



**Mullen Group**  
Ltd.

# INTERIM REPORT

## QUARTER THREE

**FOR THE PERIOD ENDED**  
**- SEPTEMBER 30, 2019 -**

**EXCELLENCE** **STABILITY**  
 Gardewine Group Withers Recon Utility Envolve Energy  
 Canadian Hydrovac Premay Pipeline  
 Grimshaw Trucking Cascade Carriers

**OUR PEOPLE** DWS Logistics  
 RDK Transportation Heavy Crude **RELIABILITY**  
 Canada Transport Jay's Transportation  
**SAFETY** Formula Powell  
 Spearing Service Premay Equipment Hi-Way 9 Smook Contractors  
 Canadian Dewatering **QUALITY**

**DIVERSITY** Courtesy Freight Systems  
 OK Drilling Services Treo Drilling Mullen Oilfield PeBen Oilfield RE Line Tenold  
 Payne Transportation E-Can Oilfield  
**INTEGRITY** **TRUST**



WE THINK **tomorrow**<sup>™</sup>



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A"), dated October 23, 2019, has been prepared by management of Mullen Group Ltd. ("Mullen Group" and/or the "Corporation") for the three and nine month periods ended September 30, 2019, and should be read in conjunction with (i) the audited annual consolidated financial statements for the fiscal year ended December 31, 2018 (the "Annual Financial Statements"), together with the Management's Discussion and Analysis thereon (the "2018 MD&A"), and (ii) the unaudited condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2019, (the "Interim Financial Statements"). Unless otherwise specified, information in this MD&A is provided as at such date and any reference to "Mullen Group", "we", "us", "our" or the "Corporation" means Mullen Group Ltd., a corporation incorporated under the laws of the province of Alberta and includes its predecessors where context so requires. The Annual Financial Statements and other additional information are available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.mullen-group.com](http://www.mullen-group.com). These documents are also available upon request, free of charge, from the Corporate Investor Services group at [ir@mullen-group.com](mailto:ir@mullen-group.com). This MD&A and the Interim Financial Statements were reviewed by Mullen Group's Audit Committee and approved by the Board of Directors (the "Board") on October 23, 2019.

## ACCOUNTING PRINCIPLES

The Interim Financial Statements have been prepared in accordance to and comply with International Financial Reporting Standards ("IFRS"), which include the International Accounting Standards ("IAS") and the interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC"), as issued by the International Accounting Standards Board ("IASB"). The Interim Financial Statements comply with IAS 34 Interim Financial Reporting and do not include all of the information required for annual financial statements. Unless otherwise indicated, all amounts contained in this MD&A are in Canadian funds, which is the functional currency of the Corporation.

### ADVISORY:

**Forward-looking statements** - This MD&A reflects management's expectations regarding Mullen Group's future growth, financial condition, results of operations, performance, business prospects, strategies and opportunities and contains forward-looking statements and forward-looking information (collectively, "**forward-looking statements**") within the meaning of applicable securities laws. Wherever possible, words such as "anticipate", "may", "will", "believe", "expect", "potential", "continue", "view", "objective", "should", "plan", "intend", "ongoing", "estimate", "project" or similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and assumptions and are based on information currently available to management. Forward-looking statements involve significant inherent risks and uncertainties, numerous assumptions and the risk that the predictions and forward-looking statements will not be achieved and that the actual results or events may differ materially from those anticipated in such forward-looking statements. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable beliefs and assumptions, Mullen Group cannot assure readers that actual results will be consistent with these forward-looking statements. Some of the risks and uncertainties include, but are not limited to certain strategic, financial and operational risks, most important of which are reduced oil and natural gas drilling, decreased oil sands and heavy oil activity, a slowdown in the general economy, currency exchange rates, change in the return on fair value of investments, prevailing interest rates, regulatory framework governing taxes and environmental matters in the jurisdictions in which the Corporation conducts and will conduct its business, customer relationships, labour disruption and driver retention, accidents, cost of liability insurance, fuel prices, ability to access sufficient capital from internal and external sources and changes in legislation including but not limited to tax laws and environmental regulations. Given these risks and uncertainties, readers should not place undue reliance on the forward-looking statements contained in this MD&A. Readers are cautioned that the foregoing list of factors and risks is not exhaustive. Additional information on these and other factors and risks that could affect the operations or financial results of Mullen Group may be found under the heading "Principal Risks and Uncertainties" starting on page 64 of the 2018 MD&A as well as in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this MD&A are made as of the date hereof and Mullen Group undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities law. Mullen Group relies on litigation protection for "forward-looking" statements. Additional information regarding the forward-looking statements contained in this MD&A and the material assumptions made in preparing such statements may be found under the heading "Forward-Looking Information Statements" beginning on page 56 of this MD&A.

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

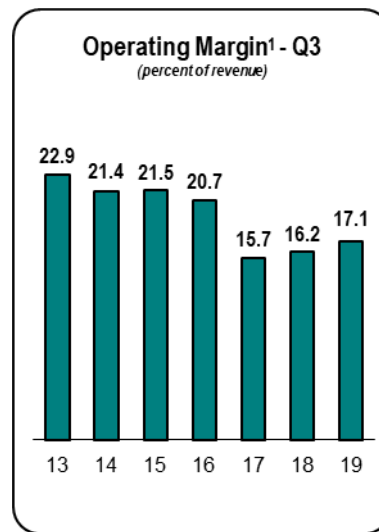
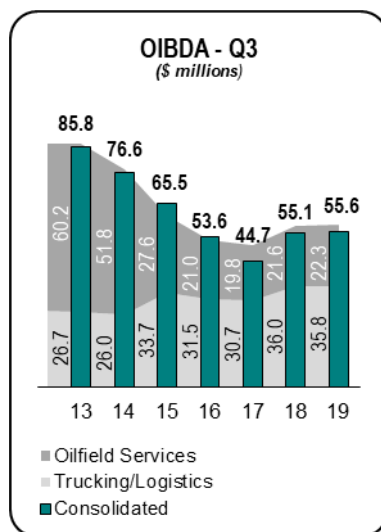
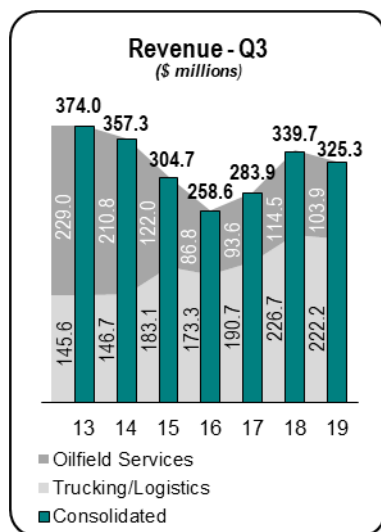
<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

## HIGHLIGHTS FOR THE QUARTER

<b>PERFORMANCE:</b> <i>(unaudited)</i> (\$ millions, except share price and per share amounts)	Three month periods ended			Nine month periods ended		
	September 30			September 30		
	2019	2018	%	2019	2018	%
<b>Financial Results</b>						
Revenue	\$ 325.3	\$ 339.7	(4.2)	\$ 963.9	\$ 927.5	3.9
Operating income before depreciation and amortization <sup>(1)</sup>	55.6	55.1	0.9	151.0	137.3	10.0
Net foreign exchange (gain) loss	(3.9)	(1.8)	116.7	(11.8)	6.3	(287.3)
Decrease (increase) in fair value of investments	0.3	0.3	—	0.3	1.4	(78.6)
Net income	20.5	21.9	(6.4)	63.8	37.3	71.0
Net income – adjusted <sup>(2)</sup>	16.5	20.5	(19.5)	42.6	45.1	(5.5)
Net cash from operating activities	46.5	26.5	75.5	116.4	84.2	38.2
Cash dividends declared	15.8	15.8	—	47.2	46.9	0.6
<b>Financial Position</b>						
Cash and cash equivalents	\$ 77.5	\$ 1.0	7,650.0	\$ 77.5	\$ 1.0	7,650.0
Long-term debt (includes the current portion thereof and the debt component of Debentures)	623.1	490.2	27.1	623.1	490.2	27.1
Total assets	1,784.6	1,729.1	3.2	1,784.6	1,729.1	3.2
<b>Share Information</b>						
Cash dividends declared per Common Share	\$ 0.15	\$ 0.15	—	\$ 0.45	\$ 0.45	—
Earnings per share – basic and diluted	\$ 0.20	\$ 0.21	(4.8)	\$ 0.61	\$ 0.36	69.4
Earnings per share – adjusted <sup>(2)</sup>	\$ 0.16	\$ 0.19	(15.8)	\$ 0.41	\$ 0.43	(4.7)
Share price – September 30	\$ 8.73	\$ 15.35	(43.1)	\$ 8.73	\$ 15.35	(43.1)
<b>Other Information</b>						
Net capital expenditures <sup>(2)</sup>	\$ 16.8	\$ 35.0	(52.0)	\$ 47.6	\$ 58.2	(18.2)
Acquisitions	\$ 13.5	\$ 9.6	40.6	\$ 15.0	\$ 45.8	(67.2)

<sup>(1)</sup> Management relies on operating income before depreciation and amortization ("OIBDA") as a measurement since it provides an indication of our ability to generate cash from our principal business activities prior to depreciation and amortization, financing or taxation in various jurisdictions. OIBDA increased by approximately \$3.2 million (\$2.7 million in the Trucking/Logistics segment and \$0.5 million in the Oilfield Services segment) in the current quarter and \$9.4 million (\$7.7 million in the Trucking/Logistics segment and \$1.7 million in the Oilfield Services segment) for the nine month period ended September 30, 2019, due to the adoption of IFRS 16 – Leases effective January 1, 2019. As is permitted with this new standard, comparative information has not been restated. For more information, refer to Note 3 of the Interim Financial Statements.

<sup>(2)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

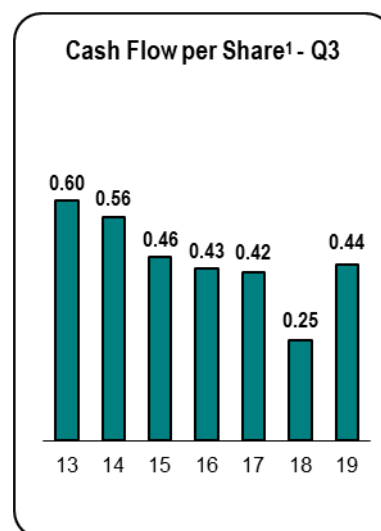
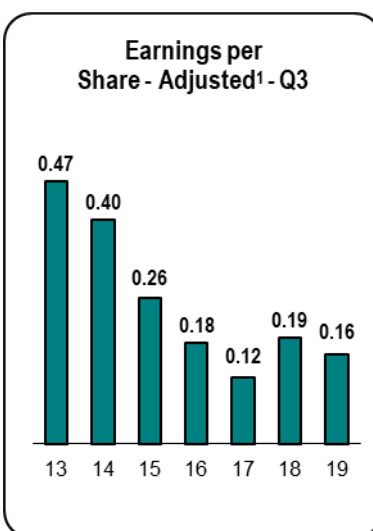
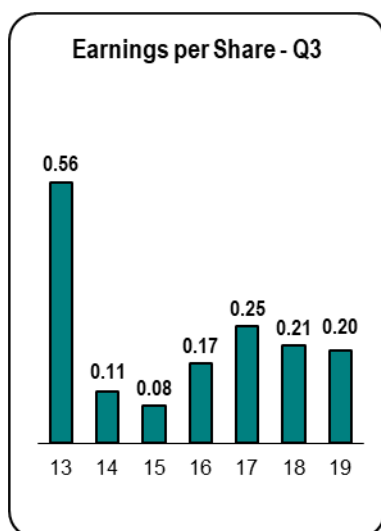


## POSITION:

- Well-structured balance sheet with ample liquidity:
  - Working capital: \$240.6 million (includes \$77.5 million of cash and cash equivalents)
  - Net debt<sup>1</sup> of \$374.6 million, which represents a debt to OIBDA ratio of 1.85:1
  - Private Placement Debt of \$473.2 million
  - Unused Bank Credit Facility of \$150.0 million
- Net book value of property, plant and equipment of \$961.1 million, which includes \$559.9 million of carrying costs of owned real property

## THIRD QUARTER PROGRESS:

- Revenue decreased by 4.2 percent on a year over year basis:
  - Trucking/Logistics segment decreased by a modest 2.0 percent to \$222.2 million
  - Oilfield Services segment decreased by 9.3 percent to \$103.9 million
- OIBDA increased 0.9 percent from the prior year (including the effect of IFRS 16 – Leases):
  - Trucking/Logistics segment decreased slightly to \$35.8 million
  - Oilfield Services segment increased by 3.2 percent to \$22.3 million
- Completed two acquisitions for total consideration of \$20.0 million, adding approximately \$25.0 million of incremental annualized revenue, expanding our regional trucking and logistics network in British Columbia
- Improved operating margin<sup>1</sup> within the Oilfield Services segment despite extremely difficult operating conditions
- Net cash from operating activities increased by \$20.0 million or 75.5 percent to \$46.5 million



## EXECUTIVE SUMMARY

As frustrating as this market is, our financial results continue to be very impressive. We generated the best quarterly results of this fiscal year, cash flow was very strong and with our well capitalized balance sheet there is little doubt in our mind that we will continue to grow our business for many years. The acquisition opportunities are significant and we are confident that we will gain market share as our competition struggles within the current macro environment.

There is no denying the fact that freight demand has been softer this year than last year, especially as it relates to the movement of goods associated with capital investment within Canada, and that the oil and natural gas industry remains under duress but consumer demand remains solid as evidenced by another strong showing from our regional less-than-truckload ("LTL") Business Units (as hereafter defined on page 7). This is precisely why we have a diversified portfolio of companies within our group and why we have invested heavily in servicing the consumer through one of the most comprehensive terminal networks in Canada. LTL is the most stable part of our business because it is tied to the consumer. Through our expansive network we provide that critical "*final mile*" solution to hundreds of communities on a daily basis, absolutely a necessity in today's growing e-commerce world. It is also why we have a significant investment in real estate.

There was also a flurry of activity related to pipeline construction during the quarter, the majority related to the transportation of natural gas as companies position for the build out of LNG projects on Canada's west coast, the gateway to Asian markets for Canada's land locked natural gas. This is extremely positive and one of the few signs that there is some hope for Canada's energy producers.

