Mullen Group Ltd.

2016/17 CHAIRMAN'S MESSAGE

To Our Stakeholders

IN THIS MESSAGE:

"All the *adversity* I've had in my life, all my troubles and obstacles, have *strengthened* me... You may not realize it when it happens, but a *kick in the teeth* may be the best thing in the world for you."

~ WALT DISNEY

Murray K. Mullen
Chairman & CEO

2016 was not a normal year and was one I hope is not to be repeated anytime soon. In many respects it was the most challenging I have witnessed. Not just for our organization and me, but for the many people caught by the meltdown in the oil and natural gas sector, a very important part of the global economy and source of employment to many people. Within this context a couple of thoughts resonate with me as I embark upon my annual ritual of writing the Message to our Stakeholders. First, if the old adage that "*adversity builds character*" holds true, then we all must have a lot more character today than we did just a few years ago. Or, in the words of the very successful and admired Walt Disney, "*a kick in the teeth may be the best thing in the world.*" Second, and I draw this from the ancient proverb, "*this too, shall pass.*" This really means that all material conditions, whether good or bad, are transient.

This saying is relevant to the oil and natural gas industry because of its cyclical nature. The business has its own proverb: "*the cure for low prices, is low prices.*" In other words a recovery will occur, only the timing and speed are in question. To this point, the International Energy Agency recently published a report suggesting that the current level of under-investment by the oil industry very well could lead to rapidly rising oil prices as early as 2020[1]. For the short-term, however, the possibility of price volatility should also not be underestimated.

In this year's message, I will discuss how our organization fared in 2016, provide my thoughts regarding the outlook for the two sectors of the economy that Mullen serves – the oil and natural gas industry and the trucking and logistics sector – and review the basic elements of our long-term strategy. Unlike last year's message, in which I cautioned that the near-term outlook was very challenging, I have a much more constructive view of the future for our organization. It is based upon an improving outlook for the oil and natural gas sector accompanied by the strength in our balance sheet. I am more optimistic today than I have been for quite some time.

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www.mullen-group.com

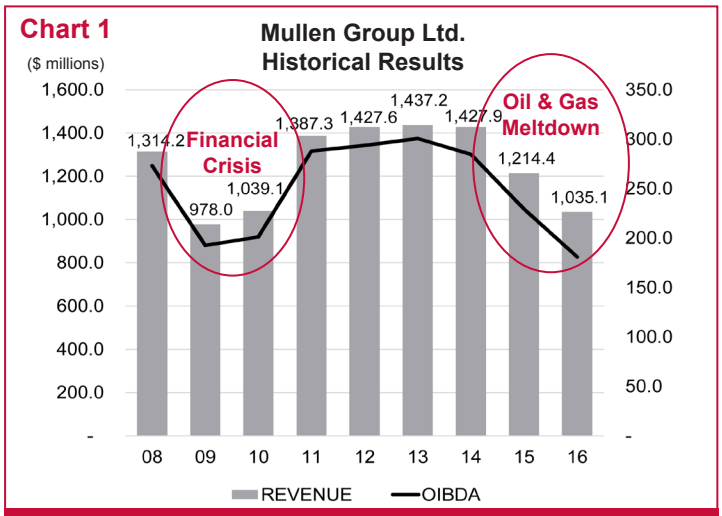
OUR BUSINESS IN 2016

In the most general terms, we are a Canadian company primarily focused on two important segments of the economy: the oil and natural gas industry and the trucking and logistics sector. Over our long history, starting in 1949 with the most humble beginnings – one truck owned and operated by our founder, Roland Mullen – we have grown into a national business generating over $1.0 billion in annual revenue and employing over 5,500 employees and contractors. This was accomplished because we acquired first-rate companies over the years, hired talented people, applied the basic principles of quality management, which we have branded as – On the Road To Quality – and followed a disciplined approach to capital allocation.

