



Gitksan Development Corporation

Annual Report
December 31, 2017

Gitxsan Development Corporation

Message from the CEO

Several strategic projects and initiatives began during 2017 that will prove to be defining moments for the Corporation.

Early in the year, the Company took important steps to grow the portfolio of its subsidiary, Gitxsan Environmental Services Inc (GES), into a leading environmental assessment business. With the addition of a Senior Environmental/Aquatic Professional, and two field technicians GES will be able to perform environmental monitoring, ecosystem services, climate and nature research, and to participate in project monitoring activities long into the future.

Work also began at the Company's South Hazelton property to dismantle old saw mill infrastructure to make way for the redevelopment and repurposing of the site, which will also host GDC's new Corporate Headquarters.

We are also pleased that our forestry subsidiary, Gitxsan Forests Inc (GFI), was able to lower its silviculture liabilities from \$11 Million the previous year to \$2.5 Million at present. With the silviculture liabilities reduced to a manageable level, the Company was better equipped to better manage its Forest Licence. The Company has since received significant interest in this asset from a leading Forest Management Firm, and has commenced discussions on a new collaborative endeavour.

We continue to invest in our youth, and we are proud of the work that has been done through the Career Discoveries Program, now in its fourth year. As well, the Company continues to support the aspirations of Gitxsan and community members through its Five Year Human Resource Strategy and Aggregate Workforce Profile, now in its second year.

It's most rewarding to witness the growth occurring in our region as we expand the scope of our projects, new business partnerships and a solid Gitxsan workforce who are building careers rooted in cultural social and economic values.

Sincerely,

Rick Connors, President and CEO

Gitxsan Development Corporation

Financial Highlights

The December 31, 2017 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 August 1, 2018. 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, 2017 and 2016. 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, 2017 (audited)	December 31, 2016 (audited)
Assets		
Current Assets	4,883,725	5,321,349
Total Assets	\$ 8,512,044	\$ 9,134,030
Liabilities		
Current Liabilities	8,060,204	8,035,058
Total Liabilities	10,666,967	10,586,743
Shareholders' Equity		
Retained earnings	(2,154,923)	(1,452,713)
Total Shareholders' Equity & Liabilities	\$ 8,512,044	\$ 9,134,030

Income Statement and Retained Earnings Highlights

For the years ended	December 31, 2017 (audited)	December 31, 2016 (audited)
Sales	\$ 7,967,149	\$ 15,465,294
Gross profit	4,281,538	7,796,564
General, Administrative and Other Expenses	5,037,505	6,271,595
Net income (loss)	\$ (702,210)	\$ 1,502,441
Retained earnings, beginning of year	(1,452,743)	(2,955,184)
Retained earnings, end of year	\$ (2,154,953)	\$ (1,452,743)

Gitxsan Development Corporation

Financial Highlights

Cash Flow Statement Highlights

	December 31, 2017 (audited)	December 31, 2016 (audited)
For the years ended		
Cash provided by (used in)		
Operating activities	(2,249,579)	2,504,351
Investing activities	184,710	(1,919,191)
Financing activities	61,697	(8,218)
Net increase in cash	(2,003,172)	576,942
Cash, beginning of the year	2,470,759	1,893,817
Cash, ending of the year	\$ 467,587	\$ 2,470,759

Gitxsan Development Corporation

Abstract notes for Financial Highlights

December 31, 2017

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.

A wholly-owned subsidiary was incorporated under GFI- Gitxsan Forest License Inc. ("GFLI"), incorporated in British Columbia on August 3, 2017- for the purposes of holding GFI's forest license. 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.

Gitxsan Development Corporation

Abstract notes for Financial Highlights

December 31, 2017

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

Gitxsan Food Services Inc. ("GFSI"), was incorporated in the Province of British Columbia on November 17, 2017. All of the outstanding shares of GFSI were acquired by GPI and GFSI will be a subsidiary of GPI. GFSI will provide food and catering services as well as own and manage restaurants to provide for workers in Northern regions of the province.

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, 2017, LYF LP incurred net income of \$1,041,126 (2016- \$258,498) 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, 2017, the GPS venture had generated net loss of \$27 (2016- \$934) 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, for the purchase price of \$1,000,000 cash. 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 on behalf of the Gitxsan Hereditary Chiefs provided funds to enable GFI to make the acquisition. The license's life began on September 1, 2007 with a 15-year life.