Mullen Group operates a diversified business model combined with a highly adaptable and variable cost structure. The financial results for the three month period ended September 30, 2019, are as follows:

- generated consolidated revenue of \$325.3 million, a decrease of \$14.4 million, or 4.2 percent, as compared to \$339.7 million in 2018 due to:
  - a decrease of \$4.5 million or 2.0 percent in the Trucking/Logistics segment primarily due to weakness in the demand for truckload freight services
  - a decrease of \$10.6 million or 9.3 percent in the Oilfield Services segment due to significant declines in drilling activity and mandated crude oil curtailments by the Alberta Government being somewhat offset by greater demand for pipeline hauling and stringing services
- earned consolidated OIBDA of \$55.6 million, an increase of \$0.5 million as compared to \$55.1 million in 2018 due to:
  - a decrease of \$0.2 million or 0.6 percent to \$35.8 million in the Trucking/Logistics segment
  - an increase of \$0.7 million or 3.2 percent to \$22.3 million in the Oilfield Services segment
  - Corporate Office (as hereafter defined on page 7) costs were consistent on a year over year basis at \$2.5 million
- net cash from operating activities up by \$20.0 million, or 75.5 percent, to \$46.5 million (highest third quarter amount since 2014)

### **Third Quarter Financial Results**

**Revenue decreased by \$14.4 million, or 4.2 percent, to \$325.3 million and is summarized as follows:**

- Trucking/Logistics segment decreased by \$4.5 million, or 2.0 percent, to \$222.2 million – revenue from truckload freight services decreased by \$11.0 million and resulted from lower gross domestic products

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



growth, a lack of project work associated with capital investments and a \$1.8 million reduction in fuel surcharge revenue. Revenue from LTL services improved by \$6.7 million due to \$7.1 million of incremental revenue from acquisitions and revenue gains at Gardewine Group Limited Partnership ("**Gardewine**") being somewhat offset by a \$1.3 million reduction in fuel surcharge revenue.

- Oilfield Services segment decreased by \$10.6 million, or 9.3 percent to \$103.9 million – revenue from those Business Units involved in the transportation of fluids and servicing of wells declined by \$12.3 million due to a very competitive pricing environment coupled with lower customer demand due to the impact of the Alberta Government's crude oil curtailment program while revenue generated by those Business Units most directly tied to drilling and drilling related services decreased by \$9.1 million as drilling activity levels hit multi-year lows in the third quarter. These decreases were partially offset by a \$9.5 million increase in revenue from large diameter pipeline hauling and stringing services.

**OIBDA increased by \$0.5 million, or 0.9 percent, to \$55.6 million and is summarized as follows:**

- Trucking/Logistics segment declined by \$0.2 million, or 0.6 percent, to \$35.8 million – OIBDA generated by our truckload services Business Units declined and was somewhat offset by a \$2.7 million increase in OIBDA due to the adoption of IFRS 16 – Leases, \$1.1 million of incremental OIBDA associated with acquisitions and improved results generated by our regional LTL Business Units. When comparing our operating margin<sup>1</sup> without the impact of IFRS 16 – Leases, it was 14.9 percent, a decrease of 100-bps as compared to 2018, primarily due to competitive market conditions and spot market pricing declines.
- Oilfield Services segment up by \$0.7 million, or 3.2 percent, to \$22.3 million – transportation of fluids and servicing of wells Business Units decreased by \$1.3 million due to competitive pricing and the Alberta Government's crude oil curtailment program while those Business Units tied to drilling related activity experienced a \$1.5 million decrease in OIBDA. These decreases were partially offset by a \$4.0 million increase from those Business Units providing specialized services including that of Premay Pipeline Hauling L.P. ("**Premay Pipeline**"). Operating margin<sup>1</sup> adjusted for the impact of IFRS 16 – Leases increased to 21.0 percent from 18.9 percent in 2018 due to a greater proportion of higher margin specialized services revenue and cost control measures.

**Net income decreased by \$1.4 million to \$20.5 million, or \$0.20 per Common Share due to:**

- A \$2.8 million increase in depreciation of right-of-use assets, a \$2.2 million increase in finance costs and a \$1.2 million increase in amortization of intangible assets.
- The above was partially offset by a \$2.1 million positive variance in net foreign exchange, a \$1.9 million decrease in income tax expense, a \$0.5 million increase in OIBDA and a \$0.3 million increase in earnings from equity investments.

**Financial Position**

The following summarizes our financial position as at September 30, 2019, along with some of the key changes that occurred during the third quarter of 2019:

- Exited the third quarter with working capital of \$240.6 million, which included \$77.5 million of cash and cash equivalents and had access to our undrawn Bank Credit Facility (as hereafter defined on page 12) of \$150.0 million.
- Total net debt<sup>1</sup> (\$474.1 million) to operating cash flow (\$206.1 million) (as hereafter defined on page 48) of 2.30:1 as defined per our Private Placement Debt (as hereafter defined on page 17) agreement.
- The value of our Cross-Currency Swaps (as hereafter defined on page 18) increased by \$7.5 million to \$44.9 million (June 30, 2019 – \$37.4 million), which swaps the principal portion of our U.S. \$229.0 million debt to a Canadian currency equivalent of \$254.1 million.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



## OUTLOOK

The two macro trends with the strongest correlation to our results and overall financial performance continue to show few signs of growth, suggesting that taking a cautious approach to expansion and capital deployment as well as protecting our balance sheet is a prudent strategy. The Canadian economy continues to be supported by strong employment numbers, robust government spending and a resilient consumer. However, there is no growth as evidenced by recent economic data. The news associated with the oil and natural gas industry, which is predominantly focused in western Canada, remains decisively negative. As a result the industry has been forced to adjust to the reality that new capital, the main ingredient to future growth, is nonexistent today. In fact many oil and natural gas producers are now focused on capital preservation, a definite problem for the oil and gas service industry that relies heavily on the spending requirements and capital investment by producers.

As we enter the fourth quarter of 2019, we expect a continuation of the current macro trends primarily due to the fact that we do not see any evidence or catalyst that will encourage or reaccelerate capital investment within Canada, the missing ingredient to growth in our view. Under this scenario we will preserve our balance sheet, focus on streamlining business applications and reduce costs where appropriate. Corporate acquisitions, a mainstay of Mullen Group's growth strategy, continue to be evaluated, however, any acquisition must meet the dual test of being strategic as well as accretive. We fully expect valuations to become even more attractive given the current business outlook. Patience will ultimately be rewarded.

Since the start of 2019 we have articulated a view that our full year 2019 guidance was both reasonable and attainable. This was based upon the assumption that the Canadian economy would continue to expand, even if the growth was modest, along with a recovery in drilling activity in western Canada during the last half of the year. Both of these expectations are under pressure given the current macro and political environment. As such we believe that meeting our full year guidance is still achievable, however, the risks are elevated. We continue to monitor the situation carefully and remain very well positioned to capitalize on market opportunities as they arise.

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## CORPORATE OVERVIEW

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

### Business

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

At September 30, 2019, the Trucking/Logistics segment consisted of 14 Business Units, offering a diversified range of truckload and LTL general freight services to customers in Canada and the United States. These services include transporting a wide range of goods including general freight, specialized commodities such as cable, pipe and steel, over-dimensional loads such as heavy equipment, compressors and over-sized goods and dry bulk commodities such as cement and frac sand. In addition, the Trucking/Logistics segment provides logistics, warehousing and distribution, transload and intermodal services primarily in western Canada, as well as the production, excavation and transportation of various aggregate products.

#### Trucking/Logistics Segment:

Business Unit	Primary Service Provided
Caneda Transport Ltd.	LTL & Irregular Route Truckload - Canada/U.S.
Cascade Carriers L.P.	Dry Bulk Freight - Western Canada
Courtesy Freight Systems Ltd.	Regional Scheduled LTL - Northern Ontario
DWS Logistics Inc. <sup>(1)</sup>	Value-Added Warehousing and Distribution Services
Gardewine Group Limited Partnership	Regional Scheduled LTL - Manitoba and Ontario & Specialized Transportation
Grimshaw Trucking L.P.	Regional Scheduled LTL - Northern Alberta
Hi-Way 9 Group of Companies <sup>(2) (3) (4)</sup>	Regional Scheduled LTL - Southern Alberta
Jay's Transportation Group Ltd.	Regional Scheduled LTL - Saskatchewan
Kleysen Group Ltd.	Irregular Route Truckload & Multi-Modal
Mullen Trucking Corp.	Irregular Route Truckload & Specialized Transportation
Payne Transportation Ltd.	Irregular Route Truckload & Specialized Transportation
RDK Transportation Co. Inc.	Irregular Route Truckload & Specialized Transportation
Smook Contractors Ltd.	Civil Construction - Northern Manitoba
Tenold Transportation Ltd. <sup>(5) (6)</sup>	Irregular Route Truckload & Regional Scheduled LTL - Vancouver Region

<sup>(1)</sup> Acquired on February 9, 2018.

<sup>(2)</sup> On January 1, 2019, the operations of Bernard Transport Ltd. were combined into the Hi-Way 9 Group of Companies.

<sup>(3)</sup> Includes Dakota Freight Services Ltd., which was acquired on April 6, 2018.

<sup>(4)</sup> Includes Jen Express Inc., which was acquired on May 1, 2019.

<sup>(5)</sup> Includes the business and assets contributed to Number 8 Freight Ltd., which were acquired on August 1, 2018.

<sup>(6)</sup> Includes Argus Carriers Ltd. and Inter-Urban Delivery Service Ltd., which were acquired on July 1, 2019.



At September 30, 2019, our Oilfield Services segment consisted of 17 Business Units that utilize their highly trained personnel and equipment to provide well-servicing, specialized transportation, dewatering, and drilling services to the oil and natural gas industry. These services include transporting of oversize and overweight shipments, the transportation, handling, storage and computerized inventory management of oilfield fluids, tubulars and drilling mud, stockpiling and stringing of large diameter pipe, a broad range of services related to the processing and production of heavy oil including well servicing and handling, transportation of fluids, the processing and disposal of oilfield waste, as well as frac support, dredging, water management, dewatering, pond reclamation services, hydrovac excavation, drilling rig relocation, core drilling, casing setting and conductor pipe setting services.

### Oilfield Services Segment:

Business Unit	Primary Service Provided
<b>Production Services</b>	
Cascade Energy Services L.P. <sup>(1)</sup>	Fluid Transportation - British Columbia & Alberta
E-Can Oilfield Services L.P. <sup>(1)</sup>	Fluid Transportation - Heavy Oil Regions of Alberta
Heavy Crude Hauling L.P. <sup>(1)</sup>	Fluid Transportation - Heavy Oil Regions of Alberta
R. E. Line Trucking (Coleville) Ltd.	Fluid Transportation - Saskatchewan
Spearing Service L.P.	Fluid Transportation - Saskatchewan
<b>Specialized Services</b>	
Canadian Dewatering L.P.	Water Management Services
Canadian Hydrovac Ltd. <sup>(2)</sup>	Hydrovac Excavation Services
Premay Equipment L.P.	Specialized Heavy Haul
Premay Pipeline Hauling L.P.	Large Diameter Pipe Transportation
Recon Utility Search L.P.	Hydrovac Excavation Services
<b>Drilling Services</b>	
OK Drilling Services L.P.	Conductor Pipe Setting
TREO Drilling Services L.P.	Core Drilling
<b>Drilling Related Services</b>	
Envolve Energy Services Corp.	Processing and Disposal of Oilfield Fluids
Formula Powell L.P.	Mud / Fluid Transportation & Warehousing
Mullen Oilfield Services L.P.	Rig Relocation Services
Pe Ben Oilfield Services L.P.	Drill Pipe Transportation & Warehousing
Withers L.P.	Drill Pipe Transportation & Warehousing

<sup>(1)</sup> Includes a portion of AECOM's Canadian Industrial Services Division, which was acquired on June 25, 2018.

<sup>(2)</sup> Acquired on July 1, 2018.

A more detailed description of the Business Units is set forth in the Annual Information Form, which is dated February 6, 2019 and is available on SEDAR at [www.sedar.com](http://www.sedar.com), our website at [www.mullen-group.com](http://www.mullen-group.com) or upon request, free of charge, from the Corporate Investor Services group at [ir@mullen-group.com](mailto:ir@mullen-group.com).

## Issuance of Debentures and Capital Allocations

### Convertible Debentures

In June 2019, we issued \$125.0 million of convertible unsecured subordinated debentures (the "**2019 Debentures**"), by way of a bought deal, at a price of \$1,000 per 2019 Debenture. The 2019 Debentures are publicly traded and are listed on the TSX under the symbol "**MTL.DB**". The 2019 Debentures will mature on November 30, 2026 and bear interest at an annual rate of 5.75 percent payable semi-annually in arrears on May 31 and November 30 in each year beginning November 30, 2019.

Each \$1,000 2019 Debenture is convertible into 71.4286 Common Shares of Mullen Group (such is based on a conversion price of \$14.00) at any time at the option of the holders of the 2019 Debentures. Thus, an aggregate of approximately 8.9 million Common Shares of Mullen Group may be issued if all the holders convert their principal amount. The proceeds of the offering will be used for general corporate purposes, which may include future acquisitions within the Trucking/Logistics segment. As subordinated debt, the accounting value assigned to the 2019 Debentures including any related interest expense is excluded from our financial covenant calculations under our Private Placement Debt (as hereafter defined on page 17).



The 2019 Debentures shall not be redeemable by the Corporation prior to November 30, 2023. On or after November 30, 2023 and prior to November 30, 2025, the 2019 Debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the arithmetic average of the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125.0 percent of the conversion price. On or after November 30, 2025 and prior to the maturity date, the 2019 Debentures may be redeemed in whole or in part at the option of the Corporation on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest if any, up to but excluding the date set for redemption.

The 2019 Debentures are comprised of both a debt and equity component, which are presented separately on our consolidated statement of financial position. The debt component represents the total discounted present value of both the semi-annual interest obligations and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. The result is an accounting value assigned to the debt component of the 2019 Debentures, which is less than the principal amount due at maturity. The debt component presented on the consolidated statement of financial position will increase over the term of the 2019 Debentures to the full face value of the outstanding 2019 Debentures at maturity. This increase will be recognized in the financial statements through a notional increase to interest expense on the 2019 Debentures and a resulting decrease to net income. In the event the 2019 Debentures are converted prior to maturity, the difference between the carrying amount of such 2019 Debentures and their face value would be charged to interest expense. The equity component of the 2019 Debentures is presented under "Equity" in the consolidated statement of financial position. The equity component represents the difference between the face value of the 2019 Debentures (namely, \$125.0 million) and the accounting value assigned to the debt component of the 2019 Debentures at the date of issue (namely, \$112.6 million). Subject to the impact of the 2019 Debentures being converted, this equity component amount will remain constant over the term of the 2019 Debentures. Upon conversion of the 2019 Debentures into Common Shares, a proportionate amount of both the debt and equity components are transferred to shareholders' capital. Accretion and interest expense on the 2019 Debentures are reflected as finance costs in the consolidated statement of comprehensive income.

The transaction costs associated with the 2019 Debentures were \$5.2 million and are being amortized over the term of the 2019 Debentures. If the holders of the 2019 Debentures convert the principal portion to Common Shares prior to maturity, the unamortized transaction costs would be expensed and would thereby decrease earnings.

