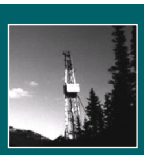
Mullen Group Ltd.

2016

ANNUAL FINANCIAL REVIEW



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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**"), dated February 8, 2017, has been prepared by management of Mullen Group Ltd. ("**Mullen Group**" and/or the "**Corporation**") for the fiscal year ended December 31, 2016, and should be read in conjunction with the audited annual consolidated financial statements for the fiscal year ended December 31, 2016 (the "**Annual Financial Statements**"). Unless otherwise specified, information in this MD&A is provided as at such date and any reference to "Mullen Group", "we", "us", "our" or the "Corporation" means Mullen Group Ltd., a corporation incorporated under the laws of the province of Alberta and includes its predecessors where context so requires. The Annual Financial Statements and other additional information on Mullen Group, including the Annual Information Form dated February 8, 2017, are available on SEDAR at www.sedar.com and at www.mullen-group.com. Such documents are also available upon request, free of charge, from the Corporate Investor Services group at ir@mullen-group.com. This MD&A and the Annual Financial Statements were reviewed by Mullen Group's Audit Committee and approved by the Board of Directors (the "**Board**") on February 8, 2017.

ACCOUNTING PRINCIPLES

The Annual Financial Statements have been prepared in accordance to and comply with International Financial Reporting Standards (**"IFRS**"), which include the International Accounting Standards ("**IAS**") and the interpretations developed by the International Financial Reporting Interpretations Committee ("**IFRIC**"), as issued by the International Accounting Standards Board ("**IASB**"). Unless otherwise indicated, all amounts contained in this MD&A are in Canadian funds, which is the functional currency of the Corporation.

ADVISORY:

Forward-looking statements - *This MD&A reflects management's expectations regarding Mullen Group's future growth, financial condition, results of operations, performance, business prospects, strategies and opportunities and contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable securities laws. Wherever possible, words such as "anticipate", "may", "will", "believe", "expect", "potential", "continue", "view", "objective", "should", "plan", "intend", "ongoing", "estimate", "project" or similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and assumptions and are based on information currently available to management. Forward-looking statements involve significant inherent risks and uncertainties, numerous assumptions and the risk that the predictions and forward-looking statements will not be achieved and that the actual results or events may differ materially from those anticipated in such forward-looking statements. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable beliefs and assumptions, Mullen Group cannot assure readers that actual results will be consistent with these forward-looking statements. Some of the risks and uncertainties include, but are not limited to certain strategic, financial and operational risks, most important of which are reduced oil and natural gas drilling, decreased oil sands and heavy oil activity, a slowdown in the general economy, currency exchange rates, change in the return on fair value of investments, prevailing interest rates, regulatory framework governing taxes and environmental matters in the jurisdictions in which the Corporation conducts and will conduct its business, customer relationships, labour disruption and driver retention, accidents, cost of liability insurance, fuel prices, ability to access sufficient capital from internal and external sources and changes in legislation including but not limited to tax laws and environmental regulations. Given these risks and uncertainties, readers should not place undue reliance on the forward-looking statements contained in this MD&A. Readers are cautioned that the foregoing list of factors and risks is not exhaustive. Additional information on these and other factors and risks that could affect the operations or financial results of Mullen Group may be found under the heading "Principal Risks and Uncertainties" starting on page 59 as well as in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements contained in this MD&A are made as of the date hereof and Mullen Group undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities law. Mullen Group relies on litigation protection for "forward-looking" statements. Additional information regarding the forward-looking statements contained in this MD&A and the material assumptions made in preparing such statements may be found under the heading "Forward-Looking Information Statements" beginning on page 73 of this MD&A.*

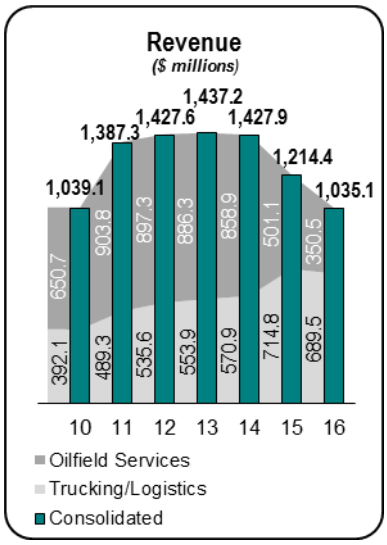
Non-GAAP and Additional GAAP Terms *- Mullen Group reports on certain financial performance measures that are described and presented in order to provide shareholders and potential investors with additional measures to evaluate Mullen Group's ability to fund its operations and information regarding its liquidity. In addition, these measures are used by management in its evaluation of performance. These financial performance measures ("**Non-GAAP and Additional GAAP Terms**") are not recognized financial terms under Canadian generally accepted accounting principles ("**Canadian GAAP**"). For publicly accountable enterprises, such as Mullen Group, Canadian GAAP is governed by principles based on IFRS and interpretations of IFRIC. Management believes these Non-GAAP and Additional GAAP Terms are useful supplemental measures. These Non-GAAP and Additional GAAP Terms do not have standardized meanings and may not be comparable to similar measures presented by other entities. Specifically, operating income before depreciation and amortization[1], operating margin[1], operating income before depreciation and amortization – adjusted[1], operating margin – adjusted[1], net income – adjusted[1], earnings per share – adjusted[1], net capital expenditures[1], net debt[1] , total net debt[1] and cash flow per share[1] are not measures recognized by Canadian GAAP and do not have standardized meanings prescribed by Canadian GAAP. For the reader's reference, the definition, calculation and reconciliation of Non-GAAP and Additional GAAP Terms are provided in the "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms" section of this MD&A. The Non-GAAP and Additional GAAP Terms should not be considered in isolation or as a substitute for measures prepared in accordance with Canadian GAAP. Investors are cautioned that these indicators should not replace the forgoing Canadian GAAP terms: net income, earnings per share, purchases of property, plant and equipment, proceeds on sale of property, plant and equipment and debt.*

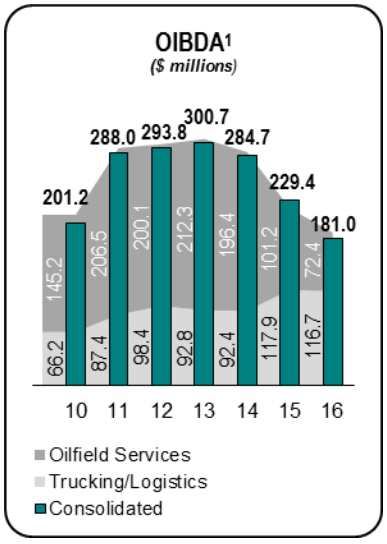
[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

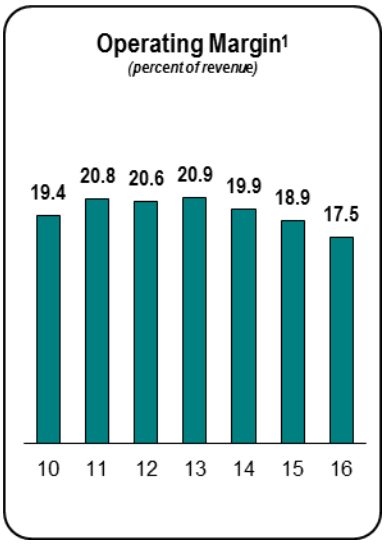
FINANCIAL HIGHLIGHTS – CONSOLIDATED

PERFORMANCE:	Years ended December 31		
($ millions, except share price and per share amounts)	2016	2015	2014
Financial Results			
Revenue	**$ 1,035.1**	$ 1,214.4	$ 1,427.9
Operating income before depreciation and amortization[1]	**181.0**	229.4	284.7
Operating income before depreciation and amortization – adjusted[1]	**184.4**	213.6	282.7
Net unrealized foreign exchange (gain) loss	**(5.8)**	39.7	15.5
(Increase) decrease in fair value of investments	**(1.7)**	19.4	20.7
Net income	**52.0**	13.4	94.6
Net income – adjusted[1]	**46.9**	73.6	131.1
Net cash from operating activities	**174.3**	211.6	248.6
Cash dividends declared to common shareholders	**54.2**	110.0	109.7
Financial Position			
Cash and cash equivalents	**$ 270.3**	$ 147.2	$ 325.4
Long-term debt (includes the current portion thereof and the debt component of Debentures)	**695.7**	780.9	705.0
Total assets	**1,873.0**	1,817.0	1,862.1
Share Information			
Cash dividends declared per Common Share	**$ 0.56**	$ 1.20	$ 1.20
Earnings per share – basic	**$ 0.52**	$ 0.15	$ 1.04
Earnings per share – diluted	**$ 0.52**	$ 0.15	$ 1.02
Earnings per share – adjusted[1]	**$ 0.47**	$ 0.80	$ 1.44
Share price – December 31	**$ 19.83**	$ 14.01	$ 21.31
Other Information			
Net capital expenditures[1]	**$ 14.5**	$ 65.6	$ 69.4
Acquisitions	**$ 24.6**	$ 176.8	$ 28.6

[1] *Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".*







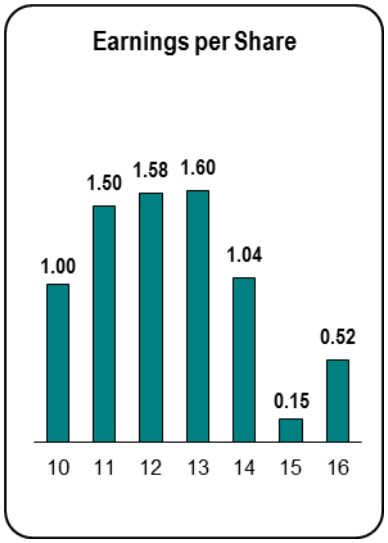
[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

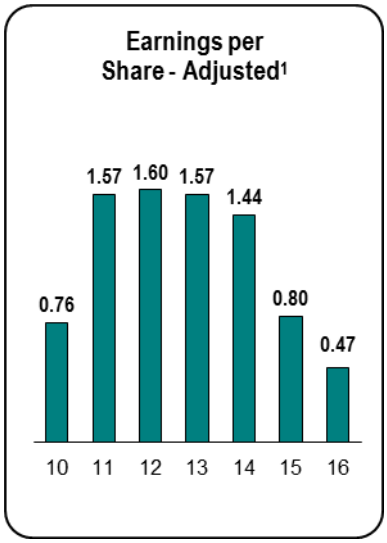
POSITION:

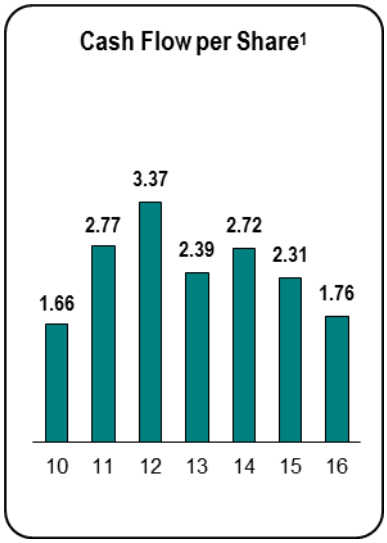
- Working capital: $243.1 million (includes $270.3 million of cash and cash equivalents and a current liability of $134.1 million related to the Series E and Series F Notes, which mature on September 27, 2017)
- Net debt[1]: $316.3 million (long-term debt plus the debt component of Debentures less working capital; excludes $32.8 million of derivative financial instruments that converts U.S. $229.0 million of debt into Canadian currency at an average exchange rate of $1.1096)
- Net debt[1] to OIBDA[1]: 1.75:1
- Access to additional funding of $75.0 million from our undrawn Bank Credit Facility

PROGRESS:

- Despite extremely weak demand for oilfield services, our Oilfield Services segment achieved OIBDA[1] of $72.4 million in 2016 and improved operating margin[1] to 20.7 percent as compared to 20.2 percent in 2015
- We generated $174.3 million in net cash from operating activities in 2016 due to our diverse and highly adaptable business model
- Completed four acquisitions for total cash consideration of $31.7 million
- Maintained an acceptable operating margin[1] of 17.5 percent, despite lower demand for services and competitive pricing pressures
- Repaid $70.0 million of Series C Notes and at our own discretion, entered into an agreement with our Private Placement Debt noteholders to amend the financial covenant term total debt to total net debt[1]







[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

SEVEN YEAR SELECTED FINANCIAL DATA

Consolidated

Years ended December 31 *($ thousands)* *(unaudited)*	2016 $	2015 $	2014 $	2013 $	2012 $	2011 $	2010 $
Revenue	**1,035,059**	1,214,372	1,427,851	1,437,166	1,427,640	1,387,293	1,039,119
Expenses							
Direct operating expenses	**711,847**	844,025	985,163	983,382	983,535	951,825	709,443
Selling and administrative expenses	**142,179**	140,928	157,947	153,101	150,298	147,493	128,526
Operating income before depreciation and amortization[1]	**181,033**	229,419	284,741	300,683	293,807	287,975	201,150
Operating income before depreciation and amortization - adjusted[1]	**184,455**	213,623	282,790	300,156	294,072	287,718	201,725
Depreciation and amortization	**85,300**	94,247	85,161	86,242	83,669	80,818	76,474
Finance costs	**32,460**	35,815	47,370[2]	26,305	32,897	36,279	38,413
Net unrealized foreign exchange (gain) loss	**(5,778)**	39,701	15,570	16,144	(5,194)	6,345	(14,100)
Other (income) expense	**(2,694)**	19,289	4,897	(20,710)	5,668	5,335	(5,282)
Impairment of goodwill	**—**	—	—	—	3,000	—	—
Gain on contingent consideration	**—**	(3,000)	—	—	(2,000)	—	—
Income before income taxes	**71,745**	43,367	131,743	192,702	175,767	159,198	105,645
Income tax expense	**19,707**	30,001	37,110	49,407	44,858	39,765	26,340
Net income	**52,038**	13,366	94,633	143,295	130,909	119,433	79,305

(1) *Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".*

(2) *Includes a one-time $20.0 million prepayment expense, which resulted from Mullen Group's decision to repay its Series A and Series B Notes prior to maturity.*

Segmented Information

Years ended December 31 *($ thousands)* *(unaudited)*	2016 $	2015 $	2014 $	2013 $	2012 $	2011 $	2010 $
Trucking/Logistics Segment							
Revenue	**689,516**	714,844	570,892	553,940	535,562	489,304	392,056
Direct operating expenses	**487,975**	510,779	414,078	400,972	381,027	352,521	284,348
Selling and administrative expenses	**84,864**	86,126	64,410	60,128	56,089	49,391	41,513
Operating income before depreciation and amortization[1]	**116,677**	117,939	92,404	92,840	98,446	87,392	66,195
Operating margin[1]	**16.9%**	16.5%	16.2%	16.8%	18.4%	17.9%	16.9%
Oilfield Services Segment							
Revenue	**350,506**	501,054	858,893	886,296	897,274	903,768	650,671
Direct operating expenses	**231,863**	337,843	578,236	590,964	613,214	610,509	431,886
Selling and administrative expenses	**46,225**	61,977	84,248	83,026	83,910	86,809	73,557
Operating income before depreciation and amortization[1]	**72,418**	101,234	196,409	212,306	200,150	206,450	145,228
Operating margin[1]	**20.7%**	20.2%	22.9%	24.0%	22.3%	22.8%	22.3%

(1) *Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".*

Other Information

Years ended December 31 *($ thousands)* *(unaudited)*	2016	2015	2014	2013	2012	2011	2010*
Ratios – Operating							
Return on equity[1]	**5.9%**	1.6%	10.5%	16.6%	17.1%	17.8%	12.6%
Gross margin – percentage of revenue[2]	**31.2%**	30.5%	31.0%	31.6%	31.1%	31.4%	31.7%
Selling and administrative expenses – percentage of revenue	**13.7%**	11.6%	11.1%	10.7%	10.5%	10.6%	12.4%
Operating margin[3]	**17.5%**	18.9%	19.9%	20.9%	20.6%	20.8%	19.4%
Operating ratio[4]	**90.7%**	90.4%	86.4%	83.7%	85.7%	85.5%	87.5%
Financial Position							
Acid test ratio[5]	**1.88:1**	1.85:1	4.16:1	2.37:1	2.30:1	2.02:1	2.75:1
Property, plant and equipment	**$948,540**	$992,206	$911,699	$903,256	$843,318	$798,362	$727,128
Total assets	**$1,873,027**	$1,817,035	$1,862,137	$1,587,609	$1,555,904	$1,527,137	$1,403,837
Long-term debt (including current portion)	**$695,697**	$780,901	$704,992	$425,556	$434,058	$507,482	$517,096
Equity	**$960,410**	$806,644	$900,943	$900,112	$827,125	$704,299	$634,815
Debt-to-equity ratio[6]	**0.72:1**	0.97:1	0.78:1	0.47:1	0.52:1	0.72:1	0.81:1
Net cash from operating activities	**$174,314**	$211,572	$248,585	$214,401	$279,854	$221,410	$131,857
Share Data							
Net cash from operating activities per share	**$1.76**	$2.31	$2.72	$2.39	$3.37	$2.77	$1.66
Book value per share[7]	**$9.27**	$8.80	$9.83	$9.93	$9.43	$8.71	$8.06
Earnings per share (basic)[8]	**$0.52**	$0.15	$1.04	$1.60	$1.58	$1.50	$1.00
Price/earnings ratio[9]	**38.1**	93.4	20.5	17.7	13.2	13.1	16.9
Weighted number of shares outstanding (thousands)	**99,165**	91,653	91,377	89,764	82,961	79,885	79,411
Total shares outstanding (thousands)	**103,654**	91,661	91,611	90,662	87,668	80,838	78,718

* In preparing its opening IFRS consolidated statement of financial position as at January 1, 2010, Mullen Group recognized a $545.5 million reduction in retained earnings. This $545.5 million reduction resulted from a $640.3 million impairment of goodwill (net of tax) less a $94.8 million deemed fair value cost adjustment to land (net of tax).

NOTES:

(1) Return on equity was calculated by dividing net income by average shareholders' equity.

(2) Gross margin was calculated by dividing revenue less direct operating costs by revenue.

(3) Operating margin was calculated by dividing operating income before depreciation and amortization by revenue.

(4) Operating ratio was calculated by dividing the total cost before taxes, interest, earnings from equity investments and net unrealized gains and losses on foreign exchange by revenue.

(5) Acid test ratio was calculated by dividing cash plus receivables by current liabilities.

(6) Debt-to-equity ratio was calculated by dividing total debt by shareholders' equity.

(7) Book value per share was calculated by dividing shareholders' equity by the number of shares outstanding.

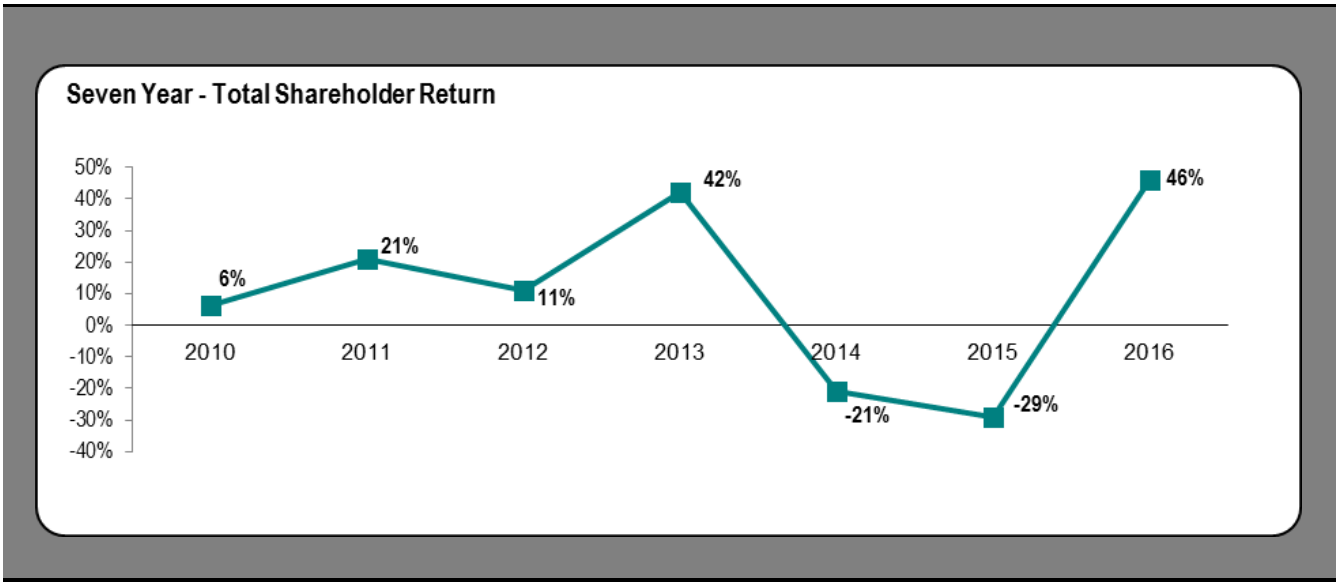
(8) Earnings per share was calculated by dividing net income by the weighted average number of shares outstanding.

(9) Price/earnings ratio was calculated by dividing the year end closing price by earnings per share.

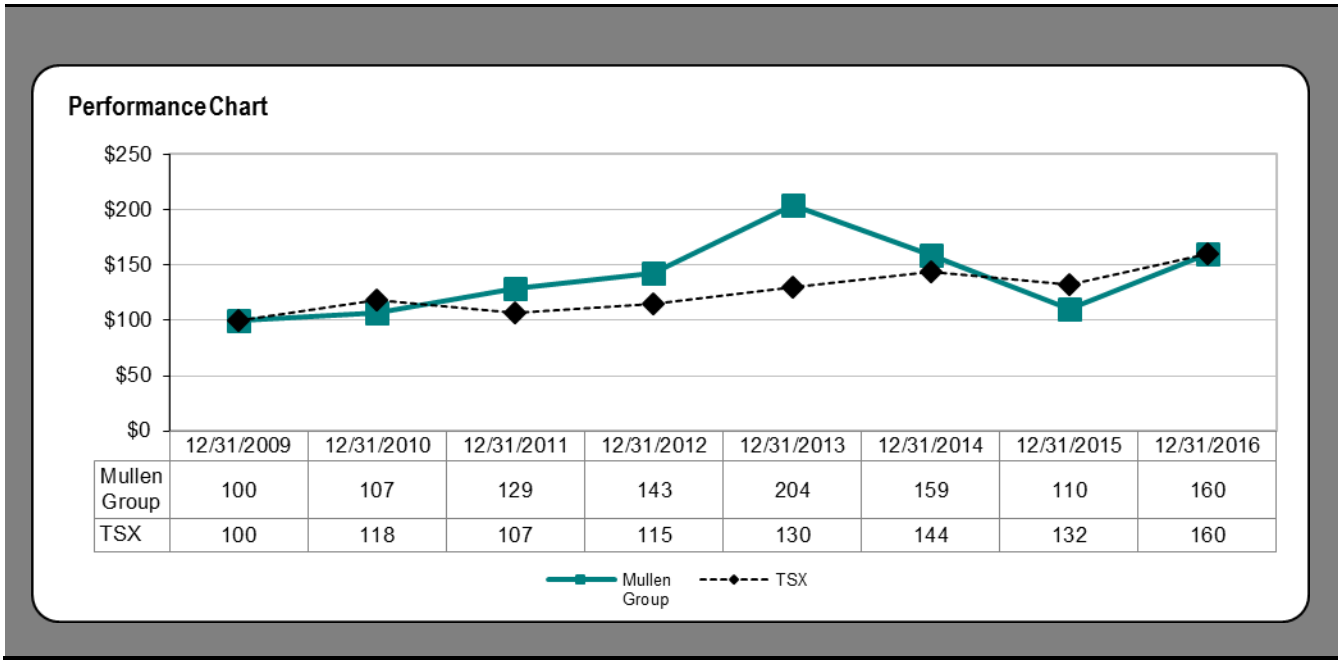
SHAREHOLDER INFORMATION

*Mullen Group's shares are listed on the Toronto Stock Exchange ("**TSX**") under the trading symbol MTL.*

Mullen Group's Total Shareholder Return consists of a combination of its annual dividend and the variance of its share price on an ongoing basis.



The following table and graph illustrate the cumulative return of our Common Shares at the end of each financial year, assuming an initial investment of $100 on December 31, 2009, compared to the S&P/TSX Composite Total Return Index, assuming the reinvestment of all declared dividends and distributions where applicable.



	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
Mullen Group	100	107	129	143	204	159	110	160
TSX	100	118	107	115	130	144	132	160

EXECUTIVE SUMMARY

Mullen Group operates a diversified business model combined with a highly adaptable and variable cost structure. The financial highlights for the three month period ending December 31, 2016 are as follows:

- generated consolidated revenue of $257.8 million, a decrease of $29.9 million, or 10.4 percent, as compared to $287.7 million in 2015 due to:
    - a $25.3 million or 23.1 percent decline in the Oilfield Services segment
    - a $4.5 million or 2.5 percent decline in the Trucking/Logistics segment
- earned consolidated operating income before depreciation and amortization ("**OIBDA[1]**") of $42.5 million, a decrease of $10.2 million as compared to $52.7 million in 2015 due to:
    - a $5.8 million decrease in the Oilfield Services segment
    - a $3.5 million decrease in the Trucking/Logistics segment
    - a $0.9 million increase in Corporate Office (as hereafter defined on page 13) costs related to a $1.1 million negative variance in foreign exchange
- adjusting for the negative impact of foreign exchange at the Corporate Office, operating income before depreciation and amortization ("**OIBDA – adjusted**[1]") was $40.2 million, or 15.6 percent of revenue, as compared to $49.3 million, or 17.1 percent of revenue in 2015. These results more accurately reflect our operating performance.
- closed the acquisitions of Caneda Transport Inc. ("**Caneda**") and E.C.R. Enterprises Ltd. ("**E.C.R.**")

Fourth Quarter Financial Results

For the three month period ended December 31, 2016, revenue decreased by $29.9 million, or 10.4 percent, to $257.8 million as compared to $287.7 million in 2015. This was primarily attributable to a $25.3 million decline in revenue in the Oilfield Services segment and a $4.5 million decline by the Trucking/Logistics segment. Both segments were negatively impacted by challenging market conditions; reduced demand for services, most notably in western Canada due to the continued reduction in capital investment by the oil and gas industry; lower year over year fuel surcharge revenue, accompanied by our strategy to demarket unprofitable business. The $25.3 million decrease in revenue in the Oilfield Services segment was most notable in those Business Units (as hereafter defined on page 11) involved in the transportation of fluids and servicing of wells, from lower demand for services within Alberta's oil sands region including heavy haul freight and dewatering services, and from lower revenue generated from large diameter pipeline construction projects due to the timing of various projects. These decreases were somewhat offset by a small increase in revenue generated by those Business Units most directly tied to oil and natural gas drilling activity. The decline in Trucking/Logistics segment revenue was mainly due to lower demand for freight services in western Canada and a $0.2 million drop in fuel surcharge revenue. Incremental revenue generated from the acquisitions of Caneda, Motrux Inc. ("**Motrux**") and E.C.R. offset a portion of the revenue decline. Motrux and E.C.R. have been integrated into the operations of Mullen Trucking Corp. ("**Mullen Trucking**") and the Hi-Way 9 Group of Companies ("**Hi-Way 9**"), respectively.

OIBDA[1] for the fourth quarter was $42.5 million, a decrease of $10.2 million or 19.4 percent as compared to 2015 and was primarily due to the decline in quarterly revenue; competitive pricing which reduced profitability; a change in revenue mix; and higher direct operating expenses as a percentage of revenue. The Oilfield Services segment generated OIBDA[1] of $15.0 million, a decline of $5.8 million due to lower demand for services within Alberta's oil sands region, the timing of large diameter pipeline construction projects and from declines experienced by those Business Units involved in the transportation of fluids and servicing of wells. The Trucking/Logistics segment generated OIBDA[1] of $26.3 million, a decrease of $3.5 million or 11.7 percent from 2015. As a percentage of segment revenue, operating margin[1] in the Oilfield Services segment decreased to 17.8 percent from 19.0 percent

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

in 2015. Operating margin[1] in the Trucking/Logistics segment decreased to 15.2 percent as compared to 16.8 percent in 2015. The decrease in operating margin[1] in both of our segments was mainly due to an increase in direct operating expenses as a percentage of segment revenue. Adjusting for Corporate Office costs related to the impact of foreign exchange gains on U.S. dollar cash held, OIBDA – adjusted[1] was $40.2 million, a decrease of $9.1 million or 18.5 percent as compared to $49.3 million in 2015. Stated as a percentage of consolidated revenue, operating margin – adjusted[1] decreased to 15.6 percent as compared to 17.1 percent in 2015.

In the fourth quarter of 2016, we recorded a net loss of $(0.7) million or $(0.01) per share, a decrease of $3.1 million, or 129.2 percent, compared to net income of $2.4 million or $0.03 per share in 2015. The $3.1 million decrease was primarily due to the $10.2 million decrease in OIBDA[1] and a $3.0 million decrease in gain on contingent consideration. These decreases were partially offset by a $5.1 million positive variance in the fair value of investments, a $2.2 million decrease in amortization of intangible assets and a $2.2 million increase in the gain on sale of property, plant and equipment.

Quite simply business fundamentals remained difficult in the fourth quarter. Demand remained our biggest challenge for many of the reasons we have articulated throughout the year. Reduced capital investment, spending and drilling activity by the oil and natural gas industry in western Canada directly impacts the oil and gas service industry, the Alberta economy and, by association, the demand for trucking and logistics services. This in turn becomes a negative drag on the Canadian economy, as evidenced by the GDP numbers, which continue to show the economy struggling to grow at even a very modest pace. And in the absence of real economic growth, markets become very competitive. In particular the few remaining larger capital projects associated with the development of Alberta's oil sands neared completion further reducing the demand for trucking and transload services. All in all generating revenue and producing acceptable profitability in periods of low demand is very difficult.

Nevertheless, we are pleased with our performance and the fact that we addressed the market challenges proactively and aggressively, focusing on managing those things in our control, like managing costs and improving the operational efficiency of our organization. These are the types of initiatives that will prove sustainable when market conditions improve. And of course acquisitions remain an important component of our long-term strategy. In the quarter we completed another two transactions, both smaller in nature but complementary to our existing trucking and logistics Business Units. In fact acquisitions are the only way to grow our business in the short-term in the absence of any real and sustainable growth in the economy.

Financial Position

At December 31, 2016, we had $243.1 million (December 31, 2015 - $187.1 million) of working capital that included $270.3 million (December 31, 2015 - $147.2 million) of cash and cash equivalents, of which $81.0 million was denominated in U.S. currency. Somewhat offsetting our increase in cash and cash equivalents was a decline in non-cash working capital, which resulted from the inclusion of a $134.1 million current portion of long-term debt related to the Series E (U.S. $85.0 million) and Series F ($20.0 million) Notes, which mature on September 27, 2017. At December 31, 2016, net debt[1] was $316.3 million (December 31, 2015 - $522.0 million) and we had access to additional funding of $75.0 million from our undrawn Bank Credit Facility (as hereafter defined on page 36). On May 17, 2016, we closed a bought deal public offering (the "**Offering**") and a non-brokered private placement (the "**Private Placement**") for net proceeds of $153.1 million. The Corporation's long-term debt consists mainly of its Private Placement Debt (as hereafter defined on page 21) (which includes the Series E and Series F Notes) of U.S. $314.0 million and Canadian $261.0 million. The weighted average interest rate on our U.S. dollar debt and our Canadian dollar debt is 4.43 percent and 4.58 percent, respectively. The majority of this debt matures on October 22, 2024 and October 22, 2026. In July 2014, we entered into two cross-currency swap contracts to swap the principal portion of $229.0 million of U.S. dollar debt into a Canadian currency equivalent of $254.1 million for an average exchange rate of $1.1096. At December 31, 2016, the carrying value of these Cross-Currency Swaps (as hereafter defined on page 22) was $32.8 million and was recorded within derivative financial instruments ("**Derivatives**") on the consolidated statement of financial position. The net book value of property, plant and equipment was $948.5 million, the majority of which consists of $464.7 million of real property (carrying cost of $517.6 million) and $392.9 million (carrying cost of $744.2 million) of trucks and trailers.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

After a couple of very difficult years, we have a more positive outlook for the overall Canadian economy and for the oil and natural gas industry. In particular, commodity prices are much more constructive than a year ago and this will translate into additional investment activity and spending by the industry. In fact we are already seeing evidence of this increase in western Canada with drilling activity higher than last year at this time. In addition, recent developments regarding major pipeline infrastructure projects is promising, not just for the short-term economic activity but also for the long-term viability of the oil and natural gas industry in Canada. When projects such as these are sanctioned, accompanied by a recovery in drilling activity, there will be a positive impact on the demand for oilfield and trucking services, as well as pricing levels, fundamentals lacking in 2016. Furthermore, we are well positioned to accelerate growth with quality acquisitions. Having a strong balance sheet is an integral component to our acquisition strategy. The other is timing and from this perspective my view is that we will be presented with many opportunities to evaluate in 2017 as business owners struggle to find success in this ultra-competitive market. Our focus will be to pursue acquisitions that we believe can be successfully integrated into our organization.

Twelve Month Period Ended Financial Results

For the year ended December 31, 2016, we generated revenue of $1,035.1 million a decrease of $179.3 million, or 14.8 percent, as compared to $1,214.4 million in 2015. The decrease in revenue was mainly due to a $150.6 million drop in revenue in the Oilfield Services segment due to drastically lower drilling programs, reduced spending and cuts to capital investments in response to the collapse in crude oil and natural gas prices. These decreases were partially offset by greater demand for services related to large diameter pipeline construction projects. Revenue generated in the Trucking/Logistics segment decreased by a relatively modest $25.3 million, or 3.5 percent, primarily due to lower demand for freight services in western Canada as well as a $9.2 million reduction in fuel surcharge revenue due to lower fuel prices. These decreases were partially offset by the incremental revenue of $18.3 million related to the acquisitions of Courtesy Freight Systems Ltd. ("**Courtesy**"), Caneda, Motrux and E.C.R. and from increased demand for transload services.

OIBDA[1] for 2016 was $181.0 million as compared to $229.4 million in 2015. The decrease of $48.4 million represents a decline of 21.1 percent year over year and is primarily due to two factors. First, the significant declines in revenue experienced by the Oilfield Services segment resulted in a $28.8 million decrease in segment OIBDA[1]. Secondly, Corporate Office costs increased by $18.4 million due to a $19.2 million negative variance in foreign exchange, which resulted from a $0.04 increase in the value of the Canadian dollar vis-a-vis the U.S. dollar. Excluding the impact of foreign exchange gains and losses on U.S. dollar cash held, the Corporate Office recorded a $0.8 million decrease in costs on a year over year basis, which was mainly due to the impact of cost control measures. To a lesser extent, OIBDA[1] in the Trucking/Logistics segment experienced a modest decline of $1.2 million or 1.0 percent compared to 2015. OIBDA – adjusted[1] for 2016 decreased to $184.4 million, or 13.7 percent, as compared to $213.6 million generated in 2015. Stated as a percentage of consolidated revenue, operating margin – adjusted[1] increased to 17.8 percent as compared to 17.6 percent in 2015 due to the operating performance and disciplined cost control initiatives implemented in both segments.

Net income in 2016 increased to $52.0 million, as compared to $13.4 million in 2015. The increase of $38.6 million was mainly attributable to a $45.5 million positive variance in net unrealized foreign exchange, a $21.1 million positive variance in the fair value of investments, a $10.3 million decrease in income tax expense, a $5.0 million decrease in amortization of intangible assets and a $4.0 million decrease in depreciation of property, plant and equipment. These increases were somewhat offset by the $48.4 million decrease in OIBDA[1].

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

OUTLOOK

Until very recently the outlook for the overall economy was quite subdued and the prospects for the oil and gas industry was decisively negative. This has been the prevailing theme for nearly two years, commencing with the rapid and steep declines in commodity prices, namely crude oil and natural gas, beginning in late 2014. There is, however, reason to believe that the oil and gas industry is in the early stages of a recovery given the rebound in both crude oil and natural gas pricing. There is also optimism that the demand for trucking and logistics will improve based upon the expectation that the U.S. economy will accelerate under the new U.S. Administration's pro-growth agenda. For these reasons, we are more confident in terms of the outlook for the markets we serve than we have been for several quarters.

In our previous outlook commentary to shareholders we highlighted several factors that we believed would negatively impact the demand as well as pricing in both segments of the economy that Mullen Group services – trucking and logistics in Canada and the oil and natural gas industry in western Canada. Our underlining view was that there was a supply/demand imbalance in both market segments and as a result business and profitability would be negatively impacted. Our reported results for the fourth quarter and full year 2016 are an indication of these challenging market conditions.

For 2017 shareholders are expecting a recovery as evidenced by the strong share performance of the majority of companies involved in the oil and natural gas industry, including Mullen Group. We also have similar expectations and believe that there has been a fundamental shift in the outlook for the industry. As a result, we expect a rebound in the demand for oilfield related services as well as modest pricing improvements as drilling activity increases. However, we believe that there remains a period of adjustment required before the financial performance of the 15 Business Units (as hereafter defined on page 11) in our Oilfield Services segment returns to acceptable levels. Within this context we are of the view that the first half of 2017 will underperform until pricing recovers, which we anticipate will occur as the year progresses. In terms of capital investment there are signs that the oil and gas companies are beginning to invest in new projects, although we note that several major oil sands projects are now entering the final stages of construction. As a result the total capital spend by the oil and natural gas industry could decline in 2017 as compared to prior years. Major pipeline projects in Canada are planned but the timing is unpredictable. These projects when sanctioned would have a significant impact on economic activity and Mullen Group.

In terms of the Trucking/Logistics segment, we are of the view that overall the Canadian economy will continue to grow modestly but certainly not robustly. This growth, accompanied by a tightening in truck capacity, which is expected later in 2017 due to new U.S. legislation mandating the use of electronic logs for all cross border trucks, should benefit our 13 Business Units involved in providing trucking and logistics services. We continue to acquire companies involved in the trucking and logistics industry in anticipation of a recovery in the industry in 2017.

Acquisitions will be a primary focus as we enter 2017. We have a strong balance sheet with over $270.0 million in cash along with several opportunities that we continue to evaluate in both sectors of the economy that Mullen Group services. This is another reason we are optimistic about the future of our organization. Our business model and diversification strategy accompanied by a disciplined approach to capital allocations are expected to generate approximately $100.0 million of cash in excess of our obligations related to income taxes, interest on long-term debt and capital expenditure requirements, funds that can be used for general corporate purposes. For 2017 the Board approved a preliminary capital budget of $25.0 million and maintained the monthly dividend of $0.03 per Common Share.

CORPORATE OVERVIEW

Mullen Group is a publicly-traded company listed on the Toronto Stock Exchange ("**TSX**") under the symbol "**MTL**". Through a network of wholly-owned companies and limited partnerships (the "**Business Units**"), Mullen Group is one of the leading suppliers of trucking and logistics services in Canada and provides a wide range of specialized transportation and related services to the oil and natural gas industry in western Canada – two sectors of the economy in which strong business relationships and industry leadership have been developed.

Objective – Maximize Shareholder Value

We strive to maximize the overall returns to shareholders by focusing on the following strategies:

- *Focused Growth*
- *Return Free Cash to Shareholders*
- *Maintain a Well-Structured Balance Sheet*
- *Strive for Operational Excellence*
- *Operate a Decentralized Business Model*

Focused Growth

Our approach to achieving maximum overall returns to shareholders is based upon the following strategic components:

- Deploy capital to expand business over the long-term.
- Invest in sectors of the economy where we believe future growth opportunities exist.
- Invest in accretive acquisitions – acquire competing, complementary or new business lines that can accelerate growth over the long-term.
- Diversify – continue to grow and invest where opportunities exist in the two segments of the economy where we have strong market penetration and customer relationships, namely, the transportation and distribution of freight within North America and the oil and natural gas services industry.

Since going public in 1993, Mullen Group, and its predecessors the Mullen Group Income Fund and Mullen Transportation Inc., have grown annual revenues from $72.6 million in 1993 to approximately $1.0 billion in 2016. During this period over 55 acquisitions have been completed.

Return Free Cash to Shareholders

One of our objectives is to build a business that generates cash in excess of our operating and financing requirements, funds that can be returned to shareholders through dividends or reinvested to grow the business.

During 2016 we paid annual dividends of $0.63 per Common Share as compared to $1.20 in 2015. On December 16, 2015, we announced our intention to pay annual dividends of $0.96 per Common Share over the course of 2016, such dividends to be paid on a monthly basis subject to Board approval. On April 20, 2016, the Board considered the amount of and the record date for the monthly dividend and determined that it was prudent to reduce the monthly dividend to $0.03 per Common Share commencing with the declaration of the May 2016 dividend. On December 14, 2016, we announced our intention to continue our practice of paying annual dividends of $0.36 per Common Share ($0.03 per Common Share on a monthly basis) for 2017, subject to Board approval.

Maintain a Well-Structured Balance Sheet

We strive to maintain a strong balance sheet structured in such a manner to ensure that sufficient liquidity is maintained to allow us to meet our liabilities and corporate objectives under both normal and stressed conditions. In terms of liabilities, we maintain sufficient liquidity to not only meet our obligations when due, but to avoid incurring unacceptable losses or risking damage to our reputation. Furthermore, we have balanced our equity with a reasonable proportionate use of structured long-term debt. Most notably, we use Private Placement Debt (as hereafter defined on page 21), the majority of which mature in 2024 and 2026 and have a 3.5 times debt to operating cash flow covenant.

We generated $174.3 million in net cash from operating activities (2015 – $211.6 million). At December 31, 2016, we had $243.1 million of working capital (2015 – $187.1 million), including $270.3 million of cash and cash equivalents (2015 – $147.2 million), a debt-to-equity ratio of 0.72:1 (2015 – 0.97:1) and a total net debt[1] to operating cash flow (as hereafter described on page 38) of 2.37:1 (2015 – 3.33:1). Our total net debt[1] to operating cash flow financial covenant under our Private Placement Debt (as hereafter defined on page 21) enables the Corporation to include the trailing twelve months operating cash flows for acquisitions. We have not included the trailing twelve months of operating cash flows from our most recent acquisitions.

