Mullen Group Ltd.

2021-2022
MESSAGE FROM THE CHAIR

WE THINK tomorrow™

March 17, 2022

Dear Friends and Fellow Stakeholders:

Twenty twenty-one was an amazing year for our organization. We completed six acquisitions, positioning us squarely as of one of North America's largest logistics providers. We have achieved a scale, size and diversification of service offerings that very few will ever replicate. This places Mullen in a great position to capitalize on the emergence of logistics as a valuable and integral component of the supply chain, once taken for granted but no longer. The industry we specialize in provides an essential service that is crucial to a well-functioning economy.

Last year I borrowed from an ancient proverb to highlight our growth ideas. Using the planting of trees as the analogy for our acquisition strategy, I suggested that "*We will plant new trees today so that our shareholders can benefit tomorrow.*" Little did I realize that we would be planting a figurative forest. **Six acquisitions, all high-quality companies with outstanding reputations, strategic competitive advantages and an outstanding workforce**. The future for our organization is brighter with these companies under our umbrella, especially if we consider the potential for the economy to remain strong. Yes, there will be challenges and inflationary pressures will persist, but I anticipate that the economy will do just fine, especially given the propensity of governments to prop up the economy with easy monetary policies, stimulative spending and a vibrant job market, which has turned rapidly into a labour shortage. Clearly this is an inhibitor to growth, but it also is creating the opportunity for pricing power, something that we have not seen in the transportation and logistics industry for decades. I will share my thoughts on this timely and game-changing topic in the full text of my message.

I fully expect 2022 to be a record year for Mullen. I would be remiss, however, if I did not reiterate that challenges remain. Risks intensify with geopolitical tensions rising. If need be, we will adapt quickly, as we have before. We have the experience necessary to migrate our way through whatever challenges arise, along with a large professional, dedicated and high-quality workforce, supported by great leaders who understand the value of working alongside their fellow workers. And best of all: we love to innovate, to do things a bit differently. We never sit idle.

In this year's report I will delve into topics like inflation and how we will respond. For the first time I will provide additional analysis on how we make investment decisions, including discussing our rationale for owning real estate. My objective is to encourage every investor to look closely at the underlying value in our stock, the potential we have for long-term profitable growth, and to get as excited about this company's future as I am.

To all our employees and contractors, I reiterate how important your commitment and dedication to customer service are to the ongoing success of this organization. I know inflation is hitting, and we will address this as required. I also know you are integral to an efficient supply chain.

Sincerely,

Murray Mullen
Chair, CEO and President

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*Throughout this document we make reference to certain defined terms that may be specific to Mullen Group and/or the industry in which our services are provided. For ease of reference, the definition of each such term is provided in the **Glossary of Terms** beginning on page 13. Unless otherwise stated, or the context otherwise requires, words importing the singular number include the plural and vice versa, and words importing the masculine gender include the feminine and neuter genders.*

INFLATION IS REAL – HOW WILL WE RESPOND?

If you have been to the store lately you might have noticed the shelves are not as full as they once were. If you have tried to order something for the house, or looked at purchasing a new vehicle, you probably found yourself waiting for delivery, often for months. And you surely will have noticed that nearly everything costs more. This is the new reality.

After 35-years, inflation is back, and it is changing the game. As individual consumers we see it wherever we shop. In business, we feel it. Prices are up substantially. Rising prices amount to one of the most punitive forms of taxation ever levied on those on fixed incomes or struggling to meet their basic needs. Investors, on the other hand, have seen incomes rise, home values skyrocket and investment portfolios hit new highs. It doesn't get much better – for some. But history is full of cautionary lessons of what can happen when inflationary pressures become entrenched for extended periods, suggesting that short-term gains should not be counted on as future guarantees. Any attempt to unwind excessively expansionary monetary policy, the primary reason for inflation in the first place, will have consequences. The alternative is to do nothing and hope all ends well. We don't know what path central banks will choose, and so we stay alert to "*what might be next*".

Prices almost invariably rise over time, generally within a tight and acceptable range. This is how central bankers, the architects of monetary policy, manage the supply of money and influence economic activity, preferring a "*not too fast, not too slow approach*" to economic growth. Recently, however, monetary policy has ventured away from what had been the norm for several decades, driving disruptive changes to the economy.

To better understand the relationship between COVID-19, the response of policy makers and the inflationary pressure we see today, I'll provide a deeper analytic review into how the onset of COVID changed and materially impacted the markets, labour productivity, the supply chain, the cost of goods, business in general and everyone's lives.

2020 – THE PANDEMIC ARRIVES

The onset of COVID was a defining moment. In response to the outbreak, governments around the globe implemented measures designed to "*stop the spread*". These initiatives, which may or may not have been coordinated amongst sovereign nations, initially brought the supply chain, the very lifeline to the economy, to a halt. Freight could not be transported; manufacturing facilities were shuttered. Everything got backed up and economies suffered, unemployment soared and recession hit, creating the potential for a true economic crisis.

Central bankers panicked. Their response to the COVID outbreak was unprecedented, manipulating monetary policy and driving interest rates to all-time lows. Politicians cheered on this new-found "cheap" money, borrowing previously unimaginable sums to flood their countries with support payments and new social programs. There was nobody to stop them. The cheer was heard everywhere – the politicians had saved the day. As this new found money made its way to the population, consumer spending started to rebound very quickly.

