Mullen Group Ltd

WE THINK tomorrow™

2018/19 CHAIRMAN'S MESSAGE

Dear Friends and Stakeholders,

With this early release of my annual message, I am breaking a 25-year tradition – I can hardly comprehend that we just completed our 25th year as a publicly-traded company. I have two reasons for doing so. The first being that as the "age of NOW" has emerged, analyzing and reporting on the prior year's results and performance four months after the year ended seems outdated and even irrelevant. **Today everyone wants to know about tomorrow.** Second, the events of the last few months were so troubling that I feel compelled to share my message with all stakeholders as early as I can. My hope is that by providing my views on the markets, our company and our business plan for 2019, you will be comforted by the steadiness of our business model, the diversification of our 32 Business Units and the structure of our balance sheet.

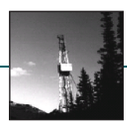
The recent market sell-off is an important reminder to all investors that markets are volatile and that one should always be prepared for any outcome. None of us knows for sure whether last year's sell-off was a warning of bigger issues to consider or the markets simply were due for a "hissy fit". I know I am not sure, but I have confidence in knowing that this company is well-prepared to meet the challenges of tomorrow. Furthermore, I am not overly concerned that a prolonged period of instability and a further meltdown in the markets is likely. Even as I write this message in January, there are signs of stability in the markets.

UNFORGETTABLE AND TO SOME UNFORGIVABLE

"2018 will go down as a year that will not easily be forgotten."

The fourth quarter was by all measures a troubling period for nearly every asset class, wiping out trillions of dollars in value across the globe. And while the financial experts and analysts are citing numerous reasons for the meltdown – and the poor performance of the asset class they manage – the reality is that it was difficult to predict the swiftness of the downward spiral. The extreme volatility was probably a function of several factors, but I believe it boils down to the erratic and fickle nature of investors, accompanied by those dastardly programmed algorithm trading programs – which simply exacerbate any market movement, up or down. The bottom line is that there were lots of sellers and very few buyers for anything, including our stock. This is referred to as a "liquidity trap", a situation in which those with money just stay on the sidelines.

2018 was a year which I personally had a feeling of uneasiness and often felt frustrated, and not just from an economic perspective. We continue to see trends emerging that will undoubtedly alter the way we view the world, the way we see each other and the way we interact. Partly this is because of POLITICS – I often wonder, where have all the true leaders gone? And of course partly this is because of TECHNOLOGY, which is reshaping everything faster than we could ever imagine. It was a year of increased polarization throughout most of the democratic world, in which nationalization was often cheered over globalization in many Western countries and where populism continued to grow. It was a time when politics seemed to take centre stage every day, every tweet and at every debate. It was an unforgettable year, one which seemed to consume me all too often, leaving precious little time to focus on those things that well or for those that matter the most.




On top of this, 2018 will be defined by many as unforgivable, especially by the large majority of Albertans, who view the lack of crude oil pipelines to tidewater as the primary reason for the hardships they are facing. My personal view is that the issues are much more complicated than pipeline approvals, although additional pipeline access to tidewater and Asian markets is no doubt required. Readers will recall that I've spoken at length about this issue dating back to 2012, along with the need for LNG projects – the only viable means to reenergize Canada's flagging natural gas industry, which has been marginalized by massive U.S. natural gas production increases. So where are we today – seven years later? We are still debating, still protesting, and still facing legal challenges! At the issue's core is the lack of leadership and a well-defined National Energy Policy. There is also the issue of the lack of trust in the regulatory system, which Canadians appear all too uncomfortable with. But to the oil and natural gas industry and to my many fellow Albertans who are now facing the reality of another round of job losses, the lack of decision-making will undoubtedly harm many families.

I must also point out, however, that the lack of decision-making transcends the resource industry. It seems like it is just the Canadian way. The McKenzie Valley gas pipeline project is a case in point. Conceived in the 1970s, delayed for nearly three decades, resurrected in 2004, it finally received federal government approval in 2011, only to be cancelled entirely due to the project being outdated and uneconomic. More recently I have witnessed the same type of debate and delay taking place on Vancouver Island over a wastewater and sewage treatment plant. For two decades Islanders struggled to come to grips with the idea that, perhaps, untreated waste should not be dumped into the Strait of Juan de Fuca. But take comfort: final approvals were granted in 2017 and construction has begun! Today, Vancouver residents still cannot agree on how to expand the George Massey Tunnel, a daily cause of serious traffic delays for any commuter travelling into and out of Vancouver from the south. The original approval was granted in 2013 but today the Government of British Columbia has voted once again to delay the project and have another study completed. Sound familiar?