Strive for Operational Excellence

Our business is managed upon the basic principles of generating superior profitability, striving for excellence in safety and committing to the process of continuous improvement. Operating in a team environment, we challenge ourselves to make decisions on all aspects relating to the operations of the business, improve customer service, enhance business processes, maintain cost controls, obtain excellence in safety and generate superior profitability. We evaluate operational excellence by benchmarking the financial performance, safety statistics and return on invested capital of each Business Unit.

Operate a Decentralized Business Model

We have two operating segments and operate a decentralized business model that is non-hierarchical in nature. Each Business Unit is held accountable for its own performance and results. The management and employees of the Business Units are remunerated based upon the performance of their respective business. Corporate Office (as defined on page 13) provides overall support to the Business Units by coordinating business strategies, monitoring financial and business performance and providing shared services on an as-needed basis. In addition, the Corporate Office has invested significantly in real estate holdings and operating facilities, mainly for use by the Business Units. The carrying costs of such holdings at December 31, 2016, was $517.6 million.

We believe this model generally results in superior customer service, lower costs and provides greater operational flexibility as compared to a fully-integrated business model. Giving responsibility and the necessary authority to the Business Unit encourages greater entrepreneurship and innovation as the teams are empowered and rewarded for their actions.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Business

The business of Mullen Group is operated through its Business Units, which are divided into two distinct operating segments for reporting purposes – Trucking/Logistics and Oilfield Services. The segments are differentiated by the type of service provided, equipment requirements and customer needs. Mullen Group provides the capital and financial expertise, technology and systems support, shared services and strategic planning (the "**Corporate Office**") for the Business Units. The Corporate Office also invests in certain public and private corporations. In addition, the Corporate Office, through its subsidiary MT Investments Inc. ("**MT**"), owns a network of real estate holdings and facilities that are leased primarily to the Business Units. Such properties are leased to the Business Units by MT on commercially reasonable terms. The day to day management of the Business Units is conducted at the subsidiary level.

At December 31, 2016, the Trucking/Logistics segment consisted of 13 Business Units, offering a diversified range of truckload and less-than-truckload ("**LTL**") general freight services to customers in Canada and the United States. These services include transporting a wide range of goods including general freight, specialized commodities such as cable, pipe and steel, over-dimensional loads such as heavy equipment, compressors and over-sized goods and dry bulk commodities such as cement and frac sand. In addition, the Trucking/Logistics segment provides logistics, warehousing and distribution, transload and intermodal services primarily in western Canada, as well as the production, excavation and transportation of various aggregate products.

Trucking/Logistics Segment:

		Number of Units		
Business Unit	**Primary Service Provided**	**Power Units**	**Trailers**	**Other***
Bernard Transport Ltd.	Regional Scheduled LTL - Northern Alberta	13	54	13
Caneda Transport Inc.[1]	LTL & Irregular Route Truckload - Canada/U.S.	67	109	14
Cascade Carriers L.P.	Dry Bulk Freight	77	522	13
Courtesy Freight Systems Ltd.[2]	Regional Scheduled LTL - Northern Ontario	59	51	23
Gardewine Group Limited Partnership[3]	Regional Scheduled LTL - Manitoba and Ontario & Specialized Transportation	718	1,523	97
Grimshaw Trucking L.P.	Regional Scheduled LTL - Northern Alberta	153	379	59
Hi-Way 9 Group of Companies[4]	Regional Scheduled LTL - Southern Alberta	252	595	78
Jay's Transportation Group Ltd.	Regional Scheduled LTL - Saskatchewan	223	424	126
Kleysen Group Ltd.	Irregular Route Truckload & Multi-Modal	247	860	749
Mullen Trucking Corp.[5]	Irregular Route Truckload & Specialized Transportation	95	372	22
Payne Transportation Ltd.	Irregular Route Truckload & Specialized Transportation	153	242	8
Smook Contractors Ltd.	Civil Construction	36	64	113
Tenold Transportation Ltd.	Irregular Route Truckload	90	111	22
		2,183	**5,306**	**1,337**

* *Other includes miscellaneous equipment such as: pick-ups, earthmoving equipment, yard equipment, rail cars and containers.*
[1] *Acquired October 1, 2016*
[2] *Acquired October 1, 2015*
[3] *Acquired January 9, 2015*
[4] *Includes E.C.R. Enterprises Ltd., which was acquired on December 1, 2016*
[5] *Includes Motrux Inc., which was acquired on September 1, 2016*

Internal Reorganization – Trucking/Logistics Segment

On December 31, 2016, we commenced the dissolution of four of our limited partnerships, namely; Mullen Trucking L.P., Kleysen Group L.P., Payne Transportation L.P., and Tenold Transportation Limited Partnership whose operations were contributed into Mullen Trucking Corp., Kleysen Group Ltd. ("**Kleysen Group**"), Payne Transportation Ltd. and Tenold Transportation Ltd., respectively.

At December 31, 2016, the Oilfield Services segment consisted of 15 Business Units that utilize their highly trained personnel and equipment to provide specialized transportation services, drilling, well-servicing and dewatering services to the oil and natural gas industry. These services include transporting of oversize and overweight shipments, conductor pipe setting, core drilling, casing setting, the transportation, handling, storage and computerized inventory management of oilfield fluids, tubulars and drilling mud, pipe stockpiling and stringing, a broad range of services related to the processing and production of heavy oil, including well servicing and handling, transportation and disposal of fluids, as well as frac support, dredging, water management, dewatering, pond reclamation services, hydrovac excavation and drilling rig relocation services.

Oilfield Services Segment:

		Number of Units		
Business Unit	**Primary Service Provided**	**Power Units**	**Trailers**	**Other***
Production Services				
Cascade Energy Services L.P.	Fluid Transportation - British Columbia & Alberta	247	332	74
E-Can Oilfield Services L.P.	Fluid Transportation - Heavy Oil Regions of Alberta	183	140	41
Heavy Crude Hauling L.P.	Fluid Transportation - Heavy Oil Regions of Alberta	53	74	20
R. E. Line Trucking (Coleville) Ltd.	Fluid Transportation - Saskatchewan	40	105	8
Spearing Service L.P.	Fluid Transportation - Saskatchewan	248	609	60
Specialized Services				
Canadian Dewatering L.P.[(1)]	Water Management Services	9	58	1,564
Premay Equipment L.P.	Specialized Heavy Haul	58	325	51
Premay Pipeline Hauling L.P.	Large Diameter Pipe Transportation	66	208	63
Recon Utility Search L.P.	Hydrovac Excavation Services	17	5	11
Drilling Services				
OK Drilling Services L.P.	Conductor Pipe Setting	11	19	26
TREO Drilling Services L.P.	Core Drilling	31	77	67
Drilling Related Services				
Formula Powell L.P.	Mud / Fluid Transportation & Warehousing	179	831	134
Mullen Oilfield Services L.P.	Rig Relocation Services	172	355	59
Pe Ben Oilfield Services L.P.	Drill Pipe Transportation & Warehousing	83	203	95
Withers L.P.	Drill Pipe Transportation & Warehousing	75	165	51
		1,472	**3,506**	**2,324**

* *Other includes miscellaneous equipment such as: pick-ups, mounted dri-prime diesel pumps, submersible pumps, earthmoving equipment, yard equipment and containers.*

[(1)] *Includes the business and assets of Northern Frontier Logistics LP, which was acquired on September 28, 2016.*

A more detailed description of the Business Units is set forth in the Annual Information Form, which is dated February 8, 2017, and is available on SEDAR at www.sedar.com, our website at www.mullen-group.com or upon request, free of charge, from the Corporate Investor Services group at ir@mullen-group.com.

Human Resources

As at December 31, 2016, approximately 5,500 people were employed or engaged by the Business Units and at Corporate Office. These people include owner operators and dedicated subcontractors engaged by the Business Units. This compares to approximately 6,200 people in 2015. This decrease is mainly due to the reduction in the number of employees within the Oilfield Services segment, which was somewhat offset by the additional employees added by virtue of the acquisitions completed in 2016.

Capital Allocations

Bought Deal and Private Placement

On May 17, 2016, Mullen Group closed the Offering and the Private Placement issuing a total of 11,993,250 Common Shares at a price of $13.30 per Common Share for gross proceeds of $159.5 million. The share issuance costs were $6.4 million resulting in net proceeds of $153.1 million. The net proceeds were used to repay the $35.0 million amount drawn on the Bank Credit Facility (as hereafter defined on page 36) with the remainder available to transact on potential strategic acquisitions, to support future growth initiatives and for general corporate purposes.

Dividends

Mullen Group declared monthly dividends of $0.10 per Common Share totalling $1.20 per Common Share in 2015. On December 16, 2015, we announced our intention to pay annual dividends of $0.96 per Common Share ($0.08 per Common Share on a monthly basis) for 2016. On April 20, 2016, the Board considered the amount of and the record date for the monthly dividend and determined that it was prudent to reduce the monthly dividend to $0.03 per Common Share commencing with the declaration of the May 2016 dividend. On December 14, 2016, we announced our intention to continue our practice of paying annual dividends of $0.36 per Common Share ($0.03 per Common Share on a monthly basis) for 2017. The Board will continue to consider the amount of the monthly dividend.

For the four month period ended April 30, 2016, we declared monthly dividends of $0.08 per Common Share totalling $0.32 per Common Share (2015 – $0.40 per Common Share). On April 20, 2016, the Board reduced the amount of the monthly dividend to $0.03 per Common Share commencing with the declaration of the May 2016 dividend. For the year ended December 31, 2016, we declared monthly dividends totalling $0.56 per Common Share (2015 – $1.20 per Common Share). At December 31, 2016, we had 103,654,316 Common Shares outstanding and a dividend payable of $3.1 million (December 31, 2015 – $9.2 million), which was paid on January 16, 2017. We also declared a dividend of $0.03 per Common Share on January 20, 2017, to the holders of record at the close of business on January 31, 2017.

Repayment of Private Placement Debt

On February 24, 2016, Mullen Group, at its sole discretion, gave notice to the holders of Series C ($70.0 million) Notes of its intention to repay these notes on March 30, 2016. The Series C Notes were originally set to mature on June 30, 2016. In conjunction with the repayment of the Series C Notes on March 30, 2016, we were required to make a $0.8 million payment to the Series C noteholders. This $0.8 million payment was a direct result of our decision to prepay the Series C Notes prior to maturity and primarily consists of the net present value of the future interest payments on such notes that would have otherwise been paid to the noteholders. This $0.8 million payment was recognized as an expense in the first quarter of 2016 within finance costs in the statement of comprehensive income. This compares favourably to the scheduled second quarter interest expense of $1.0 million. The repayment of the Series C Notes will reduce the Corporation's annual interest obligation by $3.9 million.

Private Placement Debt – Amending Agreement

On March 31, 2016, at our own discretion, we entered into an agreement with the Private Placement Debt (as hereafter defined on page 21) noteholders to amend certain financial covenant terms (the "**Amending Agreement**") that included both temporary and permanent amendments. The Amending Agreement replaces the financial covenant term total debt with total net debt[1] for financial covenant calculation purposes. On a temporary basis, during the period up to and including March 31, 2018 (the "**Covenant Relief Period**"), total net debt[1] is defined as total debt of the Corporation less the value of any cash and cash equivalents in excess of $50.0 million and less any unrealized gain on Cross-Currency Swaps (as hereinafter defined on page 22) plus any unrealized loss on Cross-Currency Swaps as disclosed within Derivatives on the consolidated statement of financial position. After the Covenant Relief Period, the definition of total net debt[1] will be permanently defined as total debt of the Corporation adjusted for the carrying value of the Derivatives. All other terms and thresholds of the financial covenants remained the same. Notwithstanding the Amending Agreement, at no time did we exceed the prior covenant threshold of 3.5 times total debt to operating cash flow (hereafter defined on page 38).

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Acquisitions and Investments

2016

Motrux Inc. – On September 1, 2016, Mullen Group acquired all of the issued and outstanding shares of Motrux for total cash consideration of $1.3 million, which includes the repayment of shareholder loans. We recorded $0.1 million of cash used to acquire Motrux on our consolidated statement of cash flows, which consists of $1.3 million of total cash consideration net of $0.3 million of cash acquired and $0.9 million allocated to the repayment of shareholder loans. Motrux is headquartered in Delta, British Columbia and provides transportation and logistics services mainly in western Canada. We acquired Motrux as part of our strategy to invest in the transportation sector in Canada. Motrux was integrated into the operations of Mullen Trucking, whose financial results are included in the Trucking/Logistics segment.

Northern Frontier Logistics LP – On September 28, 2016, Mullen Group acquired all of the business and assets of Northern Frontier Logistics LP and Northern Frontier GP Corp. (collectively, "**Northern Frontier**"), for total cash consideration of $3.5 million. We recorded $3.5 million of cash used to acquire the business and assets of Northern Frontier on our consolidated statement of cash flows. Formerly known as Central Water & Equipment Services Ltd., Northern Frontier provides hydrostatic-testing services to the pipeline industry and midstream sector, as well as fluid transfer and water management services to construction and mine sites, municipalities and the energy sector from terminals located in Saskatoon, Saskatchewan and Sherwood Park, Alberta. We acquired the business and assets of Northern Frontier as part of our strategy to invest in the energy sector. Northern Frontier's business and assets have been integrated into the operations of Canadian Dewatering L.P. ("**Canadian Dewatering**"), whose financial results are included in the Oilfield Services segment.

Caneda Transport Inc. – On October 1, 2016, Mullen Group acquired all of the issued and outstanding shares of Caneda and affiliated companies for total cash consideration of $22.5 million, which includes the Calgary, Alberta facility operated by Caneda and $2.0 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendor may receive cash consideration of up to $2.0 million for achieving certain financial targets for the twelve month period ending September 30, 2017. We have estimated the fair value of this contingent consideration to be $2.0 million which was based on management's best estimate of Caneda's pro forma operating results. The funds to settle this liability have been set aside in an escrow account, which have been presented within cash and cash equivalents. We recorded $19.2 million of cash used to acquire Caneda on our consolidated statement of cash flows, which consists of $22.5 million of total cash consideration net of $3.3 million of cash acquired. Caneda is headquartered in Calgary, Alberta and primarily provides LTL services with terminals in Calgary, Alberta; Mississauga, Ontario; and Mira Loma, California. We acquired Caneda as part of our strategy to invest in the transportation sector in North America. The financial results from Caneda's operations are included in the Trucking/Logistics segment.

E.C.R. Enterprises Ltd. – On December 1, 2016, Mullen Group acquired all of the issued and outstanding shares of E.C.R. for total cash consideration of $4.5 million, which includes the repayment of shareholder loans. We recorded $1.8 million of cash used to acquire E.C.R. on our consolidated statement of cash flows, which consists of $4.5 million of total cash consideration net of $2.7 million allocated to the repayment of shareholder loans. E.C.R. is headquartered in Creston, British Columbia and provides transportation services mainly in western Canada. We acquired E.C.R. as part of our strategy to invest in the transportation sector in Canada. E.C.R. was integrated into the operations of the Hi-Way 9, whose financial results are included in the Trucking/Logistics segment.

2015

Gardewine Group Limited Partnership – On January 9, 2015, Mullen Group acquired the business, including land and buildings, of the Manitoba based Gardewine Group Limited Partnership ("**Gardewine**") one of the largest privately owned transportation carriers in Canada, in an all cash transaction for total consideration of $171.8 million, which includes repaying $56.4 million of associated debt. We recorded $166.0 million of cash used to acquire Gardewine on our consolidated statement of cash flows, which consists of $171.8 million of total cash consideration net of $3.8 million of cash acquired and $2.0 million allocated to the repayment of shareholder loans. Gardewine is comprised of the following businesses: Gardewine North, Northern Cartage, Northern Deck, Northern Bulk and Northern Logistics. Gardewine, a well-established and reputable company founded in 1952, provides regional LTL, truckload and specialized truckload services primarily in Manitoba and Ontario operating a fleet of approximately 800 trucks and 1,500 trailers through a network of 22 owned and 11 leased terminals, employing over 1,500 employees and 140 contract owner operators. In addition, Gardewine owned $38.4 million of real property and facilities that were transferred to MT subsequent to their acquisition. We acquired Gardewine as part of our strategy

to invest in the transportation sector in Canada. The financial results from Gardewine's operations are included in the Trucking/Logistics segment.

Courtesy Freight Systems Ltd. – On October 1, 2015, Mullen Group acquired all of the issued and outstanding shares of Courtesy. The total cash consideration was $11.8 million, including real property. We recorded $10.8 million of cash used to acquire Courtesy on our consolidated statement of cash flows, which consists of $11.8 million of total cash consideration net of $1.0 million of cash acquired. Concurrent to the closing of this transaction, we entered into an agreement to acquire the majority of the facilities being used in the operations of Courtesy, subject to satisfactory environmental reports. In December 2015, we acquired three of these facilities for $1.0 million. Courtesy is headquartered in Thunder Bay, Ontario and provides regional scheduled LTL services primarily in northwestern Ontario and southern Manitoba. We acquired Courtesy as part of our strategy to invest in the transportation sector in these regions. The financial results from Courtesy's operations are included in the Trucking/Logistics segment.

All the acquisitions set forth above have been accounted for by the acquisition method and the financial results of operations have been included in the accompanying Annual Financial Statements from the date of acquisition.

Subsequent Event – Kel-West Carriers Ltd. – On January 31, 2017, Mullen Group acquired all of the issued and outstanding shares of Kel-West Carriers Ltd. ("**Kel-West**") for cash consideration of approximately $4.0 million. Kel-West was a privately held company headquartered in Kelowna, British Columbia and provides transportation and logistics services primarily in western Canada. We acquired Kel-West as part of our strategy to invest in the transportation sector in western Canada and its financial results will be included in the Trucking/Logistics segment. Due to the limited time between the acquisition of Kel-West and the preparation of the Annual Financial Statements, the value of the assets acquired and the liabilities assumed on the acquisition were not available to management as of the date of this report.

Equity Investments – There were no equity investments purchased or sold in 2016 as compared to $10.9 million in 2015. During 2015 we invested $10.9 million (including $4.3 million of debentures) to acquire a minority equity interest in three companies; Envolve Energy Services Corp. ("**Envolve**"), a waste disposal company operating in the Grande Prairie, Alberta region; Cordova Oilfield Services Ltd. ("**Cordova**"), a general oilfield hauling company specializing in the storage, handling and transportation of pipe located in Fort St. John, British Columbia; and Butler Ridge Energy Services (2011) Ltd. ("**Butler Ridge**"), a fracturing fluid containment, logistics and storage management company based in Hudson's Hope, British Columbia. These investments are part of our strategy to invest alongside high quality entrepreneurs in companies that have growth potential.

Capital Expenditures

In 2016 gross capital expenditures on a consolidated basis were $20.9 million as compared to $73.3 million in 2015. These capital expenditures were comprised of $16.4 million in the Trucking/Logistics segment (2015 – $28.0 million), $3.2 million in the Oilfield Services segment (2015 – $13.0 million) and $1.7 million in the Corporate Office (2015 – $32.3 million). The $52.4 million decrease in gross capital expenditures was mainly due to a significant reduction in the amount of capital invested within the Corporate Office related to real property and facilities. We also reduced the amount of capital invested within both operating segments. Gross dispositions on a consolidated basis were $6.4 million in 2016 as compared to $7.7 million in 2015. These gross dispositions were comprised of $2.4 million in the Trucking/Logistics segment (2015 – $2.5 million) and $3.9 million in the Oilfield Services segment (2015 – $5.3 million). In 2016 we continued to monetize non-core assets within the Oilfield Services segment through the sale of older equipment.

In 2016 the Corporate Office invested $1.6 million into real property and facilities to further develop its network of real estate holdings, most notably at its rail transload facility in Edmonton, Alberta. In 2015 the Corporate Office purchased $31.8 million of real property and facilities through its subsidiary MT to expand and develop its network of real estate holdings. Specifically, MT purchased $25.1 million of real property predominately within Saskatchewan that is currently being used in the operations of Jay's Transportation Group Ltd. ("**Jay's**") The purchase of these properties has reduced our operating lease costs by $1.5 million per annum. MT also invested $5.7 million to develop its rail transload facility in Edmonton, Alberta. At December 31, 2016, Mullen Group had carrying costs of $517.6 million of real property included within property, plant and equipment.

On December 14, 2016, the Board approved a $25.0 million capital budget for 2017, exclusive of corporate acquisitions, real property and special projects. The capital will be focused towards the replacement of trucks, trailers and specialized equipment to support the operations of the Business Units in the Trucking/Logistics segment. The capital budget does not contemplate any significant new capital for the Oilfield Services segment, however, this will be reviewed in the second quarter of 2017.

2016 CONSOLIDATED FINANCIAL RESULTS

Revenue

*Revenue is generated by the Corporation through its Business Units. These Business Units are divided into two operating segments, namely Trucking/Logistics and Oilfield Services. The Business Units utilize a combination of company assets that are either owned by the Business Unit or leased under long-term operating leases ("**Company Equipment**"), owner operators who provide trucks and/or trailers and work exclusively for the Business Unit under annual contracts and subcontractors who own their own equipment and are used during times of peak demand (collectively, "**Contractors**").*

Consolidated Revenue by Segment **Years ended December 31** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%***	**$**	**%***	**$**	**%**
Trucking/Logistics	**689.5**	**66.3**	714.8	58.8	(25.3)	(3.5)
Oilfield Services	**350.5**	**33.7**	501.1	41.2	(150.6)	(30.1)
Corporate and intersegment eliminations	**(4.9)**	**—**	(1.5)	—	(3.4)	—
Total	**1,035.1**	**100.0**	1,214.4	100.0	(179.3)	(14.8)

**as a percentage of pre-consolidated revenue*

Mullen Group's consolidated revenue in 2016 decreased by $179.3 million, or 14.8 percent, to $1,035.1 million as compared to $1,214.4 million in 2015. The majority of the decrease was related to a $150.6 million, or 30.1 percent drop in revenue in the Oilfield Services segment, as the oil and gas industry drastically reduced drilling programs, curbed spending and cut investments in capital projects in response to the collapse in crude oil and natural gas prices. As a result, the demand for oilfield services in western Canada was substantially below prior year levels. Revenue generated in the Trucking/Logistics segment decreased by a relatively modest $25.3 million, or 3.5 percent, due to lower demand for freight services in western Canada as well as a $9.2 million reduction in fuel surcharge revenue as a result of lower fuel prices. These decreases were partially offset by the incremental revenue of $18.3 million related to the acquisitions of Courtesy, Caneda, Motrux and E.C.R. (collectively, the "**T/L Acquisitions**"[1]).

Consolidated Revenue **Years ended December 31** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%**	**$**	**%**	**$**	**%**
Company	**730.3**	**70.6**	821.6	67.7	(91.3)	(11.1)
Contractors	**299.1**	**28.9**	387.1	31.9	(88.0)	(22.7)
Other	**5.7**	**0.5**	5.7	0.4	—	—
Total	**1,035.1**	**100.0**	1,214.4	100.0	(179.3)	(14.8)

Revenue generated by Company Equipment decreased by $91.3 million, or 11.1 percent, to $730.3 million as compared to $821.6 million in 2015, representing 70.6 percent of consolidated revenue as compared to 67.7 percent in 2015. Revenue related to Contractors decreased by $88.0 million, or 22.7 percent, to $299.1 million as compared to $387.1 million in 2015, and represented 28.9 percent of consolidated revenue in 2016 as compared to 31.9 percent in 2015.

[1] Courtesy was acquired on October 1, 2015; Caneda was acquired on October 1, 2016; Motrux was acquired on September 1, 2016 and integrated into the operations of Mullen Trucking; and E.C.R. was acquired on December 1, 2016 and integrated into the operations of Hi-Way 9.

Direct Operating Expenses

*Direct operating expenses ("**DOE**") include two main categories of expenses. The first category of DOE relates to the direct costs incurred to operate and maintain Company Equipment. The major DOE associated with operating Company Equipment are wages, fuel, repairs and maintenance, purchased transportation and operating supplies. The other expenses included under DOE – Company mainly consist of operating leases, equipment rent, insurance and licensing costs. The second category of DOE are the costs incurred to hire Contractors, whether owner operators or subcontractors.*

Consolidated Direct Operating Expenses **Years ended December 31** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%***	**$**	**%***	**$**	**%**
Company						
Wages and benefits	**192.2**	**26.3**	222.1	27.0	(29.9)	(13.5)
Fuel	**61.5**	**8.4**	70.4	8.6	(8.9)	(12.6)
Repairs and maintenance	**97.2**	**13.3**	116.2	14.1	(19.0)	(16.4)
Purchased transportation	**67.3**	**9.2**	66.2	8.1	1.1	1.7
Operating supplies	**47.7**	**6.5**	54.9	6.7	(7.2)	(13.1)
Other	**24.5**	**3.5**	25.5	3.1	(1.0)	(3.9)
	490.4	**67.2**	555.3	67.6	(64.9)	(11.7)
Contractors	**221.4**	**74.0**	288.7	74.6	(67.3)	(23.3)
Total	**711.8**	**68.8**	844.0	69.5	(132.2)	(15.7)

**as a percentage of respective Consolidated revenue*

DOE in 2016 were $711.8 million as compared to $844.0 million in 2015. This decrease of $132.2 million, or 15.7 percent, was directly related to the $179.3 million decrease in consolidated revenue. As a percentage of revenue these expenses decreased by 0.7 percent to 68.8 percent as compared to 69.5 percent in 2015 due to a larger portion of revenue being generated by Company Equipment and the decline in Contractors expense as a percentage of revenue.

In 2016 DOE associated with Company Equipment decreased to $490.4 million as compared to $555.3 million in 2015. The decrease of $64.9 million, or 11.7 percent, was due to the $65.7 million decrease in DOE within the Oilfield Services segment. As a percentage of Company revenue these expenses decreased to 67.2 percent as compared to 67.6 percent in 2015. Company expenses as a percentage of Company revenue decreased by 0.4 percent primarily due to cost management initiatives and lower wages and benefits expense in the Oilfield Services segment.

Contractors expense in 2016 decreased by $67.3 million to $221.4 million, as compared to $288.7 million in 2015 due to the $88.0 million decrease in Contractors revenue. As a percentage of Contractors revenue, Contractors expense decreased by 0.6 percent to 74.0 percent as compared to 74.6 percent in 2015, primarily due to reductions associated with the utilization of subcontractors by the Trucking/Logistics segment.

Selling and Administrative Expenses

*Selling and administrative ("**S&A**") expenses include salaries, employee profit share and other administrative expenses incurred to support the operations of Mullen Group and its Business Units.*

Consolidated Selling and Administrative Expenses **Years ended December 31** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%***	**$**	**%***	**$**	**%**
Wages and benefits	**81.2**	**7.8**	92.7	7.6	(11.5)	(12.4)
Communications, utilities and general supplies	**36.8**	**3.6**	40.9	3.4	(4.1)	(10.0)
Profit share	**11.1**	**1.1**	12.2	1.0	(1.1)	(9.0)
Foreign exchange	**3.4**	**0.3**	(17.6)	(1.4)	21.0	(119.3)
Stock-based compensation	**1.1**	**0.1**	1.5	0.1	(0.4)	(26.7)
Rent and other	**8.7**	**0.8**	11.3	0.9	(2.6)	(23.0)
Total	**142.3**	**13.7**	141.0	11.6	1.3	0.9

**as a percentage of total Consolidated revenue*

S&A expenses increased by $1.3 million to $142.3 million in 2016 as compared to $141.0 million in 2015 due to a $21.0 million negative variance in foreign exchange, $19.2 million of which was recognized within the Corporate Office and the remainder being recognized primarily within the Trucking/Logistics segment. This negative variance in foreign exchange was partially offset by cost cutting measures, most notably an $11.5 million reduction in wages and benefits expense. S&A expenses as a percentage of consolidated revenue increased by 2.1 percent to 13.7 percent in comparison to 11.6 percent in 2015. Excluding foreign exchange effects within the Corporate Office, S&A expenses were $138.9 million, or 13.4 percent of revenue, as compared to $156.8 million, or 12.9 percent of revenue in 2015 for a year over year savings of $17.9 million.

Operating Income Before Depreciation and Amortization

*Operating income before depreciation and amortization ("**OIBDA**[1]") is net income before depreciation of property, plant and equipment, amortization of intangible assets, finance costs, net unrealized foreign exchange gains and losses, other (income) expense and income taxes.*

Consolidated Operating Income Before Depreciation and Amortization[(1)] **Years ended December 31** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%**	**$**	**%**	**$**	**%**
Trucking/Logistics	**116.7**	**64.5**	117.9	51.4	(1.2)	(1.0)
Oilfield Services	**72.4**	**40.0**	101.2	44.1	(28.8)	(28.5)
Corporate	**(8.1)**	**(4.5)**	10.3	4.5	(18.4)	(178.6)
Total	**181.0**	**100.0**	229.4	100.0	(48.4)	(21.1)

[(1)] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

OIBDA[1] for 2016 was $181.0 million as compared to $229.4 million generated the prior year. The decrease of $48.4 million was a decline of 21.1 percent year over year primarily due to two factors. The significant declines in revenue generated by the Oilfield Services segment resulted in a $28.8 million decrease in the segment's OIBDA[1] and the $19.2 million negative variance in foreign exchange related to a $0.04 increase in the Canadian dollar vis-à-vis the U.S. dollar that drove Corporate Office costs up $18.4 million. The negative variance in foreign exchange was the reason operating margin[1] declined to 17.5 percent as compared to 18.9 percent in 2015.

Adjusting OIBDA[1] for the negative impact of the change in foreign exchange, OIBDA – adjusted[1] decreased by $29.2 million, or 13.7 percent, to $184.4 million as compared to $213.6 million in 2015. In terms of percentage of consolidated revenue, operating margin – adjusted[1] improved to 17.8 percent as compared to 17.6 percent in 2015. This more accurately represent the operating performance and disciplined cost control initiatives implemented in both segments.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was $71.3 million in 2016 as compared to $75.3 million in 2015. This decrease of $4.0 million was attributable to a lower amount of depreciation being recorded in the Oilfield Services segment, which was somewhat offset by a greater amount of depreciation being recorded in the Trucking/Logistics segment. Depreciation in the Oilfield Services segment decreased by $4.2 million due to the reduction in the amount of capital expenditures made within this segment, the sale of older assets by certain Business Units and from the Corporation's declining balance method of depreciation. These decreases were somewhat offset by a greater amount of depreciation recorded on core drilling rigs due to a change in estimate applied prospectively as of July 1, 2015, which was based upon the revised estimated useful life of such equipment. Depreciation in the Trucking/Logistics segment increased by $0.3 million, which was mainly due to the acquisition of Courtesy. Depreciation in the Corporate Office remained consistent on a year over year basis.

Amortization of Intangible Assets

Intangible assets are acquired on acquisitions and are mainly comprised of customer relationship values and non-competition agreements that are amortized over their estimated life from the date of acquisition. Amortization of intangible assets was $14.0 million in 2016 as compared to $19.0 million in 2015. This decrease mainly resulted from the intangible assets acquired on the Producers Oilfield Services Inc. ("**Producers**") acquisition becoming fully amortized at the end of June 2016. To a lesser extent, the decrease also resulted from the intangible assets acquired with the acquisition of Hi-Way 9 becoming fully amortized in the second quarter of 2016. These decreases were somewhat offset by the additional amortization recorded on the intangible assets associated with the acquisitions of Caneda and Courtesy.

Finance Costs

Finance costs mainly consist of:

- interest expense on financial liabilities, including:
  - $70.0 million of Series D Notes, U.S. $85.0 million of Series E Notes, $20.0 million of Series F Notes, U.S. $117.0 million of Series G Notes, U.S. $112.0 million of Series H Notes, $30.0 million of Series I Notes, $3.0 million of Series J Notes, $58.0 million of Series K Notes and $80.0 million of Series L Notes (collectively, the "**Private Placement Debt**");
  - the convertible unsecured subordinated debentures (the "**Debentures**") that were issued on May 1, 2009;
  - various financing loans that are secured by specific operating equipment (collectively, the "**Various Financing Loans**");
  - borrowings on the Bank Credit Facility (as hereafter defined on page 36); and
  - accretion expense on debt;
- less any interest income generated from cash and cash equivalents.

Finance costs were $32.5 million as compared to $35.8 million in 2015. This decrease of $3.3 million was mainly attributable to the March 30, 2016, repayment of the Series C Notes ($70.0 million bearing interest at 5.60 percent per annum). Despite recording an additional $0.8 million of finance costs in the first quarter of 2016, we reduced our overall finance costs by $0.2 million by repaying the Series C Notes early due to certain prepayment credits received from our noteholders. This decrease was also due to a greater amount of interest income being generated on a larger amount of cash and cash equivalents as well as from a lower amount of interest expense being recorded on our U.S. dollar debt as a result of the change in the value of the Canadian dollar relative to the U.S. dollar in 2016 as compared to 2015.

Net Unrealized Foreign Exchange (Gain) Loss

We recognize unrealized foreign exchange gains or losses at the end of each reporting period related to our U.S. dollar debt and from our two cross-currency swap contracts. In 2014 we entered into two cross-currency swap contracts to swap the principal portion of the Series G (U.S. $117.0 million) and Series H (U.S. $112.0 million) Notes (collectively, the "**Cross-Currency Swaps**") into Canadian dollars at foreign exchange rates of $1.1047 and $1.1148 that mature on October 22, 2024 and October 22, 2026, respectively. These swap contracts were entered into as a method of hedging the U.S. debt notes against any declines in the Canadian dollar vis-à-vis the U.S. dollar.

Net unrealized foreign exchange gain was $5.8 million in 2016 as compared to a net unrealized foreign exchange loss of $39.7 million in 2015. The variance of $45.5 million was mainly attributable to the change in the value of the Canadian dollar relative to the U.S. dollar. The details of the net unrealized foreign exchange (gain) loss were as follows:

Net Unrealized Foreign Exchange (Gain) Loss	**Years ended December 31**	
	CDN. $ Equivalent	
($ millions)	**2016**	**2015**
Unrealized foreign exchange (gain) loss on U.S. $ debt	**(13.0)**	70.3
Unrealized foreign exchange loss (gain) on Cross-Currency Swaps	**7.2**	(30.6)
Net unrealized foreign exchange (gain) loss	**(5.8)**	39.7

Unrealized Foreign Exchange (Gain) Loss on U.S. $ Debt

We recorded an unrealized foreign exchange gain of $13.0 million related to our U.S. dollar debt due to the $0.04 strengthening of the Canadian dollar relative to the U.S. dollar during 2016. In 2015 we recorded an unrealized foreign exchange loss of $70.3 million due to the decline in the value of the Canadian dollar relative to the U.S. dollar. The details of the unrealized foreign exchange (gain) loss on U.S. dollar debt is summarized in the table below:

Unrealized Foreign Exchange (Gain) Loss on U.S. $ Debt	**Years ended December 31**					
	2016			**2015**		
($ millions, except exchange rate amounts)	**U.S. $ Debt**	**Exchange Rate**	**CDN. $ Equivalent**	**U.S. $ Debt**	**Exchange Rate**	**CDN. $ Equivalent**
Ending – December 31	**314.0**	**1.3427**	**421.6**	314.0	1.3840	434.6
Beginning – January 1	**314.0**	**1.3840**	**434.6**	314.0	1.1601	364.3
Unrealized foreign exchange (gain) loss on U.S. $ debt			**(13.0)**			70.3

Unrealized Foreign Exchange Loss (Gain) on Cross-Currency Swaps

On July 25, 2014, we entered into two Cross-Currency Swaps with a Canadian bank to swap U.S. $117.0 million and U.S. $112.0 million into Canadian currency at foreign exchange rates of $1.1047 and $1.1148 that mature on October 22, 2024 and October 22, 2026, respectively. The Cross-Currency Swaps convert the repayment of the principal portion of the Series G and Series H Notes into a Canadian currency equivalent of $129.2 million and $124.9 million, respectively. We record the unrealized foreign exchange gain or loss relating to these Cross-Currency Swaps within net unrealized foreign exchange (gain) loss on the consolidated statement of comprehensive income, which is consistent with its underlying nature and purpose. The carrying value of these Cross-Currency Swaps are recorded within Derivatives in the consolidated statement of financial position.

We recorded an unrealized foreign exchange loss on Cross-Currency Swaps of $7.2 million in 2016. This was due to the change over the period in the fair value of these Cross-Currency Swaps as summarized in the table below:

Unrealized Foreign Exchange Loss (Gain) on Cross-Currency Swaps	**Years ended December 31**			
	2016		**2015**	
($ millions)	**U.S. $ Swaps**	**CDN. $ Change in Fair Value of Swaps**	**U.S. $ Swaps**	**CDN. $ Change in Fair Value of Swaps**
Cross-Currency Swap maturing October 22, 2024	**117.0**	**3.7**	117.0	(16.5)
Cross-Currency Swap maturing October 22, 2026	**112.0**	**3.5**	112.0	(14.1)
Unrealized foreign exchange loss (gain) on Cross-Currency Swaps		**7.2**		(30.6)

Other (Income) Expense

Other (income) expense consists of the change in fair value of investments, the gain or loss on sale of the Corporation's assets including property, plant and equipment, earnings from equity investments and the gain on contingent consideration. Other income in 2016 was $2.7 million, an $18.9 million positive variance as compared to the $16.2 million of other expense recorded in 2015. The $18.9 million positive variance was due to the factors set forth below:

Change in Fair Value of Investments (positive variance of $21.1 million). We periodically invest in certain private and public corporations. In 2016 there was an increase in the fair value of investments of $1.7 million as compared to a $19.4 million decrease in 2015. This positive variance was mainly due to the change in the value of our investment in Logan International Inc. ("**Logan**"). Mullen Group had owned 4,674,625 shares of Logan, a TSX listed company until October 24, 2016 when Logan announced the completion of the sale of all of its outstanding common shares for cash consideration of $1.59 per common share. In 2016 we recorded a $0.1 million increase in the fair value of our investment in Logan as compared to a $12.6 million decrease in 2015. Other than the sale of the common shares of Logan, the Corporation did not purchase or sell any investments in 2016 or 2015.

Loss on Sale of Property, Plant and Equipment (positive variance of $1.4 million). We recognized a loss of $0.9 million in 2016 on sale of property, plant and equipment on total consolidated proceeds on sale of $6.4 million as compared to a $2.3 million loss on sale of property, plant and equipment on total consolidated proceeds on sale of $7.7 million in 2015. The $0.9 million loss on sale of property, plant and equipment in 2016 mainly resulted from decommissioning a camp facility, which was relocated to Fort McMurray, Alberta to accommodate our employees impacted by the wildfires earlier in the year. The $2.3 million loss on sale of property, plant and equipment in 2015 mainly resulted from the sale of older assets by certain Business Units within the Trucking/Logistics segment and the Oilfield Services segment.

Earnings from Equity Investments (negative variance of $0.6 million). We recognized $1.9 million of earnings from equity investments in 2016 as compared to earnings of $2.5 million in 2015. We use the equity method to account for investments in which we obtain significant influence or joint control over the investee and we recognize earnings from these equity investments from the date thereof. There were no equity investments purchased or sold in 2016 as compared to $6.6 million being purchased in 2015. The following table details our equity investments and the date from which we commenced recording earnings from them.

Equity Investment	**Date of Significant Influence or Joint Control Obtained**
Canol Oilfield Services Inc.	January 1, 2013
Kriska Transportation Group Limited	December 1, 2014
Envolve Energy Services Corp.	April 10, 2015
Cordova Oilfield Services Ltd.	April 17, 2015
Butler Ridge Energy Services (2011) Ltd.	July 1, 2015

Gain on Contingent Consideration (negative variance of $3.0 million). On November 5, 2014, we acquired the business and assets of Recon Utility Search N.A. Inc. for net cash consideration of $21.7 million, including $3.0 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendor may receive cash consideration of up to $3.0 million for achieving certain financial targets in the 2015, 2016 and 2017 fiscal years. On November 5, 2014, we estimated the fair value of this contingent consideration to be $3.0 million, which was based upon management's best estimate of Recon Utility Search L.P.'s ("**Recon**") operating results for the 2015 fiscal year. Recon did not achieve its financial target in 2015. Management also revised its estimate of Recon's pro forma operating results for the 2016 and 2017 fiscal years. As such, management estimated the fair value of the contingent consideration to be nil and recognized a gain of $3.0 million in the consolidated statement of comprehensive income in 2015.

Income Taxes

	Years ended December 31	
($ millions)	**2016**	**2015**
Income before income taxes	**$ 71.7**	$ 43.4
Combined statutory tax rate	**27%**	26%
Expected income tax	**19.4**	11.3
Add (deduct):		
Non-deductible (taxable) portion of net unrealized foreign exchange (gain) loss	**(0.8)**	5.2
Non-deductible (taxable) portion of the change in fair value of investments	**(0.2)**	2.6
Increase in income tax due to changes in income tax rates	**—**	5.8
Stock-based compensation expense	**0.3**	0.4
Other	**1.0**	4.7
Income tax expense	**$ 19.7**	$ 30.0

Income tax expense was $19.7 million in 2016 as compared to $30.0 million in 2015. The decrease of $10.3 million was attributable to the variance in net unrealized foreign exchange, the change in the fair value of investments and from the effect of the Government of Alberta's decision to raise its corporate income tax rate by 2.0 percent effective July 1, 2015, which resulted in a $5.8 million increase in income tax expense in 2015.

Net Income

	Years ended December 31		
($ millions, except share and per share amounts)	**2016**	**2015**	**% Change**
Net income	**$ 52.0**	$ 13.4	288.1
Weighted average number of Common Shares outstanding	**99,165,039**	91,652,785	8.2
Earnings per share – basic	**$ 0.52**	$ 0.15	246.7

Net income increased to $52.0 million in 2016 as compared to $13.4 million in 2015. The factors contributing to the increase in net income include:

- a $45.5 million positive variance in net unrealized foreign exchange;
- a $21.1 million positive variance in the fair value of investments;
- a $10.3 million decrease in income tax expense;
- a $5.0 million decrease in amortization of intangible assets;
- a $4.0 million decrease in depreciation of property, plant and equipment;

- a $3.3 million decrease in finance costs; and
- a $1.4 million decrease in loss on sale of property, plant and equipment.