More importantly, and relevant to the issues we see today, as the central bankers embarked on a relatively new monetary policy known as quantitative easing, little attention was paid to the potential long-term consequences. And why not! It had seemed to work the last time they tried it, in response to the Banking Crisis of 2008. In 2020 they flooded the system with money, clearly in hopes that all would be good. The newly created money, utterly unprecedented in its volume, provided tremendous liquidity to the financial sector, stabilizing financial markets and the wider economy. Assets recovered from their early 2000 lows. Investors began to aggressively chase the market, creating untold wealth for those who dared to invest. In other words, we learned once again that investors and risktakers love easy monetary policies. The consumer also did well. The stage was set for the economy to go on a great bull run. Asset prices up, stock markets roaring and lots of jobs for those who wanted to work. Looking back to the steps implemented in 2020, we can say that central bank policy, accompanied by government deficit spending, which really is an acronym for spending beyond our limits, solved the **consumer demand issue** and helped the whole economy.

But what about the **supply side**? Once again, government policy comes into play. New safety protocols along with new regulations governing what businesses could and could not do slowed everything down. Speed and the relentless pursuit of customer service, a common business practice universally adopted pre-COVID times, was replaced with "health and safety first". At the same time, millions of people in the workforce began to rethink their work/life balance, deciding to either slow down or leave the workplace altogether. The combination of these factors reduced overall productivity, which when translated means a reduction in supply.

Nowhere is this more evident than in the global supply chain. China, and Asian countries in general, reacted quickly and forcibly to the COVID outbreak. Shipyards and ports were closed. Ships were not allowed into dock, and sailors were not allowed into port for fear they would spread the virus, bottlenecking freight of all kinds and preventing goods from reaching the customer. Very quickly the entire supply chain became compromised. Long waiting times at port, both in Asia and in North America, reduced actual capacity as round-trip shipping times doubled. In other words, the same number of ships were operating at only 50 percent of capacity. This happened at the same time as freight demand quickly returned to pre-COVID levels. Layer this on top of the major backup of undelivered inventory due to the initial COVID shutdowns, and the results were inevitable. Delivery times stretched out and prices to move freight by ship skyrocketed, peaking at around 10 times pre-COVID levels.

Clearly, part of this massive price surge was due to increased costs associated with the underutilization of the ultra-large container vessels, which can carry 24,000 shipping containers per sailing. The other is that dastardly capitalist system, which embraces market-based pricing. Lots of freight needed to be moved, and there were limited ships available to transport. The shipping companies thrived. The end-user, unfortunately, pays the eventual price through inflation. Policy makers claimed that this spike in prices was "temporary", so there was no need to worry. They dubbed these inflationary pressures "transitory". I suppose this was because they believed shipping times would improve, effectively adding supply to the shipping world, ports would speed up their sluggish throughput, reducing bottlenecks and restoring productivity, delivery times would improve, prices would normalize and everything would get back to normal. That was 2020 and the first half of 2021. A decade that started so positively, only to be upended in early March of its first year. The events that unfolded, the responses by public officials, after the arrival of this pandemic, changed the world.

2021 – INFLATION TAKES ON A NEW MEANING

COVID-related restrictions continued, consumer demand was robust, there was no end to the supply chain bottlenecks and higher prices for nearly everything began to emerge throughout the economy. With shipment delays worsening and inflation continuing to rise to levels not seen in four decades, the concept of "transitory" inflation started to be challenged. Ask anyone wanting a new fridge, or to renovate their home. And if you wanted a new vehicle, well get in line! There was a shortage of those little computer chips that control the vehicle. The supply chain remained under pressure.

Another issue emerged by mid-2021, and this one definitely is not transitory – scarcity of labour. There are many factors contributing to this phenomenon, which is for others to opine on. What I can tell our shareholders is that labour, collectively, wants more of the pie. At the end of the day, wage-earning workers too are capitalists in many respects. When demand exceeds supply, prices shall rise, suggesting to me that workers are not going to sit idly by as inflation eats into their take-home pay. So we pay more because without our hardworking workers, we have nothing. This means we must charge our customers more. And if they don't or won't accept the pricing increases, we de-market the business. It really is that simple.

What else changed? Clearly, higher commodity prices started to impact consumers through soaring energy costs. Is this transitory? Not if demand stays strong and supply is limited. The conventional wisdom, that rising commodity prices would encourage an increase in capital allocation to increase supply, has been broken. The climate-change enthusiasts and big pension plan investors have been successful at putting the breaks to any rapid increase in supply. The oil and natural gas companies are unwilling to irritate their investors or bankers by allocating significant capital to the drill bit or growing production.

In 2020 commodity prices originally declined when demand went negative, benefiting consumers. Last year was the opposite. Demand recovered. Commodity prices began to rise. Producers started making more money. Shareholders rejoiced because they were getting more of the free cash flow being generated by producers, via dividends and share buybacks. It started to look like everyone was winning. The climate enthusiast. The environment. The shareholder. But hold it. What about the consumer, the end user of this game? Higher prices are the result, and are destined to remain high until demand is reduced, because the only other means of reducing pricing is adding new supply, and that is not happening. Once again, I doubt very much that this dynamic is "transitory". Instead, consumers must be prepared to pay more for all forms of energy. It is worth repeating that old economic theory: when demand exceeds supply, prices shall rise.