### **Dividends**

On February 6, 2019, we announced our intention to pay annual dividends of \$0.60 per Common Share (\$0.05 per Common Share on a monthly basis) for 2019. For the nine month period ending September 30, 2019, we declared monthly dividends totalling \$0.45 per Common Share (2018 – \$0.45 per Common Share). At September 30, 2019, we had 104,824,973 Common Shares outstanding and a dividend payable of \$5.2 million (December 31, 2018 – \$5.2 million), which was paid on October 15, 2019. We also declared a dividend of \$0.05 per Common Share on October 22, 2019, to the holders of record at the close of business on October 31, 2019. The Board will continue to consider the amount of and the record date for the monthly dividend.

### **Capital Expenditures**

On February 6, 2019, the Board approved a \$75.0 million capital budget for 2019, exclusive of corporate acquisitions and special projects with \$40.0 million to be allocated to the Trucking/Logistics segment primarily to replace trucks, trailers and specialized equipment to support the operations of these Business Units, \$20.0 million allocated to the Oilfield Services segment to support growth at Envolve Energy Services Corp. ("**Envolve**") and Canadian Dewatering L.P. ("**Canadian Dewatering**") and \$15.0 million allocated to the Corporate Office mainly to expand our real estate holdings. The Board will continue to monitor both of the sectors of the economy we serve and will adjust the capital budget as new opportunities arise.

In the first nine months of 2019, gross capital expenditures on a pre-consolidated basis were \$55.2 million as compared to \$69.2 million in 2018. These capital expenditures were comprised of \$32.3 million in the Trucking/Logistics segment (2018 – \$36.7 million), \$16.6 million in the Oilfield Services segment (2018 – \$22.0 million) and \$6.3 million in the Corporate Office (2018 – \$10.5 million). Gross dispositions on a pre-consolidated basis were \$7.5 million in 2019 as compared to \$11.0 million in 2018. These gross dispositions were



comprised of \$1.4 million in the Trucking/Logistics segment (2018 – \$2.3 million) and \$6.1 million in the Oilfield Services segment (2018 – \$8.7 million).

### **Acquisitions and Intangible Assets**

*The acquisitions set forth below have been accounted for by the acquisition method and the financial results of operations have been included in the accompanying Interim Financial Statements from the date of acquisition.*

#### **2019**

**Argus Carriers Ltd. and Inter-Urban Delivery Service Ltd.** – On July 1, 2019, we acquired all of the issued and outstanding shares of Argus Carriers Ltd. ("**Argus**") and Inter-Urban Delivery Service Ltd. ("**Inter-Urban**") for total cash consideration of \$20.0 million. Both Argus and Inter-Urban provide transportation and logistics services in the Lower Mainland of British Columbia. We acquired Argus and Inter-Urban as part of our strategy to invest in transportation and logistics companies that have a strong regional LTL presence centrally located to serve consumers in large urban centres. Argus and Inter-Urban have been integrated into the operations of Tenold Transportation Ltd. ("**Tenold**"), whose financial results are included in the Trucking/Logistics segment.

Argus, a well-established company founded in 1948, has approximately 95 employees and dedicated owner operators and operates a fleet of 57 trucks and 46 trailers providing general freight services including: local pick-up and delivery, warehousing, regional LTL, dedicated and linehaul trucking from four British Columbia operating terminals – Burnaby, Kelowna, Victoria, and Nanaimo. In addition, Argus provides daily LTL service to the Pacific Northwest of the United States.

Inter-Urban, also a well-established company founded in 1974, has approximately 70 employees and dedicated owner operators and operates 43 trucks and 26 trailers focusing on critical same day delivery service for the healthcare sector including: cross-border linehaul, cross-border LTL cartage, dedicated and local pick-up and delivery. Inter-Urban operates from a terminal based in Abbotsford, British Columbia.

**Jen Express Inc.** – On May 1, 2019, we acquired the business and assets of Jen Express Inc. ("**Jen Express**") for cash consideration of \$1.5 million. Included in this amount is \$0.3 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendor may receive cash consideration of up to \$0.3 million for achieving certain financial targets over the two year period ending May 1, 2021. The funds to settle this liability have been set aside in an escrow account, which have been presented within cash and cash equivalents. We acquired Jen Express as part of our strategy to invest in the transportation sector in western Canada. Located in Stettler, Alberta, Jen Express offers LTL services and has been integrated into the operations of the Hi-Way 9 Group of Companies ("**Hi-Way 9**"), whose financial results are included in the Trucking/Logistics segment.

#### **2018**

**DWS Logistics Inc.** – On February 9, 2018, we acquired DWS Logistics Inc. ("**DWS**") for cash consideration of \$10.1 million, comprised of \$8.3 million for all the issued and outstanding shares and \$1.8 million for the repayment of debt. Included in this amount is \$1.0 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendors could receive cash consideration of up to \$1.0 million for achieving certain financial targets for the twelve month period ended December 31, 2018. DWS achieved such targets. The funds to settle this liability had been set aside in an escrow account. DWS is headquartered in Mississauga, Ontario and provides value-added warehousing and distribution services that includes warehousing, distribution, order fulfilment, cross docking and transloading, all of which are supported by a proprietary inventory management system. DWS has over 500,000 square feet of warehousing space situated in four distribution centres in the greater Toronto area and the Lower Mainland of British Columbia. DWS is an asset-light operation and generates margins that are in line with Mullen Group's non-asset based Business Units in the Trucking/Logistics segment. We acquired DWS as part of our strategy to invest in the transportation and e-commerce sectors in Canada. The financial results from DWS' operations are included in the Trucking/Logistics segment.



**Dacota Freight Services Ltd.** – Effective April 1, 2018, we acquired Dacota Freight Services Ltd. ("**Dacota**") for cash consideration of \$2.4 million, comprised of \$2.1 million for all the issued and outstanding shares and \$0.3 million for the repayment of debt. Included in this amount is \$0.2 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendor may receive cash consideration of up to \$0.2 million for achieving certain financial targets over the two year period ending March 31, 2020. The funds to settle this liability have been set aside in an escrow account, which have been presented within cash and cash equivalents. Dacota is headquartered in Cranbrook, British Columbia and provides transportation and logistics services primarily in western Canada. We acquired Dacota as part of our strategy to invest in the transportation sector in western Canada. Dacota has been integrated into the operations of Hi-Way 9, whose financial results are included in the Trucking/Logistics segment.

**AECOM's Canadian Industrial Services Division** – On June 25, 2018, we acquired the business and assets of AECOM's Canadian Industrial Services Division ("**AECOM ISD**") for cash consideration of \$25.9 million. We acquired the business and assets of AECOM ISD as part of our strategy to invest in the energy sector. AECOM ISD provides specialized oilfield services and operates largely within the heavy oil and oil sands regions of Alberta. As part of the transaction, Mullen Group hired approximately 350 people and purchased in excess of 250 pieces of specialized equipment including: pressure trucks, hydrovacs, vacuum trucks, combo units, flushby units, fluid hauling equipment and various other pieces of support equipment. AECOM ISD service offerings are complementary to Mullen Group's Oilfield Services segment and it has been integrated into the operations of Cascade Energy Services L.P., E-Can Oilfield Services L.P. and Heavy Crude Hauling L.P., whose financial results are included in the Oilfield Services segment.

**Canadian Hydrovac Ltd.** – Effective July 1, 2018, we acquired Canadian Hydrovac Ltd. ("**Canadian Hydrovac**") for total consideration of \$11.9 million consisting of \$9.9 million of cash consideration and \$2.0 million of Common Shares of the Corporation by issuing 133,334 Common Shares. We recorded \$4.6 million of cash used to acquire all of the issued and outstanding shares of Canadian Hydrovac on our condensed consolidated statement of cash flows, which consists of \$9.9 million of total cash consideration less \$5.3 million allocated to the repayment of long-term debt. Canadian Hydrovac is headquartered in Sherwood Park, Alberta, in the heart of the refinery complex of the greater Edmonton region and Alberta's Industrial Heartland and operates a fleet of approximately 50 pieces of specialized equipment including: hydrovacs, vacuum trucks, combo units and various other pieces of support equipment. Canadian Hydrovac is an industry leader in providing hydrovac services to the midstream, pipeline, construction and municipal sectors of western Canada. We acquired Canadian Hydrovac as part of our strategy to invest in the energy sector. The results from Canadian Hydrovac's operations are included in the Oilfield Services segment.

**Number 8 Freight Ltd.** – Effective August 1, 2018, we acquired the business and assets of 1007474 B.C. Ltd. doing business as Number 8 Freight, which were contributed to a newly formed corporation named Number 8 Freight Ltd. ("**Number 8**") for cash consideration of \$5.0 million. Number 8 manages a fleet of approximately 80 dedicated subcontractors that provides same day LTL, full load and expedited transportation services to the greater Vancouver and Fraser Valley regions of British Columbia. Number 8 is an asset-light operation and generates margins that are in line with Mullen Group's non-asset based Business Units in the Trucking/Logistics segment. We acquired Number 8 as part of our strategy to invest in the transportation sector in western Canada. Number 8 operates out of a facility located in Chilliwack, British Columbia and has been integrated into the operations of Tenold, whose financial results are included in the Trucking/Logistics segment.

### ***Intangible Assets***

In the second quarter of 2019, MT purchased a customer list for Hi-Way 9 from a third-party for \$0.4 million. The customer list included LTL customers in the Alberta and British Columbia regions.

In the fourth quarter of 2018, Gardewine purchased a customer list from a third-party for \$3.0 million. The customer list included LTL customers in northern Ontario.



### ***Bank Credit Facility Amendments***

On October 24, 2018, we entered into an agreement to amend the amount available to be borrowed on the credit facility with the Royal Bank of Canada (the "**Bank Credit Facility**"). The amount available to be borrowed on the Bank Credit Facility was increased by \$50.0 million to \$125.0 million. On June 21, 2019, the amount available to be borrowed on the Bank Credit Facility was increased by \$25.0 million to \$150.0 million. All other terms under the Bank Credit Facility remain the same. This facility does not have any financial covenants, however, we cannot be in default of our Private Placement Debt (as hereafter defined on page 17) and we must be in compliance with certain reporting and general covenants. We are in compliance with all of these reporting and general covenants.

### ***Repayment of Private Placement Debt***

On June 29, 2018, we used cash to repay \$70.0 million of Series D Notes. The Series D Notes matured on June 30, 2018. The repayment of the Series D Notes reduced our annual interest obligation by approximately \$4.0 million. Prior to the repayment of the Series D Notes, the weighted average interest rate on our Canadian dollar Private Placement Debt (as hereafter defined on page 17) was 4.51 percent. The weighted average interest rate after repaying the Series D Notes is 3.99 percent.

### ***Equity Investments***

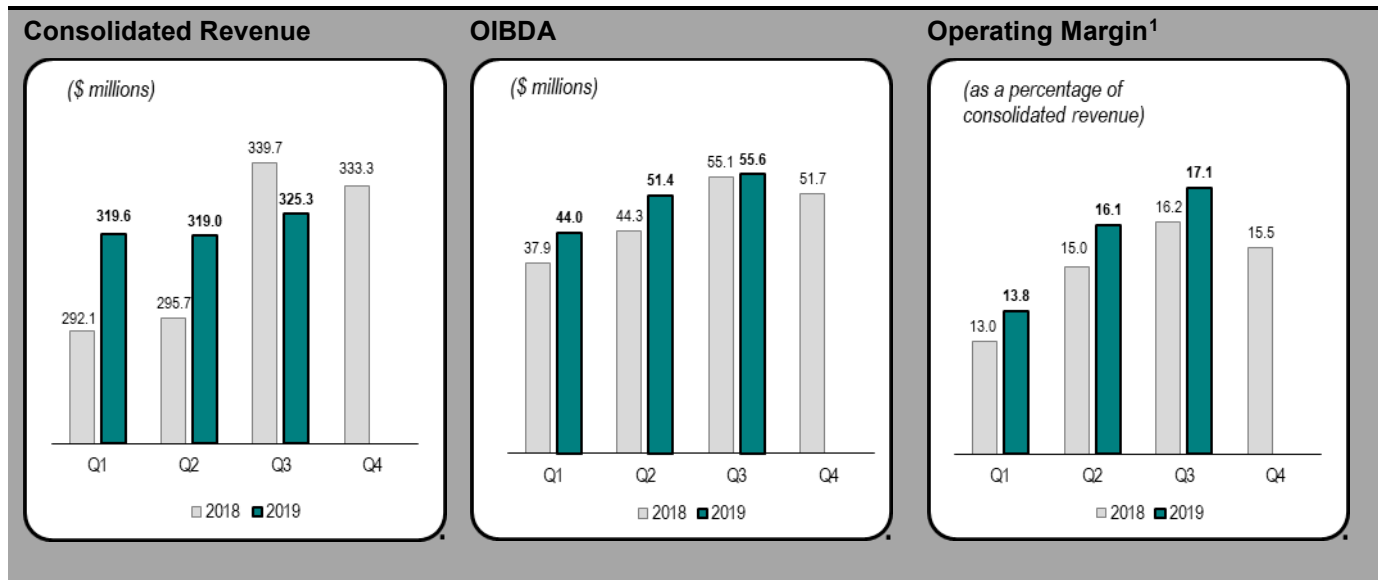
On August 1, 2018, we invested \$2.0 million to acquire a 40.0 percent equity interest in Pacific Coast Express Limited ("**PCX**"), a LTL transportation company operating out of a number of facilities throughout western Canada. This investment is part of our strategy to invest alongside high quality entrepreneurs in companies that have growth potential. In conjunction with this investment, we also entered into a \$3.2 million debenture agreement with PCX. We granted the majority shareholder of PCX an irrevocable option to sell all of the remaining shares of PCX to us at a price to be agreed upon by both parties once certain financial targets have been achieved.

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# CONSOLIDATED FINANCIAL RESULTS – THREE MONTH PERIOD ENDED SEPTEMBER 30, 2019

## Summary – Trailing Seven Quarters

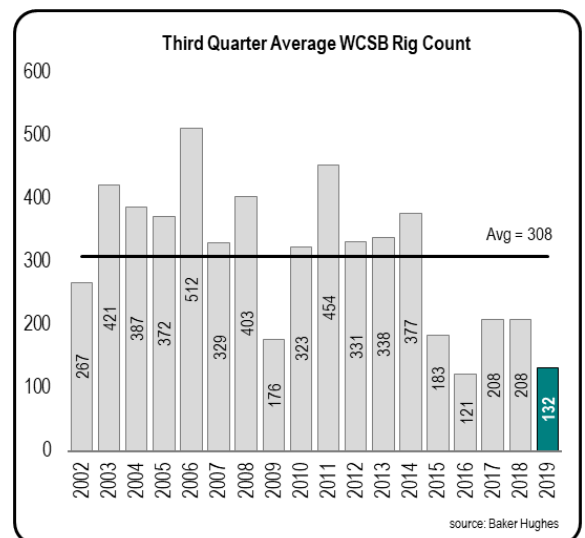


Third quarter results, while up from the second quarter, were softer than the prior year period primarily due to weakness in the demand for truckload freight services and another very challenging quarter for the oil and natural gas service industry. Acquisitions, along with strong demand for large diameter pipeline hauling activity, were positive contributors during the current quarter. The specific positive factors that influenced our third quarter results were:

- the increased demand for large diameter pipeline construction related services contributed \$9.5 million in incremental revenue at Premay Pipeline;
- the completion of the acquisitions of Argus, Inter-Urban and Number 8 added \$7.1 million of incremental revenue;
- strong performance by Gardewine; and
- various cost control initiatives, including a focus on streamlining and integration of acquisitions.