These factors were somewhat offset by the following factors that decreased net income:

- a $48.4 million decrease in OIBDA[1];
- a $3.0 million gain on contingent consideration recorded in 2015; and
- a $0.6 million decrease in earnings from equity investments.

Basic earnings per share increased to $0.52 in 2016 as compared to $0.15 in 2015. This increase resulted from the effect of the $38.6 million increase in net income being partially offset by an increase in the weighted average number of Common Shares outstanding. The weighted average number of Common Shares outstanding increased from 91,652,785 to 99,165,039, which was mainly due to the issuance of Common Shares from the Offering and the Private Placement.

Net Income – Adjusted and Earnings per Share – Adjusted

The following table illustrates net income and basic earnings per share before considering the impact of the net unrealized foreign exchange gains or losses, the change in fair value of investments, and the gain on contingent consideration. Net income and basic earnings per share have been adjusted to reflect earnings from a strictly operating perspective.

	Years ended December 31	
($ millions, except share and per share amounts)	**2016**	**2015**
Income before income taxes	**$ 71.7**	$ 43.4
Add (deduct):		
Net unrealized foreign exchange (gain) loss	**(5.8)**	39.7
Change in fair value of investments	**(1.7)**	19.4
Gain on contingent consideration	**—**	(3.0)
Income before income taxes – adjusted	**64.2**	99.5
Income tax rate	**27%**	26%
Computed expected income tax expense	**(17.3)**	(25.9)
Net income – adjusted[(1)]	**46.9**	73.6
Weighted average number of Common Shares outstanding – basic	**99,165,039**	91,652,785
Earnings per share – adjusted[(1)]	**$ 0.47**	$ 0.80

[(1)] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

2016 SEGMENTED INFORMATION

Year ended December 31, 2016 *($ millions)*	Trucking /Logistics	Oilfield Services	Corporate and intersegment eliminations	Total
	$	$	$	$
Revenue	**689.5**	**350.5**	**(4.9)**	**1,035.1**
Direct operating expenses	**488.0**	**231.9**	**(8.1)**	**711.8**
Selling and administrative expenses	**84.8**	**46.2**	**11.3**	**142.3**
Operating income before depreciation and amortization[1]	**116.7**	**72.4**	**(8.1)**	**181.0**

Year ended December 31, 2015 *($ millions)*	Trucking /Logistics	Oilfield Services	Corporate and intersegment eliminations	Total
	$	$	$	$
Revenue	714.8	501.1	(1.5)	1,214.4
Direct operating expenses	510.8	337.9	(4.7)	844.0
Selling and administrative expenses	86.1	62.0	(7.1)	141.0
Operating income before depreciation and amortization[1]	117.9	101.2	10.3	229.4

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

TRUCKING/LOGISTICS SEGMENT

The transportation and distribution of freight is a multi-billion dollar business in Canada and is generally described as both highly competitive and fragmented. The Trucking/Logistics segment provides a wide range of trucking and logistics services in Canada, as well as to and from the continental U.S. At December 31, 2016, the Trucking/Logistics segment was comprised of 13 Business Units that utilize both Company Equipment and Contractors.

Service Offerings	*Key Drivers and Considerations*
• *Long-Haul Trucking (T/L)*	• *Tied to general economy (i.e., GDP)*
• *Less-Than-Truckload Trucking (LTL)*	• *Regional network comprised of 86 terminals*
• *Logistics, Intermodal and Transload Services*	• *Requires less maintenance capital*
• *Bulk Hauling*	• *Primarily contract services*

Revenue

Revenue – Trucking/Logistics Years ended December 31 *($ millions)*	2016		2015		Change	
	$	**%**	**$**	**%**	**$**	**%**
Company	**476.3**	**69.1**	472.6	66.1	3.7	0.8
Contractors	**212.4**	**30.8**	241.6	33.8	(29.2)	(12.1)
Other	**0.8**	**0.1**	0.6	0.1	0.2	33.3
Total	**689.5**	**100.0**	714.8	100.0	(25.3)	(3.5)

The Trucking/Logistics segment generated 66.3 percent of pre-consolidated revenue in 2016 as compared to 58.8 percent in 2015. Revenue in this segment decreased by $25.3 million, or 3.5 percent, to $689.5 million as compared to $714.8 million in 2015, primarily due to decreased demand for most freight services in western Canada and lower fuel surcharge revenue, which decreased by $9.2 million to $46.8 million as compared to $56.0 million in 2015. These decreases were partially offset by incremental revenue related to the T/L Acquisitions as well as revenue generated by Kleysen Group related to increased demand for transload services. These results are generally consistent with the state of the overall Canadian economy, which remained relatively flat as compared to 2015. As a result, the demand for freight services remained relatively consistent with prior year levels providing no opportunity to generate internal growth. Specific factors affecting 2016 segment revenue were:

- the T/L Acquisitions contributed $18.3 million of incremental revenue;
- the demand for regional LTL services was largely consistent with prior year results and revenue generated by our six regional LTL Business Units[1] decreased by 5.2 percent to $349.7 million; and
- the demand for freight services in western Canada fell and revenue generated by our full-truckload Business Units decreased by 7.4 percent to $336.3 million.

Direct Operating Expenses

Direct Operating Expenses – Trucking/Logistics Years ended December 31 *($ millions)*	2016		2015		Change	
	$	**%***	**$**	**%***	**$**	**%**
Company						
Wages and benefits	**127.6**	**26.8**	127.0	26.9	0.6	0.5
Fuel	**44.0**	**9.2**	46.6	9.9	(2.6)	(5.6)
Repairs and maintenance	**57.3**	**12.0**	58.8	12.4	(1.5)	(2.6)
Purchased transportation	**65.1**	**13.7**	62.9	13.3	2.2	3.5
Operating supplies	**22.0**	**4.6**	21.3	4.5	0.7	3.3
Other	**15.8**	**3.4**	14.7	3.1	1.1	7.5
	331.8	**69.7**	331.3	70.1	0.5	0.2
Contractors	**156.2**	**73.5**	179.5	74.3	(23.3)	(13.0)
Total	**488.0**	**70.8**	510.8	71.5	(22.8)	(4.5)

**as a percentage of respective Trucking/Logistics revenue*

DOE in 2016 were $488.0 million as compared to $510.8 million in 2015. The decrease of $22.8 million, or 4.5 percent, was generally in line with the decrease in revenue. Overall as a percentage of revenue these expenses decreased by 0.7 percent to 70.8 percent as compared to 71.5 percent in 2015 due to cost cutting initiatives, a larger portion of revenue being generated by Company Equipment and the decline in Contractors expense as a percentage of revenue.

[1] Our six regional LTL Business Units consist of Gardewine, Courtesy, Jay's, Hi-Way 9, Grimshaw Trucking L.P. ("**Grimshaw**") and Bernard Transport Ltd. ("**Bernard**"). Although their primary service offering is LTL, they provide many other services including full-truckload, bulk and logistics services.

DOE related to Company Equipment increased by $0.5 million to $331.8 million as compared to $331.3 million in 2015 reflecting cost cutting initiatives relative to the $3.7 million increase in Company revenue. In terms of a percentage of revenue, Company expenses decreased to 69.7 percent as compared to 70.1 percent in 2015. This 0.4 percent decrease as a percentage of Company revenue was due to the net effect of the following:

- a decline in fuel expense of 0.7 percent of Company revenue to 9.2 percent, or $44.0 million, as compared to 9.9 percent or $46.6 million in 2015 largely due to the year over year decrease in diesel prices;
- continued focus on cost control accompanied by productivity improvements at Gardewine; and
- an increase in purchased transportation of 0.4 percent of Company revenue to 13.7 percent, or $65.1 million, as compared to 13.3 percent or $62.9 million in 2015, resulting from a greater amount of third party costs within our LTL Business Units.

Contractors expense in 2016 decreased by $23.3 million to $156.2 million, as compared to $179.5 million in 2015 due to the $29.2 million decline in Contractors revenue. As a percentage of Contractors revenue, Contractors expense decreased to 73.5 percent as compared to 74.3 percent in 2015 due to the greater availability of subcontractors in western Canada, particularly in the first and second quarters.

Selling and Administrative Expenses

Selling and Administrative Expenses – Trucking/Logistics
Years ended December 31

($ millions)	**2016**		**2015**		**Change**	
	$	**%***	**$**	**%***	**$**	**%**
Wages and benefits	**51.5**	**7.5**	52.7	7.4	(1.2)	(2.3)
Communications, utilities and general supplies	**21.5**	**3.1**	22.1	3.1	(0.6)	(2.7)
Profit share	**8.1**	**1.2**	8.5	1.2	(0.4)	(4.7)
Foreign exchange	**—**	**—**	(1.8)	(0.3)	1.8	(100.0)
Rent and other	**3.7**	**0.5**	4.6	0.6	(0.9)	(19.6)
Total	**84.8**	**12.3**	86.1	12.0	(1.3)	(1.5)

**as a percentage of total Trucking/Logistics revenue*

S&A expenses in 2016 were $84.8 million as compared to $86.1 million in 2015. The decrease of $1.3 million was primarily due to the reduction in wages and benefits and profit share expenses. These reductions were partially offset by a $1.8 million negative variance in foreign exchange and the incremental S&A expenses due to the T/L Acquisitions. S&A expenses as a percentage of segment revenue increased by 0.3 percent to 12.3 percent in comparison to 12.0 percent in 2015.

Operating Income Before Depreciation and Amortization

OIBDA[1] in 2016 decreased by $1.2 million to $116.7 million, or 1.0 percent, as compared to $117.9 million generated in 2015. Operating margin[1] increased to 16.9 percent as compared to 16.5 percent in 2015. This 0.4 percent increase in operating margin[1] was primarily due to improved margins at Gardewine, Kleysen Group, Mullen Trucking and Smook Contractors Ltd. ("**Smook Contractors**").

Capital Expenditures

Net capital expenditures[1] were $14.0 million in 2016, a decrease of $11.5 million as compared to $25.5 million in 2015. The Trucking/Logistics segment had gross capital expenditures of $16.4 million and dispositions of $2.4 million for net capital expenditures[1] of $14.0 million in 2016. Gross capital expenditures mainly consisted of the purchase of replacement trucks and trailers, as well as various pieces of operating equipment. In 2015 gross capital expenditures were $28.0 million and dispositions were $2.5 million for net capital expenditures[1] of $25.5 million.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

OILFIELD SERVICES SEGMENT

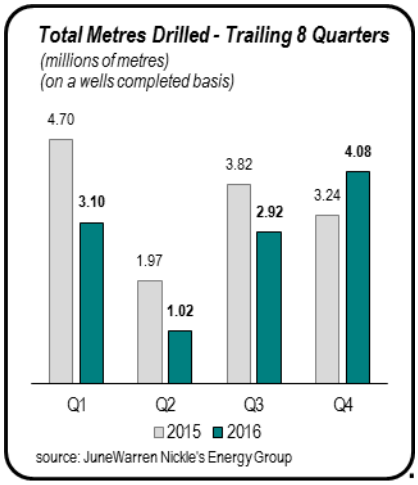
Mullen Group provides the energy sector in northern and western Canada with a wide range of services related to the drilling for oil and natural gas, oil and natural gas production, oil sands infrastructure development and capital projects. At December 31, 2016, the Oilfield Services segment was comprised of 15 Business Units, that utilize both Company Equipment and Contractors.

Service Offerings	*Key Drivers and Considerations*
• *Production Services*	• *Commodity prices (i.e., oil and natural gas)*
• *Specialized Services* – oil sands, dewatering and infrastructure	• *Drilling trends and evolving technologies* • *Take-away / Pipeline Capacity*
• *Drilling and Drilling Related*	• *Drilling activity in western Canada*

Industry Statistics

We consider the number of active rigs operating, total wells drilled, length of metres drilled within such wells and the number of operating days, to be useful measures to gauge the strength of industry activity. Recent efforts to enhance drilling efficiency, combined with a movement to longer and deeper multi-stage horizontal wells have changed the correlation of certain drilling statistics. Generally speaking, the rig count and average days to drill a well have decreased while the total metres drilled have increased. Although the reduction in rig count has negatively impacted our rig moving business, the increase in metres drilled per well has continued to support demand for drill pipe, mud and fluid transportation services, areas in which we have strong market positions. In addition, a portion of our operations are related to the continued development and extraction of oil sands deposits in western Canada.

Since the middle of 2014, collapsing oil prices resulted in sharply lower industry cash flows and forced producers to curtail virtually all discretionary spending. Over the past two years, drilling activity in the western Canadian sedimentary basin ("**WCSB**") declined by 51.6 percent in 2015 and a further 27.3 percent in 2016. As 2016 progressed, commodity prices rebounded from the thirteen year lows experienced in the first quarter. Although prices remained volatile, drilling economics have improved since that time. December of 2016 marked the first month in 25 months whereby the rig count improved in the WCSB on a year over year basis.



Drilling activity in the WCSB, as reported in terms of rig count, total wells drilled and length of metres drilled within such wells, declined significantly in 2016 as compared to the prior year. Industry statistics indicate that the average active rig count was 128 rigs during 2016 as compared to 184 active rigs in 2015, a decrease of 56 rigs or 30.4 percent. In addition, total wells drilled in 2016 decreased by 27.3 percent to 3,935 wells drilled as compared to 5,413 wells drilled in 2015. The length of metres drilled within such wells decreased by 19.0 percent during the current period to 11.12 million metres as compared to 13.73 million metres in 2015. This compares unfavourably to 2014 when there were 11,194 wells drilled for a total length of 24.99 million metres.

The number of wells completed on a geographic basis was as follows:

	Years ended December 31			
	2016	**2015**	**# Change**	**% Change**
British Columbia	**319**	536	(217)	(40.5)
Alberta	**1,866**	2,855	(989)	(34.6)
Saskatchewan	**1,673**	1,819	(146)	(8.0)
Manitoba	**77**	203	(126)	(62.1)
Northwest Territories	**—**	—	—	—
Total	**3,935**	5,413	(1,478)	(27.3)

source: JuneWarren-Nickle's Energy Group – wells completed on rig release basis.

Revenue

Revenue – Oilfield Services **Years ended December 31** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%**	**$**	**%**	**$**	**%**
Company	**254.0**	**72.5**	349.1	69.7	(95.1)	(27.2)
Contractors	**94.7**	**27.0**	149.9	29.9	(55.2)	(36.8)
Other	**1.8**	**0.5**	2.1	0.4	(0.3)	(14.3)
Total	**350.5**	**100.0**	501.1	100.0	(150.6)	(30.1)

The Oilfield Services segment continued to generate a smaller percentage of total pre-consolidated revenue, primarily due to the year over year decline of $150.6 million in segment revenue. For 2016 the Oilfield Services segment represented 33.7 percent of pre-consolidated revenue as compared with 41.2 percent in 2015. For the year, segment revenue was the lowest in 11 years as oil and gas companies adjusted to the low crude oil and natural gas pricing environment. As a result, virtually all of our 15 Business Units experienced very challenging market conditions, characterized by slowing demand for services and intense pricing pressures. Specific factors affecting 2016 segment revenue were:

- A year over year decline in drilling activity in western Canada of 27.3 percent contributed to:
    - an $82.9 million decrease in revenue generated by those Business Units involved in the transportation of fluids and servicing of wells; and
    - a $39.0 million decrease in revenue generated by those Business Units most directly tied to oil and natural gas drilling activity.
- The reduction and cancellation of several capital projects including new oil sands development contributed to lower overall demand for specialized transportation services and competitive pricing led to:
    - a $35.1 million decrease in revenue at Premay Equipment L.P. and Canadian Dewatering; and
    - a $5.3 million decrease in core drilling and drilling related services.
- Mainline large diameter pipeline construction projects remained strong in 2016 contributing to:
    - an increase of $13.4 million in pipeline related activity in the segment.

Revenue in this segment for fiscal 2016 was $350.5 million as compared to $501.1 million in 2015 and $858.9 million 2014.

Direct Operating Expenses

Direct Operating Expenses – Oilfield Services Years ended December 31 *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Company						
Wages and benefits	**64.6**	**25.4**	95.1	27.2	(30.5)	(32.1)
Fuel	**17.5**	**6.9**	23.8	6.8	(6.3)	(26.5)
Repairs and maintenance	**39.9**	**15.7**	57.4	16.4	(17.5)	(30.5)
Purchased transportation	**2.3**	**0.9**	3.3	0.9	(1.0)	(30.3)
Operating supplies	**25.7**	**10.1**	33.6	9.6	(7.9)	(23.5)
Other	**8.6**	**3.4**	11.1	3.4	(2.5)	(22.5)
	158.6	**62.4**	224.3	64.3	(65.7)	(29.3)
Contractors	**73.3**	**77.4**	113.6	75.8	(40.3)	(35.5)
Total	**231.9**	**66.2**	337.9	67.4	(106.0)	(31.4)

**as a percentage of respective Oilfield Services revenue*

DOE were $231.9 million in 2016 as compared to $337.9 million in 2015. This decrease of $106.0 million, or 31.4 percent, was directly related to the $150.6 million decline in segment revenue. As a percentage of revenue these expenses decreased by 1.2 percent to 66.2 percent as compared to 67.4 percent in 2015.

In 2016 DOE associated with Company Equipment decreased by $65.7 million, or 29.3 percent, to $158.6 million as compared to $224.3 million in 2015. This $65.7 million decrease was directly related to the $95.1 million decrease in Company revenue. As a percentage of Company revenue these expenses decreased by 1.9 percent to 62.4 percent as compared to 64.3 percent in 2015, primarily due to aggressive cost management that resulted in reductions in nearly all areas, most notably a 1.8 percent reduction as a percentage of Company revenue in wages and benefits expense as overtime was minimized with the loss of revenue.

Contractors expense in 2016 decreased to $73.3 million, as compared to $113.6 million in 2015. This $40.3 million decrease was directly related to the $55.2 million decrease in Contractors revenue. As a percentage of Contractors revenue, Contractors expense increased to 77.4 percent as compared to 75.8 percent primarily due to increases experienced by those Business Units involved in the transportation of fluids and servicing of wells.

Selling and Administrative Expenses

Selling and Administrative Expenses – Oilfield Services Years ended December 31 *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Wages and benefits	**26.4**	**7.5**	35.9	7.2	(9.5)	(26.5)
Communications, utilities and general supplies	**13.0**	**3.7**	16.7	3.3	(3.7)	(22.2)
Profit share	**3.0**	**0.9**	3.7	0.7	(0.7)	(18.9)
Rent and other	**3.8**	**1.1**	5.7	1.2	(1.9)	(33.3)
Total	**46.2**	**13.2**	62.0	12.4	(15.8)	(25.5)

**as a percentage of total Oilfield Services revenue*

S&A expenses in 2016 decreased by $15.8 million to $46.2 million as compared to $62.0 million in 2015, primarily due to the $9.5 million decrease in wages and benefits expense as well as various cost control initiatives. The reduction in wages and benefits expense is related to lower employment levels, lower salaries for most positions as well as job sharing in the majority of the Business Units impacted by lower revenue. S&A expenses as a percentage of segment revenue increased by 0.8 percent to 13.2 percent as compared to 12.4 percent in 2015 due to the overall fixed nature of these expenses relative to the $150.6 million decline in segment revenue.

Operating Income Before Depreciation and Amortization

OIBDA[1] in 2016 was $72.4 million as compared to $101.2 million in 2015. This year over year decrease of $28.8 million, or 28.5 percent, was directly related to the lack of demand, intense pricing pressure and the very competitive market environment across virtually all Business Units. Specific areas of the segment impacted were:

- a $15.4 million decrease in those Business Units involved in the transportation of fluids and servicing of wells;
- a $9.9 million decrease from Business Units tied to drilling related activity;
- a $2.2 million decrease from Business Units providing drilling services; and
- a $1.3 million decrease relating to those Business Units leveraged to the oil sands and pipeline construction projects.

Operating margin[1] increased to 20.7 percent in 2016 from 20.2 percent in 2015. This 0.5 percent increase in operating margin[1] was due to the decrease in DOE as a percentage of segment revenue.

Capital Expenditures

Net capital expenditures[1] were $(0.7) million in 2016, a decrease of $8.4 million as compared to $7.7 million in 2015. The Oilfield Services segment had gross capital expenditures of $3.2 million and dispositions of $3.9 million for net capital expenditures[1] of $(0.7) million in 2016. Gross capital expenditures mainly consisted of the purchase of operating equipment, at what we believed to be very attractive prices, for Canadian Dewatering and Mullen Oilfield Services L.P. ("**Mullen Oilfield**"). The majority of the dispositions related to the sale of older trucks, trailers and operating equipment. In 2015 gross capital expenditures were $13.0 million and dispositions were $5.3 million for net capital expenditures[1] of $7.7 million. A significant portion of the 2015 gross capital expenditures consisted of equipment that had been ordered in the prior year.

CORPORATE

The Corporate Office provides support to the Business Units including coordinating business strategies, monitoring financial and business performance and providing shared services such as payroll services, human resource support, information technology support, legal support and accounting services. The Corporate Office also owns a network of real estate holdings and facilities, through its subsidiary MT, which are leased primarily to the Business Units. Such properties are leased on commercially reasonable terms. In addition, the Corporate Office is responsible for all regulatory and public reporting.

The Corporate Office experienced an operating loss of $8.1 million in 2016 as compared to generating a profit of $10.3 million in 2015. The $18.4 million year over year variance was mainly attributable to a $19.2 million negative variance in foreign exchange. In 2016 the Corporate Office recorded a foreign exchange loss of $3.4 million as compared to a foreign exchange gain of $15.8 million in 2015. This $3.4 million foreign exchange loss in 2016 was due to the Corporate Office holding an average of U.S. $74.8 million of cash combined with a $0.04 weakening of the U.S. dollar relative to the Canadian dollar. Excluding the effects of foreign exchange, the Corporate Office experienced a loss of $4.7 million as compared to a loss of $5.5 million in 2015. This reduction of $0.8 million was mainly due to the impact of cost control measures.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

CAPITAL RESOURCES AND LIQUIDITY

Consolidated Cash Flow Summary

	Years ended December 31	
($ millions)	**2016**	**2015**
Net cash from operating activities	**$ 174.3**	$ 211.6
Net cash used in financing activities	**(18.0)**	(148.5)
Net cash used in investing activities	**(30.1)**	(258.0)
Change in cash and cash equivalents	**126.2**	(194.9)
Effect of exchange rate fluctuations on cash held	**(3.1)**	16.7
Cash and cash equivalents, beginning of period	**147.2**	325.4
Cash and cash equivalents, end of period	**$ 270.3**	$ 147.2

Annual Sources and Uses of Cash

Net cash from operating activities decreased by $37.3 million, or 17.6 percent to $174.3 million in 2016 as compared to $211.6 million in 2015 primarily due to a reduction in OIBDA[1]. Net cash used in financing activities declined by $130.5 million due to the Offering and the Private Placement that occurred in May 2016 and a dividend reduction being partially offset by long-term debt repayments. Net cash used in investing activities decreased by $227.9 million due to reduced investments for acquisitions and equipment purchases. Specific changes in cash flow are set forth below.

Cash From Operating Activities

Net cash from operating activities decreased to $174.3 million in 2016 as compared to $211.6 million in 2015. The decrease of $37.3 million, or 17.6 percent was mainly due to a $48.4 million reduction in OIBDA[1] and the $21.3 million reduction in cash generated on non-cash working capital items, being partially offset by the $21.0 million negative variance in foreign exchange included in OIBDA[1] and the $13.1 million reduction in cash taxes paid.

The change in non-cash working capital items from operating activities is detailed in the table below:

Changes in Non-Cash Working Capital Items from Operating Activities

	Years ended December 31		
($ millions)	**2016**	**2015**	**Variance**
	$	**$**	**$**
Sources (uses) of cash			
Trade and other receivables	**14.9**	77.8	(62.9)
Inventory	**0.5**	—	0.5
Prepaid expenses	**1.2**	1.7	(0.5)
Accounts payable and accrued liabilities	**(1.9)**	(43.5)	41.6
Total sources (uses) of cash from non-cash working capital items	**14.7**	36.0	(21.3)

In 2016 we generated $14.7 million of cash from changes in non-cash working capital items from operating activities as compared to generating $36.0 million of cash in 2015. This $21.3 million variance was mainly due to the following factors.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

- An additional $62.9 million of cash was used from trade and other receivables that resulted from the combined effect of a $14.9 million source of cash in 2016 as compared to a $77.8 million source of cash in 2015.

- An additional $0.5 million of cash was used from prepaid expenses that resulted from the combined effect of a $1.2 million source of cash in 2016 as compared to a $1.7 million source of cash in 2015.

Somewhat offsetting these items were the following:

- An additional $41.6 million of cash was generated from accounts payable and accrued liabilities that resulted from the combined effect of a $1.9 million use of cash in 2016 as compared to a $43.5 million use of cash in 2015.

- An additional $0.5 million of cash was generated from inventory that resulted from the combined effect of a $0.5 million source of cash in 2016 as compared to no source of cash in 2015.

Cash Used In Financing Activities

Net cash used in financing activities decreased to $18.0 million in 2016 as compared to a $148.5 million in 2015. The decrease of $130.5 million was mainly due to the factors set forth below.

- An additional $153.1 million of cash was generated from closing the Offering and the Private Placement in the second quarter of 2016.

- A $49.7 million reduction in dividends paid to shareholders in 2016 as compared to 2015.

- A $1.7 million decrease in interest paid on long-term debt.

Somewhat offsetting these items were the following:

- A $72.4 million increase in the repayment of long-term debt due to the repayment of the Series C ($70.0 million) Notes in the first quarter of 2016 and other loans throughout the year.

- A reduction of $0.9 million of cash received from the exercise of stock options.

Cash Used In Investing Activities

Net cash used in investing activities decreased to $30.1 million in 2016 as compared to $258.0 million in 2015. This $227.9 million decrease was mainly due to the factors set forth below.

- A $152.2 million decrease in acquisition costs due to the 2015 acquisitions of Gardewine and Courtesy as compared to the 2016 acquisitions of Motrux, Northern Frontier, Caneda and E.C.R.

- A $51.1 million decrease in net capital expenditures[1]. In 2015 net capital expenditures[1] were $65.6 million, a significant portion of which related to the purchase of real property within Saskatchewan that is currently being used in the operations of Jay's.

- A $7.4 million increase in proceeds from the sale of investments due to the sale of all the common shares of Logan.

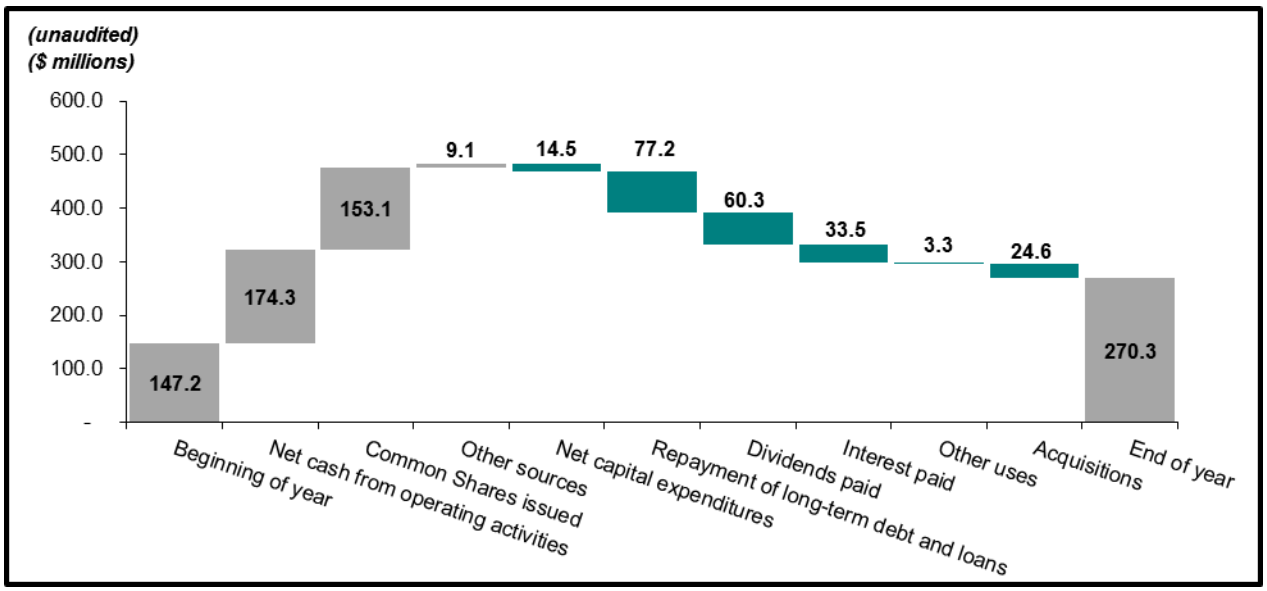
- A $6.6 million decrease in the purchase of investments due to acquiring minority equity interests in 2015 in Cordova, Envolve and Butler Ridge.

- A $4.3 million decrease in other assets, which was mainly due to issuing $4.3 million of debentures in 2015 to Envolve in conjunction with the equity investment. The $4.3 million of debentures mature in 2017 and have therefore been reclassified into trade and other receivables at December 31, 2016.

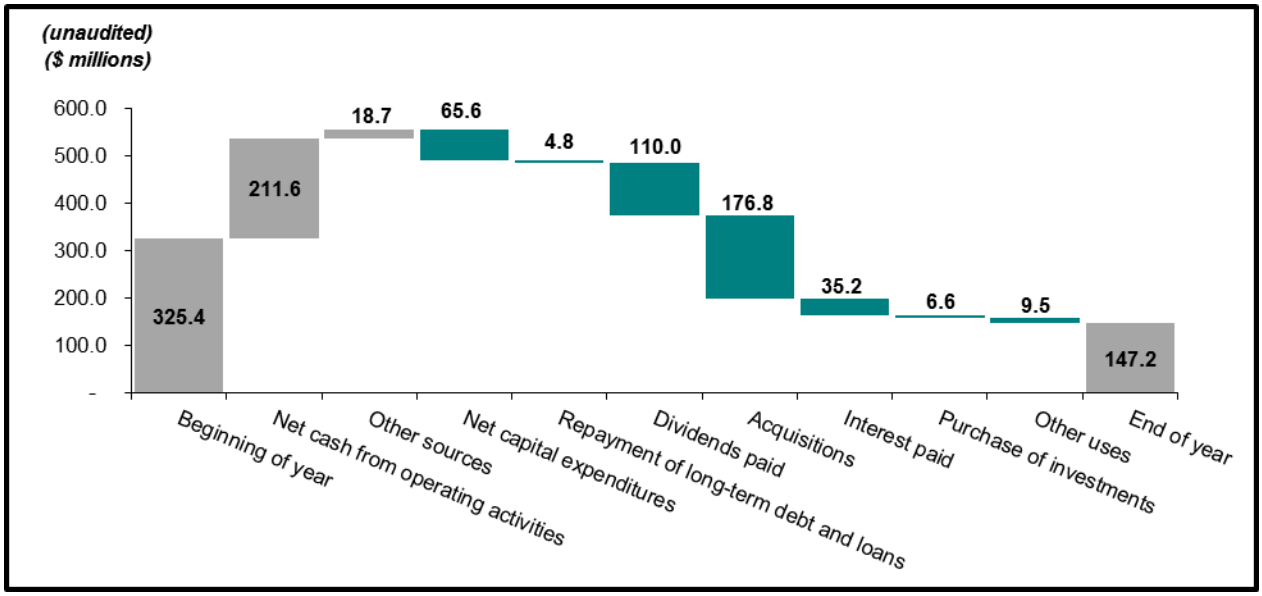
[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

The following charts present the sources and uses of cash for comparative purposes.

Year ended December 31, 2016



Year ended December 31, 2015



In addition to the $174.3 million (2015 – $211.6 million) of net cash from operating activities, we also received $153.1 million of cash upon closing the Offering and the Private Placement and $9.1 million (2015 – $18.7 million) of cash from other sources, which mainly consisted of the proceeds on sale of the investment in Logan and interest income generated on cash and cash equivalents. Cash was used to fund acquisitions of $24.6 million (2015 – $176.8 million), repay long-term debt and loans of $77.2 million (2015 – $4.8 million), pay dividends totalling $60.3 million (2015 – $110.0 million), incur net capital expenditures[1] of $14.5 million (2015 – $65.6 million), pay interest obligations of $33.5 million (2015 – $35.2 million) and purchase investments of nil (2015 – $6.6 million). We also had $3.3 million (2015 – $9.5 million) of other uses, which mainly consisted of the effect of exchange rate fluctuations on U.S. dollar cash held.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Working Capital

At December 31, 2016, we had $243.1 million (December 31, 2015 – $187.1 million) of working capital, which included $270.3 million (December 31, 2015 – $147.2 million) of cash and cash equivalents, of which $81.0 million was denominated in U.S. currency. The decline in non-cash working capital resulted from the inclusion of $136.3 million of current portion of long-term debt in 2016 as compared to $71.9 million in 2015. The current portion of long-term debt is mainly comprised of Series E Notes (U.S. $85.0 million) and Series F Notes ($20.0 million). The U.S. dollar cash held aligns closely to the principal of the Series E Notes.

In addition to the $243.1 million of working capital, we had access to our $75.0 million credit facility with the Royal Bank of Canada (the "**Bank Credit Facility**"). At December 31, 2016, there were no amounts drawn on the Bank Credit Facility. This working capital, the Bank Credit Facility and the anticipated cash flow from operating activities in 2017 are available to finance our ongoing working capital requirements, our September 2017 maturities of the Series E and Series F Notes and our 2017 capital budget, as well as various special projects and acquisition opportunities.

Capital Expenditures

On December 14, 2016, the Board approved a $25.0 million capital budget for 2017, exclusive of corporate acquisitions, real property and special projects. The capital will be focused towards the replacement of trucks, trailers and specialized equipment to support the operations of the Business Units in the Trucking/Logistics segment. The capital budget does not contemplate any significant new capital for the Oilfield Services segment, however, this will be reviewed in the second quarter of 2017. The capital budget for 2017 is significantly lower than annual depreciation due to the current slowdown in the oil and gas industry, which has reduced the need for new capital in our Oilfield Services segment Business Units. Generally, over the course of an economic cycle, Mullen Group's maintenance capital expenditure approximates its annual depreciation on property, plant and equipment. Our diverse business model, and wide range of operations, provides us with the ability to redeploy certain assets over different regions for greater utilization. It also provides us with considerable flexibility in the amount of maintenance capital expenditure requirements in any given fiscal period. The following chart summarizes our capital expenditures and depreciation for facilities as well as trucks, trailers and specialized equipment for the last number of years.

Capital Expenditures and Depreciation Summary	**Years ended December 31**			
($ millions)	**2016**	**2015**	**2014**	**2013**
	$	**$**	**$**	**$**
Facilities				
Gross capital expenditures	**2.8**	35.2	40.5	50.6
Net capital expenditures[1]	**2.6**	35.1	9.7	50.2
Depreciation	**7.6**	7.7	6.1	5.8
Trucks, trailers and specialized equipment				
Gross capital expenditures	**18.1**	38.1	85.2	83.1
Net capital expenditures[1]	**11.9**	30.4	59.8	69.2
Depreciation	**63.7**	67.6	63.2	63.7
Total				
Gross capital expenditures	**20.9**	73.3	125.7	133.7
Net capital expenditures[1]	**14.5**	65.5	69.5	119.4
Depreciation	**71.3**	75.3	69.3	69.5

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Debt

As at December 31, 2016, we had net debt[1] outstanding of $316.3 million, (December 31, 2015 – $522.0 million), which consisted of total debt of $695.7 million (December 31, 2015 – $780.9 million) less working capital (excluding the current portion of long-term debt) of $379.4 million (December 31, 2015 – $258.9 million). The repayment of the Series C ($70.0 million) Notes and the strengthening of the Canadian dollar relative to the U.S. dollar are the primary reason for the decrease in the carrying value of the long-term debt. Total debt is comprised of the Private Placement Debt, Debentures, Various Financing Loans and the Bank Credit Facility. The following table summarizes our total debt and net debt[1] as at December 31, 2016, and December 31, 2015:

		December 31, 2016		December 31, 2015		
($ millions)	**Interest Rate**	**U.S. Dollar**	**CDN. Dollar Equivalent**	**U.S. Dollar**	**CDN. Dollar Equivalent**	**Change in CDN. Dollar Equivalent**
Private Placement Debt:						
Series C - repaid on March 30, 2016	5.60%	**$ —**	**$ —**	$ —	$ 70.0	**$ (70.0)**
Series D - matures June 30, 2018	5.76%	**—**	**70.0**	—	70.0	**—**
Series E - matures September 27, 2017	5.90%	**85.0**	**114.1**	85.0	117.6	**(3.5)**
Series F - matures September 27, 2017	5.47%	**—**	**20.0**	—	20.0	**—**
Series G - matures October 22, 2024	3.84%	**117.0**	**157.1**	117.0	161.9	**(4.8)**
Series H - matures October 22, 2026	3.94%	**112.0**	**150.4**	112.0	155.0	**(4.6)**
Series I - matures October 22, 2024	3.88%	**—**	**30.0**	—	30.0	**—**
Series J - matures October 22, 2026	4.00%	**—**	**3.0**	—	3.0	**—**
Series K - matures October 22, 2024	3.95%	**—**	**58.0**	—	58.0	**—**
Series L - matures October 22, 2026	4.07%	**—**	**80.0**	—	80.0	**—**
Bank Credit Facility	variable[(1)]	**—**	**—**	—	—	**—**
Various Financing Loans	3.63% - 7.68%	**—**	**3.0**	—	5.2	**(2.2)**
Less:						
Unamortized debt issuance costs		**—**	**(2.2)**	—	(2.0)	**(0.2)**
Long-term debt (including the current portion)		**314.0**	**683.4**	314.0	768.7	**(85.3)**
Debentures - debt component	10.0%	**—**	**12.3**	—	12.2	**0.1**
Total debt		**$ 314.0**	**$ 695.7**	$ 314.0	$ 780.9	**$ (85.2)**
Less:						
Working capital (excluding the current portion of long-term debt)			**379.4**		258.9	**120.5**
Net debt[(2)]			**$ 316.3**		$ 522.0	**$ (205.7)**

[(1)] Bank prime rate plus 0.5 percent or bankers' acceptance rates plus 1.5 percent.
[(2)] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Amending Agreement and Private Placement Debt Financial Covenants

Mullen Group has certain financial covenants under its Private Placement Debt. On March 31, 2016, at our own discretion, we entered into an Amending Agreement with our Private Placement Debt noteholders that included both temporary and permanent amendments. The Amending Agreement replaces the financial covenant term total debt with total net debt[1] for financial covenant calculation purposes. On a temporary basis, during the Covenant Relief Period, total net debt[1] is defined as total debt of the Corporation less the value of any cash and cash equivalents in excess of $50.0 million and less any unrealized gain on Cross-Currency Swaps plus any unrealized loss on Cross-Currency Swaps as disclosed within Derivatives on the consolidated statement of financial position. After the Covenant Relief Period, the definition of total net debt[1] will be permanently defined as total debt of the Corporation adjusted for the carrying value of the Derivatives. All other terms and thresholds of the financial covenants remained the same. There are two main financial covenants summarized as follows:

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Total Net Debt[1] to Operating Cash Flow. Mullen Group's total net debt[1] cannot exceed 3.5 times operating cash flow calculated using the trailing twelve months' financial results normalized for acquisitions. The term total net debt[1] means all debt including the Private Placement Debt, the Bank Credit Facility, Various Financing Loans and letters of credit, excluding the Debentures less the value of any cash and cash equivalents in excess of $50.0 million and less any unrealized gain on Cross-Currency Swaps plus any unrealized loss on Cross-Currency Swaps as disclosed within Derivatives on the consolidated statement of financial position. The term "**operating cash flow**" means, for any quarterly period, the trailing twelve months' consolidated net income adjusted for all amounts deducted in the computation thereof on account of (i) taxes imposed on or measured by income or excess profits; (ii) depreciation and amortization taken during such period; (iii) total interest charges, including interest on the Debentures; and (iv) non-cash charges. Total net debt[1] to operating cash flow financial covenant under our Private Placement Debt enables us to include the trailing twelve months operating cash flows from acquisitions. Although permitted, we have not included any operating cash flows generated from the acquisitions completed in 2016 in this financial covenant calculation.

Total net debt[1] to operating cash flow in 2016 and total debt to operating cash flow in 2015, was calculated as follows:

Total net debt[(1)] to operating cash flow		**December 31 2016**		**December 31[(2)] 2015**
Total net debt[(1)]	$	**435.0**	$	770.3
Operating cash flow	$	**183.8**	$	231.3
Total net debt[(1)] to operating cash flow		**2.37:1**		3.33:1

(1) *Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".*
(2) *Total debt calculated pursuant to the Note Purchase Agreement in place prior to the execution of the Amending Agreement.*

Total Earnings Available for Fixed Charges to Total Fixed Charges. The fixed charge coverage ratio cannot be less than 1.75:1 calculated using the trailing twelve months financial results.

Mullen Group, as evidenced by the table below, is in compliance with both of the aforementioned covenants.