How will we handle this issue? First, in our business we are protected from rising fuel costs thru fuel surcharges with our customers. But this provides only partial protection, because even with these surcharges our pricing is at least one month behind the actual increase in fuel at the pump, which is a real-time, market-based price. And so, we will continue to work with our equipment manufacturers to improve fuel efficiency. When they do, we will invest in new operating equipment. We will continue to engage with our drivers, reiterating the need for them to manage their driving habits to improve fuel mileage within our requirements for productivity. Not only do these initiatives make business sense, when implemented properly we also reduce our imprint on the environment. So we are asking all drivers to do their part. Lastly, we will invest in new forms of operating equipment with a minimal carbon footprint or, better yet, none at all. The transition to low-carbon, renewable-energy-powered engines is just beginning and we are enthusiastically embracing new ways of doing business.

One last trend that started in 2020 only to go parabolic in 2021 is land and facility values. Easy money policies, quantitative easing and virtual money have created a new cottage industry that I call the **Bank of Land**. Big money players, like pension plans and funds, are buying up real estate rather than holding cash in the bank, probably because this latter practice has a negative real return especially in this inflationary environment. As this money searches for yield, a large portion has landed in real estate, driving valuations significantly higher. Landowners won the jackpot, selling at prices never contemplated.

In a world of zero-sum thinking we know there are winners and there are losers. In this case we know the winner and that is the once-proud owner of the land. The loser is the renter, the next user of the overinflated land, because the outside money's influence has materially increased the cost of ownership. And this added cost must be somehow recovered. Once again, I doubt this is "transitory". At the Mullen Group we have a large and diversified land and facilities portfolio, which I discuss later in this message. Suffice it to say, however, rising real estate values will change the cost structure for every business, ours included. The solution is simple – rising costs must be recovered though rate increases, eventually forwarded onto the consumer.

Understanding the fundamental reasons why inflation is rampant today is crucial to developing a strategy to deal with it. We know, for example, that the supply chain disruptions have led to production delays, increased transportation costs and higher prices for most products – even spot shortages. Are these disruptions transitory, suggesting that prices will decline once productivity improves and transit times return to pre- pandemic levels? The answer lies somewhere between yes and maybe! Yes, if demand slows or if COVID miraculously disappears, allowing life and business to return to the old normal. Maybe, if the supply chain can adapt and productivity levels improve. But even this is doubtful, at least in the short term, given the many lingering effects from the policy responses to the pandemic. Having access to a healthy and stable workforce is key to improving the supply chain and increasing productivity. In summary, inflationary pressures will persist for as long as demand remains strong and supply chain productivity remains compromised by health concerns or mandated closures.

2022 – We Must Raise Prices and Develop Our Next Generation of Leaders

I am not sure what the new normal will look like, but I can categorically state that transportation and logistics rates will rise in 2022. Along with rate increases, we will bump up wages for our employees and provide additional benefits to ensure we maintain the integrity of our professional workforce. These are needed and they are inevitable. I have delivered this message to our Business Unit Leaders along with a new mantra that we do not chase market share, we improve margins. Simply stated, market share will not be defended if it does not generate an acceptable return. This really is not a new phenomenon in our company, but it certainly has taken on a new meaning in the current inflationary economic environment.

Exacerbating the situation is the current shortage of qualified labour, a situation unlikely to improve in the short term. In fact, I suspect the shortage will only become more acute as the Baby Boom generation contemplates retirement. Since the onset of COVID we have witnessed an increase in turnover among the remaining Boomers. The most commonly stated reason is that people are concerned about their health and longevity, and that time with family has become more important to many as they enter the twilight of their careers. This is the group that contributed immeasurably to building our country, our company and our communities. They will be difficult to replace. They will undoubtably be missed but the legacy they leave for the next generation of workers is undeniable. Yes, what has been termed "*the great resignation*" is nearing but so too is great opportunity for those who desire to get ahead. We shall plan accordingly, creating opportunity for those who are up to the challenge. For example, we have a best-in-class **Business Management Certificate** program that is specifically designed to enhance the skills of our next generation of Mullen Leaders. I suspect the classes will be full in the years that follow.

Close to 600 Business Management Certificate graduates since 1994 inception.

OUR RESULTS: REVENUES REACH $1.5 Billion

Twenty twenty-one was an exciting and active year, in fact a record year highlighted by a 26.9 percent increase in consolidated revenues. Using our strong balance sheet and a deep pipeline of opportunities, we targeted acquisitions that fit our strategic objectives. We acquired high-quality companies, expanded into new markets, added customers and gained access to a professional workforce. Today, we are more diversified than ever and well on target to reach the elusive $2.0 billion in annual revenues much sooner than I expected just a year ago.

A full description and analysis of our financial performance is provided in the 2021 Annual Financial Review, a 146-page must-read for those of you interested in the details. The Team led by the primary author, Carson Urlacher, Corporate Controller, did a fantastic job of describing our financial results for the year and our financial position as at December 31, 2021.