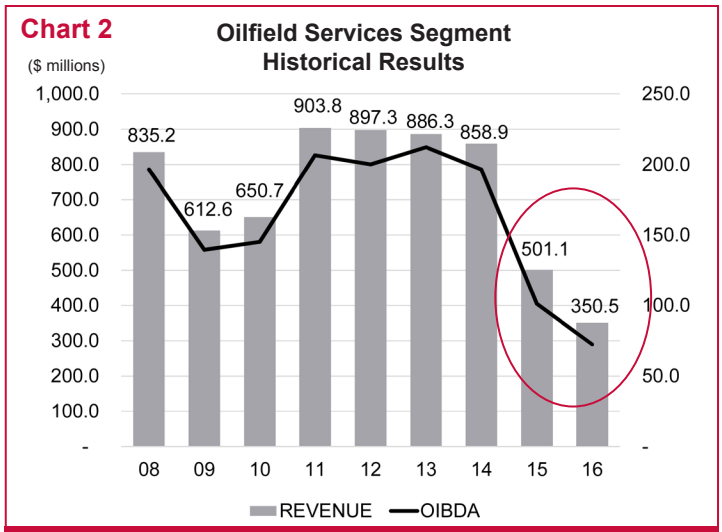
These enduring principles also make up some of the basic elements of our Strategic Plan. Each element has played a crucial role in our success over the 20-plus years that Mullen has been a publicly traded company. There are two more, however, that served our organization extremely well in 2016 – ones that do not get a lot of attention when everything is going well. They are: **diversification and a strong balance sheet**. Why do I highlight these elements this year? Because 2016 was a very difficult year almost exclusively due to the meltdown in the oil and the natural gas industry. I have discussed the reasons, rationale and potential consequences of the meltdown in prior annual messages and shareholder updates, as such I will refrain from repeating myself.

What is important to note is that 2016 was the year the oil and natural gas industry hit bottom. Nearly every organization and company involved with the industry was adversely affected. This included Mullen Group, where consolidated revenue fell by $179.3 million or 14.8 percent year-over-year. Operating income before depreciation and amortization ("OIBDA")[2] fell by 21.1 percent or $48.4 million to $181.0 million (see **Chart 1**). As depicted in **Chart 2**, the reason for the declines is pretty evident. Our Oilfield Services segment was crushed, with revenue declining by over $150.6 million and OIBDA falling by $28.8 million. One of the principle reasons is that drilling activity in western Canada hit a multi-decade low in 2016. This sums up why our 2016 financial results underperformed.

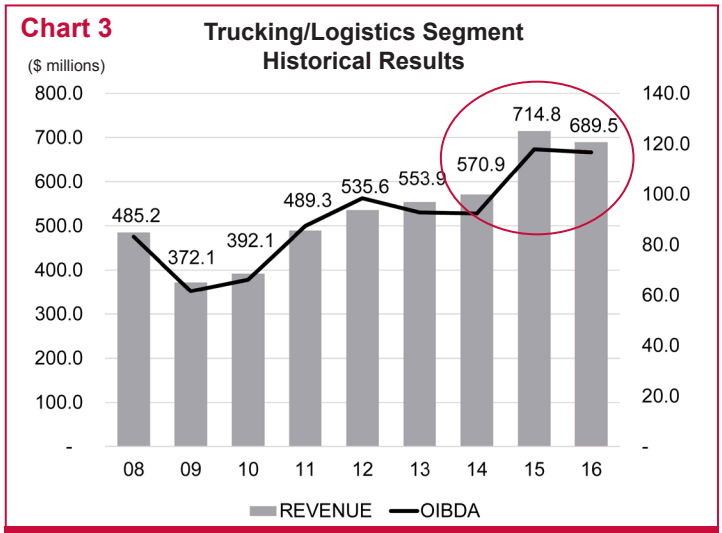
If we look beyond the macro difficulties experienced by the oil and gas industry, however, our overall results actually stand up very well. This is thanks to our diversified business model. The most obvious highlight illustrating the benefits of diversification is our Trucking/Logistics segment (see **Chart 3**). It had a very commendable year given all the economic headwinds, lack of meaningful growth in the Canadian economy and multitude of challenges being faced in Alberta. The segment's revenue was down a very modest $25.3 million year-over-year to $689.5 million, and $9.2 million of this decline was due to lower fuel surcharge revenue associated with lower diesel fuel prices. This is why I have highlighted diversification as one of the key reasons our 2016 performance was not hampered more than it was.



2016 was in many respects more difficult than the 2008-2009 financial crisis!



Drilling activity hit multi-decade lows.



Acquired Gardewine Group in January 2015.