These positive factors, however, were offset by declines in most Business Units stemming from lower demand for freight and oilfield services and competitive pricing. More specifically, third quarter results were negatively impacted by:

- significant declines in drilling activity in western Canada to multi-year lows (see adjacent graph). As a result, revenue generated by those Business Units most directly tied to drilling activity declined by \$8.1 million;
- mandated crude oil curtailments by the Alberta Government resulted in production declines and lower demand for crude oil hauling and related production



<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



services. As a result, revenue generated by those Business Units involved in the transportation of fluids and servicing of wells declined by \$12.3 million;

- economic activity in North America, as measured by gross domestic product ("**GDP**"), remained soft contributing to lower demand for general freight services as well as declines in spot market pricing, most notably in the truckload sector. As a result, revenue generated by those Business Units tied to truckload services declined by \$11.0 million; and
- fuel surcharge revenue, excluding the effect of acquisitions, declined by \$3.7 million due to lower overall fuel pricing.

## Revenue

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

Q3 Consolidated Revenue by Segment						
(unaudited) (\$ millions)	2019		2018		Change	
	\$	%*	\$	%*	\$	%
	Trucking/Logistics	222.2	68.1	226.7	66.4	(4.5)
Oilfield Services	103.9	31.9	114.5	33.6	(10.6)	(9.3)
Corporate and intersegment eliminations	(0.8)	—	(1.5)	—	0.7	—
Total	325.3	100.0	339.7	100.0	(14.4)	(4.2)

\*as a percentage of pre-consolidated revenue

We generated consolidated revenue of \$325.3 million in the third quarter as compared to \$339.7 million in 2018, representing a year over year decline of 4.2 percent or \$14.4 million, primarily due to the continuing challenges experienced by the oil and natural gas industry in western Canada as well as a lack of any sustained growth in the Canadian economy, factors contributing to revenue declines in both operating segments. The Trucking/Logistics segment decreased by a modest 2.0 percent, principally due to the net effect of acquisitions, which contributed \$7.1 million in incremental revenue during the quarter, being partially offset by declines in revenue associated with lower truckload shipments due to a slowing in demand for goods such as lumber, oilfield equipment and specialized equipment and lower fuel surcharge revenue. The Oilfield Services segment experienced a \$10.6 million, or 9.3 percent, decrease in revenue due to the significant reduction in drilling activity as well as crude oil production curtailments mandated by the Alberta Government. Pipeline construction activity, however, was strong contributing to a year over year increase in pipeline related activity of \$9.5 million. Fuel surcharge revenue was \$21.1 million as compared to \$23.9 million in 2018.

Q3 Consolidated Revenue						
(unaudited) (\$ millions)	2019		2018		Change	
	\$	%	\$	%	\$	%
	Company	236.1	72.6	234.0	68.9	2.1
Contractors	88.0	27.1	104.1	30.6	(16.1)	(15.5)
Other	1.2	0.3	1.6	0.5	(0.4)	(25.0)
Total	325.3	100.0	339.7	100.0	(14.4)	(4.2)

Revenue generated by Company Equipment increased by \$2.1 million, or 0.9 percent, to \$236.1 million as compared to \$234.0 million in 2018 and represented 72.6 percent of consolidated revenue in the current period as compared to 68.9 percent in 2018. However, as a result of lower consolidated revenue we limited the use of Contractors during the quarter, consequently Contractors revenue fell by \$16.1 million, or 15.5 percent, to \$88.0 million as compared to \$104.1 million in 2018 and represented 27.1 percent of consolidated revenue in the current period as compared to 30.6 percent in 2018.





## Direct Operating Expenses

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

Q3 Consolidated Direct Operating Expenses						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Company						
Wages and benefits	63.0	26.7	64.7	27.6	(1.7)	(2.6)
Fuel	19.1	8.1	22.5	9.6	(3.4)	(15.1)
Repairs and maintenance	31.4	13.3	31.5	13.5	(0.1)	(0.3)
Purchased transportation	25.1	10.6	22.7	9.7	2.4	10.6
Operating supplies	16.9	7.2	13.9	5.9	3.0	21.6
Other	6.7	2.8	6.7	2.9	—	—
	162.2	68.7	162.0	69.2	0.2	0.1
Contractors	66.1	75.1	78.2	75.1	(12.1)	(15.5)
Total	228.3	70.2	240.2	70.7	(11.9)	(5.0)

\*as a percentage of respective Consolidated revenue

DOE were \$228.3 million in the third quarter as compared to \$240.2 million in 2018. This decrease of \$11.9 million, or 5.0 percent, was in line with the \$14.4 million, or 4.2 percent, decrease in consolidated revenue.

DOE associated with Company Equipment increased to \$162.2 million as compared to \$162.0 million in 2018. The increase was only \$0.2 million, or 0.1 percent, despite a \$2.1 million, or 0.9 percent, increase in Company revenue primarily due to a decrease in fuel expense and cost control initiatives being partially offset by higher operating supplies expense related to Canadian Dewatering's and Premay Pipeline's operations. As a percentage of Company revenue these expenses decreased by 0.5 percent to 68.7 percent as compared to 69.2 percent in 2018.

Contractors expense in the third quarter decreased to \$66.1 million as compared to \$78.2 million in 2018. This \$12.1 million decrease was attributable to the \$16.1 million decline in Contractors revenue. As a percentage of revenue, Contractors expense remained at 75.1 percent as higher costs experienced by the Oilfield Services segment were offset by lower costs in the Trucking/Logistics segment.

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## Selling and Administrative Expenses

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

Q3 Consolidated Selling and Administrative Expenses						
(unaudited) (\$ millions)	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Wages and benefits	24.2	7.4	24.8	7.3	(0.6)	(2.4)
Communications, utilities and general supplies	11.2	3.4	10.9	3.2	0.3	2.8
Profit share	3.3	1.0	3.5	1.0	(0.2)	(5.7)
Foreign exchange	—	—	0.4	0.1	(0.4)	(100.0)
Stock-based compensation	0.3	0.1	0.4	0.1	(0.1)	(25.0)
Rent and other	2.4	0.8	4.4	1.4	(2.0)	(45.5)
Total	41.4	12.7	44.4	13.1	(3.0)	(6.8)

\*as a percentage of total Consolidated revenue

S&A expenses for the period declined by \$3.0 million to \$41.4 million as compared to \$44.4 million in 2018 largely due to the \$2.0 million reduction in rent expense associated with the adoption of IFRS 16 – Leases whereby previously expensed rent payments were capitalized under the new accounting framework. In addition to this reduction, we continued to focus on cost controls and reduced wages and benefits expense and benefited from a \$0.4 million positive variance in foreign exchange expense that related to the year over year change in the value of the Canadian dollar relative to the U.S. dollar. These decreases were partially offset by the \$0.6 million of incremental S&A expenses associated with acquisitions, most notably wages and benefits expense.

## Operating Income Before Depreciation and Amortization

Operating income before depreciation and amortization ("OIBDA") is net income before, depreciation of property, plant and equipment, depreciation of right-of-use assets, amortization of intangible assets, finance costs, net foreign exchange gains and losses, other (income) expense and income taxes.

Q3 Consolidated Operating Income Before Depreciation and Amortization						
(unaudited) (\$ millions)	2019		2018		Change	
	\$	%	\$	%	\$	%
Trucking/Logistics	35.8	64.4	36.0	65.3	(0.2)	(0.6)
Oilfield Services	22.3	40.1	21.6	39.2	0.7	3.2
Corporate	(2.5)	(4.5)	(2.5)	(4.5)	—	—
Total	55.6	100.0	55.1	100.0	0.5	0.9

OIBDA for the period was \$55.6 million, or 17.1 percent of revenue, as compared to \$55.1 million, or 16.2 percent, in 2018. The \$0.5 million increase represents a year over year increase of 0.9 percent and was primarily due to slightly higher OIBDA in the Oilfield Services segment and a \$0.2 million decline in OIBDA in the Trucking/Logistics segment.

OIBDA was positively impacted by the adoption of IFRS 16 – Leases whereby \$3.2 million of previously expensed operating leases were capitalized and depreciated. This had a 100-bps impact on operating margin<sup>1</sup>. On a comparative basis, and excluding the IFRS 16 – Leases adoption, OIBDA margin decreased by a marginal 0.1 percent to 16.1 percent as compared to 16.2 percent in 2018.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



## Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was \$18.6 million in the third quarter as compared to \$18.7 million in 2018. This decrease of \$0.1 million was mainly attributable to a lower amount of depreciation being recorded in the Oilfield Services segment, while depreciation in the Trucking/Logistics segment increased and the Corporate Office remained relatively consistent on a year over year basis. Depreciation in the Oilfield Services segment decreased by \$0.8 million and was mainly due to the lower amount of capital expenditures made within this segment, which was somewhat offset by a \$0.9 million increase in depreciation in the Trucking/Logistics segment due to a greater amount of capital expenditures being made within this segment.

## Depreciation of Right-of-Use Assets

Depreciation of right-of-use assets was \$2.8 million in the third quarter consisting of \$2.3 million in the Trucking/Logistics segment and \$0.5 million in the Oilfield Services segment. The majority of our right-of-use assets consist of real property leases within the Trucking/Logistics segment. Depreciation of right-of-use assets mainly consists of real property leases entered into by the Business Units and are depreciated over the lease term. Effective January 1, 2019, we adopted IFRS 16 – Leases using the modified retrospective method. Under the modified retrospective method, comparative financial information is not restated and continues to be reported under the accounting standards in effect for those periods. The associated right-of-use assets were measured at the lease liability amount, adjusted by the amount of any subleases and any lease inducements relating to those leases.

## Amortization of Intangible Assets

Intangible assets are normally acquired on acquisitions and are mainly comprised of customer relationship values and non-competition agreements that are amortized over their estimated life from the date of acquisition. Amortization of intangible assets was \$5.1 million in the third quarter as compared to \$3.9 million in 2018. This increase mainly resulted from the additional amortization recorded on the intangible assets associated with the recent acquisitions in the Trucking/Logistics segment and from a customer list purchased by Gardewine in the fourth quarter of 2018.

## Finance Costs

Finance costs consist of:

- Interest expense on financial liabilities, including:
  - U.S. \$117.0 million of Series G Notes, U.S. \$112.0 million of Series H Notes, \$30.0 million of Series I Notes, \$3.0 million of Series J Notes, \$58.0 million of Series K Notes and \$80.0 million of Series L Notes (collectively, the "**Private Placement Debt**");
  - the 2019 Debentures that were issued in June 2019;
  - lease liabilities; and
  - borrowings on the Bank Credit Facility.
- Less any interest income generated from the debentures issued to PCX and Thrive Management Group Ltd. and from cash and cash equivalents.

Finance costs were \$6.9 million in the third quarter as compared to \$4.7 million in 2018. The increase of \$2.2 million was mainly attributable to the \$2.4 million of interest expense being recorded on the 2019 Debentures, the interest expense on the lease liabilities and from a greater amount of interest expense being recorded on our U.S. dollar debt as a result of the change in the value of the Canadian dollar relative to the U.S. dollar in the third quarter of 2019. These increases were somewhat offset by the reduction in interest expense from borrowings on the Bank Credit Facility and from a greater amount of interest income being earned on cash held in the third quarter of 2019.



## Net Foreign Exchange (Gain) Loss

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

The net foreign exchange gain was \$3.9 million in the third quarter of 2019 as compared to a net foreign exchange gain of \$1.8 million in 2018. The net foreign exchange gain of \$3.9 million in 2019 resulted even though the principal portion of all our U.S. \$229.0 million debt is hedged by our Cross-Currency Swaps. This gain is due to how our U.S. dollar debt and our Cross-Currency Swaps are valued for accounting purposes. Our U.S. dollar debt is valued at the end of each quarter using the closing exchange rate between the Canadian dollar vis-à-vis the U.S. dollar (the "**Spot Rate**"). In addition to the Spot Rate, our Cross-Currency Swaps are valued using a discounted value from maturity of the forward rate, which is influenced by changes in interest rate differentials between Canada and the United States. As the Cross-Currency Swaps get closer to maturity, their accounting value should more closely correlate to the value of our U.S. dollar debt. The variance of \$2.1 million was mainly attributable to the change in the value of the Canadian dollar relative to the U.S. dollar. The details of the net foreign exchange gain are as follows:

Net Foreign Exchange (Gain) Loss  (unaudited) (\$ millions)	Three month periods ended September 30	
	CDN. \$ Equivalent	
	2019	2018
Foreign exchange loss (gain) on U.S. \$ debt	3.6	(5.2)
Foreign exchange (gain) loss on Cross-Currency Swaps	(7.5)	3.4
Net foreign exchange (gain)	(3.9)	(1.8)

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

We recorded a foreign exchange loss of \$3.6 million related to our U.S. dollar debt due to the \$0.0156 weakening of the Canadian dollar relative to the U.S. dollar during the third quarter of 2019. For the same period in 2018, we recorded a foreign exchange gain of \$5.2 million due to the strengthening of the Canadian dollar relative to the U.S. dollar. The details of the foreign exchange loss (gain) on the U.S. dollar debt are summarized in the following table:

Foreign Exchange Loss (Gain) on U.S. \$ Debt  (unaudited) (\$ millions, except exchange rate amounts)	Three month periods ended September 30					
	2019			2018		
	U.S. \$ Debt	Exchange Rate	CDN. \$ Equivalent	U.S. \$ Debt	Exchange Rate	CDN. \$ Equivalent
Ending – September 30	229.0	1.3243	303.3	229.0	1.2945	296.4
Beginning – June 30	229.0	1.3087	299.7	229.0	1.3168	301.6
Foreign exchange loss (gain) on U.S. \$ debt			3.6			(5.2)

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

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



We recorded a foreign exchange gain on Cross-Currency Swaps of \$7.5 million in the third quarter of 2019 as compared to a \$3.4 million loss in 2018. This was due to the change over the period in the fair value of these Cross-Currency Swaps as summarized in the table below:

Foreign Exchange (Gain) Loss on Cross-Currency Swaps	Three month periods ended September 30			
	2019		2018	
	U.S. \$ Swaps	CDN. \$ Change in Fair Value of Swaps	U.S. \$ Swaps	CDN. \$ Change in Fair Value of Swaps
(unaudited) (\$ millions)				
Cross-Currency Swap maturing October 22, 2024	117.0	(3.5)	117.0	1.7
Cross-Currency Swap maturing October 22, 2026	112.0	(4.0)	112.0	1.7
Foreign exchange (gain) loss on Cross-Currency Swaps		(7.5)		3.4

## Other (Income) Expense

Other (income) expense consists of the change in fair value of investments, the gain or loss on sale of the Corporation's assets including property, plant and equipment and earnings from equity investments. Other income in the third quarter was \$0.2 million, a \$0.2 million positive variance as compared to nil being recorded in 2018. The \$0.2 million positive variance was due to the factors set forth below:

Change in Fair Value of Investments (no variance). We periodically invest in certain public corporations. We recorded a decrease in the fair value of investments of \$0.3 million in the third quarter as compared to a \$0.3 million decrease in 2018. In the third quarter of 2019, we sold \$0.7 million of investments. There were no investments purchased or sold in the third quarter of 2018.