I will borrow some of the highlights from the report that show how we executed:

- Consolidated revenue grew by $313.1 million;
- Operating Income Before Depreciation And Amortization (OIBDA) increased by nearly $19.0 million or 9.0 percent year-over-year to $236.4 million;
- Net Cash From Operating Activities was nearly $200.0 million;
- Net income rose to $72.4 million, an increase of $8.4 million over the prior year;
- Earnings per share rose to $0.75, a nice $0.11 per share increase;
- Total assets grew by $204.0 million; and
- Shareholders received cash dividends of $46.0 million, or $0.48 per common share.

We achieved these results by:

- Completing six acquisitions for a total of $207.5 million;
- Investing $47.5 million in new capital, which was down from last year, due to supply chain delays;
- Repurchasing and retiring 11,442,795 Common Shares in 2021 and 2020 at an average price of $8.54 per share, ending the year with 94,532,178 Common Shares outstanding; and
- Increasing our credit facilities from $150.0 million to $250.0 million, providing substantial liquidity to pursue further growth initiatives.

And we ended the year with:

- Working capital of $50.8 million;
- Assets of $1.9 billion;
- Book value of $9.40 per share;
- Long-term debt of $745.0 million on $986.0 million of property, plant and equipment, comprised mainly of real estate which has a carrying cost of $631.0 million (we have not had an independent third-party appraisal of the property, but unsolicited offers on several of our properties indicate that fair market value would be higher than the carrying value);
- A debt-to-equity ratio of 0.84:1;
- A total net debt to operating cash flow ratio of 2.52:1, which compares favourably to our debt covenants allowing a ratio of up to 3.50:1; and
- A closing 2021 stock price of $11.63 per share versus $10.90 per share at the end of 2020.

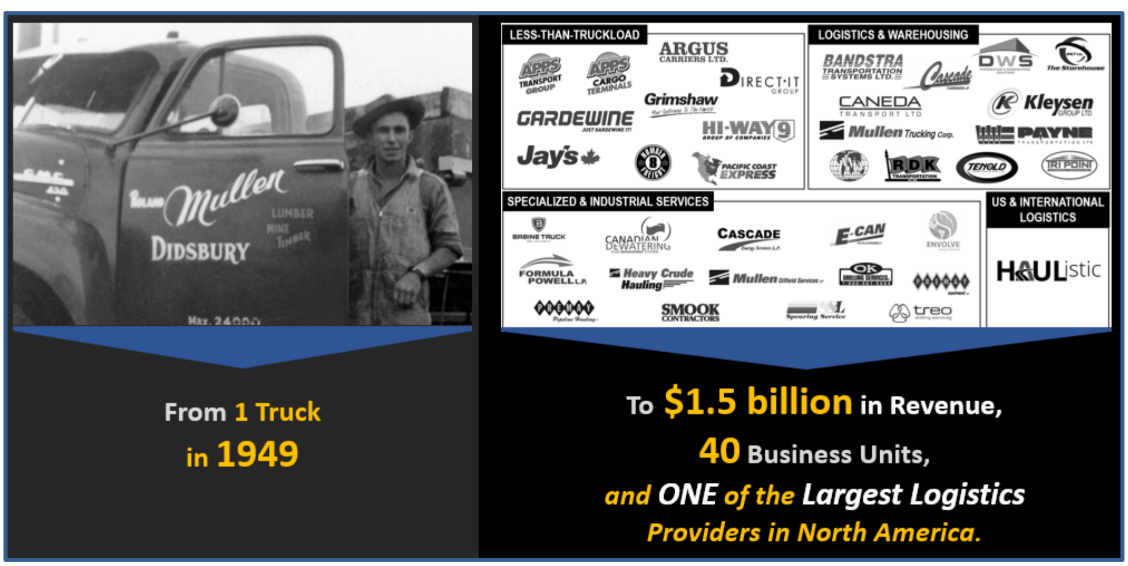
If I was asked to summarize 2021, I would start by highlighting the positives. We acquired some really good companies, positioning us firmly in new markets. Our Business Units did an excellent job of managing the COVID crisis, market disruptions, floods, blockades and rising costs. And for the most part they retained most of their workforce despite the labour challenges. But I would be remiss if I did not address the emerging issues. Profitability was adversely affected by inflationary pressures and productivity losses, which showed up in our operating margins. It was virtually impossible to be efficient amidst all the new health and safety protocols, bottlenecks and delays, which were then followed by surges in freight demand. I credit our teams for handling these obstacles as well as they did. We need a new plan for 2022, however.

A factor unrelated to managing our business also influenced our operating margin: the acquisition of HAUListic LLC, our U.S.-based 3PL non-asset business. Adjusting for this business, the remaining Business Units kept operating margin relatively consistent with the prior year at 15.7 percent. We never expected HAUListic to generate high margins due to the structure of the business. It owns no assets, other than its proprietary software, branded as SilverExpress, intellectual capital and an extensive network of carriers and contractors to move the freight.

As such, a better and more valuable indicator of our operating margin is to begin with net revenue, which is total revenue less contractors' expense. If we use this measurement, HAUListic revenues would decline to $10.7 million but the margin would rise to 45.8 percent from the reported 4.1 percent on gross revenue. This one factor is the principal reason the corporate operating margin fell to 16.0 percent in 2021 from 18.7 percent in 2020. We are not troubled by the decline because our investment in HAUListic was by design and strategic to our long-term growth plans. Besides, we always look at the return on invested capital, not just the operating margin (which I expand upon in the next section).