In Ontario, the debate continues on how to develop the mineral-rich deposits in Northern Ontario – earmarked as the "Ring of Fire" project years ago. And now with the federal Liberal government determined to pass into law Bill C-69, investors are wondering whether Canada is a country open to capital investment and resource development, which by the way is how Canada could once again create many high-paying jobs. These are but a few examples of how Canada's decision-making process now works, or doesn't work depending upon how you view this subject. **In our quest to appease everyone we hurt many.** This is how a vast number of Albertans feel today and the anti-pipeline protests are now having to give way to a new round of protests, this time from those who want jobs. There is a real sense of anger percolating throughout the province. Mr. Trudeau and his liberal disciples espouse a new view for Canada, one free of carbon, claiming that in pursuing this they are simply listening to Canadians. Albertans, however, are not having their concerns heard on the "New Canada", which is why I steadfastly believe many of the issues Alberta faces today are politically motivated.

The **Grand Prize Safety Award (GPSA)** audit process is a yearly internal audit of all Business Units. 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.

The recipient of the 2018 GPSA is CASCADE CARRIERS L.P. Their commitment to building a superior safety culture, has resulted in ZERO lost-time claims since 2014.

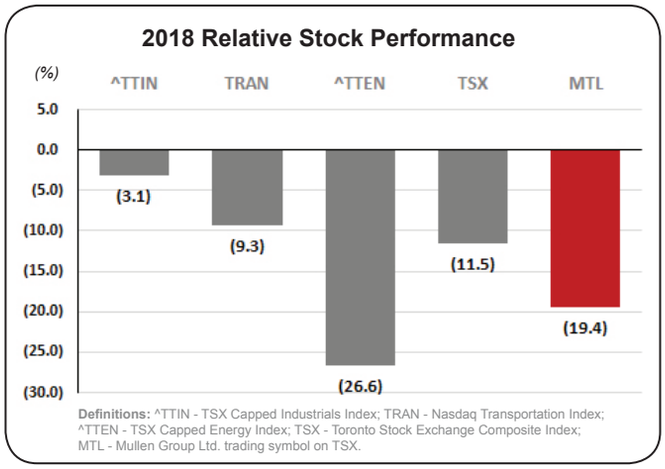
Cascade CARRIERS LP

CONGRATULATIONS TO KEVIN JAMES, RICHARD SCHULTZ, CHRIS MALITOWSKI and all 143 Cascade team members.

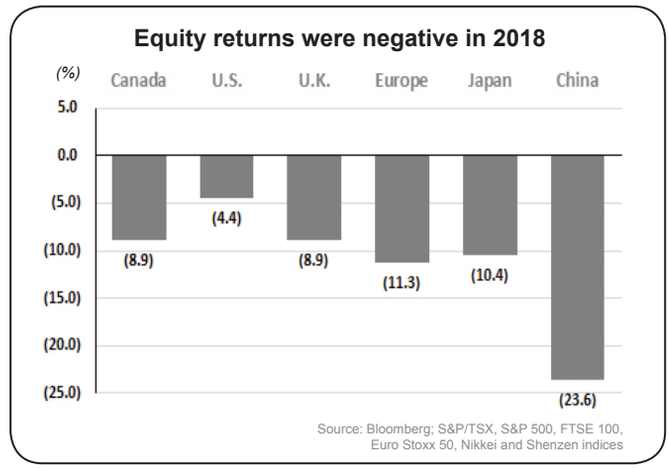
WE WERE NOT IMMUNE FROM THE LIQUIDITY TRAP

From a stock performance perspective, 2018 was a dismal year for Mullen Group. Consider, however one of the bellwether stocks and market darlings: Apple Inc. Apple also experienced significant declines, with its market valuation dropping in excess of US$450 billion. Bitcoin and cryptocurrencies experienced a total meltdown, losing more than US$750 billion in market value. Crude oil got crushed in the fourth quarter. These are but a few examples of the breadth of the market troubles, which can be more fully explained in the following graphs.