The second element of our Strategic Plan that I will focus on is our balance sheet. During difficult periods, such as 2016, having a strong well-structured balance sheet is crucial not just to ensure survival but to provide the flexibility to plan for the future. This is because, as I articulated in my opening comments, all things will change. As the senior executive responsible for setting the course for our organization, I am always on the lookout for the catalyst or any indications that the markets we serve may change. This may explain to a large degree why we have the registered tag line – We Think Tomorrow. *We are always planning for changes that we can foresee, while creating the financial strength, diversification and flexibility to react successfully to unforeseen changes.*

By the end of 2016, our balance sheet was in very good shape with $270.3 million in cash and equivalents and net debt[3] of $316.3 million. We also had access to an additional $75.0 million from our undrawn bank credit facility. This was a substantial improvement over our 2015 year-end position of $147.2 million in cash and net debt of $522.0 million. Improving our financial position was one of our key objectives for 2016 and is the achievement I am most proud of to report. Knowing full well that 2016 was going to be a challenging year, we initiated a series of steps to strengthen the balance sheet, including:

- Engaging with our senior private debt holders to amend the terms of our private debt to replace the financial covenant relating to the debt with a more flexible term – net debt – as well as providing credit for the embedded value of the cross-currency swaps that we entered into, that essentially provide a hedge for the changes in the Canadian dollar versus the U.S. dollar related to the majority of our U.S. denominated private debt;

- Following completion of the first step, the Amending Agreement with our private debt holders, we conducted a successful equity issuance in May, raising net proceeds of $153.1 million, thereby ensuring our debt holders valued the cash raised towards our debt covenant thresholds;

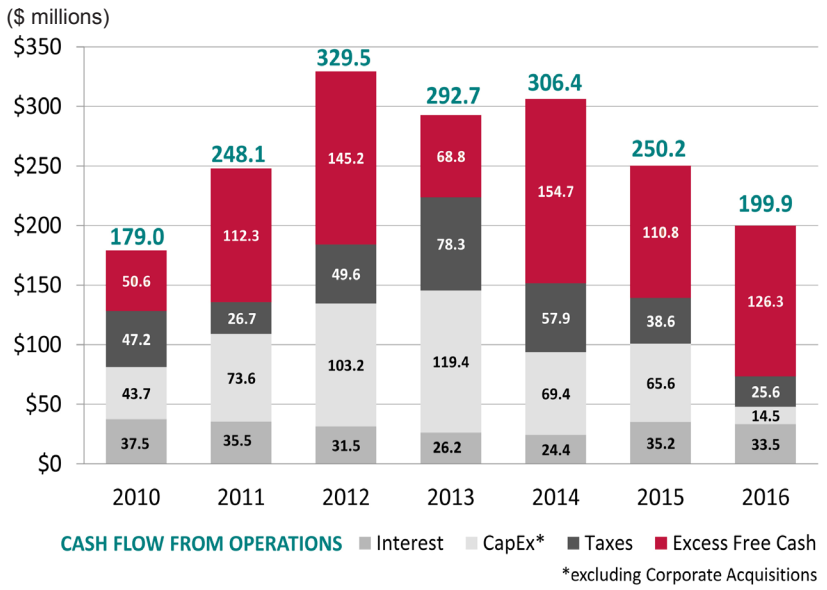
- We reduced the monthly dividend to shareholders to more accurately correlate with the expected economic environment. This reduced our cash outlay by approximately $50.0 million in 2016;

- We limited capital expenditures to $20.9 million, a significant reduction from $73.3 million in 2015, focusing on replacement capital primarily for our Trucking/Logistics segment; and

- We repaid $70.0 million in Series C Notes in March 2016. As a result, our net interest payments declined by $1.7 million.

These steps were integral to strengthening our balance sheet. But the most important and most compelling contribution was our business model itself. In spite of 2016 being an extremely challenging year, we still generated $174.3 million in net cash from operating activities (see **Chart 4**), which is derived from cash flow generated in 2016 less cash taxes.

Chart 4



Note: Cash available to use for corporate purposes including dividends and interest.

As a business our long-term success is measured by our commitment to safety and productivity.