Financial Covenants	**Financial Covenant Threshold**	**December 31 2016**	**December 31[(2)] 2015**
Private Placement Debt Covenants			
(a) Total net debt[(1)] to operating cash flow cannot exceed	3.50:1	**2.37:1**	3.33:1
(b) Total earnings available for fixed charges to total fixed charges cannot be less than	1.75:1	**4.73:1**	5.48:1

(1) *Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".*
(2) *Total debt calculated pursuant to the Note Purchase Agreement in place prior to the execution of the Amending Agreement.*

Total net debt[1] to operating cash flow was 2.37:1 at December 31, 2016. Assuming the $435.0 million of total net debt[1] remains constant, we would need to generate approximately $124.3 million of operating cash flow on a trailing twelve month basis to remain in compliance with this financial covenant. Cash as at December 31, 2016, was $270.3 million, including $81.0 million of U.S. dollars, a portion of which could be used to repay current debt maturities, fund acquisitions, increase capital expenditures or use for general corporate purposes. When a business is acquired, the trailing twelve months of operating cash flows generated by the newly acquired business may be added to our trailing twelve month operating cash flows from the date of acquisition for financial covenant calculation purposes.

Our debt-to-equity ratio was 0.72:1 at December 31, 2016, as compared to 0.97:1 at December 31, 2015. This decrease in the debt-to-equity ratio was due to the net effect of an $85.2 million decrease in total debt (including the current portion) and a $153.8 million increase in equity as compared to December 31, 2015. The $85.2 million decrease in total debt was mainly due to the repayment of Series C ($70.0 million) Notes and from the effect of the $13.0 million unrealized foreign exchange gain on the Corporation's U.S. dollar debt. The $153.8 million increase

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

in equity mainly resulted from the $154.9 million increase in share capital due to closing the Offering and the Private Placement and from $52.0 million of net income being recognized in 2016. These items were somewhat offset by the $54.2 million of dividends declared to shareholders in 2016.

Contractual Obligations

The following table summarizes the contractual maturities of financial liabilities, excluding interest payments.

	Maximum Payments				
	Total	**1 year**	**2 – 3 years**	**4 – 5 years**	**5 years and thereafter**
($ millions)	**$**	**$**	**$**	**$**	**$**
Long-term debt	683.4	136.3	70.8	—	476.3
Debentures	12.3	—	12.3	—	—
Total long-term debt	695.7	136.3	83.1	—	476.3
Purchase obligations	3.1	3.1	—	—	—
Operating leases	26.7	8.6	12.0	5.9	0.2
Total Contractual Obligations	725.5	148.0	95.1	5.9	476.5

We ended 2016 with long-term debt (including the current portion thereof) of $683.4 million, a decrease of $85.3 million as compared to the $768.7 million of long-term debt at the beginning of the year. This decrease was mainly due to the repayment of the Series C ($70.0 million) Notes and from the effect of the $13.0 million unrealized foreign exchange gain on the Corporation's U.S. dollar debt. The majority of the long-term debt consists of the Private Placement Debt, which matures in 2017, 2018, 2024 and 2026.

The carrying amount of Debentures at the end of 2016 was $12.3 million, a $0.1 million increase from the $12.2 million of Debentures at the beginning of the year. This $0.1 million year over year increase was due to recording accretion expense in 2016. The Debentures mature on July 1, 2018.

As at December 31, 2016, we entered into various capital expenditure purchase obligations totalling $3.1 million. The majority of these purchase obligations relate to the acquisition of trucks and trailers given that certain manufacturers require purchase obligations in advance so that manufacturing can commence and expected delivery times can be met.

The operating lease commitments of $26.7 million consist mostly of land, building and operating equipment commitments made by the Business Units. This is $8.3 million less than the $35.0 million committed to in 2015. This decrease in operating lease commitments is mainly due to a combination of certain Business Units renegotiating terms on existing leases, some Business Units exiting certain leases as they became due as well as a reduction in the amount outstanding on existing leases as they come closer to expiration. These decreases were somewhat offset by the operating leases assumed by virtue of the acquisition of Caneda.

Share Capital

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. The number of, and the specific rights, privileges, restrictions and conditions attaching to any series of Preferred Shares shall be determined by the Board prior to the creation and issuance thereof. As at the date hereof, no series of Preferred Shares has been created.

Common Shares

Common Shares Authorized: Unlimited Number	**# of Common Shares**		**Amount *($ millions)***
Balance at December 31, 2015	91,661,066	$	778.4
Common Shares issued on the Offering and Private Placement	11,993,250		154.9
Common Shares issued on conversion of Debentures	—		—
Common Shares issued on exercise of stock options	—		—
Balance at December 31, 2016	**103,654,316**	**$**	**933.3**

At December 31, 2016, there were 103,654,316 Common Shares outstanding representing $933.3 million in share capital, an increase of $154.9 million as compared to $778.4 million at December 31, 2015. This increase was due to the Corporation closing the Offering and the Private Placement whereby 11,993,250 Common Shares were issued for net proceeds of $153.1 million, which was adjusted by $1.7 million of deferred tax related to the share issuance costs. As at January 31, 2017, there were 103,654,316 Common Shares issued and outstanding.

Convertible Unsecured Subordinated Debentures

On May 1, 2009, we issued $125.0 million of Debentures, by way of private placement, at a price of $1,000 per Debenture. The Debentures mature on July 1, 2018, and bear interest at an annual rate of 10.0 percent payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year. Each $1,000 Debenture is convertible into 93.2 Common Shares (or a conversion price of $10.73) at any time at the option of the holders of the Debentures. As at the date of issuance, an aggregate of approximately 11.65 million Common Shares would be issued if all holders converted their principal amount. In addition to the principal amount, as Debentures are converted, any accrued and unpaid interest is also converted into Common Shares at a conversion price of $10.73.

The details of the Debentures are as follows:

($ millions)			**December 31, 2016**				**December 31, 2015**		
Year of Maturity	**Nominal Interest Rate**		**Face Value**		**Carrying Amount**		**Face Value**		**Carrying Amount**
2018	10%	**$**	**12.4**	**$**	**12.3**	$	12.4	$	12.2

As at December 31, 2016, on a cumulative basis, a total of 112,555 Debentures representing $112.6 million of aggregate principal amount had been converted into 10,686,804 Common Shares of the Corporation. As such, there remain 12,445 Debentures outstanding that could be converted into an aggregate of approximately 1,159,874 Common Shares of the Corporation. As at January 31, 2017, there were 12,445 Debentures outstanding. As subordinated debt, the accounting value assigned to the Debentures, including any related interest expense, is excluded from our financial covenant calculations on the Private Placement Debt. The Debentures are also subordinated to the Bank Credit Facility.

Stock Option Plan

	Options	Weighted average exercise price
Outstanding – December 31, 2015	2,354,744	$ 20.94
Granted	—	—
Exercised	—	—
Forfeited	(197,244)	(20.48)
Outstanding – December 31, 2016	**2,157,500**	**$ 20.98**
Exercisable – December 31, 2016	**1,022,500**	**$ 20.42**

The total number of options available to be issued under the stock option plan cannot exceed 4,000,000. In 2016 there were no stock options granted or exercised and there were 197,244 stock options forfeited. As at December 31, 2016, there were 2,157,500 stock options outstanding under the stock option plan. As at January 31, 2017, there were 2,157,500 stock options outstanding under the stock option plan.

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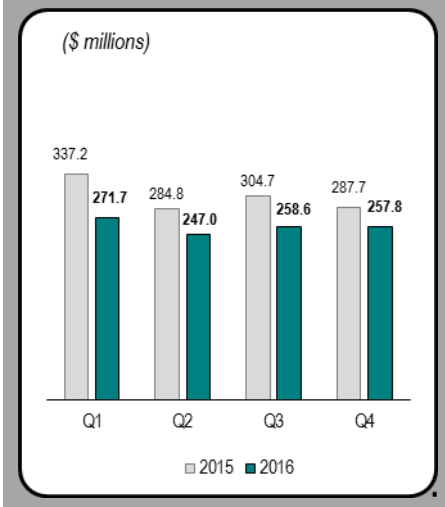
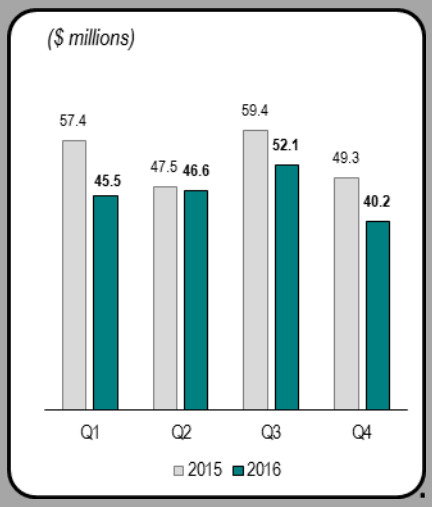
FOURTH QUARTER 2016 – CONSOLIDATED FINANCIAL RESULTS

Summary – Trailing Eight Quarters

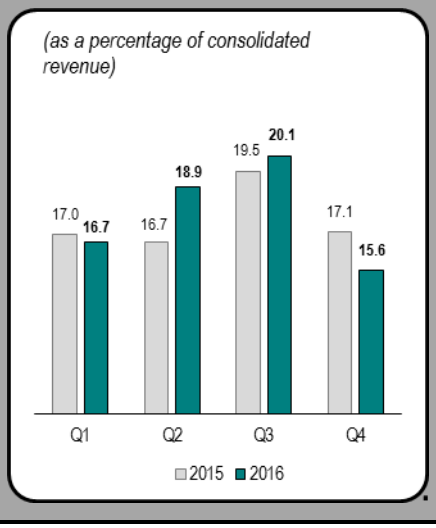
Consolidated Revenue



OIBDA – Adjusted[1]



Operating Margin – Adjusted[1]



Consolidated financial results for the fourth quarter were below prior year levels primarily due to macro related issues. The demand for oilfield services remained near multi-year lows negatively impacting activity levels as well as pricing in the Oilfield Services segment. In the Trucking/Logistics segment the demand for trucking and logistics services in western Canada remained weak due to the slowdown in economic activity in Alberta. In addition, the lack of real growth in the overall Canadian economy negatively impacted the demand for trucking and logistics services. This lack of demand growth contributed to a competitive pricing environment in most markets.

Revenue

Consolidated Revenue by Segment
Three month periods ended December 31
(unaudited)

($ millions)	**2016**		**2015**		**Change**	
	$	**%***	**$**	**%***	**$**	**%**
Trucking/Logistics	**173.0**	**67.2**	177.5	61.8	(4.5)	(2.5)
Oilfield Services	**84.4**	**32.8**	109.7	38.2	(25.3)	(23.1)
Corporate and intersegment eliminations	**0.4**	**—**	0.5	—	(0.1)	—
Total	**257.8**	**100.0**	287.7	100.0	(29.9)	(10.4)

**as a percentage of pre-consolidated revenue*

Consolidated revenue in the fourth quarter decreased by $29.9 million, or 10.4 percent, to $257.8 million as compared to $287.7 million in 2015. This decrease was primarily attributable to a $25.3 million drop in revenue generated by the Oilfield Services segment and a $4.5 million decline by the Trucking/Logistics segment. Both segments were negatively impacted by challenging market conditions; reduced demand for services, most notably in western Canada, due to continued reduction in capital investment by the oil and gas industry; and lower year over year fuel surcharge revenue accompanied by our strategy to demarket unprofitable business. Acquisitions completed in the quarter added $10.0 million in incremental revenue.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Q4 Consolidated Revenue Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%	$	%	$	%
Company	**177.9**	**69.0**	201.6	70.1	(23.7)	(11.8)
Contractors	**78.3**	**30.4**	84.3	29.3	(6.0)	(7.1)
Other	**1.6**	**0.6**	1.8	0.6	(0.2)	(11.1)
Total	**257.8**	**100.0**	287.7	100.0	(29.9)	(10.4)

Revenue generated by Company Equipment decreased by $23.7 million, or 11.8 percent, to $177.9 million as compared to $201.6 million in 2015 and represented 69.0 percent of consolidated revenue in the current period as compared to 70.1 percent in 2015. Revenue related to Contractors decreased by $6.0 million, or 7.1 percent, to $78.3 million as compared to $84.3 million in 2015 and represented 30.4 percent of consolidated revenue in the current period as compared to 29.3 percent in 2015.

Direct Operating Expenses

Q4 Consolidated Direct Operating Expenses Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Company						
Wages and benefits	**47.4**	**26.6**	53.5	26.5	(6.1)	(11.4)
Fuel	**17.4**	**9.8**	16.9	8.4	0.5	3.0
Repairs and maintenance	**24.7**	**13.9**	29.9	14.8	(5.2)	(17.4)
Purchased transportation	**17.8**	**10.0**	16.8	8.3	1.0	6.0
Operating supplies	**13.8**	**7.8**	15.5	7.7	(1.7)	(11.0)
Other	**5.8**	**3.2**	5.5	2.8	0.3	5.5
	126.9	**71.3**	138.1	68.5	(11.2)	(8.1)
Contractors	**58.3**	**74.5**	62.2	73.8	(3.9)	(6.3)
Total	**185.2**	**71.8**	200.3	69.6	(15.1)	(7.5)

**as a percentage of respective Consolidated revenue*

DOE were $185.2 million in the fourth quarter as compared to $200.3 million in 2015. This decrease of $15.1 million, or 7.5 percent, was directly related to the $29.9 million decrease in consolidated revenue. As a percentage of revenue these expenses increased by 2.2 percent to 71.8 percent as compared to 69.6 percent in 2015 due to higher fuel costs associated with rising crude oil prices and an increase in purchased transportation related to our LTL Business Units.

DOE associated with Company Equipment decreased to $126.9 million as compared to $138.1 million in 2015. This decrease of $11.2 million, or 8.1 percent, was directly related to the $23.7 million decrease in Company revenue that occurred during the quarter. As a percentage of Company revenue these expenses increased by 2.8 percent to 71.3 percent as compared to 68.5 percent in 2015 due to higher purchased transportation costs in the Trucking/Logistics segment and higher fuel expense in both operating segments.

Contractors expense in the fourth quarter decreased to $58.3 million, as compared to $62.2 million in 2015. This $3.9 million decrease was attributed to declines in both segments. As a percentage of Contractors revenue, Contractors expense increased by 0.7 percent to 74.5 percent as compared to 73.8 percent in 2015, primarily due to the increases experienced by the Oilfield Services segment.

Selling and Administrative Expenses

Q4 Consolidated Selling and Administrative Expenses Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Wages and benefits	**19.4**	**7.5**	22.2	7.7	(2.8)	(12.6)
Communications, utilities and general supplies	**9.5**	**3.7**	10.4	3.6	(0.9)	(8.7)
Profit share	**1.5**	**0.6**	2.7	0.9	(1.2)	(44.4)
Foreign exchange	**(2.6)**	**(1.0)**	(3.7)	(1.3)	1.1	(29.7)
Stock-based compensation	**0.3**	**0.1**	0.4	0.1	(0.1)	(25.0)
Rent and other	**2.0**	**0.8**	2.7	1.1	(0.7)	(25.9)
Total	**30.1**	**11.7**	34.7	12.1	(4.6)	(13.3)

**as a percentage of total Consolidated revenue*

S&A expenses for the period declined to $30.1 million as compared to $34.7 million in 2015. This was a year over year savings of $4.6 million. The majority of the decrease, $4.0 million, related to a reduction in administrative personnel, job sharing and profit share expense. These savings were partially offset by a $1.1 million negative variance in foreign exchange, which relates to a year over year change in the Canadian dollar relative to the U.S. dollar. Excluding the effects of foreign exchange within the Corporate Office, S&A expenses were $32.4 million, or 12.6 percent of revenue, as compared to $38.1 million, or 13.2 percent in 2015.

Operating Income Before Depreciation and Amortization

OIBDA[1] for the period was $42.5 million, or 16.5 percent of revenue, as compared to $52.7 million, or 18.3 percent, in 2015. The $10.2 million represents a decline of 19.4 percent year over year and was primarily due to a 10.4 percent, or $29.9 million decline in quarterly revenue; competitive pricing which reduced profitability; a change in the revenue mix with the completion of higher margin projects including pipeline related work and major oil sands projects; higher fuel prices; and other costs, which was offset by cost savings initiatives including S&A expenses.

Adjusting for changes in foreign exchange, OIBDA – adjusted[1] was $40.2 million, or 15.6 percent of revenue, for the current quarter as compared to $49.3 million, or 17.1 percent, in 2015, a decline of $9.1 million, or 18.5 percent year over year.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was $18.1 million in the fourth quarter as compared to $19.6 million in 2015. This decrease of $1.5 million was mainly attributable to a lower amount of depreciation being recorded in the Oilfield Services segment, while depreciation in the Trucking/Logistics segment and the Corporate Office remained consistent on a year over year basis. Depreciation in the Oilfield Services segment decreased by $1.4 million due to the reduction in the amount of capital expenditures made within this segment, the sale of older assets by certain Business Units and from the Corporation's declining balance method of depreciation. Depreciation in the Trucking/Logistics segment remained consistent on a year over year basis due to a lower amount of capital expenditures made within this segment being offset by the additional depreciation expense resulting from the acquisitions of Caneda, E.C.R. and Motrux.

Amortization of Intangible Assets

Amortization of intangible assets was $2.6 million in the fourth quarter as compared to $4.8 million in 2015. This decrease mainly resulted from the intangible assets acquired on the Producers acquisition becoming fully amortized at the end of June 2016. To a lesser extent, the decrease also resulted from the intangible assets acquired with the acquisition of Hi-Way 9 becoming fully amortized in the second quarter of 2016. These decreases were somewhat offset by the additional amortization recorded on the intangible assets associated with the acquisition of Caneda.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Finance Costs

Finance costs were $7.8 million in the fourth quarter as compared to $9.0 million in 2015. This decrease of $1.2 million was mainly attributable to the March 30, 2016 repayment of the Series C Notes ($70.0 million bearing interest at 5.60 percent per annum). This decrease was also due to a greater amount of interest income being generated from cash and cash equivalents.

Net Unrealized Foreign Exchange Loss

Net unrealized foreign exchange loss was $11.4 million in the fourth quarter as compared to a loss of $10.6 million in 2015. The components of net unrealized foreign exchange loss were as follows:

Net Unrealized Foreign Exchange Loss	**Three month periods ended December 31**	
	CDN. $ Equivalent	
(unaudited) ***($ millions)***	**2016**	**2015**
Unrealized foreign exchange loss on U.S. $ debt	**9.7**	15.5
Unrealized foreign exchange loss (gain) on Cross-Currency Swaps	**1.7**	(4.9)
Net unrealized foreign exchange loss	**11.4**	10.6

Unrealized Foreign Exchange Loss on U.S. $ Debt

The unrealized foreign exchange loss of $9.7 million related to our U.S. dollar debt was due to the $0.03 weakening of the Canadian dollar relative to the U.S. dollar during the fourth quarter. For the same period in 2015, we recorded an unrealized foreign exchange loss of $15.5 million due to the $0.05 change in value of the Canadian dollar relative to the U.S. dollar. The details of the unrealized foreign exchange loss on U.S. dollar debt is summarized in the table below:

Unrealized Foreign Exchange Loss on U.S. $ Debt	**Three month periods ended December 31**					
	2016			**2015**		
(unaudited) ***($ millions, except exchange rate amounts)***	**U.S. $ Debt**	**Exchange Rate**	**CDN. $ Equivalent**	**U.S. $ Debt**	**Exchange Rate**	**CDN. $ Equivalent**
Ending – December 31	**314.0**	**1.3427**	**421.6**	314.0	1.3840	434.6
Beginning – September 30	**314.0**	**1.3117**	**411.9**	314.0	1.3345	419.1
Unrealized foreign exchange loss on U.S. $ debt			**9.7**			15.5

Unrealized Foreign Exchange Loss (Gain) on Cross-Currency Swaps

The unrealized foreign exchange loss on Cross-Currency Swaps of $1.7 million in the fourth quarter was due to the change over the period in the fair value of these Cross-Currency Swaps as summarized in the table below:

Unrealized Foreign Exchange Loss (Gain) on Cross-Currency Swaps	**Three month periods ended December 31**			
	2016		**2015**	
(unaudited) ***($ millions)***	**U.S. $ Swaps**	**CDN. $ Change in Fair Value of Swaps**	**U.S. $ Swaps**	**CDN. $ Change in Fair Value of Swaps**
Cross-Currency Swap maturing October 22, 2024	**117.0**	**0.5**	117.0	(2.5)
Cross-Currency Swap maturing October 22, 2026	**112.0**	**1.2**	112.0	(2.4)
Unrealized foreign exchange loss (gain) on Cross-Currency Swaps		**1.7**		(4.9)

Other (Income) Expense

Other income was $2.2 million in the fourth quarter of 2016 as compared to $1.7 million of other expense in 2015. The $3.9 million positive variance was due to the factors set forth below:

Change in Fair Value of Investments (positive variance of $5.1 million). There was an increase in the fair value of investments of $1.6 million in the fourth quarter as compared to a $3.5 million decrease in 2015. This $5.1 million positive variance was mainly due to the change in the fair value of our investment in Logan.

Gain or loss on Sale of Property, Plant and Equipment (positive variance of $2.2 million). We recognized a gain of $0.2 million on sale of property, plant and equipment on total consolidated proceeds on sale of $2.2 million in the fourth quarter as compared to a $2.0 million loss on sale of property, plant and equipment on total consolidated proceeds on sale of $2.6 million in 2015. This $0.2 million gain on sale of property, plant and equipment in 2016 mainly resulted from the sale of older assets by Business Units within the Oilfield Services segment. The $2.0 million loss on sale of property, plant and equipment in 2015 resulted from the sale of older assets within the Oilfield Services segment.

Earnings from Equity Investments (negative variance of $0.4 million). We recognized $0.4 million of earnings from equity investments in the fourth quarter as compared to $0.8 million of earnings in 2015.

Gain on Contingent Consideration (negative variance of $3.0 million). There was a $3.0 million gain on contingent consideration in the fourth quarter of 2015 as compared to no gain in 2016. The $3.0 million gain in 2015 resulted from management revising Recon's proforma operating results for the 2016 and 2017 fiscal years. This revision was based upon Recon not achieving its financial target in 2015. As such, management revised the fair value of the contingent consideration to be nil and recognized a gain of $3.0 million in the consolidated statement of comprehensive income in 2015.

Income Taxes

(unaudited)	**Three month periods ended December 31**	
($ millions)	**2016**	**2015**
Income before income taxes	**$ 4.8**	$ 7.0
Combined statutory tax rate	**27%**	26%
Expected income tax	**1.3**	1.8
Add (deduct):		
Non-deductible portion of net unrealized foreign exchange loss	**1.5**	1.4
Non-deductible (taxable) portion of the change in fair value of investments	**(0.2)**	0.5
Stock-based compensation expense	**0.1**	0.1
Other	**2.8**	0.8
Income tax expense	**$ 5.5**	$ 4.6

Income tax expense increased to $5.5 million in the fourth quarter as compared to $4.6 million in 2015. This increase of $0.9 million was mainly attributable to the variance in net unrealized foreign exchange and the change in the fair value of investments.

Net Income (Loss)

(unaudited) *($ millions, except share and per share amounts)*	Three month periods ended December 31		
	2016	**2015**	**% Change**
Net income (loss)	**$ (0.7)**	$ 2.4	(129.2)
Weighted average number of Common Shares outstanding	**103,654,316**	91,661,066	13.1
Earnings (loss) per share – basic	**$ (0.01)**	$ 0.03	(166.7)

A loss of $0.7 million was recorded in the quarter as compared to $2.4 million of net income for the same period last year. The $3.1 million variance is primarily due to the continued lack of demand for oilfield services and other macro related issues. Specific factors contributing to the decrease in net income (loss) include:

- a $10.2 million decrease in OIBDA[1];
- a $3.0 million decrease in gain on contingent consideration;
- a $0.9 million increase in income tax expense;
- a $0.8 million negative variance in net unrealized foreign exchange; and
- a $0.4 million decrease in earnings from equity investments.

These factors were somewhat offset by the following factors that increased net income:

- a $5.1 million positive variance in the fair value of investments;
- a $2.2 million decrease in amortization of intangible assets;
- a $2.2 million increase in the gain on sale of property, plant and equipment;
- a $1.5 million decrease in depreciation of property, plant and equipment; and
- a $1.2 million decrease in finance costs.

Basic earnings (loss) per share decreased to $(0.01) in 2016 as compared to $0.03 in 2015. This decrease resulted from the effect of the $3.1 million decrease in net income. The weighted average number of Common Shares outstanding increased from 91,661,066 to 103,654,316, which was due to the issuance of Common Shares from the Offering and the Private Placement.

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[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Net Income – Adjusted and Earnings per Share – Adjusted

The following table illustrates net income and basic earnings per share before considering the net unrealized foreign exchange gain or loss, the change in fair value of investments and the gain on contingent consideration. Net income and basic earnings per share have been adjusted to reflect earnings from a strictly operating perspective.

(unaudited) ***($ millions, except share and per share amounts)***	**Three month periods ended December 31**	
	2016	**2015**
Income before income taxes	**$ 4.8**	$ 7.0
Add (deduct):		
Net unrealized foreign exchange loss	**11.4**	10.6
Change in fair value of investments	**(1.6)**	3.5
Gain on contingent consideration	**—**	(3.0)
Income before income taxes – adjusted	**14.6**	18.1
Income tax rate	**27%**	26%
Computed expected income tax expense	**(3.9)**	(4.7)
Net income – adjusted[1]	**10.7**	13.4
Weighted average number of Common Shares outstanding – basic	**103,654,316**	91,661,066
Earnings per share – adjusted[1]	**$ 0.10**	$ 0.15

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

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FOURTH QUARTER 2016 – SEGMENTED INFORMATION

Three month period ended December 31, 2016 *(unaudited)* *($ millions)*	Trucking /Logistics	Oilfield Services	Corporate and Intersegment eliminations	Total
	$	$	$	$
Revenue	**173.0**	**84.4**	**0.4**	**257.8**
Direct operating expenses	**126.3**	**59.5**	**(0.6)**	**185.2**
Selling and administrative expenses	**20.4**	**9.9**	**(0.2)**	**30.1**
Operating income before depreciation and amortization[(1)]	**26.3**	**15.0**	**1.2**	**42.5**

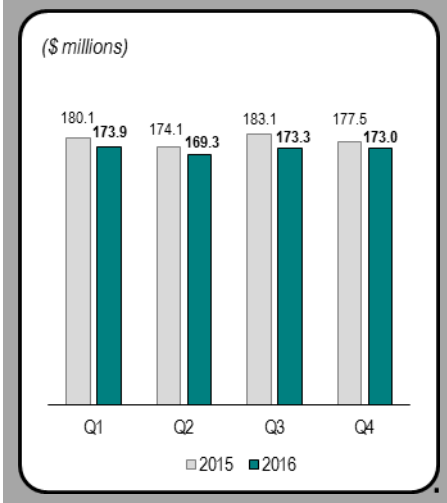
Three month period ended December 31, 2015 *(unaudited)* *($ millions)*	Trucking /Logistics	Oilfield Services	Corporate and Intersegment eliminations	Total
	$	$	$	$
Revenue	177.5	109.7	0.5	287.7
Direct operating expenses	125.8	75.0	(0.5)	200.3
Selling and administrative expenses	21.9	13.9	(1.1)	34.7
Operating income before depreciation and amortization[(1)]	29.8	20.8	2.1	52.7

[(1)] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

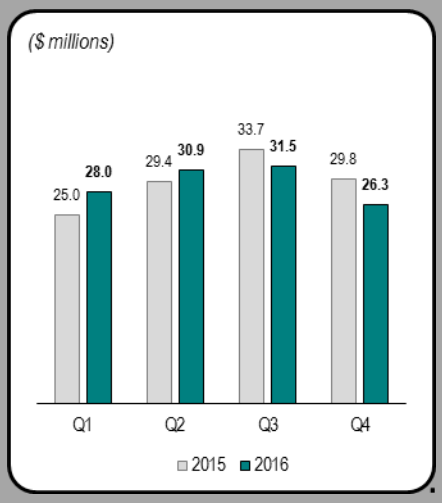
TRUCKING/LOGISTICS SEGMENT

Summary – Trailing Eight Quarters

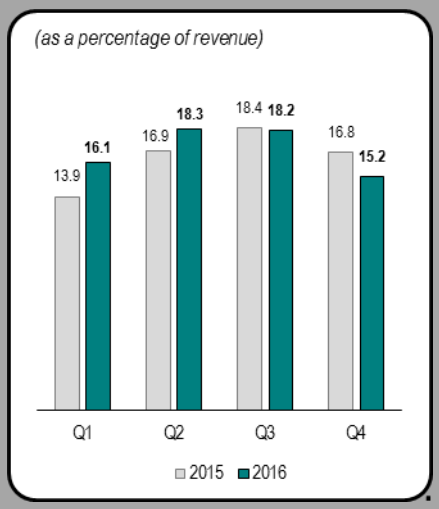
Consolidated Revenue



OIBDA[1]



Operating Margin[1]



[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

General economic activity is the main driver of demand levels for our Trucking/Logistics segment. The Trucking/Logistics segment is also influenced by North American trade volumes and resulting demand for freight services. Early estimates indicate that Canada's real gross domestic product expanded by 0.4 percent in November after contracting by 0.3 percent in October and experiencing growth of 0.9 percent in the third quarter. There continues to be a substantive decline in energy related and resource sector investment affecting economic growth in western Canada. The economy in the rest of Canada appears to be expanding, albeit at a very modest pace with the manufacturing of durable goods in decline. It is further estimated that the U.S. economy expanded by 1.9 percent in the fourth quarter, after expanding by 3.5 percent in the third quarter.

Revenue

Q4 Revenue – Trucking/Logistics **Three month periods ended December 31** ***(unaudited)*** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%**	**$**	**%**	**$**	**%**
Company	**117.6**	**68.0**	122.5	69.0	(4.9)	(4.0)
Contractors	**55.2**	**31.9**	54.8	30.9	0.4	0.7
Other	**0.2**	**0.1**	0.2	0.1	—	—
Total	**173.0**	**100.0**	177.5	100.0	(4.5)	(2.5)

The Trucking/Logistics segment generated 67.2 percent of pre-consolidated revenue for the fourth quarter as compared to 61.8 percent in 2015. Revenue in this segment declined by $4.5 million, or 2.5 percent, to $173.0 million as compared to $177.5 million in 2015, primarily due to a decrease in demand for freight services in western Canada and a $0.2 million drop in fuel surcharge revenue. These decreases were somewhat offset by incremental revenue related to our recent acquisitions of Caneda, E.C.R. and Motrux. Some of the specific factors that impacted revenue in the fourth quarter were the following:

- The regional LTL business remains soft in western Canada due to declines in the economy associated with the oil and gas industry. The six regional LTL Business Units[1] generated revenue of $87.6 million as compared to $90.8 million in 2015.

- The demand for truckload services slowed year over year primarily due to lower activity related to oil sands development, mining and the movement of heavy equipment from the U.S. The six Business Units generated $88.8 million in revenue as compared to $89.6 million in 2015.

- Fuel surcharge revenue declined to $13.0 million as compared to $13.2 million in 2015.

- Acquisitions added incremental revenue of $10.0 million in the current quarter.

Revenue related to Company Equipment decreased by $4.9 million, or 4.0 percent, to $117.6 million as compared to $122.5 million in 2015 and represented 68.0 percent of segment revenue in the current period as compared to 69.0 percent in 2015. Revenue related to Contractors increased by $0.4 million, or 0.7 percent, to $55.2 million as compared to $54.8 million in 2015 and represented 31.9 percent of segment revenue in the current period as compared to 30.9 percent in 2015.

[1] Our six regional LTL Business Units consist of Gardewine, Courtesy, Jay's, Hi-Way 9, Grimshaw and Bernard. Although their primary service offering is LTL, they provide many other services including full-truckload, bulk and logistics services.

Direct Operating Expenses

Q4 Direct Operating Expenses – Trucking/Logistics Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Company						
Wages and benefits	**31.5**	**26.8**	32.3	26.4	(0.8)	(2.5)
Fuel	**12.4**	**10.5**	11.3	9.2	1.1	9.7
Repairs and maintenance	**14.1**	**12.0**	15.3	12.5	(1.2)	(7.8)
Purchased transportation	**17.4**	**14.8**	15.9	13.0	1.5	9.4
Operating supplies	**6.8**	**5.8**	7.7	6.3	(0.9)	(11.7)
Other	**3.8**	**3.2**	3.1	2.5	0.7	22.6
	86.0	**73.1**	85.6	69.9	0.4	0.5
Contractors	**40.3**	**73.0**	40.2	73.4	0.1	0.2
Total	**126.3**	**73.0**	125.8	70.9	0.5	0.4

**as a percentage of respective Trucking/Logistics revenue*

DOE were $126.3 million in the fourth quarter as compared to $125.8 million in 2015. The increase of $0.5 million, or 0.4 percent, was in spite of the 2.5 percent decrease in segment revenue. Overall as a percentage of revenue these expenses increased by 2.1 percent to 73.0 percent as compared to 70.9 percent in 2015 due to an increase in expenses related to operating Company Equipment.

DOE related to Company Equipment increased by $0.4 million, or 0.5 percent, to $86.0 million as compared to $85.6 million in 2015. This increase was in spite of the $4.9 million decrease in Company revenue. In terms of a percentage of revenue, Company expenses increased by 3.2 percent to 73.1 percent as compared to 69.9 percent in 2015. These expenses were higher in both absolute and percentage terms primarily due to our recent acquisitions, which had higher operating expenses related to Company Equipment, an increase in purchased transportation expense at Gardewine and increased fuel costs associated with the year over year rise in crude oil prices.

Contractors expense in the fourth quarter increased by $0.1 million to $40.3 million as compared to $40.2 million in 2015. This increase was generally in line with the slight increase in Contractors revenue. As a percentage of Contractors revenue, Contractors expense decreased to 73.0 percent as compared to 73.4 percent in 2015.

Selling and Administrative Expenses

Q4 Selling and Administrative Expenses – Trucking/Logistics Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Wages and benefits	**12.8**	**7.4**	12.9	7.3	(0.1)	(0.8)
Communications, utilities and general supplies	**5.7**	**3.3**	5.8	3.3	(0.1)	(1.7)
Profit share	**1.5**	**0.9**	2.1	1.2	(0.6)	(28.6)
Foreign exchange	**(0.3)**	**(0.2)**	(0.4)	(0.2)	0.1	(25.0)
Rent and other	**0.7**	**0.4**	1.5	0.7	(0.8)	(53.3)
Total	**20.4**	**11.8**	21.9	12.3	(1.5)	(6.8)

**as a percentage of total Trucking/Logistics revenue*

S&A expenses were $20.4 million in the fourth quarter as compared to $21.9 million in 2015. The decrease of $1.5 million was primarily due to successful cost cutting initiatives in most areas, most notably rent and other expense and the $0.6 million reduction in profit share expense. Somewhat offsetting these reductions was the $0.1 million negative variance on foreign exchange and expenses associated with our recent acquisitions. S&A expenses as a percentage of segment revenue decreased slightly to 11.8 percent as compared to 12.3 percent in 2015.

Operating Income Before Depreciation and Amortization

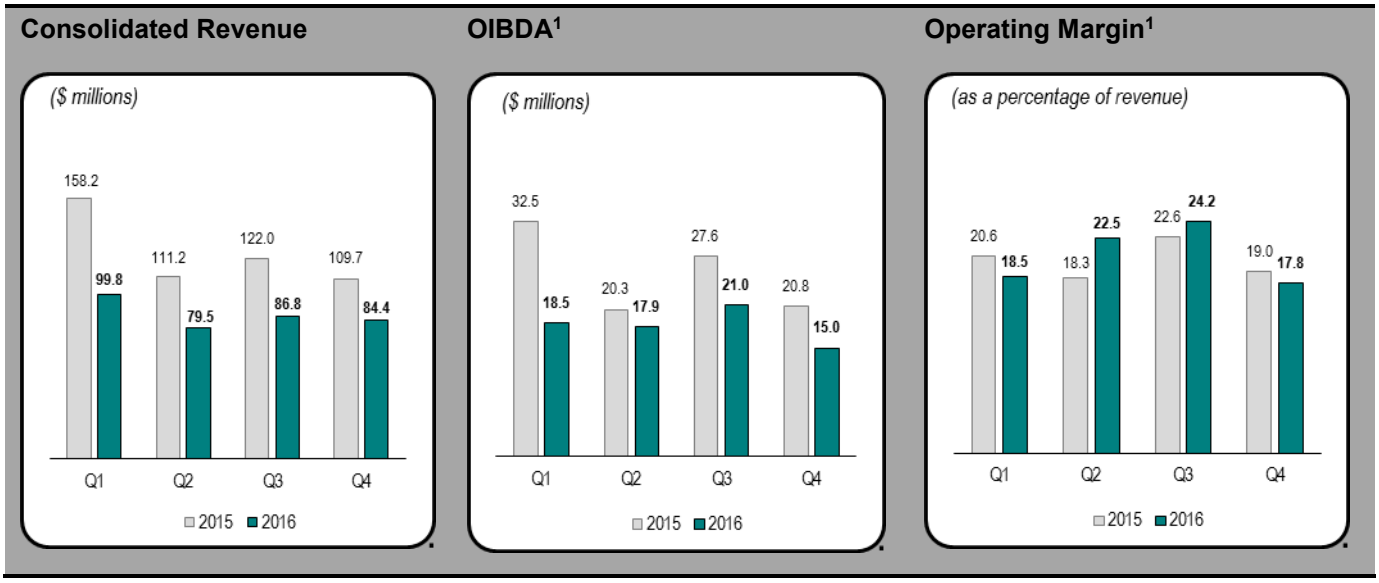
OIBDA[1] for the fourth quarter decreased by $3.5 million to $26.3 million, or 11.7 percent, as compared to $29.8 million generated in the same period last year. Operating margin[1] decreased to 15.2 percent as compared to 16.8 percent in 2015. This 1.6 percent decrease in operating margin[1] was primarily due to the higher costs associated with operating Company Equipment, competitive pricing pressures and lower margins associated with our recent acquisitions.

Capital Expenditures

Net capital expenditures[1] were $1.9 million in the fourth quarter, a decrease of $2.3 million as compared to $4.2 million in 2015. The Trucking/Logistics segment had gross capital expenditures of $2.2 million and dispositions of $0.3 million for net capital expenditures[1] of $1.9 million in 2016. Gross capital expenditures mainly consisted of the purchase of trucks and trailers as well as various pieces of operating equipment. In 2015 gross capital expenditures were $5.1 million and dispositions were $0.9 million for net capital expenditures[1] of $4.2 million.

OILFIELD SERVICES SEGMENT

Summary – Trailing Eight Quarters



Industry Statistics

Drilling activity in the WCSB, as reported in terms of active rig count, total wells drilled and length of metres drilled within such wells, increased marginally in the quarter as compared to the prior year. Industry statistics indicate that the average active rig count was 179 rigs during 2016 as compared to 168 active rigs in 2015, a slight increase of 11 rigs or 6.5 percent. Total wells drilled in 2016 increased by 4.3 percent to 1,353 wells drilled in the period as compared to 1,297 wells drilled in 2015. However, the length of metres drilled within such wells increased by 25.9 percent during the current period to 4.08 million metres as compared to 3.24 million metres in 2015, indicating a change in well drilling techniques. Although commodity prices remained volatile, the oil and gas industry increased drilling activity marginally relative to prior year levels, however, capital investment continued to be restrained.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

The number of wells completed on a geographic basis for the quarter was as follows:

	Three month periods ended December 31			
	2016	**2015**	**# Change**	**% Change**
British Columbia	**80**	135	(55)	(40.7)
Alberta	**621**	651	(30)	(4.6)
Saskatchewan	**632**	484	148	30.6
Manitoba	**20**	27	(7)	(25.9)
Northwest Territories	**—**	**—**	—	—
Total	**1,353**	1,297	56	4.3

source: JuneWarren-Nickle's Energy Group – wells completed on rig release basis.

Revenue

Q4 Revenue – Oilfield Services **Three month periods ended December 31** ***(unaudited)*** ***($ millions)***	**2016**		**2015**		**Change**	
	$	**%**	**$**	**%**	**$**	**%**
Company	**60.3**	**71.4**	79.2	72.2	(18.9)	(23.9)
Contractors	**23.7**	**28.1**	29.9	27.3	(6.2)	(20.7)
Other	**0.4**	**0.5**	0.6	0.5	(0.2)	(33.3)
Total	**84.4**	**100.0**	109.7	100.0	(25.3)	(23.1)

The Oilfield Services segment generated 32.8 percent of pre-consolidated revenue for the fourth quarter as compared to 38.2 percent in 2015. Revenue decreased by $25.3 million, or 23.1 percent, to $84.4 million as compared to $109.7 million in 2015. The decrease in revenue can be attributed to the continued lack of demand for oilfield services, our decision to demarket certain customers that demanded unreasonable price concessions and forgoing unprofitable business. Some of the specific factors that impacted revenue in the fourth quarter were the following:

- a $16.1 million decrease in revenue generated by those Business Units involved in the transportation of fluids and servicing of wells;
- a $9.8 million decrease in revenue generated by those Business Units providing specialized services due to a decrease in demand for water management services related to the oil sands in Fort McMurray, Alberta and other specialized services;
- a $0.1 million decrease in revenue generated by those Business Units providing drilling services due to lower industry activity; and
- a $0.7 million increase in revenue generated by those Business Units most directly tied to oil and natural gas drilling activity.

Revenue related to Company Equipment decreased by $18.9 million, or 23.9 percent, to $60.3 million as compared to $79.2 million in 2015 and represented 71.4 percent of segment revenue in the current period as compared to 72.2 percent in 2015. Revenue related to Contractors decreased by $6.2 million, or 20.7 percent, to $23.7 million as compared to $29.9 million in 2015 and represented 28.1 percent of segment revenue in the current period as compared to 27.3 percent in 2015.