Loss on Sale of Property, Plant and Equipment (negative variance of \$0.1 million). We recognized a loss of \$0.4 million on sale of property, plant and equipment on total consolidated proceeds on sale of \$1.2 million in the third quarter as compared to a \$0.3 million loss on sale of property, plant and equipment on total consolidated proceeds on sale of \$2.1 million in 2018.

Earnings from Equity Investments (positive variance of \$0.3 million). We recognized \$0.9 million of earnings from equity investments in the third quarter as compared to earnings of \$0.6 million in 2018. We use the equity method to account for investments in which we obtain significant influence or joint control over the investee and we recognize earnings from these equity investments from the date thereof. The following table details our equity investments and the date from which we commenced recording earnings from them.

Equity Investments	Date of Significant Influence or Joint Control Obtained
Canol Oilfield Services Inc.	January 1, 2013
Kriska Transportation Group Limited	December 1, 2014
Cordova Oilfield Services Ltd.	April 17, 2015
Butler Ridge Energy Services (2011) Ltd.	July 1, 2015
Thrive Management Group Ltd.	September 27, 2017
Pacific Coast Express Limited	August 1, 2018



## Income Taxes

<i>(unaudited)</i> (\$ millions)	Three month periods ended September 30			
	2019		2018	
Income before income taxes	\$	26.3	\$	29.6
Combined statutory tax rate		27%		27%
Expected income tax		7.1		8.0
Add (deduct):				
Non-deductible (taxable) portion of net foreign exchange gain		(0.5)		(0.2)
Non-deductible (taxable) portion of the change in fair value of investments		—		0.1
Stock-based compensation expense		0.1		0.1
Changes in unrecognized deferred tax asset		(0.5)		(0.2)
Decrease in income tax due to changes in income tax rates		(0.1)		—
Other		(0.3)		(0.1)
Income tax expense	\$	5.8	\$	7.7

Income tax expense was \$5.8 million in the third quarter of 2019 as compared to \$7.7 million in 2018. The decrease of \$1.9 million was mainly attributable to the lower amount of income generated in 2019 as compared to the prior year and from the variance in net foreign exchange.

## Net Income

<i>(unaudited)</i> (\$ millions, except share and per share amounts)	Three month periods ended September 30				
	2019		2018		% Change
Net income	\$	20.5	\$	21.9	(6.4)
Weighted average number of Common Shares outstanding		104,824,973		104,821,061	—
Earnings per share – basic	\$	0.20	\$	0.21	(4.8)

Net income decreased to \$20.5 million in the third quarter as compared to \$21.9 million in 2018. The factors contributing to the decrease in net income include:

- a \$2.8 million increase in depreciation of right-of-use assets;
- a \$2.2 million increase in finance costs;
- a \$1.2 million increase in amortization of intangible assets; and
- a \$0.1 million increase in the loss on sale of property, plant and equipment.

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

- a \$2.1 million positive variance in net foreign exchange;
- a \$1.9 million decrease in income tax expense;
- a \$0.5 million increase in OIBDA;
- a \$0.3 million increase in earnings from equity investments; and
- a \$0.1 million decrease in depreciation of property, plant and equipment.



Basic earnings per share decreased to \$0.20 in 2019 as compared to \$0.21 in 2018. This resulted from the effect of the \$1.4 million decrease in net income. The weighted average number of Common Shares outstanding increased slightly from 104,821,061 to 104,824,973, which was mainly due to the conversion of some previously issued convertible debentures that were issued in 2009 (the "**2009 Debentures**") into Common Shares in 2018 and from the Common Shares issued on the Canadian Hydrovac acquisition.

## Net Income – Adjusted and Earnings per Share – Adjusted

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

<i>(unaudited)</i> (\$ millions, except share and per share amounts)	Three month periods ended September 30	
	2019	2018
Income before income taxes	\$ 26.3	\$ 29.6
Add (deduct):		
Net foreign exchange (gain) loss	(3.9)	(1.8)
Change in fair value of investments	0.3	0.3
Income before income taxes – adjusted	22.7	28.1
Income tax rate	27%	27%
Computed expected income tax expense	6.1	7.6
Net income – adjusted <sup>(1)</sup>	16.6	20.5
Weighted average number of Common Shares outstanding – basic	104,824,973	104,821,061
Earnings per share – adjusted <sup>(1)</sup>	\$ 0.16	\$ 0.19

<sup>(1)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

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## SEGMENTED INFORMATION – THREE MONTH PERIOD ENDED SEPTEMBER 30, 2019

Three month period ended September 30, 2019 (unaudited) (\$ millions)	Trucking /Logistics	Oilfield Services	Corporate and intersegment eliminations	Total
	\$	\$	\$	\$
Revenue	222.2	103.9	(0.8)	325.3
Direct operating expenses	160.0	69.8	(1.5)	228.3
Selling and administrative expenses	26.4	11.8	3.2 <sup>(2)</sup>	41.4
Operating income before depreciation and amortization	35.8	22.3	(2.5)	55.6
Net capital expenditures <sup>(1)</sup>	10.4	3.2	3.2	16.8

Three month period ended September 30, 2018 (unaudited) (\$ millions)	Trucking /Logistics	Oilfield Services	Corporate and intersegment eliminations	Total
	\$	\$	\$	\$
Revenue	226.7	114.5	(1.5)	339.7
Direct operating expenses	163.3	79.9	(3.0)	240.2
Selling and administrative expenses	27.4	13.0	4.0 <sup>(3)</sup>	44.4
Operating income before depreciation and amortization	36.0	21.6	(2.5)	55.1
Net capital expenditures <sup>(1)</sup>	11.4	13.8	9.8	35.0

<sup>(1)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

<sup>(2)</sup> Includes a nil amount of foreign exchange.

<sup>(3)</sup> Includes a \$0.2 million foreign exchange loss.

### TRUCKING/LOGISTICS SEGMENT

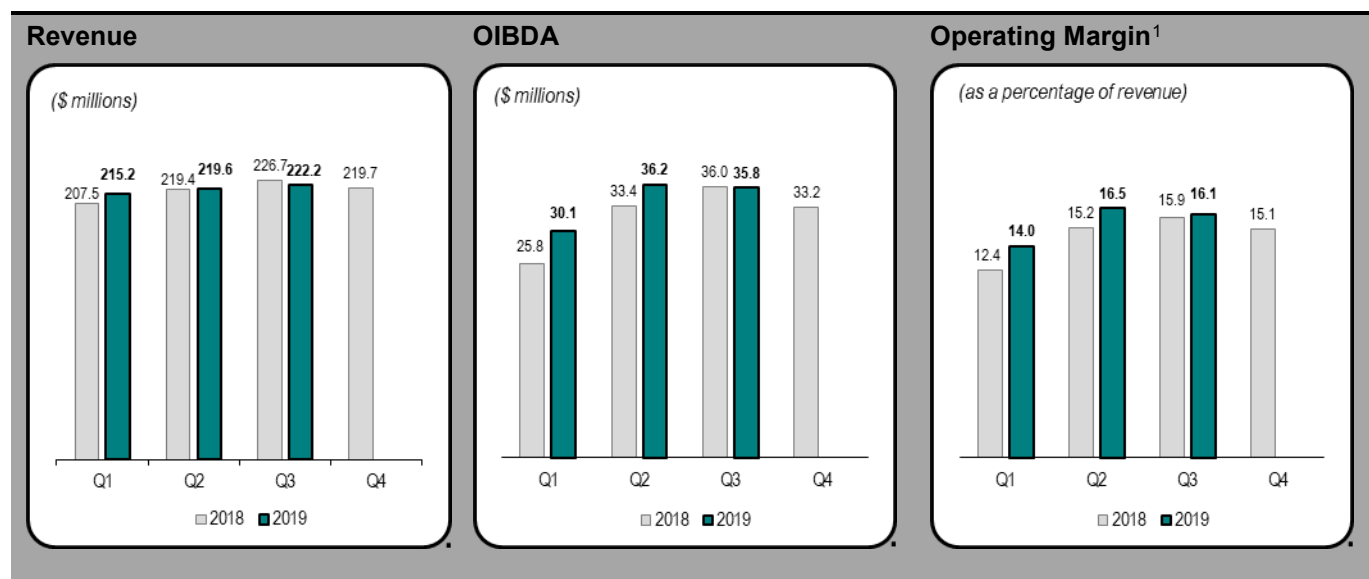
The transportation and distribution of freight is a \$200 billion plus business in Canada and is generally described as both highly competitive and fragmented. The Trucking/Logistics segment provides a wide range of trucking and logistics services in Canada, as well as to and from the continental U.S. At September 30, 2019, the Trucking/Logistics segment was comprised of 14 Business Units that utilize both Company Equipment and Contractors.

Service Offerings	Key Drivers and Considerations
<ul style="list-style-type: none"> <li>Long-Haul Trucking (T/L)</li> </ul>	<ul style="list-style-type: none"> <li>Tied to general economy (i.e., GDP)</li> </ul>
<ul style="list-style-type: none"> <li>Less-Than-Truckload Trucking (LTL)</li> </ul>	<ul style="list-style-type: none"> <li>Regional network comprised of 99 terminals</li> </ul>
<ul style="list-style-type: none"> <li>Logistics, Intermodal and Transload Services</li> </ul>	<ul style="list-style-type: none"> <li>Requires less maintenance capital</li> </ul>
<ul style="list-style-type: none"> <li>Bulk Hauling</li> </ul>	<ul style="list-style-type: none"> <li>Primarily contract services</li> </ul>





## Summary – Trailing Seven Quarters



General economic activity is the main driver of demand levels for our Trucking/Logistics segment. The Trucking/Logistics segment is also influenced by North American trade volumes and resulting demand for freight services. Early estimates indicate that Canada's real GDP remained unchanged in July 2019 as a decline in goods-producing industries was offset by an increase in services-producing industries. The U.S. economy continues to grow and it is estimated that the U.S. economy expanded by 2.1 percent in the third quarter after growing by 2.0 percent in the second quarter.

## Revenue

Q3 Revenue – Trucking/Logistics						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%	\$	%	\$	%
Company	153.2	68.9	147.3	65.0	5.9	4.0
Contractors	68.7	30.9	79.2	34.9	(10.5)	(13.3)
Other	0.3	0.2	0.2	0.1	0.1	50.0
<b>Total</b>	<b>222.2</b>	<b>100.0</b>	<b>226.7</b>	<b>100.0</b>	<b>(4.5)</b>	<b>(2.0)</b>

The Trucking/Logistics segment generated solid revenue in the third quarter, despite some challenges associated with the slowdown in the North American freight markets, and represented 68.1 percent of pre-consolidated revenue as compared to 66.4 percent in 2018. Revenue declined by \$4.5 million, or 2.0 percent, to \$222.2 million as compared to \$226.7 million in 2018 due to lower demand for capital related project work, a softening of the general economy and a rebalancing of inventories in certain markets. This was somewhat offset by incremental revenue related to our recent acquisitions and resilient consumer demand that helped to improve revenue at Gardewine. Some of the specific factors that impacted revenue in the third quarter were the following:

- The regional LTL business improved by 6.2 percent during the quarter due to revenue gains at Gardewine and \$7.1 million of incremental revenue related to the acquisitions being partially offset by a \$1.3 million reduction in fuel surcharge revenue. Our five regional LTL Business Units<sup>2</sup> generated revenue of \$114.7 million as compared to \$108.0 million in 2018.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

<sup>2</sup> Our five regional LTL Business Units consist of Gardewine, Courtesy Freight Systems Ltd, Jay's Transportation Group Ltd., Hi-Way 9 and Grimshaw Trucking L.P. Also included in these results are Argus and Inter-Urban, which operate under the oversight of Tenold. Although their primary service offering is LTL, they provide many other services including full-truckload, bulk and logistics services.



- Truckload revenue declined by \$11.0 million due to the decrease in demand for truckload services as a result of lower GDP growth, a lack of project work associated with capital investments, as well as a \$1.8 million reduction in fuel surcharge revenue. The nine truckload services Business Units generated \$110.7 million in revenue as compared to \$121.7 million in 2018.
- Fuel surcharge revenue, excluding the effect of acquisitions, declined to \$19.9 million as compared to \$23.0 million in 2018.

Revenue related to Company Equipment increased by \$5.9 million, or 4.0 percent, to \$153.2 million as compared to \$147.3 million in 2018, primarily due to an increase in demand for LTL services, representing 68.9 percent of segment revenue in the current period as compared to 65.0 percent in 2018. Revenue related to Contractors decreased by \$10.5 million, or 13.3 percent, to \$68.7 million as compared to \$79.2 million in 2018 and represented 30.9 percent of segment revenue in the current period as compared to 34.9 percent in 2018 due to the reduction in demand for truckload services.

## Direct Operating Expenses

Q3 Direct Operating Expenses – Trucking/Logistics						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Company						
Wages and benefits	41.9	27.3	40.2	27.3	1.7	4.2
Fuel	14.3	9.3	15.8	10.7	(1.5)	(9.5)
Repairs and maintenance	18.2	11.9	16.8	11.4	1.4	8.3
Purchased transportation	24.2	15.8	21.9	14.9	2.3	10.5
Operating supplies	6.3	4.1	5.2	3.5	1.1	21.2
Other	4.5	3.0	4.6	3.1	(0.1)	(2.2)
	109.4	71.4	104.5	70.9	4.9	4.7
Contractors	50.6	73.7	58.8	74.2	(8.2)	(13.9)
Total	160.0	72.0	163.3	72.0	(3.3)	(2.0)

\*as a percentage of respective Trucking/Logistics revenue

Total DOE were \$160.0 million in the third quarter as compared to \$163.3 million in 2018. The decrease of \$3.3 million, or 2.0 percent, was in line with the \$4.5 million, or 2.0 percent, decline in segment revenue. DOE expressed as a percentage of revenue remained at 72.0 percent.