It is always worth noting that the Mullen Group is a diversified business. We operate in many segments of the economy, which is wonderful from a stability perspective because rarely do all sectors of the economy decline at the same time. Conversely, rarely do all sectors experience rapid growth at the same time. It is always difficult, however, to explain this to shareholders when sectors decline. Take for example our pipeline services business. Premay Pipeline Hauling L.P. (Premay Pipeline) was one of our best performers in 2020, adding nearly $100 million in revenue on total gross revenue of $1.164 billion. More importantly Premay Pipeline generated out-of-the-park OIBDA of $26.0 million. They were a highlight performer for the Mullen Group in 2020.

In 2021 the pipeline projects slowed, were delayed or were stopped by protests, COVID protocols and multiple other issues. Premay Pipeline still did well but nowhere near prior-year levels. Is this in itself negative? I suggest not. This Business Unit consistently beats our cost-of-capital thresholds and every once in a while it absolutely aces it, like in 2020. So we keep great businesses like Premay Pipeline in our group. I could also use our oilfield services providers as another example, except in this case the business was crushed in 2020. We did not panic, always holding to the belief that this cyclical industry would recover. We started to see early signs of this in 2021, with some real potential for even better years ahead as commodity prices rise. This is the beauty and the curse of a diversified business model. This is what Mullen Group is – a large and diversified logistics provider.



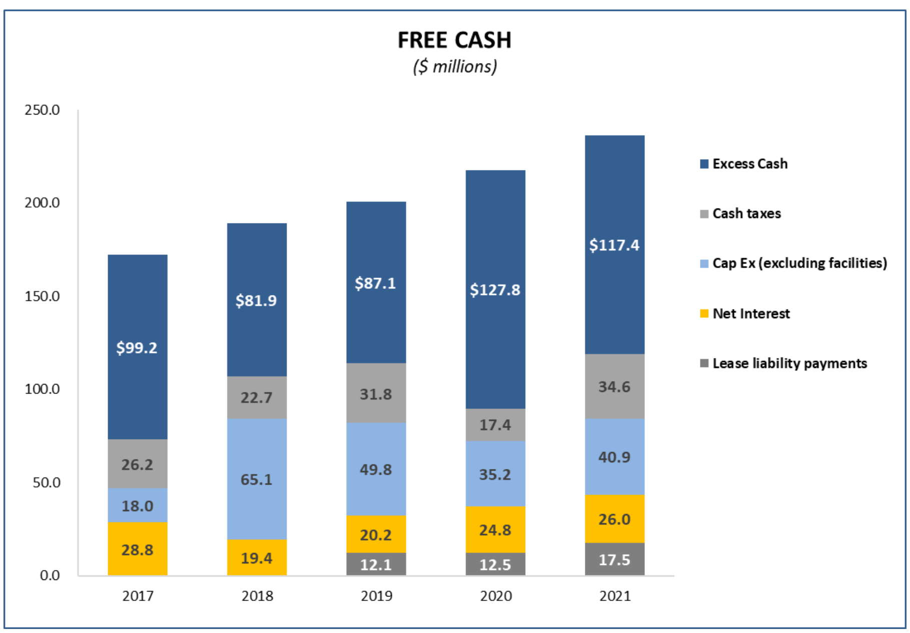
OPERATING MARGIN VERSUS RETURN ON CAPITAL **(there is a difference)**

This may be one of the least-understood metrics by many investors, at least from the questions I regularly receive. It is easy to look at headline EBITDA, or OIBDA as it is now termed, as the benchmark for operating performance. But these measurements do not take into account the capital invested in the business that was required to generate the stated results. Long-time investors in our organization know that I am a disciple of the Warren Buffet and Charlie Munger approach to investing. Quite simply, when evaluating capital allocation options, we first and foremost determine whether the capital will be allocated to and for strategic purposes. Then we estimate the expected return, taking into account the sustained annual capital required to earn the margin. In other words, we focus on the anticipated amount of free cash flow from every decision we are about to make.

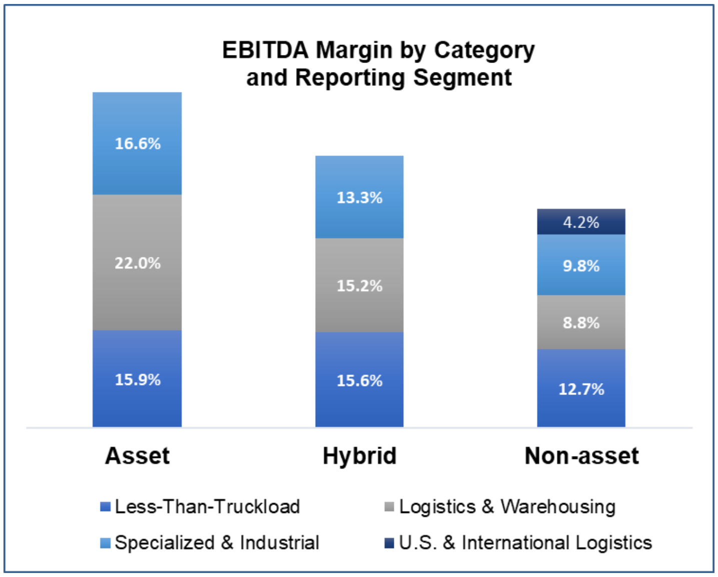
Over the course of nearly a decade, we transitioned our company away from the very capital-intensive oilfield services sector of the economy towards the consumer-centric segment. In our early days as a publicly traded company the oil and natural gas industry was in the midst of a secular uptick. It was a period of rapid growth highlighted by significant capital requirements to meet the energy producers' demand for services to support their growth plans. At the time, Canada was a preferred destination for capital because of security of supply, a solid banking system and the rule of law. During this period, which lasted nearly two decades, our operating margins were high, and the rates the market would pay for new equipment were attractive, two factors contributing to years of profitable growth.