GRAPH #1

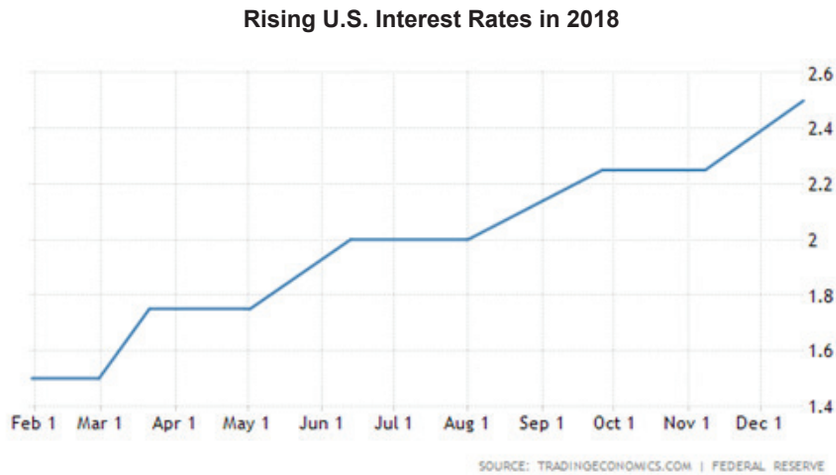


GRAPH #2



The liquidity trap I have referred to is associated with the "flight to safety". Investors' basic instinct – the fear of capital loss – becomes accentuated and those who are in a position to be buyers simply become reluctant to commit to any risk investment. It appears this was the case in the fourth quarter of 2018. It may have been associated with the U.S. Federal Reserve's decision in 2018 to pursue higher interest rates and at the same time to reduce its balance sheet, nominally referred to as the normalization of monetary policy. The following graph indicates the rise in U.S. interest rates during 2018. As interest rates rise, the appetite for other forms of investments declines.

GRAPH #3



As further evidence that interest rates and capital flows are intrinsically linked, consider that since January 2019 information flowing from members of the Federal Reserve, including the Chairman, Jerome Powell, suggest that the Federal Reserve may pause with monetary policy normalization, slowing the trajectory of increasing interest rates. Not surprisingly, the stock market and stock prices have risen sharply from their December 2018 lows. How this ultimately plays out no one is sure, but it deserves close attention because the flow of capital will determine the direction of the markets and stock prices.

2018 OPERATIONAL AND FINANCIAL PERFORMANCE

Despite what I said above, 2018 was on balance a good year for the Mullen Group, which was reflected in our stock performance for most of the year until the dreaded fourth quarter market mini-meltdown. We achieved our stated financial goals for 2018, generating consolidated revenue of $1.2 billion and operating earnings in the $190.0 million to $200.0 million range, goals that I outlined in last year's Chairman's Message (interested readers can refer to my March 15, 2018, message for commentary on the 2018 Outlook). In other words, the year was unfolding basically in line with expectations. What I did not envision, however, was the fourth quarter meltdown and the negative impact on commodity prices in particular. Before I comment on the commodity price drop and its negative impact on our 2018 performance, let me point out the highlights that illustrate how 2018 was in many respects a very good year for the Mullen Group:

1. We completed five acquisitions, expanding into new business lines like e-commerce and warehousing, and we strengthened several of our Business Units through the integration of competing and complementary businesses, which contributed to meeting our financial goals for 2018.

2. We invested over $55.0 million in our Business Units, ensuring they could maintain leading positions in their respective markets, positioned ourselves for future growth by investing $22.0 million in land and buildings and $9.0 million in new growth opportunities such as Envolve Energy Services. With Envolve, we acquired a significant land position with multiple disposal locations identified. In the fourth quarter we drilled a very successful new disposal well adjacent to our existing disposal facility near Grande Prairie, Alberta, which effectively doubles Envolve's injection capacity. With the new well and multiple identified locations we have a clear growth path identified for this Business Unit.

3. We increased our investment in new technologies like Moveitonline® and mobile technology, areas where we see the greatest potential to change the way we do business with our customers and drivers.

4. We reintroduced our very successful and industry-leading Business Management Certificate (BMC) program to our workforce. By September, over 330 employees had enrolled in this online training platform, exceeding all our expectations. Investing in the future of our employees along with identifying our organization's future leaders is fundamental to the Mullen Group's long-term success.