This is the true strength of our diversified business model – 28 independent Business Units managed by talented and committed leaders. And of course I would be totally remiss if I didn't mention our more than 5,500 employees, owner operators and dedicated subcontractors – the real pros of our business. Without their hard work, sacrifice and professionalism we would never have generated the results we did.

Special mention is due to a few of our Business Units that were all-stars in 2016: Kleysen Group Ltd., Gardewine Group Limited Partnership and Premay Pipeline Hauling L.P. These companies had an outstanding year, each for a different reason. Kleysen Group – the "*K Group*" as I often refer to them – led by capable and tireless leader JEFF KLEYSEN, capitalized on major project work in western Canada, including the Fort Hills oil sands project – which is Suncor Energy's secondary extraction plant – the North West Redwater Partnership (or Sturgeon Refinery), and the Keeysak Generating Station – a northern Manitoba hydroelectric dam undertaking.

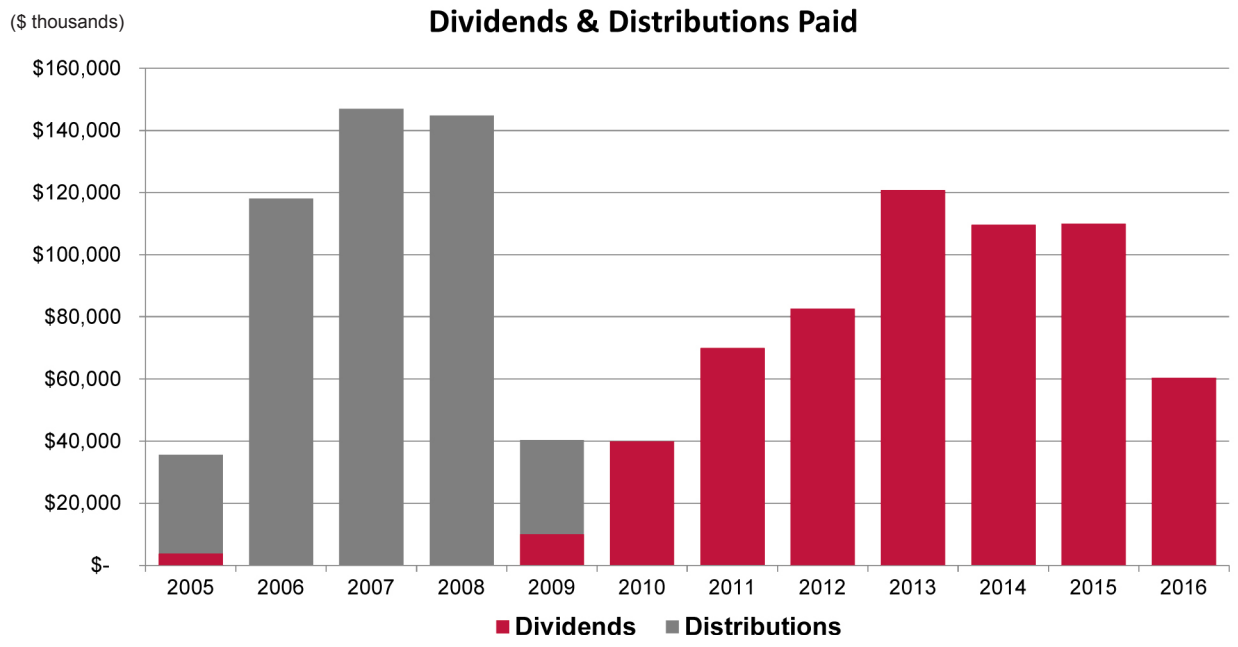
Another of our Manitoba-based business units, Gardewine, continued to improve operationally and in safety performance. We started Gardewine on this path in 2015 and in 2016 the results really began to materialize under the leadership of DARIN DOWNEY. What Darin and his team have accomplished in a relatively short period of time and within the context of the macro economy is simply outstanding. Gardewine is one of the largest Business Units in the Mullen Group, providing employment to some 1,500 people. They are predominately a regional less-than-truckload ("LTL") carrier servicing Manitoba and most of northwestern Ontario and their presence is noticeable in the hundreds of communities they serve.