Direct Operating Expenses

Q4 Direct Operating Expenses – Oilfield Services Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Company						
Wages and benefits	**15.9**	**26.4**	21.2	26.8	(5.3)	(25.0)
Fuel	**5.0**	**8.3**	5.6	7.1	(0.6)	(10.7)
Repairs and maintenance	**10.6**	**17.6**	14.6	18.4	(4.0)	(27.4)
Purchased transportation	**0.4**	**0.7**	0.9	1.1	(0.5)	(55.6)
Operating supplies	**7.0**	**11.6**	7.8	9.8	(0.8)	(10.3)
Other	**1.9**	**3.1**	2.5	3.2	(0.6)	(24.0)
	40.8	**67.7**	52.6	66.4	(11.8)	(22.4)
Contractors	**18.7**	**78.9**	22.4	74.9	(3.7)	(16.5)
Total	**59.5**	**70.5**	75.0	68.4	(15.5)	(20.7)

**as a percentage of respective Oilfield Services revenue*

DOE were $59.5 million in the fourth quarter as compared to $75.0 million in 2015. The decrease of $15.5 million, or 20.7 percent, was directly related to the $25.3 million, or 23.1 percent, decrease in segment revenue during the quarter. As a percentage of revenue these expenses increased by 2.1 percent to 70.5 percent as compared to 68.4 percent in 2015.

DOE associated with Company Equipment in the fourth quarter decreased to $40.8 million as compared to $52.6 million in 2015. The decrease of $11.8 million, or 22.4 percent, was directly related to the $18.9 million, or 23.9 percent, decrease in Company revenue. As a percentage of Company revenue these expenses increased by 1.3 percent to 67.7 percent as compared to 66.4 percent in 2015, primarily due to a 1.8 percent increase in operating supplies as well as a 1.2 percent increase in fuel expense as a percentage of Company revenue.

Contractors expense in the fourth quarter decreased by $3.7 million to $18.7 million as compared to $22.4 million in 2015. This decrease was generally in line with the decrease in Contractors revenue. As a percentage of Contractors revenue, Contractors expense increased to 78.9 percent as compared to 74.9 percent in 2015 due to the effect of rate discounting, primarily by those Business Units involved in the transportation of fluids and servicing of wells.

Selling and Administrative Expenses

Q4 Selling and Administrative Expenses – Oilfield Services Three month periods ended December 31 *(unaudited)* *($ millions)*	2016		2015		Change	
	$	%*	$	%*	$	%
Wages and benefits	**5.7**	**6.8**	8.2	7.5	(2.5)	(30.5)
Communications, utilities and general supplies	**3.3**	**3.9**	4.1	3.7	(0.8)	(19.5)
Profit share	**—**	**—**	0.6	0.5	(0.6)	(100.0)
Rent and other	**0.9**	**1.0**	1.0	1.0	(0.1)	(10.0)
Total	**9.9**	**11.7**	13.9	12.7	(4.0)	(28.8)

**as a percentage of total Oilfield Services revenue*

S&A expenses were $9.9 million in the fourth quarter as compared to $13.9 million in 2015. This $4.0 million decrease was mainly attributable to the $3.1 million decline in wages and benefits and profit share expenses as well as other cost cutting initiatives. S&A expenses as a percentage of segment revenue decreased by 1.0 percent to 11.7 percent in comparison to 12.7 percent in 2015 due to aggressive cost cutting measures relative to the $25.3 million decrease in revenue.

Operating Income Before Depreciation and Amortization

OIBDA[1] in the fourth quarter decreased by 27.9 percent to $15.0 million. The $5.8 million year over year decrease was primarily due to the declines in revenue during the quarter. Some of the specific factors that impacted OIBDA[1] in the fourth quarter were the following:

- a $4.2 million decrease relating to those Business Units leveraged to the oil sands and pipeline construction projects;
- a $1.8 million decrease in those Business Units involved in the transportation of fluids and servicing of wells;
- a $0.2 million increase in those Business Units tied to drilling related activity; and
- no change in OIBDA[1] for those Business Units involved in drilling services including core drilling.

Operating margin[1] decreased to 17.8 percent in the fourth quarter from 19.0 percent in 2015, primarily due to the 2.1 percent increase in DOE as a percentage of revenue.

Capital Expenditures

Net capital expenditures[1] were $(0.1) million in the fourth quarter, an increase of $0.4 million as compared to $(0.5) million in 2015. The Oilfield Services segment had gross capital expenditures of $1.3 million and dispositions of $1.4 million for net capital expenditures[1] of $(0.1) million in 2016. Gross capital expenditures mainly consisted of the purchase of some equipment for Canadian Dewatering and Mullen Oilfield. The majority of the dispositions related to the sale of older trucks and trailers. In 2015 gross capital expenditures were $1.3 million and dispositions were $1.8 million for net capital expenditures[1] of $(0.5) million.

CORPORATE

The Corporate Office recorded a profit of $1.2 million in the fourth quarter of 2016 as compared to a profit of $2.1 million in 2015. The $0.9 million decrease in profit was mainly attributable to a $1.1 million negative variance in foreign exchange. In the fourth quarter of 2016, the Corporate Office recorded a foreign exchange gain of $2.3 million as compared to a foreign exchange gain of $3.4 million in 2015. The $2.3 million foreign exchange gain in 2016 was due to the Corporate Office holding an average of approximately U.S. $75.8 million of cash combined with a $0.03 strengthening of the U.S. dollar relative to the Canadian dollar. Excluding the effects of foreign exchange, the Corporate Office experienced a loss of $1.1 million as compared to a loss of $1.3 million in 2015. The reduction of $0.2 million was mainly due to the impact of cost control measures.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

SUMMARY OF QUARTERLY RESULTS

Seasonality of Operations

Revenue and profitability within the Trucking/Logistics segment are generally lower in the first quarter than during the remainder of the year as freight volumes are typically lower following the holiday season due to less consumer demand and customers reducing shipments. Operating expenses also tend to increase within this segment in the winter months due to decreased fuel efficiency and increased repairs and maintenance expense resulting from cold weather conditions.

A significant portion of the operations within the Oilfield Services segment relates to the moving of heavy equipment, drilling rigs and drilling supplies such as oilfield fluids, tubulars and drilling mud and providing services such as conductor pipe-setting, core drilling and casing setting in northern and western Canada. Activity levels, revenue and earnings are influenced by the seasonal activity pattern of western Canada's oil and natural gas exploration industry whereby activity peaks in the winter months and declines during the spring when wet weather and the spring thaw make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and natural gas producing areas are only accessible in the winter months because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unpredictable weather patterns may lead to declines in the activity levels of the oil and gas companies and corresponding declines in the demand for oilfield services. As a result, the demand for these services is traditionally highest in the first quarter and lowest in the second quarter.

Financial Results

	TTM[1]	2016				2015			
(unaudited)		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
($ millions, except per share amounts)	$	$	$	$	$	$	$	$	$
Revenue	**1,035.1**	**257.8**	**258.6**	**247.0**	**271.7**	**287.7**	304.7	284.8	337.2
Operating income before depreciation and amortization[2]	**181.0**	**42.5**	**53.6**	**46.0**	**38.9**	**52.7**	65.5	46.4	64.8
Operating income before depreciation and amortization – adjusted[2]	**184.4**	**40.2**	**52.1**	**46.6**	**45.5**	**49.3**	59.4	47.5	57.4
Net income (loss)	**52.0**	**(0.7)**	**17.6**	**13.7**	**21.4**	**2.4**	7.3	0.9	2.8
Earnings (loss) per share									
Basic	**0.52**	**(0.01)**	**0.17**	**0.14**	**0.23**	**0.03**	0.08	0.01	0.03
Diluted	**0.52**	**(0.01)**	**0.17**	**0.14**	**0.23**	**0.03**	0.08	0.01	0.03
Other Information									
Net unrealized foreign exchange loss (gain)	**(5.8)**	**11.4**	**5.0**	**(5.7)**	**(16.5)**	**10.6**	10.2	1.2	17.7
Decrease (increase) in fair value of investments	**(1.7)**	**(1.6)**	**(4.4)**	**4.2**	**0.1**	**3.5**	7.4	4.2	4.3

(1) *TTM represents the "trailing twelve months" and consists of a summary of the Corporation's financial results for the most recently completed four quarters.*
(2) *Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".*

Fourth quarter financial results continued to be negatively impacted by the continued lack of demand for oilfield services and under investment by the oil and gas industry relative to prior years. As a result, our consolidated revenue in the quarter decreased to $257.8 million from $287.7 million in 2015. The decline of $29.9 million, or 10.4 percent, was primarily due to lower revenue generated by the Oilfield Services segment as demand slowed for specialized transportation services, major pipeline projects and dewatering services related to Alberta's oil sands development, as well as declines associated with the demarking of unprofitable business related to the transportation of fluids and servicing of wells. These decreases were somewhat offset with modest revenue gains in our drilling related Business Units, which is correlated to the increase in drilling activity in western Canada. Revenue generated by the Trucking/Logistics segment fell by $4.5 million during the quarter due to lower freight demand and transload services in Alberta. These declines were minimized by incremental revenue generated from acquisitions and increased demand for services related to construction activity in northern Manitoba. Net loss in the fourth quarter of 2016 was $0.7 million, a decrease of $3.1 million from the $2.4 million of net income generated in 2015. The $3.1 million decrease in net income was mainly attributable to a

$10.2 million decrease in OIBDA[1], a $3.0 million contingent gain recorded in 2015 and a $0.8 million negative variance in net unrealized foreign exchange. These decreases were somewhat offset by a $5.1 million positive variance in the fair value of investments, a $2.2 million decrease in amortization of intangible assets and a $2.2 million increase in gain on sale of property, plant and equipment. As a result, basic loss per share in the fourth quarter of 2016 was $0.01, a decrease of $0.04, from the $0.03 of earnings per share generated in 2015.

Consolidated revenue in the third quarter of 2016 decreased by $46.1 million, or 15.1 percent, to $258.6 million as compared to $304.7 million in 2015. The decrease of $46.1 million was attributable to a reduction in revenue experienced by both the Oilfield Services segment and the Trucking/Logistics segment. Revenue in the Oilfield Services segment decreased by $35.2 million and was due to the continuation of low commodity prices, which resulted in lower drilling activity levels and reduced capital investments in western Canada. Revenue declines were most notable in those Business Units involved in the transportation of fluids and servicing of wells, from those Business Units most directly tied to oil and natural gas drilling activity, from lower demand for large diameter pipeline construction projects and dewatering services. These decreases were somewhat offset by greater demand for heavy haul freight services related to Alberta's oil sands. The Trucking/Logistics segment experienced a $9.8 million decrease in revenue, which was mainly due to lower fuel surcharge revenue and lower freight volumes predominately in Alberta. These decreases were somewhat offset by the incremental revenue generated from the acquisitions of Courtesy and Motrux as well as from the increased revenue generated by Smook Contractors and Mullen Trucking. Net income in the third quarter of 2016 was $17.6 million, an increase of $10.3 million from the $7.3 million generated in 2015. The $10.3 million increase in net income was mainly attributable to an $11.8 million positive variance in the fair value of investments and a $5.2 million positive variance in net unrealized foreign exchange. These increases were somewhat offset by an $11.9 million decrease in OIBDA[1]. As a result, basic earnings per share in the third quarter of 2016 was $0.17, an increase of $0.09, from the $0.08 generated in 2015.

Consolidated revenue in the second quarter of 2016 decreased by $37.8 million, or 13.3 percent, to $247.0 million as compared to $284.8 million in 2015. The decrease of $37.8 million was attributable to a reduction in revenue experienced by both the Oilfield Services segment and the Trucking/Logistics segment. Revenue in the Oilfield Services segment decreased by $31.7 million and was due to extremely low drilling activity levels and reduced capital investments in western Canada. Revenue declines were most notable in those Business Units involved in the transportation of fluids and servicing of wells, from those Business Units most directly tied to oil and natural gas drilling activity and from lower demand for services related to Alberta's oil sands including heavy haul freight and dewatering services. These decreases were somewhat offset by greater demand for services related to large diameter pipeline construction projects. The Trucking/Logistics segment experienced a $4.8 million decrease in revenue, which was mainly due to lower fuel surcharge revenue and lower transportation volumes predominately in Alberta. These decreases were somewhat offset by increased demand for transload services and from the incremental revenue generated from the acquisition of Courtesy. Net income in the second quarter of 2016 was $13.7 million, an increase of $12.8 million from the $0.9 million generated in 2015. The $12.8 million increase in net income was mainly attributable to a $6.9 million positive variance in net unrealized foreign exchange, a $4.7 million decrease in income tax expense and a $0.9 million decrease in finance costs. These increases were somewhat offset by a $1.0 million increase in loss on sale of property, plant and equipment and a $0.4 million decrease in OIBDA[1]. As a result, basic earnings per share in the second quarter of 2016 was $0.14, an increase of $0.13, from the $0.01 generated in 2015.

Consolidated revenue in the first quarter of 2016 decreased by $65.5 million, or 19.4 percent, to $271.7 million as compared to $337.2 million in 2015. The decrease of $65.5 million was attributable to a reduction in revenue experienced by both the Oilfield Services segment and the Trucking/Logistics segment. Revenue in the Oilfield Services segment decreased by $58.4 million and was mainly due to extremely low drilling activity in the WCSB. Revenue declines were most notable in those Business Units involved in the transportation of fluids and servicing of wells and from those Business Units most directly tied to oil and natural gas drilling activity. These decreases were somewhat offset by greater demand for services related to large diameter pipeline construction projects. The Trucking/Logistics segment experienced a $6.2 million decrease in revenue, which was mainly due to lower fuel surcharge revenue and a reduction in demand for heavy haul freight services in western Canada. These decreases were somewhat offset by increased demand for transload services and from the incremental revenue generated from the acquisition of Courtesy. Net income in the first quarter of 2016 was $21.4 million, an increase of $18.6 million from the $2.8 million generated in 2015. The $18.6 million increase in net income was mainly attributable to a $34.2 million positive variance in net unrealized foreign exchange, a $4.2 million positive variance in the fair value of investments and a $6.5 million decrease in income tax expense. These increases were somewhat offset by a $25.9 million decrease in OIBDA[1] and a $0.5 million increase in finance costs. As a result, basic earnings per share in the first quarter of 2016 was $0.23, an increase of $0.20, from the $0.03 generated in 2015.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

TRANSACTIONS WITH RELATED PARTIES

Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the business activities of the Corporation, including all its directors along with certain executives. Directors are remunerated for services rendered in their capacity as directors by way of a combination of retainer fees and meeting attendance fees. The overall compensation program for executives is comprised of base salary and benefits, annual profit share and stock-based compensation. Our Executives do not have formal employment contracts. Similar to the employment processes established for employees, each executive's personnel file contains a memorandum outlining the basic terms of an executive's employment relationship with the Corporation. There are no agreements or arrangements with any executive for the payment of compensation in the case of resignation, retirement, or termination of employment, a change of control of Mullen Group or its Business Units or a change in an executive's responsibilities following a change of control. Key management personnel do not participate in a defined benefit or actuarial pension plan, however, key management personnel do participate in the Stock Option Plan. Total remuneration to key management personnel including directors' fees, salaries and benefits, annual profit share, and the value attributable to stock-based compensation expense was as follows:

($ millions)	**Years Ended December 31**	
Category	**2016**	**2015**
Salaries and benefits (including profit share)	**$ 1.4**	$ 1.3
Share-based payments	**0.1**	0.1
Total	**$ 1.5**	$ 1.4

There were no outstanding amounts owing to or amounts receivable from directors and officers as at December 31, 2016 and 2015, with respect to the overall compensation program for the executives. As at December 31, 2016, directors and officers of Mullen Group collectively held 3,829,291 Common Shares (2015 – 3,536,591) representing 3.7 percent (2015 – 3.9 percent) of all Common Shares of the Corporation.

Related Party Transactions

During the year, we generated revenue of $15,000 (2015 – $0.1 million) with entities that are related by virtue of a certain Board member having control or joint control over the other entities. There was $4,000 of accounts receivable amounts due from these related parties as at December 31, 2016.

During the year, we generated revenue of $2.6 million (2015 – $2.4 million), incurred expenses of $0.2 million (2015 – $0.8 million) and sold $20,000 (2015 – $0.1 million) of property, plant and equipment with our equity investees, which are accounted for by the equity method of accounting. As at December 31, 2016, there was $3,000 (2015 – $0.1 million) of accounts receivable amounts due from equity investees and there was $24,000 (2015 – $4,000) of accounts payable amounts due to these related party transactions. At December 31, 2016, we had $4.3 million of debentures owing from Envolve at an interest rate of 6.0 percent per annum calculated and payable semi-annually that mature in April 2017.

All related party transactions were provided in the normal course of business materially under the same commercial terms and conditions as transactions with unrelated companies and recorded at the exchange amount.

PRINCIPAL RISKS AND UNCERTAINTIES

The operational complexities inherent in our business, together with the highly regulated and competitive environment of the industries in which we operate, leave Mullen Group exposed to a number of risks and uncertainties ("**risks**"). Many of these risks, for example, the cyclical and volatile nature of the oil and natural gas industry, may be mitigated to a certain degree but still remain outside of our control. Management believes that the risks described below are the ones that could have the most significant impact on the Corporation. Readers are cautioned that the list of risks is not exhaustive and new information, future events or changing circumstances could affect our operations and financial results, which may reduce or restrict our ability to pay a dividend to our shareholders and may materially affect the market price of our securities.

The transportation business and other activities are directly affected by fluctuations in the general economy, including the amount of trade between Canada and the United States and the value of the Canadian dollar as compared to the U.S. dollar. Our Oilfield Services segment is directly affected by fluctuations in the levels of oil and natural gas drilling activity, oil sands development and production activity carried on by its customers, which in turn is dictated by numerous factors, including but not limited to world energy prices and government policies.

A risk management review process has been formalized to assist in mitigating risk. The risk management review process highlights the significant risks which then leads to mitigation plans through, among other things, the establishment of standards and other controls including the establishment and enforcement of a corporate wide code of conduct and ethics through our Behaviour Guide and we have instituted an anonymous Whistleblower protocol. The inability to identify, assess and respond to risks through the risk management review process could lead to, among other things, an inability to capture opportunities, recognize threats, inefficiencies and non-compliance with laws and regulations.

The most significant risks identified by management are categorized and described as follows:

Strategic

- Oil and Natural Gas Drilling Activity
- Oil Sands Development
- Economic Conditions
- Failure to Identify and Realize Anticipated Benefits of Acquisitions and Dispositions
- Competition
- Climate Change Regulations and Carbon Pricing/Taxes
- Changes in Legislation
- Alternatives to and Changing Demand for Petroleum Products

Financial

- Foreign Exchange
- Investments
- Access to Financing
- Reliance on Major Customers
- Interest Rates
- Credit Risk

Operational

- Employees and Labour Relations
- Cost Escalation
- Potential Operating Risks and Insurance
- Digital Infrastructure
- Environmental Liability Risks
- Weather and Seasonality
- Business Continuity, Disaster Recovery and Crisis Management
- Access to Parts, Development of New Technology and Relationships with Key Suppliers
- Regulation

STRATEGIC RISKS:

Oil and Natural Gas Drilling Activity

A portion of our revenue and OIBDA[1] is directly related to oil and natural gas drilling activity in western Canada, an area known to contain these hydrocarbons. As a service provider to the oil and natural gas industry we are reliant on the levels of capital expenditures made by oil and natural gas producers. The level of drilling activity by exploration and production companies is based on several factors including, but not limited to, hydrocarbon prices, production levels and access to capital. Oil and natural gas development is also influenced by the long-term takeaway pipeline capacity to transport these products out of western Canada. There can be no certainty that investments will be made, or that approvals by regulators will be forthcoming, to provide this capacity. As a service provider to the oil and natural gas industry, we are reliant on the levels of capital allocated by oil and natural gas producers to drilling activity in western Canada. In recent years, natural gas prices have been volatile, nearing ten year lows, thereby reducing the level of natural gas drilling activity. Oil and natural gas drilling and production activity in western Canada has changed significantly in recent years, declining due to new drilling techniques and lower commodity prices and may remain volatile.

A sudden significant or prolonged decline of oil and/or natural gas prices will have a negative impact on drilling activity that would negatively affect the operations in our Oilfield Services segment as well as our overall financial condition. Conversely, a resurgence of oil and/or natural gas prices should have a positive impact on the operations in our Oilfield Services segment as well as our overall financial condition.

Mullen Group recognizes the cyclical and volatile nature of drilling activity and mitigates the risks associated with this volatility through the combination of a disciplined capital allocation process and a focus on maintaining long-term relationships with large-cap oil and gas companies. We also continually assess the requirements for further investments in our Oilfield Services segment and have diversified our operations to further mitigate this risk.

Oil Sands Development

A portion of our operations is related to the continued development and extraction of oil sands and heavy oil deposits in western Canada. As a service provider to this sector, we are reliant on the level of capital and operational expenditures made by oil sands operators, who typically base their capital expenditures on several factors including, but not limited to, oil prices, oil price differentials, available heavy oil refinery capacity, takeaway capacity including pipeline and rail infrastructure, access to capital and environmental regulations. These operators and producers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital budgets to reflect these assessments. In terms of the effect of environmental regulations, oil sands operations emit greenhouse gases ("**GHG**") and have been the focus of various environmental groups and legislators. As production rises there is a risk that oil sands and heavy oil development may not meet societal expectations and, therefore, may become subject to new environmental regulations, which could negatively affect their future capital expenditures (see ***Climate Change Regulations and Carbon Pricing/Taxes*** on page 62). In addition to GHG emissions regulations, oil sands producers are subject to tailings management regulations, which may become more stringent and require additional capital in order to satisfy. To date, regulations relating to tailings management, such as the Alberta Government's Directive 74, have had no demonstrable or quantifiable negative effect on our business. In fact, our wholly-owned subsidiary Canadian Dewatering has benefited from those regulations in the past due to the nature of the services they provide. Oil sands development is influenced by the long-term takeaway pipeline capacity to transport oil out of western Canada. There can be no certainty that investments will be made, or that approvals by regulators will be forthcoming, to provide this capacity. Finally, oil sands development requires significant capital. As such, significant disruptions, new environmental regulations or volatility in the capital markets may increase oil sands developers' cost of borrowing or affect their ability to access credit and equity capital markets thereby impacting future oil sands development, which would in turn negatively affect Mullen Group.

In consideration of this risk and potential uncertainty we endeavour to ensure that our capital allocation, costs and pricing are appropriate for the anticipated level of oil sands development. In addition, we continually assess the requirements for further investments in our Oilfield Services segment and have diversified our operations to further mitigate this risk.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

Economic Conditions

Mullen Group is a significant provider of trucking and logistics services to customers throughout North America. Our results are affected by the state of the economy and trade patterns, both in North America and globally, and the associated demand for freight transportation and logistics services. Similarly, commodity prices, to which the demand for our Oilfield Services segment is tied, can be affected by the state of those economies. A decline or uncertainty with regard to the health of the North American economy or trade patterns could have a material adverse effect on the operations of our Trucking/Logistics segment and, to a lesser degree, our Oilfield Services segment (to the extent that the economy affects commodity pricing with respect to oil and natural gas, in particular), and our overall financial condition.

In consideration of this risk, we service an extensive customer base from diverse industries covering a broad geographic area. In addition, we use what we consider to be an appropriate mix of Company Equipment and Contractors to service our customers. During periods of peak demand, we tend to use a higher volume of Contractors, which yield lower margins, but protects us from the downside risk and fixed costs associated with a larger Company Equipment fleet during periods of lower demand. These diversification and operating strategies ensure, as much as possible, that we are not overly exposed to any single economic trend.

Failure to Identify and Realize Anticipated Benefits of Acquisitions and Dispositions

Mullen Group acquires and disposes of businesses and assets in the ordinary course of business. Our acquisition strategy has been, and will remain, focused primarily on the two segments of the economy where we have strong market penetration and customer relationships, namely, the transportation and distribution of freight within North America and oil and natural gas services industry. Accordingly, we face competition from both peer group and non-peer group firms for acquisition opportunities. This external competition may hinder our ability to identify and/or consummate future acquisitions successfully. If the prices sought by sellers of these potential acquisitions were to rise or otherwise be deemed unacceptable, we may find fewer suitable acquisition opportunities. Furthermore, entities that are acquired may not increase our OIBDA[1] or yield other anticipated benefits. If any one, or a combination, of the above contingencies results in our failure to execute our acquisition strategy successfully in the future, it could limit our ability to continue to grow in terms of revenue, OIBDA[1] and cash flow. In addition, there is a risk of impairment of acquired goodwill and intangible assets. This risk of impairment to goodwill and intangible assets exists because the assumptions used in the initial valuation of these assets, such as interest rate or forecasted cash flows, may change when testing for impairment is required.

Achieving the benefits of acquisitions depends, in part, on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters; one such matter being dispositions. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets will be periodically disposed of so that we can focus our efforts and resources more efficiently. Depending on the state of the market such non-core assets, if disposed of, could be expected to realize less than their carrying value on our consolidated financial statements.

In consideration of the risk relating to identifying and realizing the benefits of acquisitions and disposals, we endeavour to create a balanced and diverse portfolio in our Trucking/Logistics and Oilfield Services segments by using considerable experience and the financial modeling to assess potential targets for, among other things, potential synergies, financial returns, cultural fit and integration.

Competition

The various business segments in which we operate are highly competitive. We compete with several large companies in the transportation and energy services industry that may have greater financial and other resources. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of services that we compete with or that new competitors will not enter our various markets.

[1] Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP and Additional GAAP Terms".

In certain aspects of our business, we believe we have competitive advantages such as lower overhead costs and specialized regional strengths. We endeavour to use technological change and innovation to remain competitive in our various businesses. Furthermore, the diversity of our Business Units and our decentralized business model may diminish the effect that new competitive forces might have on our organization.

Climate Change Regulations and Carbon Pricing/Taxes

A change in this regulatory regime may impact our customers and our operations. Climate change regulations and carbon taxes may lead to project delays and additional costs to producers affecting both their profitability and their investments in oil and natural gas. Given the evolving nature of the debate related to climate change, it is not currently possible to predict the nature of, or the impact on, our operations and future financial condition.

Changes in Legislation

The operations of our organization are subject to a variety of federal, provincial and local laws, regulations and guidelines. In addition, the operations of Mullen Group may be affected by international trade agreements and the ability to seamlessly cross international borders. There can be no assurance that such laws, trade agreements, regulations and guidelines, including income tax laws and the status of government programs relating to the oil and natural gas industry, the energy services industry and the transportation industry, as well as environmental and otherwise applicable operating legislation will not be changed in a manner that adversely affects our organization. Any such change could have a material adverse effect on our business, results of operations and financial condition. Our customers are similarly subject to trade agreements, federal, provincial and local laws, regulations and guidelines and there can be no assurance that the laws, regulations or rules governing our customers will not be changed in a manner that adversely affects them and, thereby, Mullen Group.

The diversity of our Business Units and our decentralized business model may diminish the effect that a change in legislation could have on Mullen Group as a whole. This diversification strategy has resulted in our strategy to invest in several sectors of the economy, most notably in transportation and logistics and oilfield services, as well as in many geographic regions. We monitor proposed legislative changes and participate with various industry associations in advocating for reasonable and non-disruptive regulatory changes.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. We cannot predict the impact of changing demand for oil and natural gas products, and any major changes could have a material adverse effect on our business, results of operations and financial condition.

FINANCIAL RISKS

Foreign Exchange

Mullen Group has foreign exchange risk. A stronger Canadian dollar is beneficial as it results in an unrealized foreign exchange gain on our U.S. dollar debt, as well as an equivalent reduction in the carrying value of such debt on the balance sheet. However, a stronger Canadian dollar also has the potential to reduce the level of Canadian exports thereby potentially negatively affecting the results of operations in the Trucking/Logistics segment. Conversely, a weakening Canadian dollar results in an unrealized foreign exchange loss and an equivalent increase in the carrying value related to the U.S. dollar debt. In addition, a weaker Canadian dollar has the potential to increase the level of Canadian exports and thereby potentially positively affect the results of operations in the Trucking/Logistics segment.

At the end of each reporting period we recognize unrealized foreign exchange gains or losses as they relate to financial contracts, assets and liabilities held in foreign currencies. This risk mainly arises from our U.S. $314.0 million of Senior Guaranteed Unsecured Notes ("**U.S. Notes**"). Specifically, our U.S. Notes are comprised of Series E (U.S. $85.0 million), Series G (U.S. $117.0 million) and Series H (U.S. $112.0 million) Notes that mature in 2017, 2024 and 2026, respectively. We have mitigated most of the foreign exchange risk by entering into the Cross-Currency Swaps to convert the principal portion of the Series G and Series H Notes into a Canadian currency equivalent of $129.2 million and $124.9 million, respectively. The Series E Notes that mature in September 2017

remain unhedged. At December 31, 2016, we also had U.S. dollar cash of $81.0 million, U.S. dollar trade receivables of $3.8 million and U.S. dollar trade payables and accrued liabilities of $3.5 million, which mitigates a portion of this foreign exchange risk. We are also exposed to foreign exchange risk related to approximately U.S. $13.9 million of annual interest payable on our U.S. Notes. This risk is partially offset by the fact that our business generates surplus U.S. funds in our operations, predominately within the Trucking/Logistics segment. This surplus U.S. dollar cash being generated acts as a natural hedge as it is used to repay our annual interest obligation on the U.S. Notes.

Investments

Mullen Group invests in both private and public companies. Fair values of public company investments are based on quoted prices in active markets. There is a risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, classes of investments or factors affecting all investments traded in the market. As such, there is a risk that a portion of the original investment may be lost.

We accept a certain amount of risk and considers the underlying risk and possible market volatility of our investments. We strive to mitigate this risk by investing in areas that we have industry knowledge and expertise and we invest for the long-term. Risk capital is limited to a level that is deemed acceptable to Mullen Group. Our investments in public companies are measured at fair value and have an initial cost of $18.0 million. At December 31, 2016, the fair value of these investments was $6.2 million. In 2016 we recorded an increase in the fair value of investments of $1.7 million. We owned 4,674,625 shares of Logan until October 24, 2016 when Logan announced the completion of the sale of all of its outstanding common shares for cash consideration of $1.59 per common share. In 2016 we recorded a $0.1 million increase in the fair value of our investment in Logan as compared to a $12.6 million decrease in 2015. We use the equity method to account for investments in private companies in which we have significant influence or joint control. At December 31, 2016, the carrying value of these investments totalled $32.4 million and consisted of the investments in Canol Oilfield Services Inc., Kriska Transportation Group Limited, Envolve, Cordova and Butler Ridge. In 2016 we did not purchase or sell any equity investments as compared to purchasing $6.6 million of investments into private companies in 2015, namely; Envolve, Cordova and Butler Ridge.

Access to Financing

We may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on acceptable terms, which could limit our growth and could have a material adverse effect on our business, results of operations and financial condition.

We manage our cash flows diligently to ensure that we maintain what we believe is a suitable level of liquidity and leverage. Our approach to managing liquidity is to ensure, to the extent possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions. Consistent with others in the industry, we monitor capital on the basis of debt-to-equity. This ratio is calculated as total debt divided by shareholders' equity. Total debt is calculated as the total of: current portion of long-term debt, long-term debt and the debt component of Debentures. Equity is comprised of share capital, convertible debentures – equity component, contributed surplus and retained earnings. The debt-to-equity ratio calculation at December 31, 2016 was 0.72:1 (2015 – 0.97:1).

We expect that we will be able to obtain additional financing when needed, in the amounts required and on acceptable terms, however, there is no assurance that such additional financing will be available when needed or on acceptable terms.

Reliance on Major Customers

There is an inherent risk that arises to all businesses when economic dependence on a major customer hinders a company's ability to maximize profit. The loss of one or more major customers, any significant decrease in services provided, decreases in rates charged, or any other changes to the terms of service with customers, could have a material adverse effect on our business, results of operations and financial condition. Furthermore, a concentration of revenue with a major customer, or a small group of major customers, may lead to an enhanced ability of those

customers to influence pricing and other contract terms, which may have a material adverse effect on our results. The top ten customers of Mullen Group accounted for approximately 21.6 percent of our revenue for the year ended December 31, 2016 (2015 – 23.3 percent), and the largest customer accounted for approximately 3.6 percent (2015 – 3.5 percent) of such revenue. There can be no assurance that our current customers will continue their relationships.

We strive to mitigate this risk through a diversification strategy in an attempt to ensure that our organization does not become reliant on any single customer. Furthermore, we operate a decentralized business model whereby we utilize the expertise of management at each Business Unit to negotiate its own contracts that have pricing and terms that are competitive according to their specific market and/or geographic region.

Interest Rates

We are susceptible to fluctuations in interest rates. Our Bank Credit Facility is issued at variable rates. To the extent we utilize our Bank Credit Facility we would incur a risk of interest rates rising. This facility was available but not drawn on as at December 31, 2016.

Our Private Placement Debt, the Debentures and the majority of our Various Financing Loans are issued at fixed rates, the majority of which mature between 2017 and 2026. Borrowings issued at fixed rates expose Mullen Group to fair value interest rate risk. More specifically, we are susceptible to the opportunity costs associated with interest rate decreases considering that the interest rates on the majority of our borrowings are fixed. Assuming all other variables were held constant, if interest rates increased by 1.0 percent on our $695.7 million debt, we would incur additional annual interest expense of approximately $7.0 million. We do not hedge interest rates or have any interest rate swaps, but we have mitigated the negative risk of rising interest rates by financing most of our debt at fixed rates.

Credit Risk

Credit risk is the risk of financial loss to Mullen Group if a customer or counterparty to a financial asset fails to meet its contractual obligations. This risk arises predominately from our trade and other receivables generated from our customers. Substantial portions of our accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices thereby potentially impacting their ability to meet contractual obligations. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The carrying amount of financial assets represents our maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

Carrying amount ($ millions)		**December 31, 2016**		**December 31, 2015**
Cash and cash equivalents	**$**	**270.3**	$	147.2
Trade and other receivables		**153.8**		160.0
Derivative financial instruments		**32.8**		39.9
Other assets		**1.1**		5.2
	$	**458.0**	$	352.3

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. We transport a wide variety of freight for a broad customer base that spans numerous industries. Our top ten customers are all well-known, publicly-traded companies. Credit risk related to trade and other receivables is initially managed by each Business Unit. Each Business Unit is responsible for reviewing the credit risk for each of their customers before standard payment and delivery terms and conditions are offered. The Business Units' review consists of external ratings, when available, and in some cases bank and trade references. Management has established a credit policy under which new customers are analyzed for creditworthiness before we extend credit. We monitor our trade and other receivables aging on an ongoing basis as part of the process of managing credit risk and also manages credit risk related to trade and other receivables on a consolidated basis whereby the aggregate exposure to individual customers is reviewed and their credit quality is assessed. In addition, Senior Executives attend industry forums to assess the creditworthiness of customers related primarily to the oil and natural gas industry. In terms of the credit risk relating to over-reliance on a single customer, no customer accounted for more than ten percent of our consolidated revenue for the fiscal years ended 2016 and 2015.

OPERATIONAL RISKS

Employees and Labour Relations

The success of Mullen Group is dependent upon attracting and retaining key personnel. Any loss of the services of such persons could have a material adverse effect on our business, results of operations and financial condition. Our ability to expand services will be dependent upon attracting additional qualified employees, which is constrained in times of strong industry activity. The failure to attract and retain a sufficient number of qualified personnel could also have a material adverse affect on our profitability.

The largest components of our overall expenses are salary, wages, benefits and costs of contractors. Any significant increase in these expenses could impact our financial performance. In addition, we are at risk if there are any labour disruptions. Some of our Business Units are subject to collective agreements with their employees. Any work stoppages, unbudgeted or unexpected increases in compensation could have a material adverse effect on our profitability and reduce cash flow from operating activities.

In order to mitigate this risk, we aim to be an employer of choice by offering competitive wages and incentive-based pay, establishing superior safety programs and fostering a strong reputation as an ethical company. These endeavours are designed to attract the best people at every level of our business, establish them in their roles, manage their development and identify successor candidates for senior roles. In addition to providing specific job-related and safety training, we encourage all of our employees to continue their education, training and skills upgrading and provides employees with the resources required to achieve and maintain our operational excellence.

Cost Escalation

Cost escalations due to rising costs, the effect of inflation, the price of fuel, equipment and other input costs, insurance costs, interest rates, fluctuations in customers' business cycles and national and regional economic conditions are factors over which we have little or no control. Significant increases in fuel prices, equipment prices, other input prices, interest rates or insurance costs, to the extent not offset by increases in transportation rates or contractual surcharges, or disruptions in fuel supply, would reduce profitability and could adversely affect our ability to carry out our strategic plans. We cannot predict the impact of future economic conditions and there is no assurance that our operations will continue to be profitable.

To counteract the potential for cost escalation, we focus on operational excellence, synergies between our Business Units and cost control. We rely on, among other things, long-term planning, budgeting processes, and internal benchmarking to achieve our profitability targets. Additionally, we mitigate our exposure to rising costs through the implementation of various fuel surcharge programs which pass the majority of cost increases to our customers and have implemented policies that focus on fuel efficiency, including fuel economy, asset utilization and minimizing dead-head mileage, proper repairs and maintenance of equipment, idling and speed policies.

Potential Operating Risks and Insurance

Our Oilfield Services segment is subject to risks inherent in the oil and natural gas industry, such as equipment defects, malfunction, failures and natural disasters. These risks could expose Mullen Group to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. In addition, our transportation operations are subject to risks inherent in the transportation industry, including potential liability that could result from, among other things, personal injury or property damage arising from motor vehicle accidents.

Although we have obtained insurance coverage against certain of the risks to which we are exposed, such insurance is subject to deductibles and coverage limits and no assurance can be given that such insurance will be adequate to cover our liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if we were to incur such liability at a time when we are not able to obtain liability insurance, our business, results of operations and financial condition could be materially adversely affected.

We have insurance and risk management programs in place to protect our assets, operations and employees and also have programs in place to address compliance with current safety and regulatory standards. Each Business Unit has a health and safety coordinator responsible for maintaining and developing policies and monitoring

operations vis-à-vis those policies. The health and safety coordinators are required to report incidents directly to the Senior Vice President of Mullen Group who reports directly to our Chief Executive Officer.

Digital Infrastructure

We believe that a well-functioning and efficient IT system is a prerequisite to growth, operational excellence and superior customer service, to aid day-to-day operational management and to provide accurate financial information. Our business involves high transaction volumes, complex logistics, the tracking of thousands of orders and trucks at any given time and the communication with trucks and field personnel in real time. We are therefore heavily dependent on certain software, satellite systems and network infrastructure. A serious prolonged failure in this area may materially affect our business.

Our information systems could also be penetrated by outside parties intent on extracting confidential information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets, litigation, remediation costs, damage to our reputation and loss of revenue resulting from unauthorized use of confidential information or failure to retain or attract customers following such an event. As part of our entity wide IT risk mitigation policy, we regularly engage third party vendors to complete security assessments of the IT systems, consisting of external and internal penetration tests.

At both the corporate level and within the individual Business Units, IT systems are subject to stringent guidelines, standardization, vigorous virus and access protection, back-up systems and replicated data. We employ project management techniques to manage new software developments and/or system implementations. We have a disaster recovery plan in place that is evaluated regularly and portions thereof are tested on a regular basis. Hosted by a reputable third-party, our main data centre has high levels of durability and redundancy built into it. Additionally, we have a second operational data centre which will allow our organization to continue processing data in the event of a major incident. In addition, we have purchased Cyber Insurance Coverage to indemnify ourselves in the unlikely event that an outside threat gains access to our information systems.

Environmental Liability Risks

The risk of incurring environmental liabilities is inherent in oilfield service and transportation operations. Historically, activities associated with such operations and the ownership, management or control of real estate pose an environmental risk. Some of our Business Units will routinely deal with natural gas, oil and other petroleum products. Our operations are subject to numerous laws, regulations and guidelines governing the management, handling, transportation and disposal of non-regulated and regulated substances and otherwise relating to the protection of the environment. These laws, regulations and guidelines include those relating to the remediation of spills, releases, emissions and discharges of regulated substances into the environment and those requiring removal or remediation of pollutants or contaminants. Failure to comply may impose civil and criminal penalties. While certain of our Business Units carry significant volumes of dangerous goods, we ensure that strict guidelines are met before a Business Unit and the individual drivers are permitted to manage, handle or transport such dangerous goods. This involves specific insurance requirements, training programs and appropriate permits with the various provinces and states in which our Business Units operate.

Our customers are subject to various laws, regulations, and guidelines that prescribe, among other things, limits on emissions into the air and discharges into surface and sub-surface waters. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, we cannot predict the nature of the restrictions that may be imposed. We may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

We operate out of numerous owned and leased facilities throughout Canada where storage tanks may be used or may have been used at some prior date. Canadian laws generally impose potential liability on the present or former owners or occupants of properties on which contamination has occurred. Although we are not aware of any contamination which, if remediation or clean-up were required, could have a material adverse effect on Mullen Group, certain facilities have been in operation for many years and, over such time, Mullen Group or the prior owners, operators or custodians of the properties may have generated and disposed of substances which are or may be considered hazardous. There can be no assurance that we will not be required at some future date to comply with new environmental laws, or that our operations, business or assets will not otherwise be further affected by current or future environmental laws.

While we maintain liability insurance, including insurance for certain environmental incidents, the insurance is subject to coverage limits and certain of our policies exclude coverage for damages resulting from environmental contamination. There can be no assurance that insurance will continue to be available to us on commercially reasonable terms, that the types of liabilities that we may incur will be covered by our insurance, or that the dollar amount of such liabilities will not exceed our policy limits.

We have programs to address compliance with current environmental standards and monitors our practices concerning the handling of environmentally hazardous materials. We endorse a formalized quality program and strive to be the best in class in areas of safety and environmental excellence. We believe in a balanced approach to sustainable development and are committed to best in class environmental management systems. In addition, we work with government, industry groups and the public to improve and develop environmental standards and further understanding of environmental issues. We also promote the participation and certification of our Business Units in the SmartWay Certification Program. However, there can be no assurance that our procedures will prevent environmental damage from occurring as a result of spills of materials handled by our organization or that such damage has not already occurred. Any such occurrence may have a material adverse effect on our business, results of operations and financial condition.

Weather and Seasonality

Harsh weather conditions can impede the movement of goods and increase the operating costs for the materials that can be transported, which could have a material adverse effect on our business, results of operations and financial condition.

In general, the level of activity in the Canadian oilfield service industry is influenced by seasonal weather patterns when wet weather and the spring thaw make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and natural gas producing areas are only accessible in the winter months because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies with corresponding declines in the demand for the goods and services we supply.