DOE related to Company Equipment increased by \$4.9 million, or 4.7 percent, to \$109.4 million as compared to \$104.5 million in 2018. In terms of a percentage of revenue, Company expenses increased by 0.5 percent to 71.4 percent as compared to 70.9 percent in 2018 due to higher purchased transportation costs at Gardewine as a result of market share gains being somewhat offset by lower fuel costs.

Contractors expense in the third quarter decreased by \$8.2 million to \$50.6 million as compared to \$58.8 million in 2018. This decrease was generally in proportion to the \$10.5 million decrease in Contractors revenue. As a percentage of Contractors revenue, Contractors expense decreased by 0.5 percent to 73.7 percent as compared to 74.2 percent in 2018 due to the greater availability of subcontractors.



## Selling and Administrative Expenses

Q3 Selling and Administrative Expenses – Trucking/Logistics						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Wages and benefits	16.4	7.4	16.0	7.1	0.4	2.5
Communications, utilities and general supplies	6.9	3.1	6.3	2.8	0.6	9.5
Profit share	1.8	0.8	2.3	1.0	(0.5)	(21.7)
Foreign exchange	0.1	—	0.2	0.1	(0.1)	(50.0)
Rent and other	1.2	0.6	2.6	1.1	(1.4)	(53.8)
<b>Total</b>	<b>26.4</b>	<b>11.9</b>	<b>27.4</b>	<b>12.1</b>	<b>(1.0)</b>	<b>(3.6)</b>

\*as a percentage of total Trucking/Logistics revenue

S&A expenses were \$26.4 million in the third quarter as compared to \$27.4 million in 2018. The decrease of \$1.0 million was primarily due to the \$1.4 million reduction in rent expense associated with the adoption of IFRS 16 – Leases being partially offset by the \$0.6 million of incremental S&A expenses associated with the acquisitions. S&A expenses as a percentage of segment revenue declined to 11.9 percent as compared to 12.1 percent in 2018.

## Operating Income Before Depreciation and Amortization

OIBDA for the third quarter decreased by \$0.2 million, or 0.6 percent, to \$35.8 million as compared to \$36.0 million generated in 2018 due to the reduction in OIBDA generated by our truckload services Business Units. Somewhat offsetting this decrease was the \$2.7 million increase in OIBDA due to the adoption of IFRS 16 – Leases, \$1.1 million of incremental OIBDA associated with acquisitions and improved results generated by our regional LTL Business Units.

Operating margin<sup>1</sup> increased by 0.2 percent to 16.1 percent as compared to 15.9 percent in 2018 primarily due to the adoption of IFRS 16 – Leases, which had a 1.2 percent positive impact on our operating margin<sup>1</sup>. When comparing our operating margin<sup>1</sup> without the impact of IFRS 16 – Leases, it was 14.9 percent, a decrease of 100-bps as compared to 2018, primarily due to competitive market conditions and spot market pricing declines.

## Capital Expenditures

Net capital expenditures<sup>1</sup> were \$10.4 million in the third quarter, a decrease of \$1.0 million as compared to \$11.4 million in 2018. The Trucking/Logistics segment had gross capital expenditures of \$10.7 million and dispositions of \$0.3 million for net capital expenditures<sup>1</sup> of \$10.4 million in 2019. The majority of the capital was invested to purchase trucks and trailers and various pieces of operating equipment to both replace and support new opportunities within this segment. In 2018 gross capital expenditures were \$12.1 million and dispositions were \$0.7 million for net capital expenditures<sup>1</sup> of \$11.4 million.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



## OILFIELD SERVICES SEGMENT

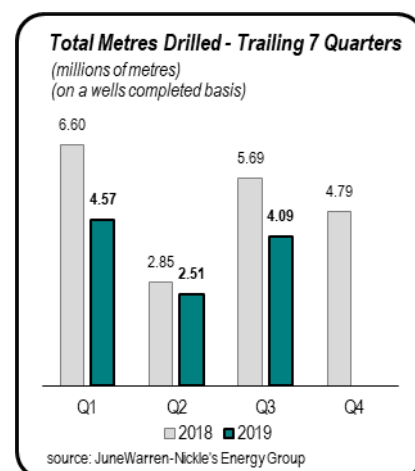
Mullen Group provides the energy sector in northern and western Canada with a wide range of services related to the drilling for oil and natural gas, oil and natural gas production, oil sands infrastructure development and capital projects. At September 30, 2019, the Oilfield Services segment was comprised of 17 Business Units, that utilize both Company Equipment and Contractors.

Service Offerings	Key Drivers and Considerations
<ul style="list-style-type: none"> <li>Production Services</li> </ul>	<ul style="list-style-type: none"> <li>Commodity prices (i.e., oil and natural gas)</li> </ul>
<ul style="list-style-type: none"> <li>Specialized Services                             <ul style="list-style-type: none"> <li>oil sands, dewatering and infrastructure</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Drilling trends and evolving technologies</li> <li>Take-away / Pipeline Capacity</li> </ul>
<ul style="list-style-type: none"> <li>Drilling and Drilling Related</li> </ul>	<ul style="list-style-type: none"> <li>Drilling activity in western Canada</li> </ul>

### Industry Statistics

One of the important industry statistics we follow is drilling activity. With changes in drilling techniques the industry continues to evolve. We consider the number of active rigs operating, total wells drilled, length of metres drilled within such wells and the number of operating days, to be useful measures to gauge the strength of industry activity. Recent efforts to enhance drilling efficiency, combined with a movement to longer and deeper multi-stage horizontal wells have changed the correlation of certain drilling statistics. Generally speaking, the rig count and average days to drill a well have decreased while the total metres drilled have increased. In addition, drilling techniques have evolved whereby the demand for bagged mud has diminished. However, the increase in metres drilled per well has continued to support demand for drill pipe transportation and drilling fluid hauling services.

Drilling activity in the Western Canadian Sedimentary Basin ("WCSB"), as reported in terms of active rig count, total wells drilled and length of metres drilled within such wells, decreased significantly in the quarter as compared to the prior year. Industry statistics indicate that the average active rig count for the quarter was 132 rigs during 2019 as compared to 208 active rigs in 2018, a decrease of 76 rigs or 36.5 percent. Total wells drilled decreased by 32.5 percent to 1,423 wells drilled in the quarter as compared to 2,108 wells drilled in 2018. The length of metres drilled also decreased by 28.1 percent during the current quarter to 4.09 million metres as compared to 5.69 million metres in 2018. In addition, a portion of our operations are related to the continued development and extraction of the oil sands deposits in western Canada, which is changing due to current crude oil pricing, lack of pipeline capacity to new markets and regulatory requirements.



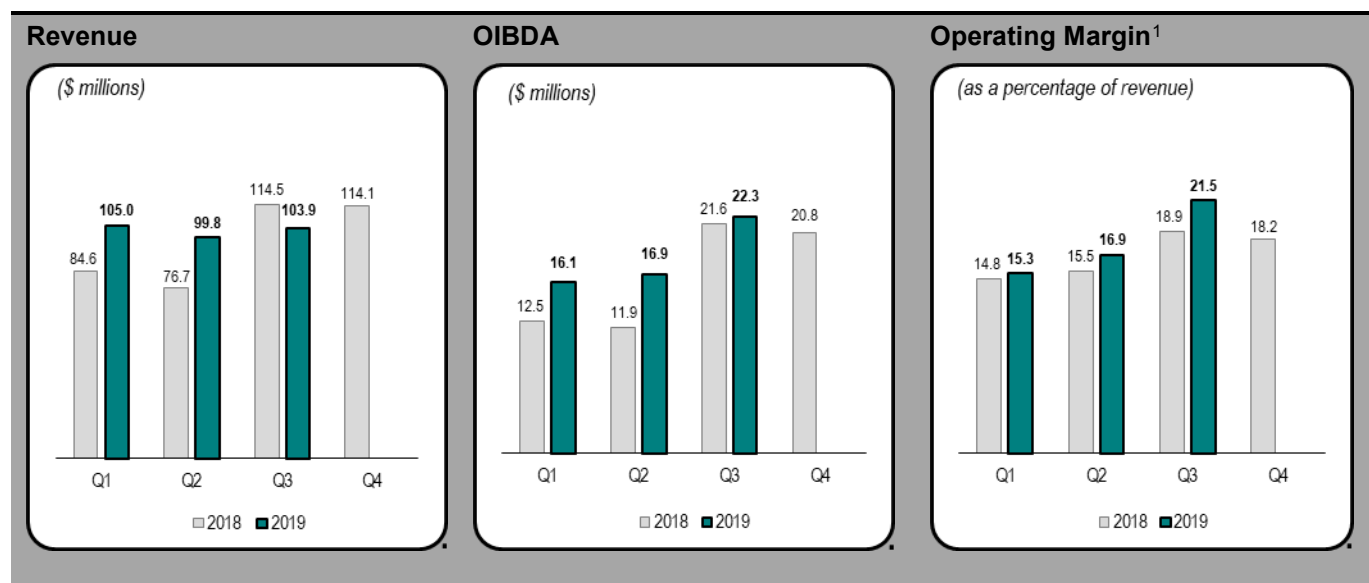
The number of wells completed on a geographic basis for the quarter was as follows:

	Three month periods ended September 30			
	2019	2018	# Change	% Change
British Columbia	84	109	(25)	(22.9)
Alberta	676	1,091	(415)	(38.0)
Saskatchewan	608	804	(196)	(24.4)
Manitoba	55	104	(49)	(47.1)
Northwest Territories	—	—	—	—
<b>Total</b>	<b>1,423</b>	<b>2,108</b>	<b>(685)</b>	<b>(32.5)</b>

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



## Summary – Trailing Seven Quarters



## Revenue

Q3 Revenue – Oilfield Services						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%	\$	%	\$	%
Company	83.0	79.9	86.7	75.7	(3.7)	(4.3)
Contractors	20.7	19.9	27.6	24.1	(6.9)	(25.0)
Other	0.2	0.2	0.2	0.2	—	—
<b>Total</b>	<b>103.9</b>	<b>100.0</b>	<b>114.5</b>	<b>100.0</b>	<b>(10.6)</b>	<b>(9.3)</b>

Segment revenue decreased by \$10.6 million, or 9.3 percent, to \$103.9 million as compared to \$114.5 million in 2018 and represented 31.9 percent of pre-consolidated revenue as compared to 33.6 percent in 2018. The decline in revenue can be attributed to the drop in drilling activity in the WCSB and Alberta Government mandated crude oil curtailments that resulted in both the loss of demand for oilfield production and drilling related services and very competitive pricing. These negative factors were partially offset by strong results generated by several Business Units providing specialized services. Some of the specific factors that impacted revenue in the third quarter were the following:

- a \$9.5 million increase in revenue at Premay Pipeline, a provider of pipeline hauling and stringing services as well as stronger demand for other specialized services, including Canadian Dewatering and Premay Equipment L.P.;
- a \$12.3 million decrease in revenue generated by those Business Units involved in the transportation of fluids and servicing of wells due to very competitive pricing and the Alberta crude oil curtailment program; and
- a \$9.1 million decrease in revenue generated by those Business Units most directly tied to oil and natural gas drilling activity and those providing drilling services due to the significant decline in drilling activity during the quarter and intense competition.

Revenue related to Company Equipment decreased by \$3.7 million, or 4.3 percent, to \$83.0 million as compared to \$86.7 million in 2018 and represented 79.9 percent of segment revenue in the current period as compared to 75.7 percent in 2018. Revenue related to Contractors accounted for the majority of the segment revenue decline

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



and decreased by \$6.9 million, or 25.0 percent, to \$20.7 million as compared to \$27.6 million in 2018. It represented 19.9 percent of segment revenue in the current period as compared to 24.1 percent in 2018.

## Direct Operating Expenses

Q3 Direct Operating Expenses – Oilfield Services						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Company						
Wages and benefits	21.1	25.4	24.6	28.4	(3.5)	(14.2)
Fuel	4.8	5.8	6.8	7.8	(2.0)	(29.4)
Repairs and maintenance	13.2	15.9	14.7	17.0	(1.5)	(10.2)
Purchased transportation	1.0	1.2	0.8	0.9	0.2	25.0
Operating supplies	10.5	12.7	8.6	9.9	1.9	22.1
Other	2.3	2.7	2.6	3.0	(0.3)	(11.5)
	52.9	63.7	58.1	67.0	(5.2)	(9.0)
Contractors	16.9	81.6	21.8	79.0	(4.9)	(22.5)
Total	69.8	67.2	79.9	69.8	(10.1)	(12.6)

\*as a percentage of respective Oilfield Services revenue

DOE decreased by \$10.1 million, or 12.6 percent, to \$69.8 million in the third quarter as compared to \$79.9 million in 2018 due to the following factors:

- a \$10.6 million, or 9.3 percent, decline in segment revenue;
- a focus on cost control that reduced wages and benefits expense as well as repairs and maintenance expense as a percentage of revenue;
- lower fuel expense due to the fall in oil and diesel prices; and
- higher operating supplies expense related to Canadian Dewatering and Premay Pipeline.

Overall, despite lower revenue, these expenses decreased as a percentage of revenue by 2.6 percent to 67.2 percent as compared to 69.8 percent in 2018.

DOE associated with Company Equipment in the third quarter decreased to \$52.9 million as compared to \$58.1 million in 2018. The decrease of \$5.2 million, or 9.0 percent, was directly related to the \$3.7 million, or 4.3 percent, decrease in Company revenue. As a percentage of Company revenue these expenses decreased by 3.3 percent to 63.7 percent as compared to 67.0 percent in 2018, primarily due to lower wages and benefits expense that declined by 3.0 percent due to continued cost control initiatives as well as improved performance at Premay Pipeline.

Contractors expense in the third quarter decreased by \$4.9 million to \$16.9 million as compared to \$21.8 million in 2018. This decrease was generally in line with the decrease in Contractors revenue. As a percentage of Contractors revenue, Contractors expense increased to 81.6 percent as compared to 79.0 percent in 2018 due to higher costs borne by those Business Units involved in the transportation of fluids and servicing of wells.



## Selling and Administrative Expenses

Q3 Selling and Administrative Expenses – Oilfield Services						
(unaudited) (\$ millions)	2019		2018		Change	
	\$	%*	\$	%*	\$	%
	Wages and benefits	6.1	5.9	7.1	6.2	(1.0)
Communications, utilities and general supplies	3.4	3.3	3.4	3.0	—	—
Profit share	1.5	1.4	1.2	1.0	0.3	25.0
Rent and other	0.8	0.8	1.3	1.2	(0.5)	(38.5)
<b>Total</b>	<b>11.8</b>	<b>11.4</b>	<b>13.0</b>	<b>11.4</b>	<b>(1.2)</b>	<b>(9.2)</b>

\*as a percentage of total Oilfield Services revenue

S&A expenses were \$11.8 million in the third quarter as compared to \$13.0 million in 2018. The \$1.2 million decrease was attributable to lower wages and benefits expense and a \$0.5 million reduction in rent expense due to the adoption of IFRS 16 – Leases whereby previously expensed rent payments were capitalized under the new accounting framework. S&A expenses as a percentage of segment revenue remained stable at 11.4 percent largely due to headcount reductions.