5. We strengthened our balance sheet, repaying the $70.0 million note in June, reducing our annual interest payments to approximately $20.0 million, and exiting 2018 with no long-term debt repayments until 2024. A well-structured balance sheet is a key element of our strategy.

6. The health and well-being of employees, safety of our organization and commitment to the environment ("HSE") are embedded within our culture. In 2018 our trucks travelled nearly 250 million kilometres, our employees were on the job for a combined total of over 13 million hours and we provided jobs for over 6,400 employees and dedicated contractors. By most standards our 2018 HSE statistics are best-in-class. We achieved improvements in Total Recordable Injuries and Gross Claims to Revenue, and had only a slight increase from 2018 in Lost Time Claims. Such results can only be achieved when everyone in the organization is truly committed to a safe and injury-free work environment.

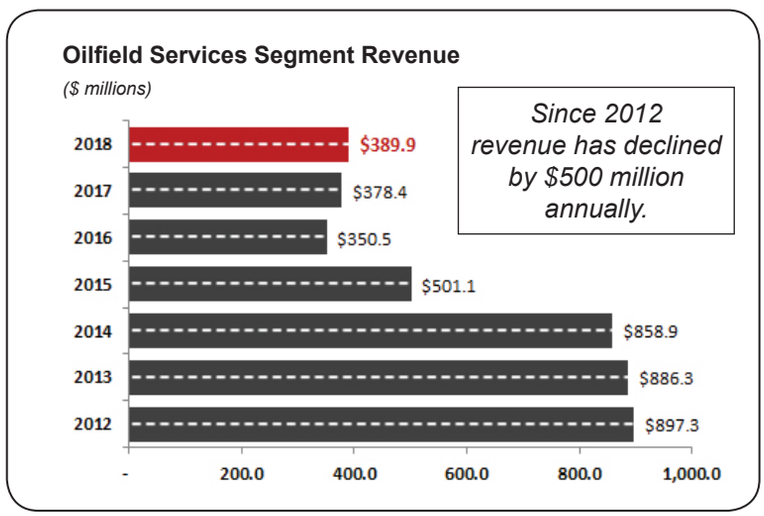
7. Lastly, we increased the annual dividend to shareholders to $0.60 per share on January 1, 2018.

These results demonstrate that 2018 was indeed a good year for the Mullen Group, only to be held back from being an excellent year by the events that unfolded in the fourth quarter.

Crude oil prices basically collapsed in the last part of 2018, with WTI dropping from US$75.30 per barrel on October 1, to US$42.53 per barrel on December 25. While that was bad enough, it was the price of Canadian crude that basically got destroyed, with Western Canada Select hitting US$13.46 per barrel on November 15. These declines had an immediate impact on the profitability of oil and natural gas producers, forcing nearly every company in western Canada to conserve cash, reduce capital expenditures and curtail drilling programs. The service industry was not spared the effects of these spending declines. In our Oilfield Services segment, for example, which today represents only one-third of our total revenue, the declines were steep enough to hurt our overall results. Our Drilling and Drilling Related sub-segments, before the effect of acquisitions, saw revenue decline year-over-year by $20.2 million and operating earnings by $11.1 million. The declines were swift, unexpected and large enough to harm our full-year 2018 results – events I did not anticipate. This is why our operating earnings for 2018 were at the low end of our stated goal. This is also a very good reminder for all of our stakeholders why we have diversified our business. The oil and natural gas industry is a dynamic but cyclical industry.

Aside from the immediate impact on oil and gas-related field activity levels, the other consequence of recent events is the negative sentiment encompassing virtually the entire oil and natural gas sector. Investors are growing weary of the persistent negative news surrounding the industry and appear to have thrown in the towel. The pervasive negativity prompted us to consider the impact on the future expectations for this segment of our business, and we concluded that its future earnings needed to be reevaluated. Lacking confidence that activity would soon return to prior levels, we concluded that demand for oilfield services would remain subdued for some time, necessitating a write-down in the goodwill attributed to our Oilfield Services segment. It's clear that our shareholders had already come to the same conclusion, as evidenced by our low stock price. Obviously I am troubled by the write-down of $100.0 million – a non-cash event – but it simply reflects the significant pressure western Canada's oil and natural gas industry is under (see graph #4 for the impact of the slowdown on our oilfield services revenue). My personal view is that this segment of our business will one day recover and once again be a valuable contributor to our business. My optimism, however, has been met with a dose of realism – there are no guarantees in life or business, we just do our best.