Not to be outdone is our Premay Pipeline division, the largest provider of large-diameter pipe transportation and stringing services in Canada. PAUL SCHULTZ has been with our company since we acquired Premay in 1994, our first full year as a public company. He is knowledgeable, experienced and respected in the pipeline industry and is almost single-handedly the reason this Business Unit is successful. Paul leads an excellent team at Premay Pipeline, and it was Paul – not anyone here in corporate office – who assembled the team. Last year "*Paul's Group*" was involved in three major pipeline projects. These were the stockpiling of 1,100 kilometres of 36-inch pipe for the Enbridge Line 3 Project from Hardisty, Alberta to Manitoba, the stockpiling and stringing of 500 kilometres of 24-inch pipe related to the Enbridge Norlite Pipeline Project from Kearl Lake to Fort Saskatchewan, and a 220-kilometre project for Nova Gas in northern Alberta. Of course we are hopeful that recently announced major pipeline projects – the continuation of the Enbridge Line 3 replacement, the Kinder Morgan Trans Mountain Pipeline and the Keystone XL – will commence this year. When these projects commence, the Premay Pipeline group will be involved.

I have highlighted the success of three of our Business Units in 2016. **There is another success story from last year, and that is the work of our remaining 25 Business Units.** For a large organization pursuing a diversified business model, such as ourselves, the success of any individual Business Unit would mean little if the others failed to hold up their end of the bargain and failed to adjust their cost structures as business slowed. The leaders of the other Business Units worked just as hard as the three that I cited, struggling through hardship and the downturn. I am thankful that they did, because without their support and effort we would not have been as successful as we were in 2016. Thanks to all of you. Your continued efforts are the reason the Mullen Group generated the financial results it did in 2016.

In the corporate office, most of our effort in 2016 was focused on planning and building for the future. Our first objective was strengthening the balance sheet. With this accomplished, we began looking for growth opportunities. In 2016 we completed three small tuck-in acquisitions and a mid-sized stand-alone one, Caneda Transport Inc., a long-haul LTL carrier servicing the triangle network connecting western and eastern Canada and the U.S. market. These represent the opportunities we closed on last year. Throughout the year, however, we evaluated numerous other opportunities, choosing not to pursue these for a variety of reasons. The overall context in all cases was that we could not identify the value to our shareholders. In those we closed, we did see the opportunity to create value for our shareholders. As with all acquisitions, it will take time for our new companies to manifest their true value, but I am confident that we can and will improve the performance of each of them.

THE DIVIDEND



I am often asked about the dividend. Some shareholders wonder why we bother to pay one at all. This group's rationale is that Warren Buffet doesn't pay a dividend, so why should Mullen? Grow your business! On the other end of the spectrum are those who ask why we don't increase the dividend. Obviously we cannot please everybody, but I will explain the rationale and logic behind our decisions.

The basic premise is that one of our primary objectives – embedded in our Strategic Plan – is that we make investments, mainly by acquiring companies, not to generate OIBDA but rather to generate cash. As such, we strive to invest our shareholders' capital in areas where we can generate cash well in excess of our cost of capital. As depicted in the prior section, the Mullen Group has generated significant cash from operations over the years. What becomes absolutely paramount is answering the question, "*What do we do with the cash?*"

As a publicly traded company we recognize that shareholders want and expect growth. From this perspective, our principal objective is to identify ways to deploy capital in ways that grow Mullen. Obviously I agree with a strategy of growing, as long as we do so profitably. However, I come from the school of thought that "growth for growth's sake" is a fool's game. At Mullen, we will only pursue new opportunities, either via internal expansion by way of capital allocation to the Business Units, or through acquisition, if we can identify the value to our shareholders. We do not chase growth for its own sake.

Since 2005 $1.1 BILLION paid to investors.

In turn, any free cash generated that is not required to maintain the business must be used elsewhere – such as to pay shareholders. This is why we became an income trust in 2005. At the time, the trust model was a tax-effective way of returning excess cash to our investors. It was so successful, in fact, that the federal government of the day changed the tax laws to negate the effectiveness of the trust model. We quickly adapted, returning Mullen Group Income Fund to Mullen Group Ltd., a corporation. As a result, in lieu of paying distributions to our trust unitholders, we began paying dividends to our shareholders, a practise that continues today.