Gitxsan Development Corporation

Abstract notes for Financial Highlights

December 31, 2017

In 2009, GFI engaged an independent 3rd party consultant to prepare an estimate of the value of the Silviculture Obligation. At the time, the final estimated obligation was \$3,151,047.

The Timber Development Assets and Forest Roads had a total value of \$685,804. The remainder of the \$1,000,000 purchase price was allocated to the value of the FL, of \$314,196. As of December 31, 2011, GFI wrote off the Timber Development Assets and Forest Roads.

For the December 31, 2012 year-end, management engaged their joint venture partner, Brinkman to complete a Silviculture liability assessment. The estimated obligation increased to \$14,567,308. This increase was recorded as an adjustment to the carrying value of the obligation as well as the corresponding asset.

During 2015 and 2016, the Company successfully submitted Free-To-Grow ("FTG") applications over 200 blocks of forest under its Forest License A16831 ("FL"). The applications deem that those blocks are "Free To Grow" such that no remediation efforts by the Company is required. As such, the total reduction in obligation was \$12,015,622 from the 2012 estimate and corresponding reduction in the Silviculture Obligation asset due to the uncertainty.

During 2017, the Company did not conduct any further FTG applications. As such, the obligation remained constant at \$2,551,686. As of December 31, 2017, the obligation is not due to be paid as per the Ministry of Forests, Land and Natural Resource Operations.

Related party transactions

During the year, loans in the amount of \$4,583 were repaid to the Company's sole shareholder. The balances of amounts Due to/from Related Parties are noted below:

	2017	2016
	(audited)	(audited)
Gitxsan Development Corporation ¹	1,315,483	1,320,067
Gitxsan Forests Inc. ²	3,906,825	3,906,825
	5,222,308	5,226,892

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.

Gitxsan Development Corporation

Abstract notes for Financial Highlights

December 31, 2017

Silviculture obligation

In April 2007, the Company acquired a Forest License ("FL") for the purposes of commencing logging operations on the lands in the future. Along with the acquisition of the FL, the Company would be required to undertake reforestation operations, or silviculture operations, to plant new trees and seedlings wherever it undertook logging operations, as mandated by the Province of British Columbia. The Company concurrently accepted reforestation obligations for previous logging and forestry operations, for which reforestation was not performed.

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

For the 2012 fiscal year-end, the Company engaged another independent 3rd party ("Silviculture consultant") firm, to prepare an updated estimate of silviculture obligations for the Company. The Silviculture consultant updated estimate increased the total Silviculture Obligation and corresponding asset to \$14,567,308 for the December 31, 2012 year-end.

During 2015 and 2016, the Company successfully submitted Free-To-Grow ("FTG") applications over 200 blocks of forest under its Forest License A16831 ("FL"). The applications deem that those blocks are "Free To Grow" such that no remediation efforts by the Company is required. As such, the total reduction in obligation was \$12,015,622 from the 2012 estimate and corresponding reduction in the Silviculture Obligation asset due to the uncertainty.

During 2017, the Company did not conduct any further FTG applications. As such, the obligation remained constant at \$2,551,686. As of December 31, 2017, the obligation is not due to be paid as per the Ministry of Forests, Land and Natural Resource Operations.

Subsequent to year end, the Company sold the FL and transferred the associated Silviculture Obligation to the acquiror of the license

Subsequent events

On March 14, 2018, GFI entered into a termination and wind down agreement with its partner in the LYF LP. Subsequent to year-end, all remaining inventory was sold, all obligations were settled and final cash disbursements to limited partners were made.

Gitxsan Development Corporation

Abstract notes for Financial Highlights

December 31, 2017

On March 16, 2018, GFI entered into a sale agreement in which it has agreed to sell and transfer its Forest License A16831 to its wholly owned subsidiary, GFLI in exchange for 100 shares of GFLI and a promissory note owing to GFI of \$111,604.

On March 16, 2018, GFI entered into a share purchase agreement with NorthPac License Company Ltd. ("NorthPac"), to sell all of the issued and outstanding shares of GFLI- 100% of which are owned by GFI- for a purchase price equal to \$2,388,396 plus the amount of the promissory note of \$111,604, for total remuneration of \$2,500,000.

As part of this share sale, GFI and NorthPac have also signed a Free Growing Obligation Transfer and Assumption agreement that will transfer the Forest License's associated Silviculture Obligation and corresponding asset to NorthPac, for which all current and future Silviculture Obligations will be those of NorthPac.