## Operating Income Before Depreciation and Amortization

OIBDA in the third quarter increased by \$0.7 million, or 3.2 percent, to \$22.3 million as compared to \$21.6 million in 2018. Operating margin<sup>1</sup> increased to 21.5 percent in the third quarter as compared to 18.9 percent in 2018 due to the greater proportion of higher margin specialized services including that of Premay Pipeline. In addition, IFRS 16 – Leases had a 0.5 percent positive impact on the operating margin<sup>1</sup>. These gains were offset by the decline in margin generated by those Business Units most directly tied to drilling related activity. Some of the specific factors that impacted OIBDA in the third quarter were the following:

- a \$4.0 million increase in those Business Units providing specialized services such as large diameter pipe stockpiling and stringing services as well as water management services;
- a \$1.5 million decrease in those Business Units tied to drilling related activity including rig moving as well as oilfield tubulars and drilling mud transportation and storage;
- a \$1.3 million decrease in those Business Units involved in the transportation of fluids and servicing of wells; and
- a \$0.4 million decrease in OIBDA relating to those Business Units involved in drilling services including conductor pipe setting.

## Capital Expenditures

Net capital expenditures<sup>1</sup> were \$3.2 million in the third quarter of 2019, a decrease of \$10.6 million as compared to \$13.8 million in 2018. The Oilfield Services segment had gross capital expenditures of \$4.1 million and dispositions of \$0.9 million for net capital expenditures<sup>1</sup> of \$3.2 million in 2019. The majority of the new capital was invested at Canadian Dewatering and Premay Pipeline to meet strong customer demand. In 2018 gross capital expenditures were \$15.2 million and dispositions were \$1.4 million for net capital expenditures<sup>1</sup> of \$13.8 million.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



## CORPORATE

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

The Corporate Office recorded a loss of \$2.5 million in the third quarter of 2019 as compared to a loss of \$2.5 million in 2018. The \$2.5 million loss in 2019 was mainly attributable to lower income generated from real estate holdings and from an increase in insurance costs being somewhat offset by a reduction in maintenance costs on real estate holdings as well as acquisition related expenses. In the third quarter of 2019, the Corporate Office recorded a foreign exchange gain of \$0.04 million as compared to a foreign exchange loss of \$0.2 million in 2018 on its U.S. dollar denominated cash.

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## CONSOLIDATED FINANCIAL RESULTS – NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

### Revenue

Consolidated Revenue by Segment Nine month periods ended September 30 (unaudited) (\$ millions)						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Trucking/Logistics	657.0	68.0	653.6	70.3	3.4	0.5
Oilfield Services	308.7	32.0	275.8	29.7	32.9	11.9
Corporate and intersegment eliminations	(1.8)	—	(1.9)	—	0.1	—
<b>Total</b>	<b>963.9</b>	<b>100.0</b>	<b>927.5</b>	<b>100.0</b>	<b>36.4</b>	<b>3.9</b>

\*as a percentage of pre-consolidated revenue

Mullen Group's consolidated revenue in 2019 increased by \$36.4 million, or 3.9 percent, to \$963.9 million as compared to \$927.5 million in 2018. This increase in revenue was primarily due to acquisitions that led to a rise in revenue in both segments. Revenue increased by \$27.5 million and \$23.3 million in the first and second quarters, respectively and then declined by \$14.4 million in the third quarter due to decreases in both segments.

Revenue in the Trucking/Logistics segment increased by \$3.4 million, or 0.5 percent, to \$657.0 million as compared to \$653.6 million in 2018. This improvement was primarily due to incremental revenue related to our recent acquisitions being partially offset by lower demand for freight services and fuel surcharge revenue. Revenue in the Oilfield Services segment increased by \$32.9 million, or 11.9 percent, to \$308.7 million as compared to \$275.8 million in 2018 primarily due to the acquisition of AECOM ISD at the end of the second quarter of 2018 as well as a significant increase in demand for large diameter pipeline stringing and stockpiling services, which was offset by lower drilling activity in the WCSB.

Consolidated Revenue Nine month periods ended September 30 (unaudited) (\$ millions)						
	2019		2018		Change	
	\$	%	\$	%	\$	%
Company	675.8	70.1	630.4	68.0	45.4	7.2
Contractors	283.3	29.4	291.0	31.4	(7.7)	(2.6)
Other	4.8	0.5	6.1	0.6	(1.3)	(21.3)
<b>Total</b>	<b>963.9</b>	<b>100.0</b>	<b>927.5</b>	<b>100.0</b>	<b>36.4</b>	<b>3.9</b>

Revenue related to Company Equipment increased by \$45.4 million, or 7.2 percent, to \$675.8 million as compared to \$630.4 million in 2018 and represented 70.1 percent of consolidated revenue in the current period as compared to 68.0 percent in 2018. Revenue related to Contractors decreased by \$7.7 million, or 2.6 percent, to \$283.3 million as compared to \$291.0 million in 2018, and represented 29.4 percent of consolidated revenue in the current period as compared to 31.4 percent in 2018.



## Direct Operating Expenses

Consolidated Direct Operating Expenses Nine month periods ended September 30 (unaudited) (\$ millions)						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Company						
Wages and benefits	182.3	27.0	169.0	26.8	13.3	7.9
Fuel	63.9	9.5	67.4	10.7	(3.5)	(5.2)
Repairs and maintenance	91.4	13.5	86.9	13.8	4.5	5.2
Purchased transportation	70.3	10.4	64.3	10.2	6.0	9.3
Operating supplies	47.1	7.0	40.0	6.3	7.1	17.8
Other	18.5	2.7	18.9	3.0	(0.4)	(2.1)
	473.5	70.1	446.5	70.8	27.0	6.0
Contractors	214.1	75.6	218.8	75.2	(4.7)	(2.1)
Total	687.6	71.3	665.3	71.7	22.3	3.4

\*as a percentage of respective Consolidated revenue

DOE were \$687.6 million as compared to \$665.3 million in 2018. The increase of \$22.3 million, or 3.4 percent, was attributable to the \$36.4 million, or 3.9 percent, increase in consolidated revenue. As a percentage of revenue these expenses decreased slightly to 71.3 percent as compared to 71.7 percent in 2018 due to lower fuel prices and operational efficiency gains in both segments.

DOE associated with Company Equipment increased to \$473.5 million as compared to \$446.5 million in 2018. The increase of \$27.0 million, or 6.0 percent, was attributable to the \$45.4 million, or 7.2 percent, increase in Company revenue that occurred during the period. As a percentage of Company revenue these expenses decreased to 70.1 percent as compared to 70.8 percent in 2018. A reduction in fuel expense accounted for the majority of the decrease. Total fuel expense decreased by 1.2 percent of Company revenue to 9.5 percent, or \$63.9 million, as compared to 10.7 percent or \$67.4 million in 2018.

Contractors expense in 2019 decreased by 2.1 percent to \$214.1 million, as compared to \$218.8 million in 2018. This \$4.7 million decrease was generally in line with the \$7.7 million, or 2.6 percent, decline in Contractors revenue. As a percentage of Contractors revenue, Contractors expense increased by 0.4 percent to 75.6 percent as compared to 75.2 percent in 2018 due to the effect of rate discounting, primarily by those Business Units involved in the transportation of fluids and servicing of wells in the Oilfield Services segment, being offset by lower costs in the Trucking/Logistics segment.

## Selling and Administrative Expenses

Consolidated Selling and Administrative Expenses Nine month periods ended September 30 (unaudited) (\$ millions)						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Wages and benefits	74.3	7.7	70.8	7.6	3.5	4.9
Communications, utilities and general supplies	34.9	3.6	33.1	3.6	1.8	5.4
Profit share	9.0	0.9	8.3	0.9	0.7	8.4
Foreign exchange	0.4	—	(0.7)	(0.1)	1.1	(157.1)
Stock-based compensation	1.0	0.1	1.3	0.1	(0.3)	(23.1)
Rent and other	5.7	0.7	12.1	1.4	(6.4)	(52.9)
Total	125.3	13.0	124.9	13.5	0.4	0.3

\*as a percentage of total Consolidated revenue

S&A expenses increased to \$125.3 million in 2019 as compared to \$124.9 million in 2018. The increase of \$0.4 million was primarily due to the \$5.2 million of incremental S&A expenses associated with the acquisitions, a



\$1.1 million negative variance in foreign exchange and the \$0.7 million increase in profit share expense being largely offset by a \$6.4 million reduction in rent expense associated with the adoption of IFRS 16 – Leases.

## Operating Income Before Depreciation and Amortization

Consolidated Operating Income Before Depreciation and Amortization						
Nine month periods ended September 30						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%	\$	%	\$	%
Trucking/Logistics	102.1	67.6	95.2	69.3	6.9	7.2
Oilfield Services	55.3	36.6	46.0	33.5	9.3	20.2
Corporate	(6.4)	(4.2)	(3.9)	(2.8)	(2.5)	64.1
Total	151.0	100.0	137.3	100.0	13.7	10.0

OIBDA for the period was \$151.0 million, or 15.7 percent of revenue, as compared to \$137.3 million, or 14.8 percent, in 2018. The \$13.7 million, or 10.0 percent, increase was primarily due to the adoption of IFRS 16 – Leases whereby \$9.4 million of previously expensed operating leases were capitalized and depreciated. This had a 100-bps impact on operating margin<sup>1</sup>. On a year over year comparative basis, operating margin<sup>1</sup> was relatively stable and decreased by only 0.1 percent to 14.7 percent as compared to 14.8 percent in 2018.

## Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was \$53.8 million in the first nine months of 2019 as compared to \$52.1 million in 2018. This increase of \$1.7 million was mainly attributable to a greater amount of depreciation being recorded in the Trucking/Logistics segment, while depreciation in the Oilfield Services segment decreased and the Corporate Office remained relatively consistent on a year over year basis. Depreciation in the Trucking/Logistics segment increased by \$2.5 million due to an increase in the amount of capital expenditures being made within this segment. Depreciation in the Oilfield Services segment decreased by \$0.7 million and was mainly due to the lower amount of capital expenditures made within this segment being somewhat offset by the incremental depreciation being recorded on the assets acquired in the AECOM ISD and the Canadian Hydrovac acquisitions.

## Depreciation of Right-of-Use Assets

Depreciation of right-of-use assets was \$8.4 million in the first nine months of 2019 consisting of \$6.8 million in the Trucking/Logistics segment and \$1.6 million in the Oilfield Services segment. Depreciation of right-of-use assets mainly consists of real property leases entered into by the Business Units and are depreciated over the lease term. Effective January 1, 2019, we adopted IFRS 16 – Leases using the modified retrospective method. Under the modified retrospective method, comparative financial information is not restated and continues to be reported under the accounting standards in effect for those periods. The associated right-of-use assets were measured at the lease liability amount, adjusted by the amount of any subleases and any lease inducements relating to those leases.

## Amortization of Intangible Assets

Amortization of intangible assets was \$14.0 million in the first nine months of 2019 as compared to \$11.1 million in 2018. This increase mainly resulted from the additional amortization recorded on the intangible assets associated with the recent acquisitions and from a customer list purchased by Gardewine in the fourth quarter of 2018. These increases were somewhat offset by certain intangible assets becoming fully amortized.

## Finance Costs

Finance costs were \$17.2 million in the first nine months of 2019 as compared to \$15.4 million in 2018. The increase of \$1.8 million was mainly attributable to the \$2.8 million of interest expense being recorded on the 2019 Debentures, the interest expense on the lease liabilities and from a greater amount of interest expense being recorded on our U.S. dollar debt as a result of the change in the value of the Canadian dollar relative to the U.S. dollar in 2019. These increases were somewhat offset by the June 29, 2018, repayment of the Series D

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



(\$70.0 million bearing interest at 5.76 percent) Notes, the repayment and conversion of the 2009 Debentures which matured on July 1, 2018, a reduction in interest expense from borrowings on the Bank Credit Facility and from a greater amount of interest income being earned on cash held in 2019.

## Net Foreign Exchange (Gain) Loss

The net foreign exchange gain was \$11.8 million in the first nine months of 2019 as compared to a loss of \$6.3 million in 2018. The components of net foreign exchange (gain) loss are as follows:

<b>Net Foreign Exchange (Gain) Loss</b>	<b>Nine month periods ended September 30</b>	
	<b>CDN. \$ Equivalent</b>	
	<b>2019</b>	<b>2018</b>
<i>(unaudited)</i> <i>(\$ millions)</i>		
Foreign exchange (gain) loss on U.S. \$ debt	(9.1)	9.1
Foreign exchange (gain) on Cross-Currency Swaps	(2.7)	(2.8)
Net foreign exchange (gain) loss	(11.8)	6.3

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

We recorded a foreign exchange gain of \$9.1 million related to the Corporation's U.S. dollar debt due to the \$0.0399 strengthening of the Canadian dollar relative to the U.S. dollar in the first nine months of 2019. For the same period in 2018 we recorded a foreign exchange loss of \$9.1 million due to the weakening of the Canadian dollar relative to the U.S. dollar. The details of the foreign exchange (gain) loss on U.S. dollar debt are summarized in the table below:

<b>Foreign Exchange (Gain) Loss on U.S. \$ Debt</b>	<b>Nine month periods ended September 30</b>					
	<b>2019</b>			<b>2018</b>		
	<b>U.S. \$ Debt</b>	<b>Exchange Rate</b>	<b>CDN. \$ Equivalent</b>	<b>U.S. \$ Debt</b>	<b>Exchange Rate</b>	<b>CDN. \$ Equivalent</b>
<i>(unaudited)</i> <i>(\$ millions, except exchange rate amounts)</i>						
Ending – September 30	229.0	1.3243	303.3	229.0	1.2945	296.4
Beginning – January 1	229.0	1.3642	312.4	229.0	1.2545	287.3
Foreign exchange (gain) loss on U.S. \$ debt			(9.1)			9.1

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

We recorded a foreign exchange gain on Cross-Currency Swaps of \$2.7 million in the first nine months of 2019 as compared to a \$2.8 million gain in 2018. This was due to the change over the period in the fair value of these Cross-Currency Swaps as summarized in the table below:

<b>Foreign Exchange (Gain) Loss on Cross-Currency Swaps</b>	<b>Nine month periods ended September 30</b>			
	<b>2019</b>		<b>2018</b>	
	<b>U.S. \$ Swaps</b>	<b>CDN. \$ Change in Fair Value of Swaps</b>	<b>U.S. \$ Swaps</b>	<b>CDN. \$ Change in Fair Value of Swaps</b>
<i>(unaudited)</i> <i>(\$ millions)</i>				
Cross-Currency Swap maturing October 22, 2024	117.0	(0.8)	117.0	(1.8)
Cross-Currency Swap maturing October 22, 2026	112.0	(1.9)	112.0	(1.0)
Foreign exchange (gain) loss on Cross-Currency Swaps		(2.7)		(2.8)



## Other (Income) Expense

Other income was \$0.5 million for the first nine months of 2019 as compared to \$1.7 million of other income recorded in 2018. The \$1.2 million negative variance was due to the factors set forth below:

Change in Fair Value of Investments (positive variance of \$1.1 million). We recorded a decrease in the fair value of investments of \$0.3 million in the first nine months of 2019 as compared to a \$1.4 million decrease in 2018. There were \$0.7 million of investments sold during the first nine months of 2019. There were no investments purchased or sold during the first nine months of 2018.