Nothing, however, goes up forever. We began to get cautious in the early part of the last decade. The pace of growth in the oil and natural gas industry started to slow, rates began to be more competitive, and we watched many of our competitors aggressively adding new equipment. It was at this point that we slowed our capital asset purchases allocated to the oilfield services segment and started to pivot towards the general freight or consumer segment, focusing our acquisition strategy into the logistics markets where we envisioned the opportunities for growth and consolidation would generate higher returns.

The other interesting dynamic flowing from this decision was a change in our annual capital expenditure requirement. We focused on businesses where we could utilize independent contractors and sub-contractors (collectively, Independent Contractors) to move the freight. Our motto was to "*own the customer not the truck*". In doing so we could focus more of our efforts on customer service, technology and acquiring strategic facilities, and less on managing and maintaining the truck, or power unit. The rationale was very straightforward. There are many independent truck drivers. They are hardworking, very competitive and an important part of an efficient supply chain. We choose to use their services rather than invest in company-owned trucks, an asset that depreciates very quickly. One consequence has been a decline in our operating margins because we invest fewer dollars in equipment to grow the business. Fewer dollars allotted to capital purchases implies a lower depreciation expense. This explains how the transformation of the Mullen Group from an oilfield services powerhouse into a leading North America logistics provider changed our capital allocation strategy. We may be in different sectors of the economy. We may not generate the same margins as our early days. But we still generate free cash flow.

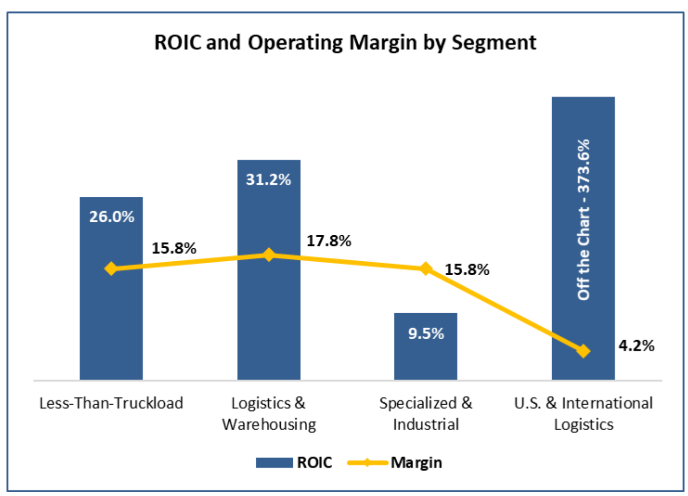


On the topic of EBITDA, there are other nuances to consider when evaluating our performance. Investors need to understand that it is difficult to standardize, compare or benchmark our operating performance simply using this as the denominator. The reason, and the rationale, being that the Mullen Group is a hybrid business. We are diversified and we invest in a lot of companies. To help explain these differences, let's look at our Business Units as three distinct categories. The **graph below** provides a statistical analysis of each category and reporting segment in our organization. In terms of categories, we have Business Units that are predominately **asset-based**. But increasingly, we have been investing in Business Units and sectors of the economy that require little company-owned equipment, like HAUListic. These are the **non-asset-based** businesses. And then in the middle we have Business Units that have a certain amount of company-owned equipment but also utilize contractors or logistics to supplement their business. I have referred to these Business Units as the **hybrid model**. It is interesting that in each of our reporting segments we have businesses that fall into each sub-category, the exception being the U.S. & International Logistics segment, because HAUListic is currently the only business in this segment.



The graph clearly shows that the asset-based businesses generate higher margins, while the non-asset-based businesses generate the lowest, as they should. We use this information to make investments and allocate capital, with the majority going to Business Units that generate superior returns. The general rule we use in evaluating capital requests is that any new capital must generate a minimum annual EBITDA return of 20 percent. We do not, however, achieve this target on the initial investment into acquisitions. Once we acquire a company, any additional capital requested must meet our internal thresholds. A determining criterion for new acquisitions is – are there growth opportunities? I realize some of our Business Units are behind on these targets and I, along with Richard Maloney, Senior Vice President, will be working diligently with them to improve returns, most notably in the Less-Than-Truckload segment where I believe there is opportunity to move EBITDA margins higher. In the non-asset-based model, a 10-12 percent EBITDA margin is our benchmark due to the fact that they have few assets, whereas the hybrid models are generally in the middle.

As indicated earlier, we also use return on invested capital employed to evaluate performance. It provides insight into the return on the capital we have invested in the business. For competitive reasons I have chosen not to disclose these results by Business Unit, but the **graph to the right** shows the aggregate returns for each segment. For Business Units that are below the mean, we will be working aggressively to improve their performance. For those above the mean we will encourage growth.



I hope that this discussion has provided interested investors with additional insight into the operating performance of the Mullen Group, along with how we look at capital allocation. As I have outlined, we are not fixated on just operating margins. We do, however, always focus on free cash flow generation!