We mitigate some of this risk by charging standby fees or by positioning equipment in strategic locations in order to take advantage of good weather conditions when they occur. We also manage this risk by diversifying our operations and by using subcontractors and owner operators, which requires no investment by Mullen Group, to handle seasonal peaks. Our growth through acquisition into businesses not directly tied to oil and natural gas drilling activity has lessened the seasonal nature of our overall performance.

Business Continuity, Disaster Recovery and Crisis Management

In the event of a serious incident, the inability to restore or replace critical capacity in a timely manner may impact our business and operations. A serious event could therefore have a material adverse effect on our business, results of operations and financial condition.

This risk is mitigated by the development of business continuity arrangements, including disaster recovery plans and back-up delivery systems, to minimize the significance of any business disruption in the event of a major disaster. Insurance coverage may minimize any losses in certain circumstances.

Access to Parts, Development of New Technology and Relationships with Key Suppliers

Our ability to compete and expand is most directly tied to our having access at a reasonable cost to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors, and to the development and acquisition of new and competitive technologies. Although we have individual distribution agreements with various key suppliers, there can be no assurance that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, our ability to compete may be impaired by virtue of diminished availability and/or increased cost of securing certain equipment and parts. We have access to certain distributors and secure discounts on parts and components that would not be available if it were not for our relationships with certain key suppliers. Should the relationships with key suppliers cease the availability and cost of securing certain equipment and parts may be adversely affected.

We assess our suppliers and endeavour to ensure that our suppliers are financially viable or that suitable alternatives exist if relationships with current suppliers were to become compromised.

Regulation

Notwithstanding that the transportation industry is largely deregulated in terms of entry into the industry, each carrier must obtain a license from, or register with, provincial regulatory authorities in order to carry goods extra-provincially or to transport goods within any province. Licensing is also required from regulatory authorities in the United States for the transportation of goods between Canada and the United States. Changes in regulations applicable to Mullen Group could increase operating costs and have a material adverse effect on our business, results of operations and financial condition. The right to continue to hold applicable licenses and permits is generally subject to maintaining satisfactory compliance with regulatory and safety guidelines, policies and regulations. Although we are committed to compliance and safety through our operational excellence initiatives, there is no assurance that we will be in full compliance at all times with such policies, guidelines and regulations. Consequently, at some future time, we could be required to incur significant costs to maintain or improve our compliance record.

We monitor regulatory frameworks with a particular focus on over-dimensional freight and transportation of fluids and works, in conjunction with industry associations, to advocate our need to regulators and ensure that equipment meets regulations and that sufficient capital is invested to meet current and anticipated regulatory requirements.

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CRITICAL ACCOUNTING ESTIMATES

This MD&A summarizes Mullen Group's financial condition and results of operations, which are based upon our Annual Financial Statements that have been prepared in accordance with IFRS. The Annual Financial Statements require management to select significant accounting policies, which are contained within Note 3 to such statements. These significant accounting policies involve critical accounting estimates regarding matters that are inherently uncertain and require management to make estimates, complex judgements and assumptions. These estimates, complex judgements and assumptions are based on the circumstances that exist at the reporting date and may affect the reported amounts of income and expenses during the reporting periods and the carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities, other financial obligations, as well as the determination of fair values. The following describes critical accounting estimates we used in preparing the Annual Financial Statements and are an important part in understanding such statements:

Impairment tests

We assess, at the end of each reporting period, whether there is an indication that an asset group may be impaired. We have three significant asset groups that are reviewed for impairment. First, goodwill is reviewed for impairment annually, or more frequently if there are indications that impairment may have occurred. The second and third asset groups consist of intangible assets and long-lived assets. Intangible assets are acquired on acquisitions and are mainly comprised of customer relationship values and non-competition agreements, which are amortized over their estimated life from the date of acquisition. Long-lived assets include property, plant and equipment and other assets. These asset groups are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. If any indication of impairment exists we estimate the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, drilling and other technologies and economic declines. Internal triggering events for impairment include lower profitability or planned restructuring.

The impairment tests compare the carrying amount of the asset of the cash generating unit ("**CGU**") to its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal ("**FVLCD**") and the determination of value in use ("**VIU**"). The determination of VIU requires the estimation and discounting of cash flows, which involve key assumptions that consider all information available on the respective testing date. Management uses its judgement, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

In general terms, goodwill represents the excess of the purchase price of a business combination over the net amount of identifiable assets acquired less the liabilities assumed. At December 31, 2016 and 2015, we performed the annual impairment test for goodwill and concluded that there was no impairment of goodwill at any of our CGUs. This is based upon our belief that demand and pricing will improve over the next few years.

The recoverable amount was determined using either a discounted cash flow approach for CGUs that contain a significant amount of goodwill or an earnings multiple approach for those CGUs that do not contain a significant amount of goodwill The discounted cash flow model employed by the Corporation reflects the specifics of each CGU and its business environment. The model calculates the present value of the estimated future earnings of each CGU.

Estimating future earnings requires judgement, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment. The calculation of the recoverable amount using the discounted cash flow approach was based on the following key assumptions:

	Discount rate		Terminal value growth rate	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
CGU				
Gardewine Group Limited Partnership	**10.5%**	11.5%	**2.0%**	2.0%
Formula Powell L.P.	**10.5%**	12.0%	**2.5%**	2.5%
Kleysen Group Ltd.	**11.0%**	13.0%	**2.5%**	2.5%
Cascade Energy Services L.P.	**11.0%**	13.0%	**2.5%**	2.5%
Hi-Way 9 Group of Companies	**11.0%**	13.0%	**2.5%**	2.5%
Heavy Crude Hauling L.P.	**11.0%**	13.0%	**2.5%**	2.5%
Tenold Transportation Ltd.	**11.0%**	13.0%	**2.5%**	2.5%

(i) Cash flows were projected based on past experience, actual operating results and the one year business plan for the immediate year. Cash flows for a further four year period were extrapolated using constant growth rates of between 2.0 to 2.5 percent with adjustments reflecting an expectation of changes in the general economy, forecasted changes in drilling activity and the Business Unit's respective markets, and represents the Corporation's best estimate of the set of economic conditions that are expected to exist over the forecast period.

(ii) The terminal value growth rate is based on management's best estimate of the long-term growth rate for its CGUs after the forecast period, considering historic performance and future economic forecasts.

(iii) Each CGU's discount rate reflects their individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

The Corporation believes that the following changes in the key assumptions would result in a recoverable amount equal to the carrying value of the CGU, with any additional change in the assumptions causing goodwill to become impaired.

	Change in discount rate		Change in terminal value growth rate	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
CGU				
Gardewine Group Limited Partnership	**4.7%**	3.6%	**(7.6)%**	(5.7)%
Formula Powell L.P.	**1.5%**	1.3%	**(2.3)%**	(2.0)%
Kleysen Group Ltd.	**5.6%**	6.8%	**(9.3)%**	(13.2)%
Cascade Energy Services L.P.	**0.7%**	0.9%	**(0.9)%**	(1.4)%
Hi-Way 9 Group of Companies	**7.8%**	4.3%	**(12.9)%**	(7.2)%
Heavy Crude Hauling L.P.	**2.8%**	2.3%	**(4.1)%**	(3.6)%
Tenold Transportation Ltd.	**7.3%**	6.8%	**(13.3)%**	(12.9)%

For all CGUs the recoverable amount was greater than the CGU's carrying value, including goodwill. The CGU with the closest recoverable amount as compared to its carrying value was Cascade Energy Services L.P. ("**Cascade Energy**"). The recoverable amount of Cascade Energy was predicated on our view that there will be a recovery in the oil and gas sector. In our recoverable value model, the terminal value revenue used was approximately 56.0 percent of its highest level that was achieved in fiscal 2012. Future changes to this or any other assumptions may have a negative impact on Cascade Energy's recoverable amount as compared to its carrying value.

Intangible assets are mainly comprised of customer relationships and non-competition agreements. The fair value of these assets are calculated when a business is acquired and then amortized on a straight line basis over their estimated life. At December 31, 2016, intangible assets totalled $22.6 million (2015 – $30.1 million). Property, plant and equipment are mainly comprised of trucks and trailers, land and buildings. The net book value of property, plant and equipment at December 31, 2016, was $948.5 million (2015 – $992.2 million).

Acquisitions

The acquired assets, assumed liabilities (other than deferred taxes) and contingent consideration are recognized at fair value on the date we effectively obtain control. The measurement of business combinations is based on the information available on the acquisition date. The determination of fair value of the acquired intangible assets (including goodwill), property, plant and equipment and other assets and the liabilities assumed at the date of acquisition, as well as the useful lives of the acquired intangible assets and property, plant and equipment, is based on assumptions. The measurement is largely based on projected cash flows and market conditions at the date of acquisition. Contingent consideration is based on the likelihood of various outcomes of specified future events.

Property, plant and equipment and intangible assets

Property, plant and equipment are initially recognized at cost and include all expenditures directly attributable to bringing the asset to its intended use. The method and rates used in calculating depreciation of property, plant and equipment is an estimate. We calculate depreciation of property, plant and equipment using the declining balance method for all assets except drilling rigs which are depreciated using the unit-of-production method when such equipment has been operated within the previous twelve month period. Effective July 1, 2015, we began recording depreciation expense on drilling equipment that has not operated within the previous twelve month period using a 10.0 percent declining balance method. This change in estimate has been applied on a prospective basis and did not have a significant impact on consolidated net income or the financial results within the Oilfield Services segment for the year ended December 31, 2015. This change in estimate is based upon the revised estimated useful life of such equipment. When operated, drilling equipment will continue to be depreciated on a unit-of-production method based upon 1,500 operating days with a 20.0 percent residual value. It is impracticable to estimate the effect of this change in estimate on future periods as such an estimate depends on future operating activity levels. No other changes were made to the methods or rates we used to estimate depreciation expense on property, plant and equipment during the past two years.

We believe the methods and rates of depreciation reasonably reflect the annual decline in the value of property, plant and equipment. These methods and rates used are validated by the fact that net gains or losses on sale of property, plant and equipment over the last ten years have been minimal, which indicates that the net book value of assets approximates fair market value over an extended period of time. At December 31, 2016, the Oilfield Services segment had a carrying value of property, plant, and equipment of $328.1 million (2015 – $371.8 million) as compared to $178.7 million (2015 – $180.2 million) in the Trucking/Logistics segment.

Intangible assets are amortized on a straight line basis over a period of five to ten years. We determine the length of the amortization period at the date of acquisition. The method used in determining the amortization period is based upon the anticipated present value of future cash flows generated from customer relationships purchased on acquisitions. At December 31, 2016, the Trucking/Logistics segment had a carrying value of intangible assets of $19.9 million (2015 – $20.0 million) as compared to $2.7 million (2015 – $10.1 million) in the Oilfield Services segment.

Derivative Financial Instruments

We utilize Derivatives such as cross-currency swaps to manage our exposure to foreign currency risks relating to our U.S. dollar debt. The fair value of Derivatives fluctuate depending on the estimate of certain underlying financial measures. The estimated fair value of Derivatives are based on observable market data, including foreign currency curves, interest rates and credit spreads.

Trade and other receivables

Impairment of trade and other receivables is constantly monitored. Evidence of impairment could, for example, occur when the financial difficulties of a debtor become known or payment delays occur. Impairments are based on historical values, observed customer solvency, the aging of trade and other receivables and customer-specific and industry risks. In addition, we review external credit ratings as well as bank and trade references when available. At December 31, 2016, we recognized a reserve for bad debts on a customer-by-customer basis of $3.2 million (2015 – $4.2 million) against total gross trade and other receivables of $157.0 million (2015 – $164.2 million).

Income Taxes

Mullen Group's deferred income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. We operate in several provincial jurisdictions and are subject to various rates of taxation. The actual amount of tax ultimately paid in these jurisdictions may differ from the estimated amount.

SIGNIFICANT ACCOUNTING POLICIES

New Standards and Interpretations Not Yet Adopted

Mullen Group has reviewed new and revised standards and interpretations that have been approved by the IASB.

The following table outlines the new accounting pronouncements issued by the IASB that are applicable to, or may have a future impact on, our organization. The new pronouncements set forth below are effective for financial statements with annual periods beginning on or after January 1, 2018.

IFRS Title	Nature of Impending Change	IFRS Application Date	Impact of initial application on the Corporation's Financial Statements
IFRS 15 – Revenue from contracts with customers	IFRS 15 replaces existing IFRS and introduces a new revenue recognition model for contracts with customers. It also replaces existing guidance for contract costs and includes new disclosure requirements.	January 1, 2018 [1]	Management is currently completing its assessment of IFRS 15.
IFRS 16 – Leases	IFRS 16 supersedes IAS 17 - Leases and eliminates the classification of leases as either operating or finance leases. Under IFRS 16, all leases are to be capitalized by recognizing the present value of the lease payments as both a financial asset and financial liability.	January 1, 2019 [2]	Management is currently completing its initial assessment of IFRS 16.

[1] This IFRS may be applied retroactively, or as of the application date by adjusting retained earnings using the cumulative effect approach. Early adoption is permitted.
[2] Early adoption is permitted but only if the Corporation also applies IFRS 15.

DISCLOSURE AND INTERNAL CONTROLS

Disclosure Controls and Internal Controls over Financial Reporting

As at December 31, 2016, an evaluation of the effectiveness of our disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**"). In accordance with the provisions of National Instrument 52-109 – Certifications of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**"), management, including the CEO and CFO, have limited the scope of their design of the Corporation's disclosure controls and procedures to exclude controls, policies and procedures of Caneda. Mullen Group acquired Caneda on October 1, 2016. During the three month period ended December 31, 2016, Caneda generated revenue and earnings before tax of $7.9 million and $0.4 million, respectively. As at December 31, 2016, Caneda had $7.4 million of current assets and $1.4 million of current liabilities. The scope limitation is primarily due to the time required for the Corporation's management to assess Caneda's disclosure controls and procedures to ensure they are consistent with those of the Corporation. Based on this evaluation, the CEO and the CFO concluded that, as at December 31, 2016, the design and operation of our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Corporation in reports filed with, or submitted to, securities regulatory authorities were reported within the time periods specified under Canadian securities laws.

Internal control over financial reporting is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its internal control over financial reporting.

The CEO and CFO limited the scope of their design of the Corporation's internal controls over financial reporting to exclude controls, policies and procedures of Caneda due to the time required for the Corporation's management to assess Caneda's internal controls over financial reporting to ensure they are consistent with those of the Corporation. Based on this evaluation, the CEO and CFO concluded that internal control over financial reporting was effective as at December 31, 2016, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. As of December 31, 2016, we were utilizing the Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the Treadway Commission. In 2016 there was no change in our internal control over financial reporting that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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FORWARD-LOOKING INFORMATION STATEMENTS

This MD&A contains forward-looking statements within the meaning of applicable Canadian Securities laws relating to:

- Mullen Group's comment that we have a more positive outlook for the overall Canadian economy and for the oil and natural gas industry, as referred to in the Executive Summary beginning on page 7;

- Mullen Group's comment that we are well positioned to accelerate growth with quality acquisitions, as referred to in the Executive Summary beginning on page 7;

- Mullen Group's comment that there is reason to believe that the oil and gas industry is in the early stages of a recovery, as referred to in the Outlook section beginning on page 7;

- Mullen Group's comment that the demand for trucking and logistics will improve, as referred to in the Outlook section beginning on page 7;

- Mullen Group's expectation of a rebound in the demand for oilfield related services as well as modest pricing improvements as drilling activity increases. However, we believe that there remains a period of adjustment required before the financial performance of the 15 Business Units in our Oilfield Services segment returns to acceptable levels, as referred to in the Outlook section beginning on page 7;

- Mullen Group's view that our 13 Business Units involved in providing trucking and logistics services should benefit from the overall Canadian economy and from a tightening in truck capacity, as referred to in the Outlook section beginning on page 7;

- Mullen Group's optimism about the future of our organization, as referred to in the Outlook section beginning on page 7;

- Mullen Group's expectation of generating approximately $100.0 million of cash in excess of our obligations related to income taxes, interest on long-term debt, and capital expenditure requirements, as referred to in the Outlook section beginning on page 7;

- Mullen Group's intention to pay monthly dividends of $0.03 per Common Share for 2017, as referred to in the Dividends section beginning on page 15;

- Mullen Group's approval of its $25.0 million capital budget for 2017, exclusive of corporate acquisitions, real property and special projects will be focused towards the replacement of trucks, trailers and specialized equipment to support operations for the Trucking/Logistics segment, as referred to in the Capital Expenditures sections on pages 17 and 36;

- Mullen Group's intention to use working capital, the Bank Credit Facility (as defined on page 36) and the anticipated cash flow from operating activities in 2017 to finance its ongoing working capital requirements, its September 2017 maturities of the Series E and Series F Notes, dividends declared by the Board, its 2017 capital budget, as well as various special projects and acquisition opportunities, as referred to in the Capital Resources and Liquidity section beginning on page 33; and

- Mullen Group's assumption that the terminal value revenue used in the recoverable value model for Cascade Energy was approximately 56.0 percent of its highest level that was achieved in fiscal 2012, as referred to in the Critical Accounting Estimates section beginning on page 69.

Readers are cautioned that expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. With respect to forward-looking statements contained within this MD&A, we have made the assumptions listed below:

- Mullen Group's comment that we have a more positive outlook for the overall Canadian economy and for the oil and natural gas industry, is based on the assumption that commodity prices are much more constructive than a year ago and this will translate into additional investment activity and spending by the industry. In addition, recent developments regarding major pipeline infrastructure projects is promising, not just for the short-term economic activity but also for the long-term viability of the oil and natural gas industry in Canada. When projects such as these are sanctioned, accompanied by a recovery in drilling activity, there will be a positive impact on the demand for oilfield and trucking services, as well as pricing levels, fundamentals that were lacking in 2016.

- Mullen Group's comment that we are well positioned to accelerate growth with quality acquisitions is based on the assumption that we have a strong balance sheet and that we will be presented with many opportunities to evaluate in 2017 as business owners struggle to find success in this ultra-competitive market.

- Mullen Group's comment that there is reason to believe that the oil and gas industry is in the early stages of a recovery is based on the rebound in both crude oil and natural gas pricing.

- Mullen Group's comment that the demand for trucking and logistics will improve, is based on the expectation that the U.S. economy will accelerate under the new U.S. Administration's pro-growth agenda.

- Mullen Group's expectation of a rebound in the demand for oilfield related services as well as modest pricing improvements as drilling activity increases. However, we believe that there remains a period of adjustment required before the financial performance of the 15 Business Units in our Oilfield Services segment returns to acceptable levels, is based on the assumption that there has been a fundamental shift in the outlook for the industry and that there are signs that the oil and gas companies are beginning to invest in new projects, although we note that several major oil sands projects are now entering the final stages of construction. As a result the total capital spend by the oil and natural gas industry could decline in 2017 as compared to prior years. Major pipeline projects in Canada are planned but the timing is unpredictable. These projects when sanctioned would have a significant impact on economic activity and Mullen Group.

- Mullen Group's view that our 13 Business Units involved in providing trucking and logistics services should benefit from the overall Canadian economy and from a tightening in truck capacity, is based on the assumption that the Canadian economy will continue to grow modestly but certainly not robustly. This growth, accompanied by a tightening in truck capacity, which is expected later in 2017 due to new U.S. legislation mandating the use of electronic logs for all cross border trucks. In addition, we continue to acquire companies involved in the trucking and logistics industry in anticipation of a recovery in the industry in 2017.

- Mullen Group's optimism about the future of our organization, is based on the assumption that we have a strong balance sheet with over $270.0 million in cash along with several acquisition opportunities that we continue to evaluate in both sectors of the economy that we service.

- Mullen Group's expectation of generating approximately $100.0 million of cash in excess of our obligations related to income taxes, interest on long-term debt, and capital expenditure requirements, is based on the assumption that our businesses, diversification strategy accompanied by a disciplined approach to capital allocations generate surplus cash that can be used for general corporate purposes. For 2017 the Board approved a preliminary capital budget of $25.0 million and maintained the monthly dividend of $0.03 per Common Share.

- Mullen Group's intention to pay monthly dividends of $0.03 per Common Share for 2017, is based on the assumption that we will generate sufficient cash in excess of our financial obligations to support the monthly dividend.

- Mullen Group's approval of its $25.0 million capital budget for 2017, exclusive of corporate acquisitions, real property and special projects will be focused towards the replacement of trucks, trailers and specialized equipment to support operations for the Trucking/Logistics segment, is based on the assumption that its Business Units will require capital to support their ongoing operations and growth opportunities. The capital budget does not contemplate any significant new capital for the Oilfield Services segment, however, this will be reviewed in the second quarter of 2017.

- Mullen Group's intention to use working capital, the Bank Credit Facility and the anticipated cash flow from operating activities in 2017 to finance its ongoing working capital requirements, its September 2017 maturities of the Series E and Series F Notes, dividends declared by the Board, its 2017 capital budget, as well as various special projects and acquisition opportunities. This assumption is based on Mullen Group's belief that its access to cash will exceed its expected requirements.

- Mullen Group's assumption that the terminal value revenue used in the recoverable value model for Cascade Energy was approximately 56.0 percent of its highest level that was achieved in fiscal 2012 is based on the assumption that there will be a recovery in the oil and gas sector.

Although we believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because we can give no assurance that they will prove to be correct.

Forward-looking statements address future events and conditions and, therefore, involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the service and energy industry in general; ability to access sufficient capital from internal and external sources; failure to obtain required regulatory, securityholder and other approvals as may be required from time to time; and changes in legislation, including but not limited to tax laws and environmental regulations. Accordingly, readers should not place undue reliance on the forward-looking statements contained in this MD&A.

Readers are cautioned that the foregoing list of factors and risks is not exhaustive. Additional information on these and other factors that could affect the operations or financial results of Mullen Group along with the forward-looking statements in this MD&A, may be found in the Advisory on page 1 as well as in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website at www.sedar.com. The forward-looking statements contained in this MD&A are made as of the date hereof and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities law. We rely on litigation protection for "forward-looking" statements.

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GLOSSARY OF TERMS AND RECONCILIATION OF NON-GAAP AND ADDITIONAL GAAP TERMS

The Annual Financial Statements attached and referred to in this MD&A were prepared according to Canadian GAAP. References to OIBDA, operating margin, OIBDA – adjusted, operating margin – adjusted, net income – adjusted, earnings per share – adjusted, net capital expenditures, net debt, total net debt and cash flow per share are not measures recognized by Canadian GAAP and do not have standardized meanings prescribed by Canadian GAAP. This MD&A reports on certain financial performance measures that are described and presented in order to provide shareholders and potential investors with additional measures to evaluate our ability to fund our operations and information regarding our liquidity. In addition, these measures are used by management in its evaluation of performance. These Non-GAAP and Additional GAAP Terms may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with Canadian GAAP. Investors are cautioned that these indicators should not replace the foregoing Canadian GAAP terms: net income, earnings per share, purchases of property, plant and equipment, proceeds on sale of property, plant and equipment and debt.

Operating Income Before Depreciation and Amortization

OIBDA is an additional GAAP term and is defined as net income before depreciation of property, plant and equipment, amortization of intangible assets, finance costs, net unrealized foreign exchange gains and losses, other (income) expense and income taxes. Management relies on OIBDA as a measurement since it provides an indication of our ability to generate cash from our principal business activities prior to depreciation and amortization, financing, or taxation in various jurisdictions. Net income is also an indicator of financial performance; however, net income includes expenses that are not a direct result of our operating activities.

Reconciliation of Net Income to Operating Income Before Depreciation and Amortization

(unaudited) *($ millions)*	Three month periods ended December 31		Years ended December 31	
	2016	**2015**	**2016**	**2015**
Net income (loss)	**$ (0.7)**	$ 2.4	**$ 52.0**	$ 13.4
Add (deduct):				
Income tax expense	**5.5**	4.6	**19.7**	30.0
Net unrealized foreign exchange loss (gain)	**11.4**	10.6	**(5.8)**	39.7
Other (income) expense	**(2.2)**	1.7	**(2.7)**	16.2
Finance costs	**7.8**	9.0	**32.5**	35.8
Depreciation of property, plant and equipment	**18.1**	19.6	**71.3**	75.3
Amortization of intangible assets	**2.6**	4.8	**14.0**	19.0
Operating income before depreciation and amortization	**$ 42.5**	$ 52.7	**$ 181.0**	$ 229.4

Operating Margin

Operating margin is a Non-GAAP term and is defined as OIBDA divided by revenue. Management relies on operating margin as a measurement since it provides an indication of our ability to generate an appropriate return as compared to the associated risk and the amount of assets employed within our principal business activities.

Operating Income Before Depreciation and Amortization – Adjusted

OIBDA – adjusted is a Non-GAAP term and is defined as net income before depreciation of property, plant and equipment, amortization of intangible assets, finance costs, net unrealized foreign exchange gains and losses, other (income) expense, income taxes and foreign exchange gains and losses recognized on U.S. dollar cash held within the Corporate Office. Management relies on OIBDA – adjusted as a measurement since it provides an indication of our ability to generate cash from our principal business activities prior to depreciation and amortization, financing, taxation in various jurisdictions and gains and losses recognized on U.S. cash held within the Corporate Office. Net income is also an indicator of financial performance, however, net income includes expenses that are not a direct result of our operating activities.

Reconciliation of Net Income to Operating Income Before Depreciation and Amortization – Adjusted

(unaudited) *($ millions)*	Three month periods ended December 31		Years Ended December 31	
	2016	**2015**	**2016**	**2015**
Net income (loss)	**$ (0.7)**	$ 2.4	**$ 52.0**	$ 13.4
Add (deduct):				
Income tax expense	**5.5**	4.6	**19.7**	30.0
Net unrealized foreign exchange loss (gain)	**11.4**	10.6	**(5.8)**	39.7
Other (income) expense	**(2.2)**	1.7	**(2.7)**	16.2
Finance costs	**7.8**	9.0	**32.5**	35.8
Depreciation of property, plant and equipment	**18.1**	19.6	**71.3**	75.3
Amortization of intangible assets	**2.6**	4.8	**14.0**	19.0
Selling and administrative expenses[1]	**(2.3)**	(3.4)	**3.4**	(15.8)
Operating income before depreciation and amortization – adjusted	**$ 40.2**	$ 49.3	**$ 184.4**	$ 213.6

[1] *Consists of the foreign exchange (gain) loss recognized on U.S. dollar cash held within the Corporate Office.*

Operating Margin – Adjusted

Operating margin – adjusted is a Non-GAAP term and is defined as OIBDA – adjusted divided by revenue. Management relies on operating margin – adjusted as a measurement since it provides an indication of our ability to generate an appropriate return as compared to the associated risk and the amount of assets employed within our principal business activities.

Net Income – Adjusted and Earnings per Share – Adjusted

Net income – adjusted and earnings per share – adjusted are calculated by adjusting net income and basic earnings per share by the impact of any net unrealized foreign exchange gains and losses, from the change in fair value of investments and the gain on contingent consideration. Management adjusts net income and earnings per share by excluding these specific factors to more clearly reflect earnings from an operating perspective. See pages 25 and 48 for detailed calculations of net income – adjusted and earnings per share – adjusted.

Net Capital Expenditures

Net capital expenditures are calculated by subtracting the amount of cash received from the sale of property, plant and equipment from the amount of cash used to purchase property, plant and equipment. Management calculates net capital expenditures to evaluate and manage its capital expenditure budget and to assist in allocating capital amongst its Business Units.

(unaudited) *($ millions)*	Three month periods ended December 31		Years ended December 31	
	2016	**2015**	**2016**	**2015**
Purchase of property, plant and equipment	**$ 4.7**	$ 10.0	**$ 20.9**	$ 73.3
Proceeds on sale of property, plant and equipment	**(2.2)**	(2.6)	**(6.4)**	(7.7)
Net capital expenditures	**$ 2.5**	$ 7.4	**$ 14.5**	$ 65.6

Net Debt

Net debt is calculated by subtracting total working capital (current assets less current liabilities) from total debt (long-term debt plus the debt component of Debentures). Management calculates net debt to monitor its capital structure and makes adjustments to it in light of changes in economic conditions.

(unaudited) *($ millions)*	December 31, 2016	December 31, 2015
Long-term debt	**$ 547.1**	$ 696.9
Convertible debentures - debt component	**12.3**	12.2
Total debt	**559.4**	709.1
Less working capital:		
Current assets	**469.2**	353.1
Current liabilities	**(226.1)**	(166.0)
Total working capital	**243.1**	187.1
Net debt	**$ 316.3**	$ 522.0

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Total Net Debt

On March 31, 2016, at our own discretion, we entered into an agreement with the Private Placement Debt noteholders to amend certain financial covenant terms up to and including the Covenant Relief Period. The Amending Agreement replaces the financial covenant term total debt with total net debt for financial covenant calculation purposes. During the Covenant Relief Period, total net debt is calculated by subtracting the value of any cash and cash equivalents in excess of $50.0 million and subtracting any unrealized gain on Cross-Currency Swaps or adding any unrealized loss on Cross-Currency Swaps as disclosed within Derivatives on the consolidated statement of financial position from total debt as defined by the agreement. Management calculates total net debt to monitor its capital structure and makes adjustments to it in light of changes in economic conditions.

(unaudited) ***($ millions)***		**December 31, 2016**
Private Placement Debt (including current portion)		**$ 680.4**
Various Financing Loans		**3.0**
Letters of credit		**4.7**
Total debt		**688.1**
Less: excess cash		
Cash and cash equivalents	$ 270.3	
Covenant threshold	(50.0)	
Excess cash		**(220.3)**
Less: unrealized gain on Cross-Currency Swaps		**(32.8)**
Add: unrealized loss on Cross-Currency Swaps		**—**
		(253.1)
Total net debt		**$ 435.0**

Cash Flow per Share

Cash flow per share is calculated by dividing net cash from operating activities by the weighted average number of Common Shares outstanding. Management measures cash flow per share to provide investors with an indication of the amount of cash being generated on a per share basis, after consideration of working capital and income taxes paid.

(unaudited) ***($ millions, except share and per share amounts)***	**Three month periods ended December 31**		**Years ended December 31**	
	2016	**2015**	**2016**	**2015**
Net cash from operating activities	**$ 46.5**	$ 64.8	**$ 174.3**	$ 211.6
Weighted average number of Common Shares outstanding	**103,654,316**	91,661,066	**99,165,039**	91,652,785
Cash flow per share	**$ 0.45**	$ 0.71	**$ 1.76**	$ 2.31

DECEMBER 31, 2016

ANNUAL FINANCIAL REPORT

INDEPENDENT AUDITORS' REPORT

February 8, 2017

To the Shareholders of Mullen Group Ltd.

We have audited the accompanying consolidated financial statements of Mullen Group Ltd., which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mullen Group Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F:+1 403 781 1825, www.pwc.com/ca

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands)	Note		December 31 2016		December 31 2015
Assets					
Current assets:					
Cash and cash equivalents	**6**	**$**	**270,291**	$	147,243
Trade and other receivables	**7**		**153,766**		159,963
Inventory	**8**		**30,075**		30,278
Prepaid expenses			**8,754**		9,620
Current tax receivable			**6,311**		6,019
			469,197		353,123
Non-current assets:					
Property, plant and equipment	**9**		**948,540**		992,206
Goodwill	**10**		**351,883**		344,186
Intangible assets	**11**		**22,604**		30,107
Investments	**12**		**38,648**		42,495
Deferred tax assets	**17**		**8,330**		9,807
Derivative financial instruments	**13**		**32,759**		39,949
Other assets	**14**		**1,066**		5,162
			1,403,830		1,463,912
Total Assets		**$**	**1,873,027**	$	1,817,035
Liabilities and Equity					
Current liabilities:					
Accounts payable and accrued liabilities	**15**	**$**	**83,460**	$	83,156
Dividends payable	**16**		**3,110**		9,166
Current tax payable			**3,209**		1,878
Current portion of long-term debt	**18**		**136,300**		71,856
			226,079		166,056
Non-current liabilities:					
Long-term debt	**18**		**547,107**		696,859
Convertible debentures – debt component	**19**		**12,290**		12,186
Deferred tax liabilities	**17**		**127,141**		135,290
			686,538		844,335
Equity:					
Share capital	**20**		**933,303**		778,448
Convertible debentures – equity component	**19**		**550**		550
Contributed surplus			**12,679**		11,597
Retained earnings			**13,878**		16,049
			960,410		806,644
Subsequent event	**34**				
Total Liabilities and Equity		**$**	**1,873,027**	$	1,817,035

The notes which begin on page 87 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on February 8, 2017, after review by the Audit Committee.

"Signed: Murray K. Mullen" ***"Signed: Philip J. Scherman"***

Murray K. Mullen, Director Philip J. Scherman, Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands, except per share amounts)	Note	Years ended December 31 2016	2015
Revenue	**22**	**$ 1,035,059**	$ 1,214,372
Direct operating expenses		**711,847**	844,025
Selling and administrative expenses		**142,179**	140,928
Operating income before depreciation and amortization		**181,033**	229,419
Depreciation of property, plant and equipment	**9**	**71,294**	75,275
Amortization of intangible assets	**11**	**14,006**	18,972
Finance costs	**25**	**32,460**	35,815
Net unrealized foreign exchange (gain) loss	**13**	**(5,778)**	39,701
Other (income) expense	**27**	**(2,694)**	16,289
Income before income taxes		**71,745**	43,367
Income tax expense	**17**	**19,707**	30,001
Net income and total comprehensive income		**$ 52,038**	$ 13,366
Earnings per share:	**21**		
Basic		**$ 0.52**	$ 0.15
Diluted		**$ 0.52**	$ 0.15
Weighted average number of Common Shares outstanding:	**21**		
Basic		**99,165**	91,653
Diluted		**99,165**	91,687

The notes which begin on page 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(*thousands*)	Note	Share capital	Convertible debentures – equity component	Contributed surplus	Retained earnings	Total
Balance at January 1, 2016		**$ 778,448**	**$ 550**	**$ 11,597**	**$ 16,049**	**$ 806,644**
Total comprehensive income for the period		**—**	**—**	**—**	**52,038**	**52,038**
Stock-based compensation expense		**—**	**—**	**1,082**	**—**	**1,082**
Common Shares issued on bought deal and private placement (net of tax and issuance costs)	**20**	**154,855**	**—**	**—**	**—**	**154,855**
Dividends declared to common shareholders	**16**	**—**	**—**	**—**	**(54,209)**	**(54,209)**
Balance at December 31, 2016		**$ 933,303**	**$ 550**	**$ 12,679**	**$ 13,878**	**$ 960,410**

(*thousands*)	Note	Share capital	Convertible debentures – equity component	Contributed surplus	Retained earnings	Total
Balance at January 1, 2015		$ 777,262	$ 550	$ 10,463	$ 112,668	$ 900,943
Total comprehensive income for the period		—	—	—	13,366	13,366
Stock-based compensation expense		—	—	1,470	—	1,470
Common Shares issued on exercise of stock options	**20**	1,186	—	(336)	—	850
Dividends declared to common shareholders	**16**	—	—	—	(109,985)	(109,985)
Balance at December 31, 2015		**$ 778,448**	**$ 550**	**$ 11,597**	**$ 16,049**	**$ 806,644**

The notes which begin on page 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands)	Note	Years ended December 31 2016	2015
Cash provided by (used in):			
Cash flows from operating activities:			
Net income		**$ 52,038**	$ 13,366
Adjustments for:			
Depreciation of property, plant and equipment	**9**	**71,294**	75,275
Amortization of intangible assets	**11**	**14,006**	18,972
Finance costs	**25**	**32,460**	35,815
Stock-based compensation expense		**1,082**	1,470
Unrealized foreign exchange loss (gain) on cross-currency swaps	**13**	**7,190**	(30,604)
Foreign exchange		**(9,918)**	53,585
Change in fair value of investments	**27**	**(1,703)**	19,432
Loss on sale of property, plant and equipment	**27**	**886**	2,367
Gain on contingent consideration		**—**	(3,000)
Earnings from equity investments	**27**	**(1,877)**	(2,510)
Income tax expense	**17**	**19,707**	30,001
Cash flows from operating activities before non-cash working capital items		**185,165**	214,169
Changes in non-cash working capital items from operating activities:			
Trade and other receivables		**14,936**	77,791
Inventory		**537**	83
Prepaid expenses		**1,145**	1,714
Accounts payable and accrued liabilities		**(1,902)**	(43,540)
Cash generated from operating activities		**199,881**	250,217
Income tax paid		**(25,567)**	(38,645)
Net cash from operating activities		**174,314**	211,572
Cash flows from financing activities:			
Cash dividends paid to common shareholders		**(60,265)**	(109,980)
Interest paid		**(33,499)**	(35,210)
Repayment of long-term debt and loans		**(77,237)**	(4,789)
Proceeds from bank credit facility		**35,000**	—
Repayment of bank credit facility		**(35,000)**	—
Net proceeds from Common Share issuances	**20**	**153,134**	850
Changes in non-cash working capital items from financing activities		**(122)**	663
Net cash used in financing activities		**(17,989)**	(148,466)
Cash flows from investing activities:			
Acquisitions net of cash acquired	**5**	**(24,617)**	(176,776)
Purchase of property, plant and equipment		**(20,938)**	(73,293)
Proceeds on sale of property, plant and equipment		**6,438**	7,744
Proceeds on sale (purchases) of investments		**7,427**	(6,625)
Interest received		**1,680**	507
Other assets		**(157)**	(4,363)
Changes in non-cash working capital items from investing activities		**(60)**	(5,142)
Net cash used in investing activities		**(30,227)**	(257,948)
Change in cash and cash equivalents		**126,098**	(194,842)
Cash and cash equivalents at January 1		**147,243**	325,365
Effect of exchange rate fluctuations on cash held		**(3,050)**	16,720
Cash and cash equivalents at December 31	**6**	**$ 270,291**	$ 147,243

The notes which begin on page 87 are an integral part of these consolidated financial statements.

1. Reporting Entity

Mullen Group Ltd. ("**Mullen Group**" and/or the "**Corporation**") was incorporated pursuant to the laws of the Province of Alberta and is a publicly-traded company listed on the Toronto Stock Exchange under the symbol 'MTL'. The Corporation maintains its registered office in Okotoks, Alberta, Canada. The business of Mullen Group is operated through wholly-owned (either directly or indirectly) subsidiaries and limited partnerships ("**Business Units**"). The business of Mullen Group is a diversified transportation and oilfield service organization with its activities divided into two distinct operating segments, namely Trucking/Logistics and Oilfield Services. These consolidated financial statements ("**Annual Financial Statements**") include the accounts of the Corporation, its subsidiaries and its limited partnerships.

2. Basis of Presentation

(a) Statement of Compliance

These Annual Financial Statements have been prepared in accordance to and comply with International Financial Reporting Standards ("**IFRS**"), which include the International Accounting Standards ("**IAS**") and the interpretations developed by the International Financial Reporting Interpretations Committee ("**IFRIC**"), as issued by the International Accounting Standards Board ("**IASB**").

(b) Basis of Measurement

These Annual Financial Statements have been prepared on the historical cost basis except for investments (excluding investments accounted for by the equity method), and derivative financial instruments ("**Derivatives**"), which are measured at fair value through profit or loss ("**FVTPL**").

(c) Functional and Presentation Currency

These Annual Financial Statements are presented in Canadian dollars, which is the functional currency of the Corporation and each of its Business Units. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

(d) Use of Estimates and Judgements

The preparation of these Annual Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates, judgements and assumptions. The carrying amount of assets, liabilities, accruals, provisions, other financial obligations, as well as the determination of fair values, contingent liabilities, reported income and expense in these Annual Financial Statements depends on the use of estimates, judgements and assumptions. In the process of applying the Corporation's accounting policies management takes into consideration existing circumstances and estimates at the date of these Annual Financial Statements, which affects the reported amounts of income and expenses during the reporting periods. Given the uncertainty inherent in determining these factors, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgements are outlined below. Readers are cautioned that the foregoing list is not exhaustive and other items may also be affected by estimates and judgements.

Judgements

(i) Property, Plant and Equipment and Intangible Assets

Mullen Group's depreciation and amortization methods for trucks and trailers as well as other property, plant and equipment and intangible assets are based on management's judgement in selecting methods that most accurately match the pattern of economic benefits consumed by the Corporation from the use of such assets. These judgements are based upon industry norms and Mullen Group's historical experience.

(ii) Impairment Tests

Mullen Group assesses, at the end of each reporting period, whether there is an indication that an asset group may be impaired. If any indication of impairment exists, Mullen Group determines the recoverable amount of the asset group. External triggering events include, for example, changes in customer or industry dynamics, drilling and other technologies and economic declines. Internal triggering events for impairment include, for example, lower profitability or planned restructuring.

Estimates

(i) Acquisitions

The acquired assets, assumed liabilities (other than deferred taxes) and contingent consideration are recognized at fair value on the date Mullen Group effectively obtains control. The measurement of the assets and liabilities acquired in each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property, plant and equipment and other assets and the liabilities assumed at the date of acquisition as well as the useful lives of the acquired intangible assets and property, plant and equipment is based on assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition. Contingent consideration is based on the likelihood of various outcomes of specified future events. ▶ **For more information, refer to Note 5**.

(ii) Trade and Other Receivables

Impairment of trade and other receivables is constantly monitored. Evidence of impairment could, for example, occur when the financial difficulties of a debtor become known or payment delays occur. Impairments are, in part, based on estimates using historical values, observed customer solvency, the aging of trade and other receivables and customer-specific and industry risks. In addition, Mullen Group reviews external credit ratings as well as bank and trade references when available. ▶ **For more information, refer to Notes 7 and 30.**

(iii) Property, Plant and Equipment and Intangible Assets

Depreciation and amortization are calculated using a systematic and rational basis, which are based upon an estimate of each assets useful life and residual value. The estimated useful life and residual value chosen are Mullen Group's best estimate of such and are based on industry norms, historical experience, market conditions and other estimates that consider the period and distribution of future cash inflows. ▶ **For more information, refer to Notes 9 and 11.**

(iv) Impairment Tests

Mullen Group's impairment tests compare the carrying amount of the asset or cash generating unit ("**CGU**") to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal ("**FVLCD**") and value in use ("**VIU**"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life. The determination of VIU requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses estimates, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows. ▶ **For more information, refer to Notes 10 and 11**.