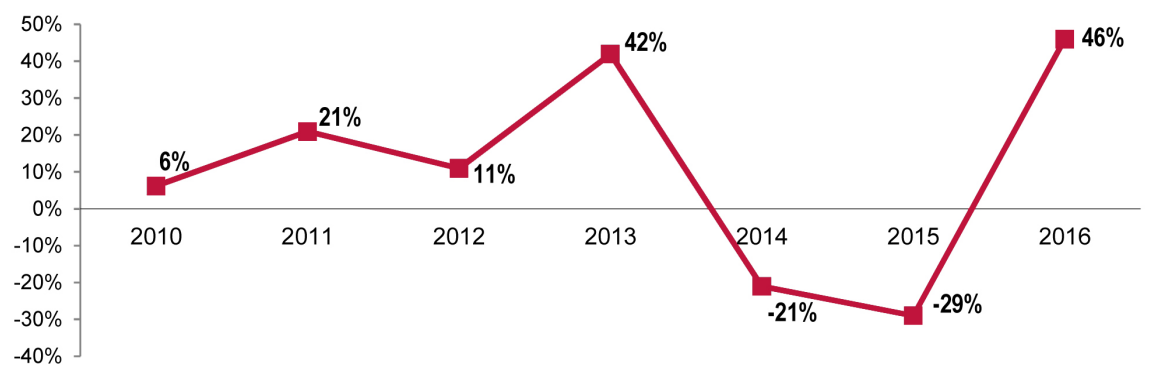
Since 2005 we have paid our investors $1.1 billion in cash, an amount very few companies in Canada have matched. This I am extremely proud of and, as I look back, I know that this was achieved because of the nature and structure of the business built over the past 20 years, accompanied by a disciplined approach to the deployment of capital.

The December 14, 2016, news release contains detailed information on our Business Plan and Dividend for 2017.

Our history of paying shareholders is clear. Mullen has generated significant free cash when the business climate provided the opportunity to do so, and we refused to chase growth because the opportunities to do so profitably were limited. Consequently, we distributed a large amount of cash to shareholders. I continue to believe this was the best strategy for our shareholders, especially now that the impacts of the meltdown in the oil and natural gas industry are so evident.

But times have changed, as evidenced by our results in 2016. Business conditions are challenging. The economy is barely growing. The oil and natural gas sector endured a nasty, more than two-year-long downturn, which we hope is more cyclical than structural in nature. The competitive landscape is affecting nearly all service providers. In response, we reduced the dividend to a level that we believed was more aligned with the macro and operating environment. Reducing the coveted dividend from $1.20 per share annually to $0.36 per share annually was painful and, as a large shareholder of Mullen, I fully appreciate the impact of the cuts. But it was the prudent course of action and the right thing to do. Our dividend is now aligned with the current macro and operating conditions and is at a level that is sustainable in this environment. Your Board of Directors will continue to periodically evaluate the economic circumstances and set the dividend at the appropriate level.

I believe the worst is over for the oil and natural gas sector, and I remain optimistic that the Canadian economy will remain on an overall trajectory of growth, though a slow one. The remaining issue, therefore, is opportunity! I am absolutely certain that if our Company is struggling, then our competitors are getting stretched. As such, acquisition opportunities are more plentiful today, along with valuations that I believe are more compelling than anytime over the last few years. This situation presents opportunity. Pursuing acquisitions that create value for our shareholders will be our focus in the short term rather than increasing the dividend. However, it will be the size and number of opportunities that ultimately determine the level of our dividend in the short term, because Mullen will continue to generate free cash in excess of our obligations in 2017. The cash requirements we have for this year include interest payments of approximately $33.0 million on our long-term debt, cash taxes which will fluctuate with profitability, the previously announced $25.0 million capital expenditure program and $37.3 million to fund the current annual dividend of $0.36 per share. This leaves substantial free cash to pay down debt, grow the business or return to shareholders. Our bias is towards growth, indicating we are planning on taking full advantage of the opportunities. A good downturn should never be wasted!



Total Shareholder Return consists of a combination of our annual dividend and the variance of our share price on an ongoing basis.

Our talented financial team headed up by STEPHEN CLARK, Chief Financial Officer, has prepared a complete financial report and I encourage the reader to refer to the 2016 Annual Financial Review for all of the details.