GRAPH #4



For a full discussion and analysis of the goodwill write-down, our financial results, balance sheet and operating performance, I refer readers to the 2018 Annual Financial Review and Annual Information Form. These documents contain over 185 pages of detailed information and discussion prepared by our very talented team headed by Stephen Clark, Chief Financial Officer; Carson Urlacher, Corporate Controller; and Joanna Scott, Corporate Secretary and Vice President, Corporate Services. These reports are available on our website at www.mullen-group.com and on SEDAR at www.sedar.com.

2019 PLAN AND EXPECTATIONS

There are no certainties in looking forward to the rest of 2019, but I personally question whether this is reason for despair. Many have opined that the risks are elevated, with which I agree. There are many who believe the fundamentals continue to favour some growth, albeit slower than last year, with which I also agree. In terms of the two principal sectors of the economy that Mullen Group derives the majority of our business the outlook is mixed. The economy outlook appears to favour some modest growth in Canada driven by strong employment, which supports consumer spending, a propensity by governments to spend beyond revenue and by global growth, including the two biggest economies in the world – the United States and China. For these reasons we expect our Trucking/Logistics segment, representing approximately 70.0 percent of our revenue and EBITDA, to perform generally in line with 2018. Canada's oil and natural gas sector will not be as fortunate. For 2019 it is reasonable to expect drilling activity levels in western Canada to decline significantly as oil and gas producers struggle to maintain cash expenditures and capital investment within cash flow generated primarily due to the lack of investors or banks to provide additional funding. It is within this context that I consider it prudent to take a balanced approach.

Our business model is diversified enough to withstand the volatility of the oilfield services sector. Our balance sheet is well-structured with no scheduled maturities until 2024. And we are exceptionally well-positioned to capitalize as others falter, a virtual certainty in the current oil and gas service industry.

We have a two-pronged strategy:

1. We will continue to invest in the strength of our business, and by this I mean our Business Units, our people and technology. Our capital budget is set at $75.0 million, exclusive of acquisitions.

2. We will continue to return free cash to shareholders, maintaining our annual dividend at $0.60 per share.

We have established the following financial goals:

1. Generate consolidated revenue of $1.3 billion.

2. Achieve operating earnings of $200.0 million[1], with volatility based on how the oil and natural gas sector ultimately performs.

To support these goals, we will focus on the following initiatives:

1. Integrate and streamline recent acquisitions.

2. Increase efficiencies, reduce costs and increase margin through technology and streamlining of business processes.

3. Invest in technology, like Moveitonline®, that can change the way we do business.

4. Pursue acquisitions that can make a difference to our business.

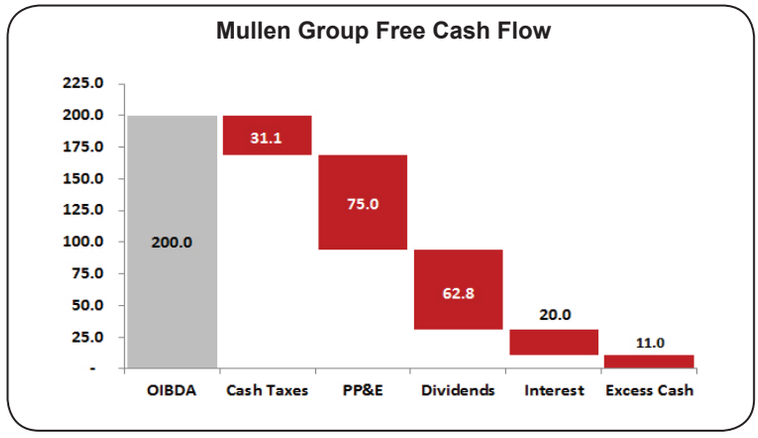
[1]Based on 2018 IFRS, prior to the adoption of IFRS 16.

THE DIVIDEND

"Will remain at $0.60 per share in 2019."