WE OWN A VALUABLE PORTFOLIO OF LAND AND BUILDINGS

What is the value of your real estate?

Why do you own your land and buildings?

Doesn't owning real estate tie up capital that could be used to grow your business, and also hurt your operating margins?

These are all good questions that investors often pose, which I will now address.

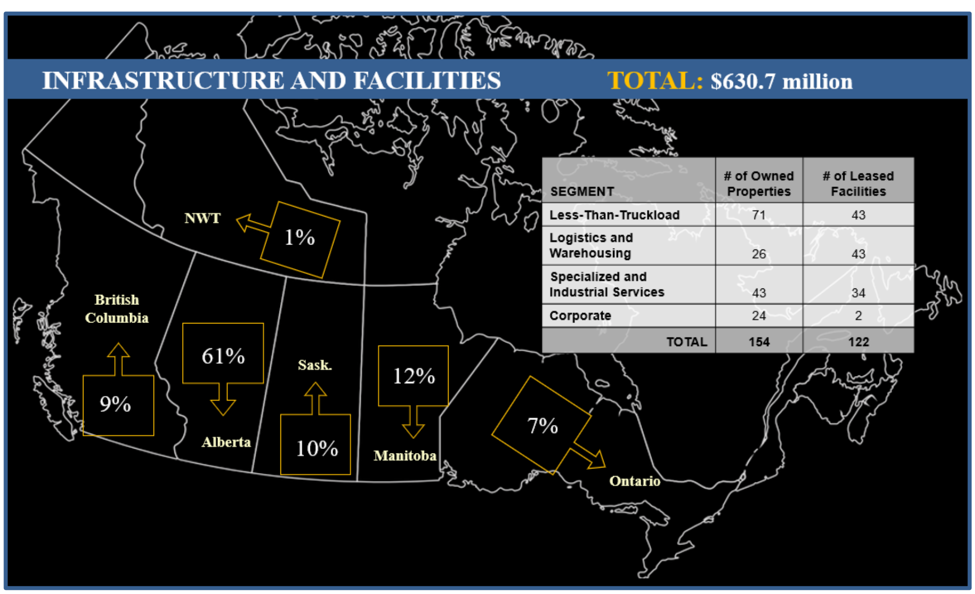
Before getting into the value of our portfolio, let me share with you why we view real estate as a strategic initiative. First, if you have operating assets you will always need a facility at which to park and maintain these assets, plus a base for operations. Therefore, if you have a need for real estate in the business, then the only question becomes, do you own or do you lease? And since real estate is a long-term asset, we prefer to own rather than lease. Jeff Bezos coined the phrase, "*Your margin is my opportunity*", which applies nicely to our view that owning is preferable to leasing. Why let another party make a margin off what we need?

Second, real estate is deemed by many as a great long-term investment. It seems to me that millions of homeowners have done quite well by investing in their own home. This has been validated once again with the recent devaluation of money. Owning a real asset, like a real estate portfolio, has been a winning investment, especially since 2020. Land values in key market areas have skyrocketed as outside money searching for yield has flooded into all forms of real estate. In our case we have had unsolicited offers presented that are often multiples over our initial investment, or book value, validating our investment thesis. We have a great portfolio of land and facilities. And third, negotiating leases through commercial realtors and then dealing with landlords is both exhausting and expensive. All too often your lease expires and there is no guarantee of a renewal, incurring additional fees and lease agreements that only a Philadelphia lawyer can interpret.

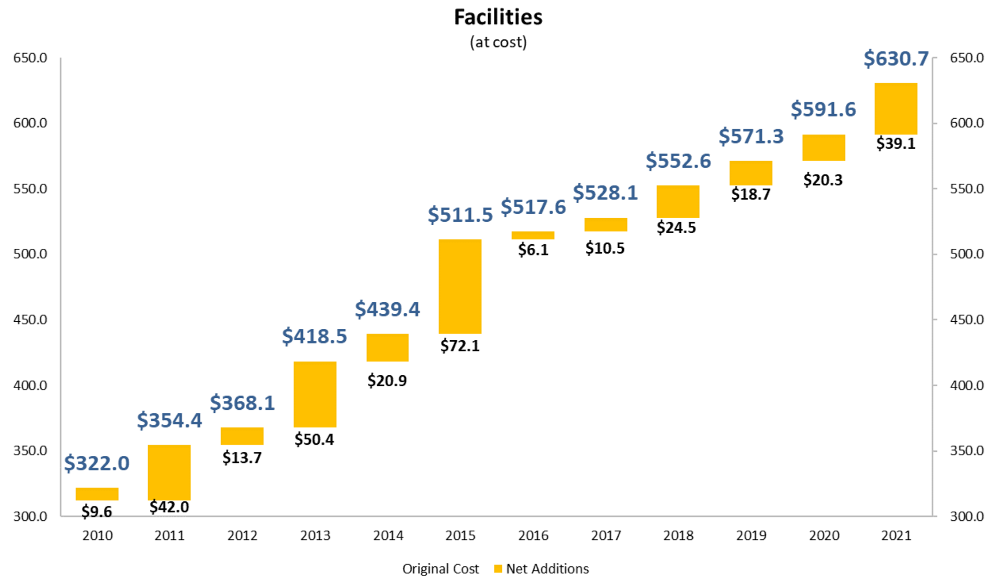
My simple analysis is this: if we like the business then let's own the real estate. Both components involve long-term thinking and planning. **With ownership we control our costs and we control our destiny**. Lee Hellyer, Vice President, Operations, is our resident real estate expert and he masterfully manages our sizeable portfolio. And because the majority of our owned real estate is operated by our Business Units, we know that the facilities are well maintained. Knowing the tenant is very important. Owning the tenant is our way.

