior year, the Company successfully submitted Free-To-Grow (“FTG”) applications on 71 blocks of forest under its Forest License A16831 (“FL”). The applications deem that the 71 blocks are “Free To Grow” such that no remediation efforts by the Company is required. As such, the total reduction in obligation was \$3,105,325 and corresponding reduction in the Silviculture Obligation asset due to the uncertainty.

The Company submitted FTG applications for a large number of blocks during the year. The blocks that were deemed FTG previously carried obligations of \$8,910,297. The resulting reduction in the balance of Silviculture Obligation and corresponding asset is \$8,910,297 down to \$2,551,686.

Related party transactions

During the year ended, short-term loans in the amount of \$4,167 were advanced to the Company. In total, the Company has been advanced total long-term loans of:

	2016 (audited)	2015 (audited)
Gitxsan Development Corporation ¹	1,320,067	1,328,285
Gitxsan Forests Inc. ²	3,906,825	3,906,825
	5,226,892	5,235,110

Notes:

¹Loans were advanced to Gitxsan Development Corporation, commencing in 2011 upon present management introducing new forestry initiatives.

²Loans were advanced to Gitxsan Forests Inc. prior to 2011.

Silviculture obligation

In April 2007, the Company acquired a Forest License through its subsidiary, Gitxsan Forests Inc., for the purposes of commencing logging operations. Along with the acquisition of the Forestry License, the Company inherited silviculture obligations as previously noted.

In 2009, the Company engaged an independent 3rd party consultant to prepare the Company’s initial silviculture obligation estimate of replanting. The estimate was approximated to be \$3,151,047 for which a liability and corresponding asset were setup.

In Q4 2012, management engaged their joint venture partner, Brinkman to complete a silviculture obligation assessment. The estimated obligation increased to \$14,567,308 which was recorded as an adjustment to the carrying value of the obligation as well as its corresponding asset.

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Subsequent events

No material events have occurred subsequent to year-end.

Management Update

As of August 2017...