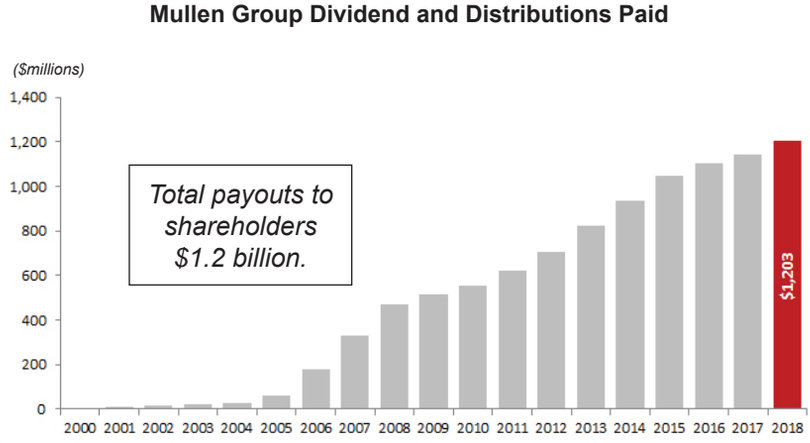
The topic of dividends is sensitive to many investors, institutional and individual alike. Each year we validate and test our business and company to ensure that the dividend level is appropriate. This review takes into consideration a number of important factors, including the current state of the two sectors of the economy in which Mullen operates – the general economy as well as the oil and natural gas industry in western Canada – the amount of free cash we expect to generate, our debt levels, our cash requirements, and the capital investments required to maintain our business. This year we undertook an even more intensive review due to the recent market events and the virtual meltdown in oil and natural gas prices, which has severely restrained producer cash flows and their capital spending plans for early 2019. Despite these significant concerns, we believe the business fundamentals underlying our robust and diversified business model remain on-track to produce cash flow in excess of all our basic 2019 requirements, as the graphs below illustrate.

GRAPH #5



While I will not delve here into the longstanding debate as to why Mullen has adopted a strategic objective of rewarding our investors with the payment of the largest annual dividend possible, the undeniable fact is that our company generates free cash. How else can one explain the $1.2 billion in cash this company has distributed since 2000 (see graph #6)? The bottom line is that our business model is structured in such a manner that free cash in excess of annual requirements can be returned to investors. We own the vast majority of our real estate, which really means our investors are the landlords of the business we invest in, enabling us to pay our investors instead of paying many millions in rent. It is also important to note that the original book value of this real estate portfolio is more than the entire corporate debt. It is also our view that the market value of our real estate is substantially greater than today's net book value. We utilize subcontractors and owner-operators wherever possible, preferring the asset light / logistics model. And we prudently only deploy capital in our Business Units when superior returns are achievable. It is for these fundamental reasons that Mullen can and will continue to pay an annual dividend of $0.60 per share in 2019.

GRAPH #6



FINAL WORD

I am frustrated and troubled by what I see happening in Canada, a country divided by ideology, barriers to trade and political bickering. We are a country without a well thought National Energy Policy and have virtually no plausible means on how to resolve Alberta's energy crisis, even though the solutions are readily available. It's called access to new markets because the U.S. no longer needs Canadian crude oil or natural gas. In the real world when situations change, when traditional markets or customers no longer need your product or service offering you adapt and find new customers. Doing nothing is not an option but it is a recipe for failure, which is precisely what the oil and natural gas industry and so many hard-working people are faced with today. It's beyond sad – it is maddening. My heart goes out to all those that will lose their jobs. Families will suffer because of the inability as a country to make decisions that support the oil and natural gas industry.

But in spite of everything I have outlined above, I have a job to do. I must find solutions to the obvious challenges and guide this company in a manner that ensures our future success. A place of business where fellow Canadians can earn a good living for themselves and their families. A place where safety is not a buzz word, it is expected by all. It will not be easy but it is not unrealistic either. We will continue on the path of diversification, a strategy that we started in 2012. And even though the journey will be challenging, I take comfort in the fact that I am surrounded by a wonderful team that share the same passion I have for the Mullen Group. For this I am thankful. Together we will meet the challenges head-on and continue the tradition that began 25-years ago.

Sincerely, and on behalf of your Board of Directors,

Murray K. Mullen
Chairman, Chief Executive Officer and President
February 6, 2019

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

Wednesday, May 1, 2019
at 3:00 p.m. (MST)
Calgary Petroleum Club - McMurray Room
319 - 5 Avenue SW, Calgary, Alberta

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 some terms that are not measures recognized by Canadian GAAP. For a more detailed review of the risks, assumptions and Non-GAAP terms refer to our 2018 Annual Financial Review.