(v) Tax Assets

The realization of deferred tax assets depends on the future taxable income of the respective Mullen Group subsidiaries. The continued recognition of deferred tax assets is based on estimates of internal projections of future earnings, tax deductions and anticipated income tax rates. ▶ **For more information, refer to Note 17**.

(vi) Derivative Financial Instruments

Mullen Group utilizes Derivatives such as Cross-Currency Swaps (as hereafter defined on page 101) to manage its exposure to foreign currency risks relating to its U.S. dollar denominated debt. The fair value of Derivatives fluctuate depending on the estimate of certain underlying financial measures. The estimated fair value of Derivatives are based on observable market data, including foreign currency curves, interest rates and credit spreads. ▶ **For more information, refer to Note 13**.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Annual Financial Statements.

(a) Basis of Consolidation

These Annual Financial Statements include the accounts of Mullen Group, its subsidiaries and its limited partnerships. The financial statements of such subsidiaries and limited partnerships controlled by Mullen Group are included in these Annual Financial Statements from the date that control commenced until the date that control ceases. Control is achieved when the Corporation is exposed to, or has rights to, variable returns from its subsidiaries and limited partnerships and has the ability to affect those returns through its power to direct their activities. The accounting policies of subsidiaries and limited partnerships are the same as those of the Corporation. For the year ended December 31, 2016, the scope of consolidation for these Annual Financial Statements encompassed 82 entities, of which six were a first time consolidation. The first time consolidations were a result of the acquisitions of Motrux Inc. ("**Motrux**"), Caneda Transport Inc. ("**Caneda**") and E.C.R. Enterprises Ltd. ("**E.C.R.**"). During 2016 two entities ceased existence due to internal corporate reorganizations.

(b) New Standards and Interpretations not yet adopted

Mullen Group has reviewed new and revised standards and interpretations that have been approved by the IASB.

The following table outlines the new accounting pronouncements issued by the IASB that are applicable to, or may have a future impact on, Mullen Group. The new pronouncements set forth below is effective for financial statements with annual periods beginning on or after January 1, 2018.

IFRS Title	Nature of Impending Change	IFRS Application Date	Impact of initial application on the Corporation's Financial Statements
IFRS 15 – Revenue from contracts with customers	IFRS 15 replaces existing IFRS and introduces a new revenue recognition model for contracts with customers. It also replaces existing guidance for contract costs and includes new disclosure requirements.	January 1, 2018[1]	Management is currently completing its assessment of IFRS 15.
IFRS 16 – Leases	IFRS 16 supersedes IAS 17 - Leases and eliminates the classification of leases as either operating or finance leases. Under IFRS 16, all leases are to be capitalized by recognizing the present value of the lease payments as both a financial asset and financial liability.	January 1, 2019[2]	Management is currently completing its initial assessment of IFRS 16.

[1] This IFRS may be applied retroactively, or as of the application date by adjusting retained earnings using the cumulative effect approach. Early adoption is permitted.
[2] Early adoption is permitted but only if the Corporation also applies IFRS 15.

(c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and highly liquid short-term investments originally maturing within three months or less, net of bank indebtedness used for operational purposes. Bank indebtedness is repayable on demand and forms an integral part of the Corporation's cash management and is therefore included as a component of cash and cash equivalents for the purpose of the statement of cash flows.
▶ **For more information, refer to Note 6**.

(d) Inventory

Inventory consists primarily of repair parts, fuel and items for resale. Inventory is stated at the lower of cost or net realizable value. The cost of inventory is accounted for on a weighted average basis and includes expenditures incurred in acquiring the inventory, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling expenses. ▶ **For more information, refer to Note 8**.

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When the cost of a part of an item of property, plant and equipment is significant in relation to the total cost of an item and the parts have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The costs of day-to-day servicing of property, plant and equipment are recognized in direct operating expenses. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other (income) expense. Depreciation of additions and disposals is prorated from the month of purchase or disposal. Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate. Effective July 1, 2015, the Corporation began recording depreciation expense on drilling equipment that have not operated within the previous twelve month period using a 10.0 percent declining balance method. This change in estimate has been applied on a prospective basis and did not have a significant impact on consolidated net income for the years ended December 31, 2016 and 2015. This change in estimate is based upon the revised estimated useful life of such equipment. When operated, drilling equipment will be depreciated on a unit-of-production method based upon 1,500 operating days with a 20.0 percent residual value. It is impracticable to estimate the effect of this change in estimate on future periods as such an estimate depends on future operating activity levels. No other revisions to estimates were made in 2016 or 2015. ▶ **For more information, refer to Note 9.**

Except for drilling equipment, depreciation is recorded annually over the estimated useful lives of the assets on the declining balance basis at the following depreciation rates:

Buildings	2.5 - 8%
Trucks and trailers	10 - 20%
Equipment, satellite communication equipment, furniture and fixtures, automobiles, computer hardware and systems software ("**Miscellaneous Equipment**")	20 - 30%

(f) Investment Properties

Investment properties consist of real property that are held to earn rental income and are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition or the development of real property held to earn rental income. Subsequent to initial measurement, investment properties are measured using the cost model and are recorded at cost less accumulated depreciation. Depreciation is recorded annually on the buildings included within real property held to earn rental income on the declining balance basis at a rate of 2.5 percent per annum.

(g) Goodwill

In general terms, goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Mullen Group measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that Mullen Group incurs in connection with a business combination are expensed as incurred.

For the purpose of calculating goodwill, fair values of acquired assets, assumed liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk free interest rates and risk adjusted expected future cash flows.

Goodwill is reviewed for impairment annually at December 31, or more frequently if there are indications that impairment may have occurred. Goodwill impairment is tested at the CGU level and is determined based upon the recoverable amount of each CGU compared to the CGU's respective carrying amount. At Mullen Group, the CGUs consist of each of its Business Units. The recoverable amount is the higher of FVLCD and the VIU. If the impairment loss exceeds the carrying amount of goodwill, the goodwill is written off completely. Any impairment loss left over is allocated to the remaining assets of the CGU. Impairment losses in respect of goodwill are irreversible. ▶ **For more information, refer to Note 3(k) and 10.**

(h) Intangible Assets

Intangible assets acquired as part of acquisitions are capitalized at fair value as determined at the date of acquisition and are subsequently stated at that capitalized cost less accumulated amortization and impairment losses. Intangible assets are mainly comprised of non-competition agreements and customer relationships' values which are amortized over their estimated life on a straight line basis over a period of five to ten years. ▶ **For more information, refer to Note 3(k) and 11**.

(i) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are obligations to pay for goods or services that have been purchased in the normal course of business and are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Accounts payable and accrued liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(j) Foreign Currency

Transactions in foreign currencies are translated to Canadian dollars, Mullen Group's functional currency, at the exchange rate on the date of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(k) Impairment of Assets

Assets are assessed at the end of each reporting period to determine if any indication of impairment exists. If any such indication exists, Mullen Group estimates the recoverable amount of the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets. Recoverability is measured by comparing the carrying amount of the asset or the CGU to which the asset belongs to the higher of its FVLCD and its VIU. VIU is calculated using the estimated discounted future cash flows expected to be generated by the asset or its CGU. Mullen Group estimates FVLCD based upon current market prices for similar assets. If the carrying amount of the asset, or its respective CGU, exceeds its estimated recoverable amount, the difference is recognized as an impairment charge.

Impairment losses are recognized in net income. An impairment loss in respect of goodwill is irreversible. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amounts of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU on a pro rata basis.

Mullen Group's corporate assets, which do not generate separate cash inflows, are allocated to the CGUs on a reasonable basis for impairment testing purposes.

(l) Financial Instruments

(i) Mullen Group has adopted IFRS 9 (2010) Financial Instruments as it relates to classification and measurement of financial assets and financial liabilities in advance of its effective date. During 2013, the IASB removed the mandatory effective date, which was for annual periods beginning on or after January 1, 2015. The new mandatory effective date is January 1, 2018. Mullen Group early adopted IFRS 9 (2010) as it is consistent with Mullen Group's objective and approach to managing its financial assets and financial liabilities.

(ii) Non-Derivative Financial Assets

Financial Assets	Initial Measurement	Subsequent Measurement
Cash and cash equivalents	Fair value	Amortized cost
Trade and other receivables	Fair value	Amortized cost
Investments	Fair value	FVTPL
Investments – equity method	Fair value	Equity method
Other assets	Fair value	Amortized cost

Cash and cash equivalents are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial assets are measured at amortized cost using the effective interest method.

Mullen Group initially recognizes trade and other receivables and other assets on the date that they originate. Impairment of trade and other receivables is recognized in selling and administrative expenses when evidence of impairment arises. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss, or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Mullen Group initially measures investments at fair value. Subsequent to initial recognition these financial assets are measured at FVTPL at the end of each reporting period. The purchase and sale of investments are recognized at the trade date of such transaction. When control of a Business Unit is lost, any retained interest is re-measured to its fair value with any resulting gain or loss being recognized within the statement of comprehensive income. As such, a gain or loss is recognized on the portion retained in addition to the gain or loss on the portion no longer owned.

Mullen Group initially recognizes equity investments at fair value. Subsequent to initial recognition these financial assets are measured using the equity method. Mullen Group uses the equity method to account for investments in which it has significant influence or joint control. Under the equity method, Mullen Group recognizes its share of profits or losses of the investee within the statement of comprehensive income. Dividends received from equity investments are recognized as a reduction in the carrying amount of the investment.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Mullen Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Mullen Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Mullen Group is recognized as a separate asset or liability.

(iii) Non-Derivative Financial Liabilities

Financial Liabilities	Initial Measurement	Subsequent Measurement
Accounts payable and accrued liabilities[(1)]	Fair value	Amortized cost
Dividends payable	Fair value	Amortized cost
Long-term debt	Fair value	Amortized cost
Convertible debentures – debt component	Fair value	Amortized cost

[(1)] Includes contingent consideration which is subsequently measured at fair value.

Financial liabilities are recognized initially on the trade date at which Mullen Group becomes a party to the contractual provisions of the instrument. Financial liabilities that are not designated at FVTPL are initially measured at fair value plus or minus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Mullen Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Mullen Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Accounts payable and accrued liabilities and dividends payable are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

Mullen Group initially recognizes debt securities issued and subordinated liabilities on the date that they originate. Mullen Group's long-term debt is mainly comprised of a series of unsecured debt as follows: CDN. $70.0 million of Series D Notes, U.S. $85.0 million of Series E Notes, CDN. $20.0 million of Series F Notes, U.S. $117.0 million of Series G Notes, U.S. $112.0 million of Series H Notes, CDN. $30.0 million of Series I Notes, CDN. $3.0 million of Series J Notes, CDN. $58.0 million of Series K Notes and CDN. $80.0 million of Series L Notes (collectively, the "**Private Placement Debt**"). Mullen Group also had debt comprised of various financing loans which were secured by specific operating equipment (collectively, the "**Various Financing Loans**").

On May 1, 2009, Mullen Group issued by way of private placement an aggregate principal amount of $125.0 million of convertible unsecured subordinated debentures (the "**Debentures**"). The component parts of the Debentures issued by the Corporation are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the debt component was estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The fair value of the conversion option (labelled Convertible debentures – equity component) was determined at issue date by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This conversion option is recognized net of income tax effects as equity and is not subsequently re-measured. In addition, the conversion option will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. No gain or loss is recognized in the statement of comprehensive income upon conversion or expiration of the conversion option. As such, a proportionate amount of any unamortized debt issuance costs and accretion related to Debentures converted into Common Shares is transferred to share capital on the conversion date.

(iv) Derivative Financial Instruments

Derivatives consist of financial contracts that derive their value from underlying changes in foreign exchange rates, interest rates, credit spreads or other financial measures. Mullen Group uses Derivatives such as Cross-Currency Swaps (as hereafter defined on page 101) as part of its foreign exchange risk management strategy. Derivatives are measured initially at fair value. Subsequent to initial recognition, Derivatives are measured at FVTPL and are recorded in the statement of comprehensive income. Mullen Group has not designated any Derivatives as hedges for accounting purposes.

(v) Equity

Common Shares are presented in share capital within equity. Incremental costs directly attributable to the issue of Common Shares and share options are recognized as a deduction from share capital, net of any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognized as a deduction from share capital. When Common Shares are repurchased and cancelled, the stated value is deducted from share capital and the resulting surplus or deficit on the transaction is recorded against the retained earnings within equity.

(m) Provisions

A provision is recognized in the financial statements when Mullen Group has a material obligation, whether existing or potential, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2016 and 2015, there were no significant provisions recognized in the Annual Financial Statements.

(n) Revenue recognition

Mullen Group's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms generally do not include the provision of post-service obligations. Revenue is recognized when services are rendered and when collectability of the consideration is probable.

(o) Leases

At inception of an arrangement, Mullen Group determines whether such an arrangement is or contains a lease. Leasing contracts are classified as either finance or operating leases. Mullen Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values at inception.

Mullen Group classifies a lease as a finance lease if it transfers substantially all of the risks and rewards related to the ownership of the leased asset. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets which are subject to operating leases are not recognized in the consolidated statement of financial position. Payments made under operating leases are recognized in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for in the period in which they are incurred.

(p) Finance costs

Finance costs encompass interest expense on financial liabilities and accretion expense on debt and are recognized as an expense in the period in which they are incurred. Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that purchase.

(q) Income tax

Income tax expense for the period consists of current and deferred tax. Tax is recognized in net income, except to the extent that it relates to a business combination or items recognized in other comprehensive income or directly in equity.

Taxable income differs from net income as reported in the consolidated statement of comprehensive income. As a result, current tax is the expected tax due on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where Mullen Group operates.

In general, deferred income taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the Annual Financial Statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent it is probable that future taxable income will be generated and available to use against the deductible temporary differences, unused tax losses and unused tax credits. Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

(r) Employee Benefits

(i) Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under Mullen Group's profit share plans when a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(ii) Stock-Based Compensation

Mullen Group grants stock options to directors, officers, employees and consultants of Mullen Group under its stock option plan ("**Stock Option Plan**"). ▶ **For more information refer to Note 26**.

Mullen Group accounts for stock-based compensation using the fair-value method of valuing any stock options granted using the Black-Scholes model. Under the fair value method, the fair value of options is calculated at the date of grant and that value is recorded as compensation expense over the vesting periods of those grants, with a corresponding increase to contributed surplus less an estimated forfeiture rate. The forfeiture rate is based on past experience of actual forfeitures. When options are exercised, the proceeds received by Mullen Group, along with the amount in contributed surplus, will be credited to share capital.

(s) Per Share Amounts

Basic per share amounts are calculated using the weighted average number of Common Shares outstanding during the period. Diluted per share amounts are calculated considering the effects of all dilutive potential ordinary shares. Mullen Group's dilutive potential ordinary shares assumes that all Debentures are converted into Common Shares on the later of the beginning of the period, or the date of issuance. It also assumes that all dilutive stock options are exercised and that the proceeds obtained on the exercise of dilutive stock options would be used to purchase Common Shares at the average market price during the period. The weighted average number of Common Shares outstanding is then adjusted accordingly. ▶ **For more information refer to Note 21**.

(t) Segmented Information

The Business Units are grouped into two distinct operating segments: Trucking/Logistics and Oilfield Services (the "**Operating Segments**"), both of which are supported by a Corporate segment. The Business Units within each of the Operating Segments share common economic characteristics and are differentiated by the type of service provided, equipment requirements and customer needs. The Operating Segments' financial results are reviewed regularly by the Corporation's chief operating decision-makers who make decisions about resource allocation and assess segment performance based on the internally prepared segment information.

(u) Acquisitions

Acquisitions of businesses are accounted for using the acquisition method. Acquired assets and assumed liabilities are recognized at their fair values at the acquisition date. For those acquisitions that include a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and subsequent changes in such fair value amounts are recognized in net income. Acquisition-related costs are recognized in net income as incurred.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, Mullen Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

4. Determination of Fair Values

A number of Mullen Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in Note 2 and in notes specific to that asset or liability.

Financial instruments measured at fair value on the statement of financial position require classification into one of the following levels of the fair value hierarchy:

Level 1	–	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	–	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	–	Inputs for the asset or liability that are not based on observable market data.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

(a) Trade and Other Receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Property, Plant and Equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on fair values at date of acquisition. The fair value of items of property, plant and equipment is based on market or cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(c) Intangible Assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(d) Investments

The fair value of financial assets designated as measured at fair value, is determined by reference to their quoted closing price at the reporting date. Other than investments accounted for by the equity method, the fair value of all of Mullen Group's investments were determined using Level 1 of the fair value hierarchy.

(e) Derivative Financial Instruments

The fair value of Derivatives is determined using Level 2 of the fair value hierarchy. Level 2 fair values are determined by referencing observable market data, including future foreign currency curves, interest rates, credit spreads and other financial measures. Transaction costs are recognized in net income as incurred.

(f) Accounts Payable and Accrued Liabilities

The fair value of accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(g) Non-Derivative Financial Liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For financial leases the market rate of interest is determined by reference to similar lease agreements.

Fair Values Versus Carrying Amounts

The following tables compare the fair value of financial assets and financial liabilities to its corresponding carrying amount as presented in the consolidated statement of financial position:

December 31, 2016 **Financial Instrument**		**Carrying Amount**		**Fair Value**
Cash and cash equivalents	**$**	**270,291**	**$**	**270,291**
Trade and other receivables		**153,766**		**153,766**
Investments (excluding investments accounted for by using the equity method)		**6,208**		**6,208**
Other assets		**1,066**		**1,066**
Total financial assets	**$**	**431,331**	**$**	**431,331**
Accounts payable and accrued liabilities	**$**	**83,460**	**$**	**83,460**
Dividends payable		**3,110**		**3,110**
Private Placement Debt		**680,455**		**608,960**
Debentures - debt component		**12,290**		**13,070**
Various Financing Loans		**2,952**		**2,788**
Total financial liabilities	**$**	**782,267**	**$**	**711,388**

December 31, 2015 **Financial Instrument**		**Carrying Amount**		**Fair Value**
Cash and cash equivalents	$	147,243	$	147,243
Trade and other receivables		159,963		159,963
Investments (excluding investments accounted for by using the equity method)		11,932		11,932
Other assets		5,162		5,162
Total financial assets	$	324,300	$	324,300
Accounts payable and accrued liabilities	$	83,156	$	83,156
Dividends payable		9,166		9,166
Private Placement Debt		763,559		742,255
Debentures – debt component		12,186		13,868
Various Financing Loans		5,156		5,024
Total financial liabilities	$	873,223	$	853,469

5. Acquisitions

2016 Acquisitions

Motrux Inc. – On September 1, 2016, Mullen Group acquired all of the issued and outstanding shares of Motrux for total cash consideration of $1.3 million, which includes the repayment of shareholder loans. Mullen Group recorded $0.1 million of cash used to acquire Motrux on its consolidated statement of cash flows, which consists of $1.3 million of total cash consideration net of $0.3 million of cash acquired and $0.9 million allocated to the repayment of shareholder loans. Motrux is headquartered in Delta, British Columbia and provides transportation and logistics services mainly in western Canada. Mullen Group acquired Motrux as part of its strategy to invest in the transportation sector in Canada. Motrux has been integrated into the operations of Mullen Trucking Corp., whose financial results are included in the Trucking/Logistics segment.

Northern Frontier Logistics LP – On September 28, 2016, Mullen Group acquired all of the business and assets of Northern Frontier Logistics LP and Northern Frontier GP Corp. (collectively, "**Northern Frontier**"), for total cash consideration of $3.5 million. Mullen Group recorded $3.5 million of cash used to acquire the business and assets of Northern Frontier on its consolidated statement of cash flows. Formerly known as Central Water & Equipment Services Ltd., Northern Frontier provides hydrostatic-testing services to the pipeline industry and midstream sector, as well as fluid transfer and water management services to construction and mine sites, municipalities and the energy sector from terminals located in Saskatoon, Saskatchewan and Sherwood Park, Alberta. Mullen Group acquired the business and assets of Northern Frontier as part of its strategy to invest in the energy sector. Northern Frontier has been integrated into the operations of Canadian Dewatering L.P., whose financial results are included in the Oilfield Services segment.

Caneda Transport Inc. – On October 1, 2016, Mullen Group acquired all of the issued and outstanding shares of Caneda and affiliated companies for total cash consideration of $22.5 million, which includes the Calgary, Alberta facility operated by Caneda and $2.0 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendor may receive cash consideration of up to $2.0 million for achieving certain financial targets for the twelve month period ending September 30, 2017. Mullen Group has estimated the fair value of this contingent consideration to be $2.0 million which was based on management's best estimate of Caneda's pro forma operating results. The funds to settle this liability have been set aside in an escrow account, which have been presented within cash and cash equivalents. Caneda is headquartered in Calgary, Alberta and primarily provides less-than-truckload ("**LTL**") services with terminals in Calgary, Alberta; Mira Loma, California and Mississauga, Ontario. Mullen Group acquired

Caneda as part of its strategy to invest in the transportation sector in North America. The results from Caneda's operations are included in the Trucking/Logistics segment.

E.C.R. Enterprises Ltd. – On December 1, 2016, Mullen Group acquired all of the issued and outstanding shares of E.C.R. for total cash consideration of $4.5 million, which includes the repayment of shareholder loans. Mullen Group recorded $1.8 million of cash used to acquire E.C.R. on its consolidated statement of cash flows, which consists of $4.5 million of total cash consideration net of $2.7 million allocated to the repayment of shareholder loans. E.C.R. is headquartered in Creston, British Columbia and provides transportation services mainly in western Canada. Mullen Group acquired E.C.R. as part of its strategy to invest in the transportation sector in Canada. E.C.R. has been integrated into the operations of the Hi-Way 9 Group of Companies, whose financial results are included in the Trucking/Logistics segment.

2015 Acquisitions

Gardewine Group of Companies – On January 9, 2015, Mullen Group acquired the business of Gardewine Group Limited Partnership, Trans-Provincial Freight Carriers Limited and various holding companies, as well as an interest in Rainy Lake Logistics Limited Partnership (collectively "**Gardewine**"), for total cash consideration of $171.8 million, which includes repaying $56.4 million of associated bank debt and shareholder loans with the remaining $115.4 million attributable to the net assets. Mullen Group recorded $166.0 million of cash used to acquire Gardewine on its consolidated statement of cash flows, which consists of $171.8 million of total cash consideration net of $3.8 million of cash acquired and $2.0 million allocated to the repayment of shareholder loans. Gardewine is headquartered in Winnipeg, Manitoba and provides a comprehensive range of transportation services, including LTL, open deck transportation and truckload services, as well as specialized handling and transportation of bulk commodities related to the forestry and mining industries. Gardewine operates out of 36 terminals with primary hubs situated in Winnipeg, Brandon and Thompson, Manitoba; and Thunder Bay, Sudbury and Toronto, Ontario. Mullen Group acquired Gardewine as part of its strategy to invest in the transportation sector in Canada.

Courtesy Freight Systems Ltd. – On October 1, 2015, Mullen Group acquired all of the issued and outstanding shares of Courtesy Freight Systems Ltd. ("**Courtesy**"), including some of its facilities for total cash consideration of $11.8 million. Mullen Group recorded $10.8 million of cash used to acquire Courtesy on its consolidated statement of cash flows, which consists of $11.8 million of total cash consideration net of $1.0 million of cash acquired. Courtesy is headquartered in Thunder Bay, Ontario and provides LTL transportation services primarily in northwestern Ontario and parts of Manitoba. Mullen Group acquired Courtesy as part of its strategy to invest in the transportation sector in Canada. The results from Courtesy's operations are included in the Trucking/Logistics segment.

These acquisitions have been accounted for by the acquisition method, and the results of operations have been included in these Annual Financial Statements. The goodwill acquired in these acquisitions primarily relates to the assembled workforce and the synergies from the integration of the acquired businesses.

	Caneda	Other	2016	2015
Assets:				
Non-cash working capital items	$ 2,199	$ 718	**$ 2,917**	$ 13,674
Property, plant and equipment	5,892	8,122	**14,014**	84,300
Intangible assets	5,689	814	**6,503**	17,642
Goodwill (not deductible for tax purposes)	6,916	781	**7,697**	86,391
Other assets	13	2	**15**	—
	20,709	10,437	**31,146**	202,007
Assumed liabilities:				
Long-term debt	—	638	**638**[1]	62,386[1]
Due to shareholders	—	3,600	**3,600**	2,000
Deferred income taxes	1,510	781	**2,291**	15,286
	1,510	5,019	**6,529**	79,672
Net assets before cash and cash equivalents	19,199	5,418	**24,617**	122,335
Cash and cash equivalents	3,266	196	**3,462**	4,849
Net assets	22,465	5,614	**28,079**	127,184
Consideration:				
Cash	20,465	5,614	**26,079**	127,184
Contingent consideration	2,000	—	**2,000**	—
	$ 22,465	$ 5,614	**$ 28,079**	$ 127,184

[1] Long-term debt consisted of nil (2015 – $54.4 million) of bank debt and $0.6 million (2015 – $5.8 million) of finance leases.

6. Cash and Cash Equivalents

		December 31 2016		December 31 2015
Cash	**$**	**270,291**	$	147,243
Short-term investments		**—**		—
Cash and cash equivalents	**$**	**270,291**	$	147,243

Cash and cash equivalents are comprised of cash and highly liquid short-term investments held at Canadian financial institutions that are rated AA- and A-1 S&P Credit Rating as at December 31, 2016. The $270.3 million of cash includes $5.0 million of cash held in escrow by virtue of the obligations associated with the acquisitions of Caneda and Recon Utility Search N.A. Inc. There were no short-term investments held at December 31, 2016.

7. Trade and Other Receivables

		December 31 2016		December 31 2015
Trade receivables	**$**	**138,381**	$	141,006
Amounts due from related parties		**4,327**		137
Other receivables		**11,058**		18,820
	$	**153,766**	$	159,963

The classification between current and non-current assets in respect of trade and other receivables was as follows:

		December 31 2016		December 31 2015
Current	**$**	**153,766**	$	159,963
Non-current	**$**	**—**	$	—

The aging of trade receivables and allowance for doubtful accounts was as follows:

		December 31 2016		December 31 2015
Current 0-30 days	**$**	**82,406**	$	85,557
Past due 31-60 days		**40,593**		39,152
Past due 61-90 days		**9,537**		10,892
More than 90 days		**9,056**		9,623
		141,592		145,224
Allowance for doubtful accounts		**(3,211)**		(4,218)
Total trade receivables (net of impairment)	**$**	**138,381**	$	141,006

The change in the allowance for doubtful accounts in respect of trade and other receivables during the year was as follows:

		2016		2015
Balance at January 1	**$**	**4,218**	$	3,558
Bad debts recognized		**(1,082)**		(635)
Allowance for doubtful accounts recorded		**1,274**		2,064
Allowance for doubtful accounts reversed		**(1,199)**		(769)
Balance at December 31	**$**	**3,211**	$	4,218

8. Inventory

		December 31 2016		December 31 2015
Inventory of repair parts and fuel	**$**	**24,526**	$	22,910
Inventory for resale		**5,549**		7,368
	$	**30,075**	$	30,278

9. Property, Plant and Equipment

	Land and buildings	Trucks and trailers	Miscellaneous Equipment	Drilling equipment	Total
Cost					
Balance at January 1, 2016	**$ 511,510**	**$ 736,079**	**$ 251,334**	**$ 30,675**	**$ 1,529,598**
Additions [1]	**7,766**	**18,162**	**9,023**	**—**	**34,951**
Disposals	**(1,704)**	**(9,994)**	**(8,829)**	**(525)**	**(21,052)**
Balance at December 31, 2016	**517,572**	**744,247**	**251,528**	**30,150**	**1,543,497**
Accumulated Depreciation					
Balance at January 1, 2016	**46,277**	**313,814**	**167,608**	**9,693**	**537,392**
Depreciation expense	**7,622**	**43,400**	**18,167**	**2,105**	**71,294**
Disposals	**(1,029)**	**(5,872)**	**(6,449)**	**(379)**	**(13,729)**
Balance at December 31, 2016	**52,870**	**351,342**	**179,326**	**11,419**	**594,957**
Net book value at December 31, 2016	**$ 464,702**	**$ 392,905**	**$ 72,202**	**$ 18,731**	**$ 948,540**

	Land and buildings	Trucks and trailers	Miscellaneous Equipment	Drilling equipment	Total
Cost					
Balance at January 1, 2015	$ 439,373	$ 684,064	$ 237,629	$ 30,675	$ 1,391,741
Additions [1]	74,851	71,353	19,689	—	165,893
Disposals	(2,714)	(19,338)	(5,984)	—	(28,036)
Balance at December 31, 2015	511,510	736,079	251,334	30,675	1,529,598
Accumulated Depreciation					
Balance at January 1, 2015	41,088	279,060	151,398	8,496	480,042
Depreciation expense	7,684	45,859	20,535	1,197	75,275
Disposals	(2,495)	(11,105)	(4,325)	—	(17,925)
Balance at December 31, 2015	46,277	313,814	167,608	9,693	537,392
Net book value at December 31, 2015	$ 465,233	$ 422,265	$ 83,726	$ 20,982	$ 992,206

[1] Additions include property, plant, and equipment purchased by way of business acquisitions of $14.0 million (2015 – $84.3 million).

► ***For more information, refer to Note** 5.*

At December 31, 2016, property, plant and equipment includes equipment under finance leases which are recorded at cost, totalling $5.6 million (2015 – $5.3 million), less accumulated depreciation of $1.0 million (2015 – $0.5 million), resulting in a net book value of $4.6 million (2015 – $4.8 million). At December 31, 2016, land and buildings include $29.6 million (2015 – $21.5 million) of investment properties held to earn rental income. The total cost and accumulated depreciation associated with investment properties was $30.9 million (2015 – $22.0 million) and $1.3 million (2015 – $0.5 million), respectively. In 2016, Mullen Group transferred $8.9 million of land and buildings to investment properties as certain properties are now being used to earn rental income. Mullen Group generated $1.9 million of rental income (2015 – $1.9 million) from investment properties. At December 31, 2016, the fair market value of investment properties was $33.7 million.

10. Goodwill

The changes in the carrying amount of goodwill are shown below:

	2016	2015
Gross amount of goodwill	**$ 1,242,186**	$ 1,155,795
Accumulated impairment	**898,000**	898,000
Balance at January 1	**$ 344,186**	$ 257,795
Goodwill acquired during the year	**7,697**	86,391
Impairment of goodwill	**—**	—
Balance at December 31	**$ 351,883**	$ 344,186

At December 31, 2016, the Trucking/Logistics segment had a carrying value of $177.8 million of goodwill as compared to $170.1 million in 2015. This $7.7 million increase was a result of acquiring Motrux, Caneda and E.C.R. The Oilfield Services segment had a carrying value of $174.1 million (2015 – $174.1 million). ► **For more information, refer to Note 5**.

The following table summarizes the significant carrying amounts of goodwill:

		December 31 2016		December 31 2015
CGU				
Gardewine Group Limited Partnership	**$**	**79,402**	$	79,402
Formula Powell L.P.		**56,564**		56,564
Kleysen Group Ltd.		**34,099**		34,099
Cascade Energy Services L.P.		**37,554**		37,554[1]
Hi-Way 9 Group of Companies		**20,045**		20,045
Heavy Crude Hauling L.P.		**16,989**		16,989
Tenold Transportation Ltd.		**15,209**		15,209
Other CGUs		**92,021**		84,324
Total Goodwill	**$**	**351,883**	$	344,186

*[1] In 2015 the increase in the carrying amount of goodwill within Cascade Energy Services L.P. resulted from the operations of Majestic Oilfield Services Inc. ("**Majestic**") being integrated into this CGU.*

(a) Impairment Testing for Cash Generating Units Containing Goodwill

At December 31, 2016 and 2015, ("**Valuation Dates**") Mullen Group performed its annual impairment tests for goodwill and concluded that there was no impairment of goodwill in any of its CGUs as the recoverable amount for these CGUs were higher than their respective carrying amount. Recognition of any impairment of goodwill would be recognized as an expense and reduce book equity and net income but it would not impact cash flows.

(b) Recoverable Amount

Mullen Group determines the recoverable amount for its CGUs based on the higher of the FVLCD and VIU. The recoverable amount was determined using either a discounted cash flow approach for CGUs that contain a significant amount of goodwill or an earnings multiple approach for those CGUs that do not contain a significant amount of goodwill. The VIU was determined by discounting the future cash flows generated from Mullen Group's continuing use of the CGU. The discounted cash flow model employed by the Corporation reflects the specifics of each CGU and its business environment. The model calculates the present value of the estimated future earnings of each CGU.

Estimating future earnings requires judgement, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment. The calculation of the recoverable amount using the discounted cash flow approach was based on the following key assumptions:

	Discount rate		Terminal value growth rate	
	December 31 2016	December 31 2015	December 31 2016	December 31 2015
CGU				
Gardewine Group Limited Partnership	**10.5%**	11.5%	**2.0%**	2.0%
Formula Powell L.P.	**10.5%**	12.0%	**2.5%**	2.5%
Kleysen Group Ltd.	**11.0%**	13.0%	**2.5%**	2.5%
Cascade Energy Services L.P.	**11.0%**	13.0%	**2.5%**	2.5%
Hi-Way 9 Group of Companies	**11.0%**	13.0%	**2.5%**	2.5%
Heavy Crude Hauling L.P.	**11.0%**	13.0%	**2.5%**	2.5%
Tenold Transportation Ltd.	**11.0%**	13.0%	**2.5%**	2.5%
Other	**11.0%**	13.0%	**2.5%**	2.5%

(i) Cash flows were projected based on past experience, actual operating results and the one year business plan for the immediate year. Cash flows for a further four year period were extrapolated using constant growth rates of between 2.0 to 2.5 percent with adjustments reflecting an expectation of changes in the general economy, forecasted changes in drilling activity and the Business Unit's respective markets, and represents the Corporation's best estimate of the set of economic conditions that are expected to exist over the forecast period.

(ii) The terminal value growth rate is based on management's best estimate of the long-term growth rate for its CGUs after the forecast period, considering historic performance and future economic forecasts.

(iii) Each CGU's discount rate reflects their individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

The Corporation believes that the following changes in the key assumptions would result in a recoverable amount equal to the carrying value of the CGU, with any additional change in the assumptions causing goodwill to become impaired.

	Change in discount rate		Change in terminal value growth rate	
	December 31 2016	**December 31 2015**	**December 31 2016**	**December 31 2015**
CGU				
Gardewine Group Limited Partnership	**4.7%**	3.6%	**(7.6)%**	(5.7)%
Formula Powell L.P.	**1.5%**	1.3%	**(2.3)%**	(2.0)%
Kleysen Group Ltd.	**5.6%**	6.8%	**(9.3)%**	(13.2)%
Cascade Energy Services L.P.	**0.7%**	0.9%	**(0.9)%**	(1.4)%
Hi-Way 9 Group of Companies	**7.8%**	4.3%	**(12.9)%**	(7.2)%
Heavy Crude Hauling L.P.	**2.8%**	2.3%	**(4.1)%**	(3.6)%
Tenold Transportation Ltd.	**7.3%**	6.8%	**(13.3)%**	(12.9)%

For all CGUs the recoverable amount was greater than the CGU's carrying value, including goodwill.

11. Intangible Assets

Intangible assets are mainly comprised of customer relationships and non-competition agreements acquired through business combinations. They are amortized over their estimated useful lives.

	Opening balance at January 1 2015	Additions (Amortization)	Closing balance at December 31 2015	Additions (Amortization)	Closing balance at December 31 2016
Cost	$ 211,314	$ 17,642	$ 228,956	$ 6,503	**$ 235,459**
Amortization	(179,877)	(18,972)	(198,849)	(14,006)	**(212,855)**
Carrying amount	$ 31,437		$ 30,107		**$ 22,604**

12. Investments

	December 31 2016	December 31 2015
Investments	**$ 6,208**	$ 11,932
Investments – equity method	**32,440**	30,563
	$ 38,648	$ 42,495

(a) Investments

Mullen Group periodically invests in certain private and public corporations. During 2016, Mullen Group sold all of its 4,674,625 shares for $7.4 million, representing approximately 13.9 percent of the total issued and outstanding shares of Logan International Inc. ("**Logan**"), a Toronto Stock Exchange listed company.

(b) Investments accounted for by the equity method

There were no equity investments purchased or sold in 2016. During 2015, Mullen Group invested $10.9 million (including $4.3 million of debentures) to acquire a minority equity interest in three companies; Envolve Energy Services Corp. ("**Envolve"**), a waste disposal company operating in the Grande Prairie, Alberta region; Cordova Oilfield Services Ltd., a general oilfield hauling company specializing in pipe storage, handling and transportation located in Fort St. John, British Columbia; and Butler Ridge Energy Services (2011) Ltd., a fracturing fluid containment, logistics and storage management company based in Hudson's Hope, British Columbia. Mullen Group made these equity investments as part of its strategy to invest in the energy sector. In 2014, Mullen Group acquired a 30.0 percent interest in Kriska Transportation Group Limited ("**Kriska Transportation**"). Kriska Transportation is a growth oriented transportation and logistics company based in Prescott, Ontario. At December 31, 2016, the Corporation had a carrying value of $23.8 million related to its equity investment in Kriska Transportation. Mullen Group uses the equity method to account for investments from the date in which it obtains significant influence. In 2016, the aggregate amount of Mullen Group's share of net income and total comprehensive income from its investments accounted for by the equity method was $1.9 million (2015 – $2.5 million). ▶ **For more information refer to Note 27.**

13. Derivative Financial Instruments

In conjunction with the pricing of the 2014 Notes (as hereafter defined on page 104), on July 25, 2014, Mullen Group entered into two cross-currency swap contracts with a Canadian bank to swap $117.0 million U.S. dollars and $112.0 million U.S. dollars into Canadian dollars (collectively, the "**Cross-Currency Swaps**") at foreign exchange rates of $1.1047 and $1.1148 that mature on October 22, 2024 and October 22, 2026, respectively. At December 31, 2016, the carrying value of these Cross-Currency Swaps was $32.8 million and was recorded in the consolidated statement of financial position within derivative financial instruments.

For the year ended December 31, 2016, Mullen Group recorded a net unrealized foreign exchange (gain) loss of $(5.8) million (2015 – $39.7 million). This was due to the impact of the change over the period in the value of the Canadian dollar relative to the U.S. dollar on the Corporation's U.S. dollar debt and from the change in the fair value of its Cross-Currency Swaps as summarized in the table below:

Net Unrealized Foreign Exchange (Gain) Loss	CDN. $ Equivalent	
	Years ended December 31	
	2016	2015
Unrealized foreign exchange (gain) loss on U.S. $ debt	**$ (12,968)**	$ 70,305
Unrealized foreign exchange loss (gain) on Cross-Currency Swaps	**7,190**	(30,604)
Net unrealized foreign exchange (gain) loss	**$ (5,778)**	$ 39,701

For the year ended December 31, 2016, Mullen Group recorded an unrealized foreign exchange (gain) loss on U.S. dollar debt of $(13.0) million (2015 – $70.3 million) as summarized in the table below:

Unrealized Foreign Exchange (Gain) Loss on U.S. $ Debt	Years ended December 31					
	2016			2015		
($ thousands, except exchange rate amounts)	U.S. $ Debt	Exchange Rate	CDN. $ Equivalent	U.S. $ Debt	Exchange Rate	CDN. $ Equivalent
Ending – December 31	**314,000**	**1.3427**	421,608	314,000	1.3840	434,576
Beginning – January 1	**314,000**	**1.3840**	434,576	314,000	1.1601	364,271
Unrealized foreign exchange (gain) loss on U.S. $ debt			(12,968)			70,305

For the year ended December 31, 2016, Mullen Group recorded an unrealized foreign exchange loss (gain) on its Cross-Currency Swaps of $7.2 million (2015 – $(30.6) million). This was due to the change over the period in the fair value of these Cross-Currency Swaps as summarized in the table below:

Unrealized Foreign Exchange Loss (Gain) on Cross-Currency Swaps	Years ended December 31			
	2016		2015	
	U.S. $ Swaps	CDN. $ Change in Fair Value of Swaps	U.S. $ Swaps	CDN. $ Change in Fair Value of Swaps
Cross-Currency Swap maturing October 22, 2024	**117,000**	3,704	117,000	(16,527)
Cross-Currency Swap maturing October 22, 2026	**112,000**	3,486	112,000	(14,077)
Unrealized foreign exchange loss (gain) on Cross-Currency Swaps		7,190		(30,604)

14. Other Assets

	December 31 2016	December 31 2015
Debentures - Envolve	**$ —**	$ 4,268
Promissory notes	**688**	500
Other	**378**	394
	$ 1,066	$ 5,162

15. Accounts Payable and Accrued Liabilities

		December 31 2016		December 31 2015
Trade payables	**$**	**27,651**	$	22,992
Amounts due to related parties		**24**		4
Non-trade payables and accrued liabilities		**55,785**		60,160
	$	**83,460**	$	83,156

16. Dividends Payable

For the four month period ended April 30, 2016, Mullen Group declared monthly dividends of $0.08 per Common Share totalling $0.32 per Common Share (2015 – $0.40 per Common Share). On April 20, 2016, the Board of Directors (the "**Board**") of Mullen Group reduced the amount of the monthly dividend to $0.03 per Common Share commencing with the declaration of the May 2016 dividend. For the year ended December 31, 2016, Mullen Group declared monthly dividends totalling $0.56 per Common Share (2015 – $1.20 per Common Share). At December 31, 2016, Mullen Group had 103,654,316 Common Shares outstanding and a dividend payable of $3.1 million (December 31, 2015 – $9.2 million), which was paid on January 16, 2017. Mullen Group also declared a dividend of $0.03 per Common Share on January 20, 2017, to the holders of record at the close of business on January 31, 2017.