FINAL WORD

In business we all know that markets will change and on occasion quite significantly. We have experienced two character-testing downturns in the last decade: the 2008-2009 financial crisis and the oil and natural gas meltdown of 2015-2016. They were different in character, but equally painful. What we have learned through these difficult periods is that high-quality companies can weather the storms and recover much quicker than the competition.

During both downturns our business was severely damaged, with revenue and profitability falling sharply. Upon closer review, the similarities between the two downturns are striking! In 2009 our revenue dropped to $978 million. In 2016 revenue was $1 billion. Profitability, as measured by OIBDA, fell to $192 million in 2009. What was it in 2016? $181 million! Virtually the same results. Most noteworthy, however, was that during both downturns we still generated free cash well in excess of our commitments, a true testament to the strength of our business model. I can honestly say, however, that the current downturn has been more difficult in many respects.

With 2016 now in the history column, our sights are fully set to the future. We are well-capitalized. We believe stability is returning to the oil and natural gas industry, although real growth will remain elusive for a while. We are hopeful that our governments understand that Canadian business must be afforded a level playing field to be competitive in the global marketplace. High taxes and an over-burdening regulatory structure are not conducive to job creation or rising salaries for the majority of Canadians. We see opportunity to acquire some very good companies at reasonable valuations. And we have the vision to always be looking to tomorrow, addressing challenges head-on.

To all of our loyal shareholders I, on behalf of my fellow Senior Executive Team, consisting of Stephen Clark, Richard Maloney and Joanna Scott, and our Board of Directors, once again extend my thanks. Your continued support is not taken for granted.

Finally, I would like to announce meaningful changes to our Board of Directors. DENNIS HOFFMAN has served our organization for 12 years and, during the majority of his tenure, he chaired the Audit Committee. **Thank you Dennis for fulfilling this most important role. But most importantly, thank you for sharing your wisdom and insight.** I wish you the very best as you embark upon life's retirement journey. I am also delighted to announce that our search for new candidates for the Board of Directors has been successful. This year two new candidates will be standing for election, bringing a new set of eyes and ideas to our organization. CHRISTINE MCGINLEY and SONIA TIBBATTS have had successful business careers and I am greatly looking forward to welcoming them to the Mullen Group.

Sincerely, and on behalf of your Board of Directors,

Murray K. Mullen
Chairman, Chief Executive Officer and President
March 16, 2017

We welcome all of our shareholders to our Annual and Special Meeting to be held:

Wednesday, May 3, 2017
at 3:00 p.m. (MST)
Calgary Petroleum Club - McMurray Room
319 - 5 Avenue SW, Calgary, AB

2016 MULLEN GROUP
GRAND PRIZE SAFETY AWARD

The Grand Prize Safety Award ("GPSA") audit process is a yearly internal audit of all Business Unit's. Mullen Group verifies that each Business Unit is working on the appropriate Health, Safety and Environment ("HSE") initiatives that align with our corporate HSE Guidelines. The **SAFETY BEAR** is awarded to the Business Unit that sets the standard in safety performance.

Tenold Transportation Ltd. was recognized as the winner of the 2016 GPSA. Tenold sets regulatory requirements as a minimum standard and strives for continuous improvement each year. Tenold is also a SmartWay certified carrier. **Congratulations to all of the 206 Tenold team members.** Your commitment to building a *superior safety culture* sets Tenold apart from your competitors.

Proud Supporter of SmartWay®

The environment is important to all of us. At the Mullen Group we are active supporters of SmartWay, a program administered by Natural Resources Canada. Twelve of our Business Units have been certified and recognized as partners in the quest to improve the efficiency of freight transportation and reducing our environmental footprint by focusing on fuel efficiency.

ADVISORY:

This message may contain forward-looking statements that are subject to risk factors associated with the oil and natural gas business and the overall economy. Mullen Group believes that the expectations reflected in this message are reasonable, but results may be affected by a variety of variables. In addition, this message makes reference to operating income before depreciation and amortization ("OIBDA") and net debt, which are not measures recognized by Canadian GAAP. For a more detailed review of the risks, assumptions and Non-GAAP terms refer to our 2016 Annual Financial Review.

SOURCES AND DEFINITIONS:

1. International Energy Agency's Market Report Series – Oil 2017
2. OIBDA 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 or expense and income taxes.
3. Net debt is defined as long-term debt, the debt component of debentures less working capital.

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WE THINK tomorrow™