Graph 1 explains in full detail our real estate portfolio. **Graph 2** shows the growth in the book value of our real estate, which has doubled since 2010. In other words, a significant portion of our shareholders' capital is invested in an appreciating asset, which is especially noteworthy during times of inflation.

Graph 1:



Graph 2:



Earlier I commented that outside money, not from the carriers themselves, was driving facility costs to new levels. This is having a profound impact on many carrier-owners as they see the value of their facilities reach never-before-seen highs. Many are selling their businesses as a result. This is also inflationary because now real estate costs are doubling or tripling, meaning that carriers which lease facilities must increase their pricing. At Mullen we are somewhat protected from the market pressures due to our vast real estate holdings. But we are not immune, because we do lease some facilities. All of our Business Units are aware that any and all increases in lease costs must be passed on to the customer via price increases.

FINAL WORD

Twenty twenty-one is now history. It was a good year for our company. It was exciting, certainly eventful, and it was challenging. I believe it was a year that our stakeholders will view in a positive light. We are extremely well-positioned to grow, especially with the six acquisitions completed last year. We have a constructive view of the North American economy's potential to continue growing, albeit the expansion will probably start to decelerate as interest rates rise and central bankers start withdrawing liquidity from the system to ease inflationary pressures. Inflation means the costs associated with managing our business are rising, some very rapidly. We will respond by raising rates to cover the increased costs. In addition, we see a very tight labour market and limited supply of truck capacity, implying that rates should rise above costs. We fully expect to achieve record consolidated revenue in 2022, which will generate a very solid cash flow. I also reiterate that there is collective focus on margin improvement throughout the organization.

At a time when parts of the world are under duress, where war rages and lives are needlessly lost, I struggle with optimism. It just doesn't feel right. In saying this, however, all stakeholders can take comfort in knowing that we will be steadfast in managing our business in a professional and ethical manner. We will ensure that we maintain our lead as an employer of choice. We will continue to invest in new technologies to limit our impact on the environment. And we will continue to exercise good governance.

Accompanying the release of my annual message is our 2021 Environmental, Social and Governance Report, a 42-page document that outlines our approach to ESG along with some meaningful measurements that we and others can use to benchmark our performance on these initiatives. The document represents the collaborative efforts of Stephen Clark, Joanna Scott and Jennifer Labelle. It has been reviewed by the Board of Directors and me. And while I am on the issue of Board Governance, I am pleased to announce that we will have two new candidates joining the Board at the **Annual Meeting on May 3, 2022**. Benoit Durand and Rick Whitley are outstanding Board candidates with skill sets that will help ensure the Mullen Group continues to manage its business ethically, professionally and responsibly, foundational attributes that are closely associated with sustainability.

GLOSSARY OF TERMS

"3PL" *means third-party logistics*

*"**Banking Crisis of 2008**"* means the severe contraction of liquidity in global financial markets that originated in the U.S. as a result of the collapse of the housing market. It threatened to destroy the international financial system; caused the failure (or near-failure) of several major investment and commercial banks, mortgage lenders, insurance companies, and savings and loan associations; and precipitated the Great Recession (2007-09), the worst economic downturn since the Great Depression (1929 -c. 1939).

Source: https://www.britannica.com/event/financial-crisis-of-2007-2008

*"**COVID-19 or COVID**"* means the highly infectious SARS-CoV-2 virus.

"EBITDA" is a financial measurement that is defined as net income before depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets, finance costs, net unrealized foreign exchange gains and losses, other (income) expense and income taxes.

*"**Independent Contractor**"* means owner operators who provide trucks and/or trailers and work exclusively for our Business Unit under annual contracts and subcontractors who own their own equipment and are used during times of peak demand.

*"**Net Cash from Operating Activities**"* is a financial measurement that is defined as net income adjusted for the effects of non-cash items such as depreciation and amortization, finance costs, foreign exchange gains and losses, gains or losses on sale of property, plant and equipment, income taxes as well as changes in non-cash working capital items from operating activities and income taxes paid.

*"**Operating Income Before Depreciation and Amortization or OIBDA**"* is a financial measurement that is defined as net income before depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets, finance costs, net unrealized foreign exchange gains and losses, other (income) expense and income taxes.

References:

1) Article in Better Dwelling on March 9, 2022 – *Quantitative Sleaze: How The Bank of Canada Mislead Politicians On Real Estate & QE.*

2) Article by Brian Cheung in Yahoo! Finance on March 3, 2022 – *Fed Chairman Powell: 'We should have moved earlier'*

3) Article in BNN Bloomberg, Opinion News, on December 7, 2021 – *Here's everything you need to know about the global supply chain crisis*

4) Article by Holly Ellyatt in CNBC, Economy, on October 18, 2021 – *Supply chain chaos is already hitting global growth. And its about to get worse*