17. Income Taxes

Deferred tax assets totalling $8.3 million (2015 – $9.8 million) consist mainly of the temporary differences arising from the purchase of goodwill on asset acquisitions, intangible assets and from deferred interest, which resulted from the prepayment of the Series A, Series B and Series C Notes. Recognized deferred tax assets and liabilities consist of the following:

December 31, 2016		**Assets**		**Liabilities**		**Net**
Property, plant and equipment	**$**	**4**	**$**	**(116,795)**	**$**	**(116,791)**
Goodwill – asset acquisitions		**2,985**		**(2,551)**		**434**
Intangible assets		**496**		**(5,049)**		**(4,553)**
Investments		**1,543**		**(2,311)**		**(768)**
Loss carry-forwards		**859**		**—**		**859**
Financing fees		**1,376**		**—**		**1,376**
Holdbacks and deferred interest		**1,067**		**(403)**		**664**
Debentures		**—**		**(32)**		**(32)**
	$	**8,330**	**$**	**(127,141)**	**$**	**(118,811)**

December 31, 2015		**Assets**		**Liabilities**		**Net**
Property, plant and equipment	$	—	$	(116,633)	$	(116,633)
Goodwill – asset acquisitions		2,823		(2,665)		158
Intangible assets		409		(5,891)		(5,482)
Investments		3,975		(2,187)		1,788
Financing fees		—		(158)		(158)
Holdbacks and deferred interest		2,600		(253)		2,347
Debentures		—		(53)		(53)
Partnership income		—		(7,450)		(7,450)
	$	9,807	$	(135,290)	$	(125,483)

The analysis of the components of net deferred tax is as follows:

	Years ended December 31			
		2016		**2015**
Deferred tax to be settled within 12 months	**$**	**(5,120)**	$	(12,616)
Deferred tax to be settled after more than 12 months		**(113,691)**		(112,867)
	$	**(118,811)**	$	(125,483)

The following tables summarize the movement of temporary differences during the period:

	Balance January 1 2016	Recognized in net income	Acquired in business combinations	Recognized directly in equity	Balance December 31 2016
Property, plant and equipment	**$ (116,633)**	**$ 510**	**$ (668)**	**$ —**	**$ (116,791)**
Goodwill – asset acquisitions	**158**	**276**	**—**	**—**	**434**
Intangible assets	**(5,482)**	**2,552**	**(1,623)**	**—**	**(4,553)**
Investments	**1,788**	**(2,556)**	**—**	**—**	**(768)**
Loss carry-forwards	**—**	**859**	**—**	**—**	**859**
Financing fees	**(158)**	**(187)**	**—**	**1,721**	**1,376**
Debt financing costs	**2,600**	**(1,533)**	**—**	**—**	**1,067**
Holdbacks	**(253)**	**(150)**	**—**	**—**	**(403)**
Debentures	**(53)**	**21**	**—**		**(32)**
Partnership income	**(7,450)**	**7,450**	**—**		**—**
	$ (125,483)	**$ 7,242**	**$ (2,291)**	**$ 1,721**	**$ (118,811)**

	Balance January 1 2015	Recognized in net income	Acquired in business combinations	Recognized directly in equity	Balance December 31 2015
Property, plant and equipment	$ (97,484)	$ (8,031)	$ (11,118)	$ —	$ (116,633)
Goodwill – asset acquisitions	(38)	196	—	—	158
Intangible assets	(4,736)	3,422	(4,168)	—	(5,482)
Investments	(515)	2,303	—	—	1,788
Financing fees	(139)	(19)	—	—	(158)
Debt financing costs	4,588	(1,988)	—	—	2,600
Holdbacks	(255)	2	—	—	(253)
Debentures	(68)	15	—	—	(53)
Partnership income	(19,776)	12,326	—	—	(7,450)
	$ (118,423)	$ 8,226	$ (15,286)	$ —	$ (125,483)

Income tax expense of $19.7 million (2015 – $30.0 million) is comprised of current and deferred tax as follows:

	Years ended December 31	
	2016	**2015**
Current	**$ 26,949**	$ 38,227
Deferred	**(7,242)**	(8,226)
	$ 19,707	$ 30,001

The combined statutory tax rate was approximately 27 percent in 2016 (2015 – 26 percent). Mullen Group's combined statutory tax rate increased slightly due to a greater proportion of its revenue being generated in higher taxed jurisdictions. The reconciliation of the effective tax rate is as follows:

	Years ended December 31	
	2016	**2015**
Income before income taxes	**$ 71,745**	$ 43,367
Combined statutory tax rate	**27%**	26%
Expected income tax	**19,371**	11,275
Add (deduct):		
Non-deductible (taxable) portion of net unrealized foreign exchange (gain) loss	**(780)**	5,161
Non-deductible (taxable) portion of the change in fair value of investments	**(230)**	2,623
Stock-based compensation expense	**292**	382
Increase in income tax due to changes in income tax rates	**—**	5,829
Other	**1,054**	4,731
Income tax expense	**$ 19,707**	$ 30,001

18. Long-Term Debt and Credit Facility

Mullen Group has a $75.0 million revolving demand unsecured credit facility (the "**Bank Credit Facility**"). Interest on the Bank Credit Facility is payable monthly and is based on either the bank prime rate plus 0.50 percent or bankers' acceptance rates plus an acceptance fee of 1.50 percent. As at December 31, 2016, no amounts were drawn on this facility. This facility does not have any financial covenants, however, Mullen Group must be in compliance with certain reporting and general covenants. Mullen Group is in compliance with all of these reporting and general covenants.

Mullen Group has $4.7 million of letters of credit outstanding, which were issued to guarantee certain performance and payment obligations. These letters of credit reduce the amount available under the Bank Credit Facility.

Mullen Group's long-term debt is mainly comprised of Private Placement Debt, the details of which are set forth below:

Notes		Principal amount	Maturity	Interest Rate [1]
Series D	$	70,000 CDN.	June 30, 2018	5.76%
Series E	$	85,000 U.S.	September 27, 2017	5.90%
Series F	$	20,000 CDN.	September 27, 2017	5.47%
Series G	$	117,000 U.S.	October 22, 2024	3.84%
Series H	$	112,000 U.S.	October 22, 2026	3.94%
Series I	$	30,000 CDN.	October 22, 2024	3.88%
Series J	$	3,000 CDN.	October 22, 2026	4.00%
Series K	$	58,000 CDN.	October 22, 2024	3.95%
Series L	$	80,000 CDN.	October 22, 2026	4.07%

[1] Interest is payable semi-annually.

On September 16, 2014, Mullen Group entered into a Note Purchase Agreement whereby it agreed to issue several series of senior unsecured notes, including Series G, Series H, Series I, Series J, Series K and Series L (collectively, the "**2014 Notes**"). The 2014 Notes were issued on a private placement basis largely under the same terms as its existing notes and were drawn on October 22, 2014. A portion of the proceeds from the Series G and Series H Notes were used to repay the Series A and Series B Notes.

On March 30, 2016, Mullen Group repaid $70.0 million of Series C Notes and recorded a $0.8 million expense related to Mullen Group's decision to repay the Series C Notes prior to maturity and mainly consists of the net present value of the future interest payments on such notes that would have otherwise been paid to the noteholders. This $0.8 million expense was recognized within the statement of comprehensive income.

Mullen Group entered into Cross-Currency Swaps to swap the Series G and Series H Notes into Canadian dollars at foreign exchange rates of $1.1047 and $1.1148 that mature on October 22, 2024 and October 22, 2026, respectively. ▶ **For more information, refer to Note 13**.

Mullen Group's unamortized debt issuance costs of $2.2 million related to its Private Placement Debt have been netted against its carrying value at December 31, 2016 (December 31, 2015 – $2.0 million).

Mullen Group has certain financial covenants that must be met under its unsecured Private Placement Debt, which include a total debt to operating cash flow ratio and a total earnings available for fixed charges to total fixed charges ratio. Mullen Group's total debt cannot exceed 3.5 times operating cash flow calculated using the trailing twelve months financial results normalized for acquisitions. The term "**total debt**" means all debt including the Private Placement Debt, the Bank Credit Facility, Various Financing Loans and Letters of Credit, excluding the Debentures. The term "**operating cash flow**" means, for any quarterly period, the trailing twelve month consolidated net income adjusted for all amounts deducted in the computation thereof on account of (i) taxes imposed on or measured by income or excess profits, (ii) depreciation and amortization taken during such period, (iii) total interest charges, including interest on the Debentures; and (iv) non-cash charges. On March 31, 2016, Mullen Group entered into an agreement with the Private Placement Debt noteholders to amend certain financial covenant terms (the "**Amending Agreement**"), that included both temporary and permanent amendments. On a temporary basis, the Amending Agreement replaces the financial covenant term total debt with total net debt for financial covenant calculation purposes for a period up to and including March 31, 2018 (the "**Covenant Relief Period**"). During the Covenant Relief Period, total net debt is defined as total debt of the Corporation less the value of any cash and cash equivalents in excess of $50.0 million and less any unrealized gain on Cross-Currency Swaps plus any unrealized loss on Cross-Currency Swaps, as disclosed within Derivatives on the consolidated statement of financial position. After the Covenant Relief Period, the definition of total debt will be amended on a permanent basis and replaced with total net debt, which will be defined as total debt of the Corporation adjusted for the carrying value of the Derivatives. All other terms and thresholds of the financial covenants remained the same. Mullen Group cannot have a fixed charge coverage ratio less than 1.75:1 calculated using the trailing twelve months financial results. Mullen Group is in compliance with all the Private Placement Debt financial covenants.

Mullen Group also has debt comprised of Various Financing Loans, which are secured by specific operating equipment.

The details of long-term debt, as at the date hereof, are as follows:

			December 31, 2016		December 31, 2015	
	Year of Maturity	Nominal Interest Rate	Face Value	Carrying Amount	Face Value	Carrying Amount
			$	$	$	$
Bank Credit Facility	—	Variable	—	—	—	—
Private Placement Debt	2017 – 2026	3.84% – 5.90%	**682,607**	**680,455**	765,576	763,559
Various Financing Loans	2017 – 2018	3.63% – 7.68%	**2,952**	**2,952**	5,156	5,156
			685,559	**683,407**	770,732	768,715

19. Convertible Unsecured Subordinated Debentures

On May 1, 2009, Mullen Group issued Debentures at a price of $1,000 per Debenture. The Debentures mature on July 1, 2018 and bear interest at an annual rate of 10.0 percent payable quarterly in arrears on March 31, June 30, September 30, and December 31 in each year. Each $1,000 Debenture is convertible into 93.2 Common Shares of Mullen Group (or a conversion price of $10.73) at any time at the option of the holders of the Debentures. As at the date of issuance, an aggregate of approximately 11.65 million Common Shares of Mullen Group would be issued if all holders converted their principal amount. In addition to the principal amount, as Debentures are converted, any accrued and unpaid interest is also converted into Common Shares of Mullen Group at a conversion price of $10.73. As subordinated debt, the accounting value assigned to the Debentures, including any related interest expense is excluded from Mullen Group's financial covenant calculations on its Private Placement Debt. The Debentures are also subordinated to the Bank Credit Facility.

The equity portion of the Debentures are reclassified to share capital as the Debentures are converted into Common Shares. For the twelve month periods ended December 31, 2016 and 2015, no Debentures were converted into Common Shares of Mullen Group. As at December 31, 2016, Mullen Group had 12,445 Debentures outstanding, which would be converted into an aggregate of approximately 1,159,874 Common Shares of the Corporation if all holders converted their principal amount.

The details of the Debentures are as follows:

		December 31, 2016		December 31, 2015	
Year of Maturity	Nominal Interest Rate	Face Value	Carrying Amount	Face Value	Carrying Amount
2018	10%	**$ 12,445**	**$ 12,290**	$ 12,445	$ 12,186

The cumulative carrying amount of the Debentures for the periods set forth below is as follows:

	Cumulative as at	
	December 31, 2016	December 31, 2015
Proceeds from issue of Debentures	**$ 125,000**	$ 125,000
Debt issuance costs	**(2,335)**	(2,335)
Net proceeds	**122,665**	122,665
Amount classified as equity	**(7,200)**	(7,200)
Debentures converted to Common Shares	**(112,555)**	(112,555)
Accretion on debt	**9,380**	9,276
Carrying amount of Debentures	**$ 12,290**	$ 12,186

20. Share Capital

The authorized share capital of Mullen Group consists of an unlimited number of no par value Common Shares and an unlimited number of Preferred Shares, issuable in series.

The number of, and the specific rights, privileges, restrictions and conditions attaching to any series of Preferred Shares shall be determined by the Board of Mullen Group prior to the creation and issuance thereof. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of Mullen Group, whether voluntarily or involuntarily, the Preferred Shares are entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares from time to time and may also be given such other preferences over the Common Shares and any other shares ranking junior to the Preferred Shares as may be determined at the time of creation of such series. As at the date hereof, no series of Preferred Shares had been created.

On May 17, 2016, the Corporation closed a bought deal public offering (the "**Offering**") and a non-brokered private placement (the "**Private Placement**") by issuing 11,993,250 Common Shares at a price of $13.30 per Common Share for gross proceeds of $159.5 million. Share issuance costs and the related deferred tax associated with the issuance was $6.4 million and $1.7 million, respectively.

All of the issued Common Shares of Mullen Group have been paid in full.

		# of Common Shares	
	Note	**2016**	**2015**
Issued Common Shares at January 1		**91,661,066**	91,610,709
Common Shares issued on the Offering and Private Placement		**11,993,250**	—
Stock options exercised	**26**	**—**	50,357
Common Shares issued on conversion of Debentures	**19**	**—**	—
Issued Common Shares at December 31		**103,654,316**	91,661,066

21. Earnings per Share

(a) Basic Earnings per Share

Basic earnings per share is calculated as net income attributable to common shareholders divided by the weighted average number of Common Shares outstanding for the period. Net income attributable to common shareholders for the year ended December 31, 2016, was $52.0 million (2015 – $13.4 million). The weighted average number of Common Shares outstanding for the years ended December 31, 2016 and 2015 was calculated as follows:

		Years ended December 31	
	Note	**2016**	**2015**
Issued Common Shares at beginning of period	**20**	**91,661,066**	91,610,709
Effect of Common Shares issued		**7,503,973**	—
Effect of stock options exercised		**—**	42,076
Effect of Debentures converted		**—**	—
Weighted average number of Common Shares at end of period – basic		**99,165,039**	91,652,785

(b) Diluted Earnings per Share

Diluted earnings per share is calculated by adjusting net income attributable to common shareholders and the basic weighted average number of Common Shares outstanding by the effects of all potentially dilutive transactions to existing common shareholders. In calculating diluted earnings per share, net income was adjusted as follows:

	Years ended December 31			
		2016		**2015**
Net income	**$**	**52,038**	$	13,366
Effect on finance costs from conversion of Debentures (net of tax)		**—**		—
Net income – adjusted	**$**	**52,038**	$	13,366

The diluted weighted average number of Common Shares was calculated as follows:

	Years ended December 31	
	2016	**2015**
Weighted average number of Common Shares – basic	**99,165,039**	91,652,785
Effect of "in the money" stock options	**—**	34,536
Effect of conversion of Debentures	**—**	—
Weighted average number of Common Shares at end of period – diluted	**99,165,039**	91,687,321

For the year ended December 31, 2016, 2,157,500 stock options (2015 – 2,167,244) were excluded from the diluted weighted average number of Common Shares calculation as their effect would have been anti-dilutive. The average market value of the Corporation's Common Shares for the purposes of calculating the dilutive effect of stock options was based on quoted market prices for the periods ended December 31, 2016 and 2015. For all the periods listed above, the Common Shares that would be issued upon conversion of the Debentures were excluded from the diluted weighted average number of Common Shares calculation as their effect would have been anti-dilutive. ▶ **For more information on stock options and Debentures, refer to Notes 19 and 26, respectively**.

22. Revenue

During the year, 93.4 percent of revenue was from the rendering of services, 3.5 percent of revenue was from the sale of goods and 3.1 percent was from construction contracts as compared to 93.7 percent, 3.7 percent, and 2.6 percent, respectively, for the year ended December 31, 2015.

23. Personnel Costs

	Years ended December 31			
		2016		**2015**
Wages, salaries and benefits	**$**	**312,200**	$	362,125
Stock-based compensation expense		**1,082**		1,470
	$	**313,282**	$	363,595

In 2016 personnel costs of $219.9 million (2015 – $257.3 million) were recognized within direct operating expenses and $93.4 million (2015 – $106.3 million) were recognized within selling and administrative expenses.

24. Operating Leases

Mullen Group is committed to payments under several operating leases until 2021 and thereafter. The majority of Mullen Group's operating leases are for land and buildings. Mullen Group also has operating leases for certain operating equipment. Mullen Group has operating lease commitments as follows:

		December 31, 2016		**December 31, 2015**
Less than one year	**$**	**8,634**	$	10,353
Between one and five years		**17,813**		21,743
More than five years		**215**		2,857
	$	**26,662**	$	34,953

Total operating lease payments for the year ended December 31, 2016, were $8.5 million (2015 – $9.4 million).

25. Finance Costs

	Years ended December 31			
		2016		**2015**
Interest expense on financial liabilities measured at amortized cost	**$**	**33,377**	$	35,874
Accretion on debt		**763**		448
Finance expense		**34,140**		36,322
Less: Interest income from cash and cash equivalents		**(1,680)**		(507)
Finance costs	**$**	**32,460**	$	35,815

26. Share-Based Compensation Plans

Mullen Group grants stock options to directors, officers, employees and consultants of Mullen Group or its affiliates under its Stock Option Plan. Options under the Stock Option Plan are normally granted at the weighted average trading price of the Common Shares of Mullen Group for the five consecutive trading days immediately preceding the day of grant of the stock option. Stock options vest in the manner determined by the Board at the time of the grant. The term of an option is five to ten years from the date of grant.

In estimating expected stock price volatility at the time of a particular stock option grant, Mullen Group relies on observations of historical volatility trends. In determining the expected term of the option grants, Mullen Group has observed the actual terms of prior grants with similar characteristics and the actual vesting schedule of the grant.

Other assumptions required for estimating fair value with the Black-Scholes model are the expected risk-free interest rate and expected dividend yield of Mullen Group's Common Shares. The risk-free interest rates used were the Canadian Treasury zero-coupon rates for bonds matching the expected term of the option on the date of grant. The expected dividend yield of Mullen Group's Common Shares over the expected term of the option was determined based on the Corporation's dividend policy on the date of grant. The expected forfeiture rate was determined based on the Corporations prior historical forfeiture rates on the date of grant.

The total number of stock options available to be granted under the Stock Option Plan cannot exceed 4,000,000. Each stock option will entitle the option-holder to acquire one Common Share of Mullen Group. Under the Stock Option Plan, the exercise price of a stock option granted shall be as determined by the Board of Directors when the stock option is granted subject to any limitations imposed by any relevant stock exchange or regulatory authority, and shall be an amount at least equal to the weighted average trading price of the Common Shares of Mullen Group for the five consecutive trading days immediately preceding the day of grant of the stock option. These options vest in one to five years and expire in five to ten years.

Volatility was determined on the basis of the daily closing prices over a historical period corresponding to the expected term of the options.

Stock Option Plan:	Options		Weighted average exercise price
Outstanding December 31, 2014	1,421,767	$	20.94
Granted	1,090,000		20.77
Exercised	(50,357)		(16.89)
Forfeited	(106,666)		(21.19)
Outstanding December 31, 2015	2,354,744	$	20.94
Granted	—		—
Exercised	—		—
Forfeited	(197,244)		(20.48)
Outstanding December 31, 2016	**2,157,500**	**$**	**20.98**
Stock options exercisable December 31, 2015	899,744	$	19.41
Stock options exercisable December 31, 2016	**1,022,500**	**$**	**20.42**

The range of exercise prices for options outstanding at December 31, 2016 was as follows:

	Options Outstanding				Exercisable Options		
Range of Exercise Prices	Number	Weighted average remaining contractual life (years)		Weighted average exercise price	Number		Weighted average exercise price
$16.33 to $19.20	527,500	3.7		18.29	527,500		18.29
$19.21 to $21.36	1,245,000	7.8		20.88	225,000		21.36
$21.37 to $28.07	385,000	6.6		25.00	270,000		23.82
$16.33 to $28.07	2,157,500	6.6	$	20.98	1,022,500	$	20.42

The following weighted average assumptions were used to determine the fair value of options issued in 2015 under the Stock Option Plan on the date of grant. There were no stock options issued in 2016:

	2016	2015
Fair value	—	2.31
Risk-free interest rate	—	0.80%
Expected life	—	5 years
Forfeiture rate	—	5.0% per annum
Expected dividend	—	$1.20 per share per annum
Expected share price volatility	—	25.3

27. Other (Income) Expense

	Years ended December 31			
		2016		2015
Change in fair value of investments	**$**	**(1,703)**[1]	$	19,432
Loss on sale of property, plant and equipment		**886**		2,367
Gain on contingent consideration		**—**		(3,000)
Earnings from equity investments		**(1,877)**		(2,510)
	$	**(2,694)**	$	16,289

[1] During 2016, the Corporation recognized a $17.6 million unrealized gain on its investments, which was somewhat offset by a $15.9 million realized loss on investments. The $15.9 million realized loss resulted from selling 4,674,625 shares of Logan for proceeds of $7.4 million.

28. Contingent Liabilities

Mullen Group is involved in various claims and actions arising in the course of its operations and is subject to various legal actions and possible claims. Although the outcome of these claims cannot be predicted with certainty, Mullen Group does not expect these matters to have a material adverse effect on its financial position, cash flows or results from operations. Accruals for litigation, claims and assessments are recognized if Mullen Group determines that the loss is probable and the amount can be reasonably estimated. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on Mullen Group's consolidated net earnings in the period in which the outcome is determined. Mullen Group is of the opinion that losses, if any, arising from other outstanding or possible legal actions would not have a material effect on these consolidated financial statements as Mullen Group has adequate insurance coverage to cover such claims.

29. Capital Commitments

Capital expenditures approved and committed to but not provided for in these accounts at December 31, 2016, amounted to $3.1 million. The majority of these capital expenditure commitments will be completed in fiscal 2017.

30. Financial Instruments

Mullen Group's operating activities expose it to a variety of financial risks. These financial risks consist of certain credit, liquidity, and market risks associated with Mullen Group's financial assets and financial liabilities. Mullen Group has established and follows certain policies and procedures to mitigate these risks and continually monitors its exposure to all significant risks to assess the impact on its operating activities. Mullen Group does not hold or use any derivative financial instruments for trading or speculative purposes. The following details Mullen Group's exposure to credit, liquidity, and market risks.

(a) Credit Risk

Credit risk is the risk of financial loss to Mullen Group if a customer or counterparty to a financial asset fails to meet its contractual obligations. This risk arises predominately from Mullen Group's trade and other receivables from its customers. The carrying amount of financial assets represents Mullen Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

Carrying amount	Note		December 31 2016		December 31 2015
Cash and cash equivalents	**6**	**$**	**270,291**	$	147,243
Trade and other receivables	**7**		**153,766**		159,963
Derivative financial instruments	**13**		**32,759**		39,949
Other assets	**14**		**1,066**		5,162
		$	**457,882**	$	352,317

Credit risk related to trade and other receivables is initially managed by each Business Unit. Each Business Unit is responsible for reviewing the credit risk for each of their customers before standard payment and delivery terms and conditions are offered. The Business Units review consists of external ratings, when available, and in some cases bank and trade references. Management has established a credit policy under which new customers are analyzed for creditworthiness before Mullen Group extends credit. Mullen Group monitors its trade and other receivables aging on an ongoing basis as part of its process in managing its credit risk. Mullen Group also manages credit risk related to trade and other receivables on a consolidated basis whereby the aggregate exposure to individual customers is reviewed and their credit quality is assessed. Mullen Group also attends industry forums to assess credit worthiness of customers related predominately to the oil and natural gas industry. No customer accounted for more than ten percent of Mullen Group's consolidated revenue for the fiscal years ended 2016 and 2015.

Impairment losses arise when trade receivables are written off directly against the financial asset, which results from customers who cannot pay their outstanding balance. In 2016 an impairment loss of $1.1 million (2015 – $1.3 million) was recognized which related to customers that were not able to pay their outstanding balances, mainly due to the customer having insufficient cash or other financial assets. During the period, the impairment loss as a percentage of consolidated revenue was approximately 0.1 percent (2015 – 0.1 percent). Mullen Group establishes, on a specific account basis, an allowance for impairment loss that represents its estimate of potential losses in respect of trade receivables. ▶ **For more information refer to Note 7**.

(b) Liquidity Risk

Liquidity risk is the risk that Mullen Group will not be able to satisfy its obligations associated with its financial liabilities that are to be settled by delivering cash as they become due. Mullen Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to satisfy its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Mullen Group's reputation. Typically, Mullen Group ensures that it has sufficient cash or available credit facilities to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Mullen Group manages liquidity risk by preparing, monitoring and approving annual operating budgets to ensure it has sufficient cash to meet operational requirements, and to ensure its ongoing compliance with its Private Placement Debt covenants. The Board also considers liquidity risk when approving Mullen Group's annual net capital expenditure budget and when declaring dividends to shareholders. Mullen Group's surplus cash is invested in short-term highly liquid term deposits. At December 31, 2016, Mullen Group had cash and cash equivalents of $270.3 million. In addition, Mullen Group maintains its $75.0 Million Bank Credit Facility. ▶ **For more information refer to Note 18**.

The following are the contractual maturities of financial liabilities, excluding interest payments and the impact of any option to purchase equipment at the end of the term:

December 31, 2016	Carrying amount	Contractual cash flows	Twelve months or less	2018 - 2019	2020 - 2021	Thereafter
Private Placement Debt	$ 680,455	$ 682,607	$ 134,129	$ 70,000	$ —	$ 478,478
Debentures – debt component	12,290	12,445	—	12,445	—	—
Various Financing Loans	2,952	2,952	2,170	782	—	—
Accounts payable and accrued liabilities	83,460	83,460	83,460	—	—	—
Dividends payable	3,110	3,110	3,110	—	—	—
Total	$ 782,267	$ 784,574	$ 222,869	$ 83,227	$ —	$ 478,478

All of the above amounts relate to non-derivative financial instruments.

(c) Market Risk

Market risk is the risk associated with fluctuations in foreign exchanges rates, interest rates and equity prices and their corresponding impact on the fair value or future cash flows of Mullen Group's financial instruments. The objective of management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Foreign Exchange Risk

Foreign exchange risk arises as Mullen Group enters into commercial transactions that are not denominated in its functional currency. Mullen Group is exposed to foreign exchange risk, primarily with respect to the U.S. dollar which mainly arises from its U.S. $314.0 million Senior Guaranteed Unsecured Notes ("**U.S. Notes**"). These U.S. Notes mature in 2017 (U.S. $85.0 million), 2024 (U.S. $117.0 million) and in 2026 (U.S. $112.0 million). Mullen Group has mitigated its foreign exchange risk with respect to a portion of its U.S. Notes by entering into the Cross-Currency Swaps. Annual interest of U.S. $13.9 million is payable on these U.S. Notes which also exposes Mullen Group to foreign exchange risk. This foreign exchange risk is mitigated as some of Mullen Group's Business Units generate a portion of their revenue in U.S. dollars in excess of their U.S. dollar expenses. At December 31, 2016, Mullen Group had U.S. dollar cash of $81.0 million, U.S. dollar trade receivables of $3.8 million and U.S. dollar accounts payable and accrued liabilities of $3.5 million. Mullen Group does not hedge any of its U.S. dollar denominated commercial and financing transactions.

All of the amounts expressed in the following table are in U.S. dollars and set forth Mullen Group's exposure to foreign currency risk:

	December 31 2016	December 31 2015
Cash and cash equivalents	**$ 80,994**	$ 74,853
Trade and other receivables	**3,837**	3,967
Derivative financial instruments	**24,398**	28,865
Private Placement Debt	**(314,000)**	(314,000)
Accounts payable and accrued liabilities	**(3,454)**	(3,299)
Net exposure	**$ (208,225)**	$ (209,614)

At December 31, 2016, assuming all other variables were held constant, a $0.01 strengthening of the Canadian dollar relative to the U.S. dollar would have increased income before income taxes by approximately $2.1 million. Similarly, a $0.01 weakening of the Canadian dollar relative to the U.S. dollar at December 31, 2016 would have had the equal but opposite effect on income before income taxes.

(ii) Interest Rate Risk and Fair Value Sensitivity Analysis for Fixed Rate Instruments

Interest rate risk arises on borrowings issued at variable rates which exposes risk to future cash flows if interest rates were to rise. This risk would be partially offset by cash held at variable rates. Mullen Group's Private Placement Debt, the Debentures, and its Various Financing Loans are all issued at fixed rates. The Bank Credit Facility is issued at variable rates, however, Mullen Group was not utilizing the facility at December 31, 2016. Borrowings issued at fixed rates expose Mullen Group to fair value interest rate risk. Mullen Group is susceptible to the opportunity costs associated with interest rate decreases as the interest rate on the majority of its borrowings is at fixed interest rates. Assuming all other variables were held constant, if interest rates increase by 1.0 percent on the $695.7 million of Mullen Group's debt, Mullen Group would incur additional annual interest expense of approximately $7.0 million. Mullen Group does not account for any fixed rate financial assets and liabilities at FVTPL. Mullen Group does not hedge interest rates or have any interest rate swaps.

(iii) Price Risk

Price risk arises from changes in quoted prices on investments in equity securities that impact the underlying value of investments. Mullen Group has investments measured at fair value with an initial cost of $18.0 million. A $1.7 million increase in the fair value of these investments was recorded in 2016 as compared to a $6.8 million decrease in 2015. Mullen Group recorded an $11.8 million decrease in the fair value of these investments on a cumulative basis. Assuming all other variables were held constant, a 1.0 percent increase in the value of the investments would have increased income before income taxes by approximately $0.7 million. Similarly, a 1.0 percent decrease in the value of investments would have an equal but opposite effect on income before income taxes.

(d) Capital Management

Mullen Group's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern, and manage capital that will maintain compliance with its financial covenants so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. Mullen Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Mullen Group may adjust the amount of dividends paid to shareholders, issue new debt, sell assets to reduce debt, or issue new shares.

Consistent with others in the industry, Mullen Group also monitors capital on the basis of debt-to-equity and total debt to operating cash flow. The debt-to-equity ratio is calculated as total debt divided by equity. Total debt is calculated as the total of current portion of long-term debt, long-term debt and the debt component of Debentures. Equity comprises all of the components of equity (i.e. share capital, Debentures – equity component, contributed surplus and retained earnings). Mullen Group's strategy is to maintain its debt-to-equity ratio below 1:1. The debt-to-equity ratio calculations at December 31, 2016 and at December 31, 2015 were as follows:

		December 31 2016		**December 31 2015**
Current portion of long-term debt	**$**	**136,300**	$	71,856
Long-term debt		**547,107**		696,859
Debentures – debt component		**12,290**		12,186
Total debt		**695,697**		780,901
Share capital		**933,303**		778,448
Debentures – equity component		**550**		550
Contributed surplus		**12,679**		11,597
Retained earnings		**13,878**		16,049
Equity	**$**	**960,410**	$	806,644
Debt to equity		**0.72:1**		0.97:1

Mullen Group also monitors capital on the basis of total debt to operating cash flow. The total debt to operating cash flow ratio is calculated as per the Private Placement Debt agreements. Other than the financial covenants under its Private Placement Debt, Mullen Group is not subject to externally imposed capital requirements. ▶ **For more information, refer to Note 18**.

31. Subsidiaries

The tables set forth below provide information relative to Mullen Group's significant subsidiaries and its Business Units, including each entity's name, its jurisdiction of incorporation/formation, the percentage of securities directly or indirectly owned by Mullen Group, a brief description of the entity, and the market areas served, if applicable. The percentages of ownership set forth below include the approximate one percent interest owned by the general partner of each limited partnership.

Significant Subsidiaries:

Company (Jurisdiction of Incorporation / Formation)	Percentage owned by Mullen Group (directly / indirectly)	Overview	Primary Market Area
MT Investments Inc. (Alberta)	100%	Wholly-owned subsidiary of Mullen Group Ltd. It was formed on July 1, 2005, when Mullen Transportation Inc. was amalgamated with certain other corporations pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) to form a corporation known as MT Investments Inc.	N/A
MGL Holding Co. Ltd. (Alberta)	100%	Wholly-owned subsidiary of MT Investments Inc., which was incorporated in Alberta on December 22, 2016. It is the limited partner of various Business Units.	N/A

Trucking/Logistics segment:

Business Unit (Jurisdiction of Incorporation / Formation)	Percentage owned by Mullen Group (indirectly)	Primary Market Area
Bernard Transport Ltd. (Alberta)	100%	Northwestern Alberta
Caneda Transport Inc. (Alberta)	100%	Canada and U.S.
Cascade Carriers L.P. (Alberta)	100%	Western Canada
Courtesy Freight Systems Ltd. (Ontario)	100%	Northwestern Ontario
Gardewine Group Limited Partnership (Manitoba)	100%	Manitoba and Ontario
Grimshaw Trucking L.P. (Alberta)	100%	Western Canada
Hi-Way 9 Group of Companies, consisting of Hi-Way 9 Express Ltd., Load-Way Ltd. and Streamline Logistics Inc. (Alberta)	100%	Western Canada
Jay's Transportation Group Ltd. (Saskatchewan)	100%	Saskatchewan
Kleysen Group Ltd. (Alberta)	100%	Western Canada
Mullen Trucking Corp. (Alberta)	100%	Canada and U.S.
Payne Transportation Ltd. (Alberta)	100%	Canada and U.S.
Smook Contractors Ltd. (Manitoba)	100%	Northern Manitoba
Tenold Transportation Ltd. (Alberta)	100%	Canada and U.S.

Oilfield Services segment:		
Business Unit (Jurisdiction of Incorporation / Formation)	**Percentage owned by Mullen Group (indirectly)**	**Primary Market Area**
Canadian Dewatering L.P. (Alberta)	100%	Western Canada
Cascade Energy Services L.P. (Alberta)	100%	Western Canada
E-Can Oilfield Services L.P. (Alberta)	100%	Western Canada
Formula Powell L.P. (Alberta)	100%	Western Canada
Heavy Crude Hauling L.P. (Alberta)	100%	Western Canada
Mullen Oilfield Services L.P. (Alberta)	100%	Western Canada
OK Drilling Services L.P. (Alberta)	100%	Western Canada
Pe Ben Oilfield Services L.P. (Alberta)	100%	Western Canada
Premay Equipment L.P. (Alberta)	100%	Western Canada
Premay Pipeline Hauling L.P. (Alberta)	100%	Western Canada
R. E. Line Trucking (Coleville) Ltd. (Saskatchewan)	100%	Western Canada
Recon Utility Search L.P. (Alberta)	100%	Western Canada
Spearing Service L.P. (Alberta)	100%	Western Canada
TREO Drilling Services L.P. (Alberta)	100%	Western Canada
Withers L.P. (Alberta)	100%	Western Canada

32. Operating Segments

Mullen Group has two operating segments. These two operating segments have been differentiated by the sector of the economy in which the businesses operate, the type of services provided, the equipment requirements and the customer needs. The Trucking/Logistics segment provides both long haul and local transportation services to customers in various industries predominantly within Canada. The Oilfield Services segment primarily provides specialized transportation, drilling, well-servicing and dewatering services to the oil and natural gas industry in western Canada, which includes exploration and development companies and production and natural gas transmission companies. The following tables provide financial results by segment:

				Intersegment eliminations		
Year ended December 31, 2016	**Trucking/ Logistics**	**Oilfield Services**	**Corporate**	**Trucking/ Logistics**	**Oilfield Services**	**Total**
Revenue	**$ 689,516**	**$ 350,506**	**$ 3,139**	**$ (4,857)**	**$ (3,245)**	**$ 1,035,059**
Income (loss) before income taxes	**72,195**	**8,337**	**(8,787)**	**—**	**—**	**71,745**
Depreciation of property, plant and equipment	**20,982**	**43,999**	**6,313**	**—**	**—**	**71,294**
Amortization of intangible assets	**6,606**	**7,400**	**—**	**—**	**—**	**14,006**
Capital expenditures [1]	**16,422**	**3,172**	**1,699**	**—**	**(355)**	**20,938**
Total assets at December 31, 2016	**$ 476,891**	**$ 593,512**	**$ 802,624**	**$ —**	**$ —**	**$ 1,873,027**

[1] Excludes business acquisitions

				Intersegment eliminations		
Year ended December 31, 2015	**Trucking/ Logistics**	**Oilfield Services**	**Corporate**	**Trucking/ Logistics**	**Oilfield Services**	**Total**
Revenue	$ 714,844	$ 501,054	$ 2,908	$ (2,659)	$ (1,775)	$ 1,214,372
Income (loss) before income taxes	73,108	31,110	(60,851)	—	—	43,367
Depreciation of property, plant and equipment	20,727	48,156	6,392	—	—	75,275
Amortization of intangible assets	7,968	11,004	—	—	—	18,972
Capital expenditures [1]	28,046	13,044	32,346	(30)	(113)	73,293
Total assets at December 31, 2015	$ 472,159	$ 654,344	$ 690,532	$ —	$ —	$ 1,817,035

[1] Excludes business acquisitions

33. Related Party Disclosures

(a) Key Management Personnel Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the business activities of Mullen Group, including all of its directors along with certain executives. Directors are remunerated for services rendered in their capacity as directors by way of a combination of retainer fees and meeting attendance fees. The overall compensation program for executives is comprised of base salary and benefits, annual profit share and share-based compensation payments. Executives of Mullen Group do not have formal employment contracts. Similar to the employment processes established for all Mullen Group employees, each executive's personnel file contains a memorandum outlining the basic terms of an executive's employment relationship with Mullen Group. Mullen Group has no agreement or arrangement with any executive for the payment of compensation in the case of resignation, retirement, or termination of employment, a change of control of Mullen Group or its Business Units or a change in an executive's responsibilities following a change of control. Key management personnel do not participate in a defined benefit or actuarial pension plan, however, key management personnel do participate in the Stock Option Plan. Total remuneration to key management personnel including directors' fees, salaries and benefits, annual profit share, and the value attributable to stock-based compensation expense was as follows: ▶ **For more information refer to Note 26**.

	Years Ended December 31	
Category	**2016**	**2015**
Salaries and benefits (including profit share)	$ **1,443**	$ 1,300
Share-based payments	**53**	83
Total	$ **1,496**	$ 1,383

Mullen Group had no outstanding amounts owing to or amounts receivable from directors or officers at December 31, 2016, and 2015, with respect to the overall compensation program for executives. As at December 31, 2016, directors and officers of Mullen Group collectively held 3,829,291 Common Shares (2015 – 3,536,591) representing 3.7 percent (2015 – 3.9 percent) of all Common Shares of the Corporation.

(b) Related Party Transactions

On May 17, 2016, related parties of Mullen Group participated in the Private Placement by purchasing 422,000 Common Shares at a price of $13.30 per Common Share for gross proceeds of approximately $5.6 million.

During the year, Mullen Group generated revenue of $15,000 (2015 – $0.1 million) with entities that are related by virtue of a certain member of the Board having control or joint control over the other entities. There was $4,000 of accounts receivable amounts due from these related parties as at December 31, 2016.

During the year, Mullen Group generated revenue of $2.6 million (2015 – $2.4 million), incurred expenses of $0.2 million (2015 – $0.8 million) and sold $20,000 (2015 – $0.1 million) of property, plant and equipment with its equity investees, which are accounted for by the equity method of accounting. As at December 31, 2016, there was $3,000 (2015 – $0.1 million) of accounts receivable amounts due from equity investees and there was $24,000 (2015 – $4,000) of accounts payable amounts due to these related party transactions. At December 31, 2016, Mullen Group had $4.3 million of debentures owing from Envolve at an interest rate of 6.0 percent per annum calculated and payable semi-annually that mature in April 2017.

All related party transactions were provided in the normal course of business materially under the same commercial terms and conditions as transactions with unrelated companies and recorded at the exchange amount.

34. Subsequent Event

Kel-West Carriers Ltd. – On January 31, 2017, Mullen Group acquired all of the issued and outstanding shares of Kel-West Carriers Ltd. ("**Kel-West**") for cash consideration of approximately $4.0 million. Kel-West was a privately held company headquartered in Kelowna, British Columbia and provides transportation and logistics services primarily in western Canada. Mullen Group acquired Kel-West as part of its strategy to invest in the transportation sector in western Canada and its financial results will be included in the Trucking/Logistics segment. Due to the limited time between the acquisition of Kel-West and the preparation of these Annual Financial Statements, the value of the assets acquired and the liabilities assumed on the acquisition were not available to management as of the date of this report.

CORPORATE INFORMATION

DIRECTORS | OFFICERS

Murray K. Mullen
Chairman of the Board, Chief Executive Officer,
President and Director

Greg Bay, CFA
Lead Director

Alan D. Archibald, P.Eng.
Director

Dennis J. Hoffman, FCPA, FCA, ICD.D
Director

Stephen H. Lockwood, Q.C.
Director

David E. Mullen
Director

Philip J. Scherman, FCPA, FCA, ICD.D
Director

P. Stephen Clark, CPA, CMA, ICD.D
Chief Financial Officer

Richard J. Maloney
Senior Vice President

Joanna K. Scott
Corporate Secretary and
Vice President, Corporate Services

CORPORATE OFFICE

Mullen Group Ltd.
Chimney Rock Centre
121A, 31 Southridge Drive
Okotoks, Alberta T1S 2N3
Telephone: 403-995-5200
Canada/U.S.: 1-866-995-7711
Facsimile: 403-995-5296
Internet: www.mullen-group.com
Email: IR@mullen-group.com

BANKER

The Royal Bank of Canada
Calgary, Alberta

LAWYERS

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

STOCK EXCHANGE

Toronto Stock Exchange
Trading Symbol: MTL

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Toronto, Ontario
Telephone: 1-800-564-6253
Internet: www.investorcentre.com
Shareholder Inquiries:
www.investorcentre.com/service

ONLINE INFORMATION

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