Gain or Loss on Sale of Property, Plant and Equipment (negative variance of \$2.3 million). We recognized a loss of \$1.8 million on sale of property, plant and equipment on consolidated proceeds on sale of \$3.7 million in the first nine months of 2019 as compared to a \$0.5 million gain on consolidated proceeds on sale of \$9.6 million in 2018. The \$1.8 million loss on sale of property, plant and equipment in 2019 mainly resulted from the sale of older equipment in both the Trucking/Logistics and Oilfield Services segments. The \$0.5 million gain on sale of property, plant and equipment in 2018 mainly resulted from the sale of older equipment in the Oilfield Services segment.

Earnings from Equity Investments (no variance). We recognized \$2.6 million of earnings from equity investments in the first nine months of 2019 as compared to \$2.6 million in 2018.

## Income Taxes

<i>(unaudited)</i> (\$ millions)	Nine month periods ended September 30	
	2019	2018
Income before income taxes	\$ 69.9	\$ 54.1
Combined statutory tax rate	27%	27%
Expected income tax	18.9	14.6
Add (deduct):		
Non-deductible (taxable) portion of net foreign exchange (gain) loss	(1.6)	0.9
Non-deductible (taxable) portion of the change in fair value of investments	—	0.2
Stock-based compensation expense	0.3	0.3
Changes in unrecognized deferred tax asset	(1.6)	0.9
Decrease in income tax due to changes in income tax rate	(9.5)	—
Other	(0.4)	(0.1)
Income tax expense	\$ 6.1	\$ 16.8

Income tax expense was \$6.1 million in the first nine months of 2019 as compared to \$16.8 million in 2018. The decrease of \$10.7 million was mainly attributable to the decrease in the substantively enacted tax rate in Alberta. In the second quarter of 2019, the Government of Alberta passed Bill 3, which will reduce the Alberta provincial corporate tax rate from 12.0 percent to 8.0 percent in a phased approach between July 1, 2019 and January 1, 2022. As a result of this change, the Corporation made an adjustment to current and deferred income taxes of \$0.2 million and \$9.5 million, respectively, which was recorded in 2019.



## Net Income

<i>(unaudited)</i> (\$ millions, except share and per share amounts)	Nine month periods ended September 30		
	2019	2018	% Change
Net income	\$ 63.8	\$ 37.3	71.0
Weighted average number of Common Shares outstanding	104,824,973	104,087,666	0.7
Earnings per share – basic	\$ 0.61	\$ 0.36	69.4

Net income increased to \$63.8 million in the first nine months of 2019 as compared to \$37.3 million in 2018. The factors contributing to the increase in net income include:

- an \$18.1 million positive variance in net foreign exchange;
- a \$13.7 million increase in OIBDA;
- a \$10.7 million decrease in income tax expense; and
- a \$1.1 million positive variance in the fair value of investments.

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

- an \$8.4 million increase in depreciation of right-of-use assets;
- a \$2.9 million increase in amortization of intangible assets;
- a \$2.3 million increase in the loss on sale of property, plant and equipment;
- a \$1.8 million increase in finance costs; and
- a \$1.7 million increase in depreciation of property, plant and equipment.

Basic earnings per share increased to \$0.61 in 2019 as compared to \$0.36 in 2018. This increase resulted from the effect of the \$26.5 million increase in net income. The weighted average number of Common Shares outstanding increased slightly from 104,087,666 to 104,824,973, which was mainly due to the conversion of some of the 2009 Debentures into Common Shares in 2018 and from the Common Shares issued on the Canadian Hydrovac acquisition.

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## Net Income – Adjusted and Earnings per Share – Adjusted

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

<i>(unaudited)</i> (\$ millions, except share and per share amounts)	Nine month periods ended September 30	
	2019	2018
Income before income taxes	\$ 69.9	\$ 54.1
Add (deduct):		
Net foreign exchange (gain) loss	(11.8)	6.3
Change in fair value of investments	0.3	1.4
Income before income taxes – adjusted	58.4	61.8
Income tax rate	27%	27%
Computed expected income tax expense	15.8	16.7
Net income – adjusted <sup>(1)</sup>	42.6	45.1
Weighted average number of Common Shares outstanding – basic	104,824,973	104,087,666
Earnings per share – adjusted <sup>(1)</sup>	\$ 0.41	\$ 0.43

<sup>(1)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

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## SEGMENTED INFORMATION – NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

Nine month period ended September 30, 2019 (unaudited) (\$ millions)	Trucking /Logistics	Oilfield Services	Corporate and intersegment eliminations	Total
	\$	\$	\$	\$
Revenue	657.0	308.7	(1.8)	963.9
Direct operating expenses	475.6	217.8	(5.8)	687.6
Selling and administrative expenses	79.3	35.6	10.4	125.3
Operating income before depreciation and amortization	102.1	55.3	(6.4)	151.0
Net capital expenditures <sup>(1)</sup>	30.9	10.5	6.2	47.6

Nine month period ended September 30, 2018 (unaudited) (\$ millions)	Trucking /Logistics	Oilfield Services	Corporate and intersegment eliminations	Total
	\$	\$	\$	\$
Revenue	653.6	275.8	(1.9)	927.5
Direct operating expenses	478.4	194.2	(7.3)	665.3
Selling and administrative expenses	80.0	35.6	9.3 <sup>(3)</sup>	124.9
Operating income before depreciation and amortization	95.2	46.0	(3.9)	137.3
Net capital expenditures <sup>(1)</sup>	34.4	13.3	10.5	58.2

<sup>(1)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

<sup>(2)</sup> Includes a \$0.2 million foreign exchange loss.

<sup>(3)</sup> Includes a \$0.1 million foreign exchange gain.

## TRUCKING/LOGISTICS SEGMENT

### Revenue

Revenue – Trucking/Logistics Nine month periods ended September 30 (unaudited) (\$ millions)						
	2019		2018		Change	
	\$	%	\$	%	\$	%
Company	440.9	67.1	427.6	65.4	13.3	3.1
Contractors	215.2	32.8	225.2	34.5	(10.0)	(4.4)
Other	0.9	0.1	0.8	0.1	0.1	12.5
Total	657.0	100.0	653.6	100.0	3.4	0.5

The Trucking/Logistics segment revenue increased by \$3.4 million, or 0.5 percent, to \$657.0 million as compared to \$653.6 million in 2018 and represented 68.0 percent of pre-consolidated revenue in 2019 as compared to 70.3 percent in 2018. Segment revenue increased as a result of the incremental revenue related to our recent acquisitions being partially offset by lower demand for freight services and fuel surcharge revenue. Revenue increased by \$7.7 million and \$0.2 million in the first and second quarters, respectively, and fell by \$4.5 million in the third quarter. Some of the specific factors that impacted revenue were the following:

- Our regional LTL business improved by \$8.9 million, or 2.7 percent, during the nine month period and benefitted from acquisitions and modest market share gains. The five regional LTL Business Units<sup>1</sup> generated revenue of \$333.9 million as compared to \$325.0 million in 2018.

<sup>1</sup> Although their primary service offering is LTL, they provide many other services including full-truckload, bulk and logistics services.





- Our truckload services Business Units generated \$331.9 million in revenue as compared to \$337.2 million in 2018 due to the decrease in demand for truckload services as a result of lower GDP growth, a lack of project work associated with capital investments, as well as a reduction in fuel surcharge revenue.
- Fuel surcharge revenue, excluding the effect of acquisitions, declined by \$3.6 million to \$63.2 million as compared to \$66.8 million in 2018.

Revenue related to Company Equipment increased by \$13.3 million, or 3.1 percent, to \$440.9 million as compared to \$427.6 million in 2018 and represented 67.1 percent of segment revenue in the current period as compared to 65.4 percent in 2018. Revenue related to Contractors decreased by \$10.0 million, or 4.4 percent, to \$215.2 million as compared to \$225.2 million in 2018 and represented 32.8 percent of segment revenue in the current period as compared to 34.5 percent in 2018.

## Direct Operating Expenses

Direct Operating Expenses – Trucking/Logistics						
Nine month periods ended September 30						
(unaudited) (\$ millions)	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Company						
Wages and benefits	117.8	26.7	116.0	27.1	1.8	1.6
Fuel	46.2	10.5	49.9	11.7	(3.7)	(7.4)
Repairs and maintenance	52.4	11.9	50.1	11.7	2.3	4.6
Purchased transportation	68.6	15.6	62.9	14.7	5.7	9.1
Operating supplies	18.9	4.3	18.0	4.2	0.9	5.0
Other	12.9	2.9	13.6	3.2	(0.7)	(5.1)
	<b>316.8</b>	<b>71.9</b>	310.5	72.6	6.3	2.0
Contractors	<b>158.8</b>	<b>73.8</b>	167.9	74.6	(9.1)	(5.4)
Total	<b>475.6</b>	<b>72.4</b>	478.4	73.2	(2.8)	(0.6)

\*as a percentage of respective Trucking/Logistics revenue

DOE expressed as a percentage of revenue decreased by 0.8 percent to 72.4 percent as compared to 73.2 percent in 2018 due to lower fuel costs and operational efficiencies. Total DOE were \$475.6 million in 2019 as compared to \$478.4 million in 2018. The decrease of \$2.8 million, or 0.6 percent, resulted despite a \$3.4 million, or 0.5 percent, increase in segment revenue and was directly related to the following factors:

- a continued focus on cost control;
- lower fuel expense as a result of lower diesel fuel prices; and
- higher purchased transportation costs as a result of market share gains experienced by Gardewine.

DOE related to Company Equipment increased by \$6.3 million, or 2.0 percent, to \$316.8 million as compared to \$310.5 million in 2018. This increase was generally in proportion to the \$13.3 million increase in Company revenue. In terms of a percentage of revenue, Company expenses decreased by 0.7 percent to 71.9 percent as compared to 72.6 percent in 2018. This decrease was primarily due to decreased fuel costs associated with the year over year decline in diesel prices.

Contractors expense in 2019 decreased by \$9.1 million to \$158.8 million as compared to \$167.9 million in 2018. This decrease was generally in line with the \$10.0 million decrease in Contractors revenue. As a percentage of Contractors revenue, Contractors expense decreased slightly to 73.8 percent as compared to 74.6 percent in 2018 due to the greater availability of subcontractors.



## Selling and Administrative Expenses

Selling and Administrative Expenses – Trucking/Logistics						
Nine month periods ended September 30						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Wages and benefits	49.2	7.5	46.9	7.2	2.3	4.9
Communications, utilities and general supplies	21.6	3.3	20.2	3.1	1.4	6.9
Profit share	5.4	0.8	5.8	0.9	(0.4)	(6.9)
Foreign exchange	0.3	—	(0.6)	(0.1)	0.9	(150.0)
Rent and other	2.8	0.5	7.7	1.1	(4.9)	(63.6)
<b>Total</b>	<b>79.3</b>	<b>12.1</b>	<b>80.0</b>	<b>12.2</b>	<b>(0.7)</b>	<b>(0.9)</b>

\*as a percentage of total Trucking/Logistics revenue

S&A expenses were \$79.3 million in 2019 as compared to \$80.0 million in 2018. The decrease of \$0.7 million was primarily due to the \$4.9 million reduction in rent expense associated with the adoption of IFRS 16 – Leases being offset by the \$1.9 million of incremental S&A expenses associated with the acquisitions and a \$0.9 million negative variance in foreign exchange. S&A expenses as a percentage of segment revenue remained relatively stable at 12.1 percent as compared to 12.2 percent in 2018.

## Operating Income Before Depreciation and Amortization

OIBDA in 2019 increased by \$6.9 million, or 7.2 percent, to \$102.1 million as compared to \$95.2 million generated in 2018. The majority of this rise in OIBDA, specifically \$7.7 million, was due to the adoption of IFRS 16 – Leases. In addition, acquisitions accounted for \$2.0 million of incremental OIBDA. Somewhat offsetting these gains was a reduction in OIBDA generated by our truckload services Business Units.

Operating margin<sup>1</sup> increased by 0.9 percent to 15.5 percent as compared to 14.6 percent in 2018 primarily due to the adoption of IFRS 16 – Leases, which had a 1.2 percent positive impact on our operating margin<sup>1</sup>. When comparing our operating margin<sup>1</sup> without the impact of IFRS 16 – Leases, it was 14.4 percent. The 0.2 percent decrease in operating margin<sup>1</sup> was primarily due to lower margins generated by the recent acquisitions, which are generally classified as asset light and typically generate lower margins.

## Capital Expenditures

Net capital expenditures<sup>1</sup> were \$30.9 million in the first nine months of 2019, a decrease of \$3.5 million as compared to \$34.4 million in 2018. The Trucking/Logistics segment had gross capital expenditures of \$32.3 million and dispositions of \$1.4 million for net capital expenditures<sup>1</sup> of \$30.9 million in 2019. The majority of the capital was invested to purchase trucks and trailers and various pieces of operating equipment to both replace and support new opportunities within this segment. In addition, we transferred some trucks and trailers to the Trucking/Logistics segment from the Oilfield Services segment to improve asset utilization. In 2018 gross capital expenditures were \$36.7 million and dispositions were \$2.3 million for net capital expenditures<sup>1</sup> of \$34.4 million.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



## OILFIELD SERVICES SEGMENT

One of the main business drivers of our Oilfield Services segment is related to drilling activity in the WCSB. Current activity, as reported in terms of active rig count, total wells drilled and length of metres drilled within such wells, decreased in the first nine months of 2019 as compared to the prior year. Industry statistics indicate that the average active rig count was 134 rigs during 2019 as compared to 196 active rigs in 2018, a decrease of 62 rigs or 31.6 percent. In addition, total wells drilled in 2019 decreased by 23.8 percent to 4,372 wells drilled in the period as compared to 5,741 wells drilled in 2018. The length of metres drilled within such wells decreased by 26.2 percent during the current period to 11.17 million metres as compared to 15.14 million metres in 2018.

The number of wells completed on a geographic basis for the nine month periods was as follows:

	Nine month periods ended September 30			
	2019	2018	# Change	% Change
British Columbia	291	334	(43)	(12.9)
Alberta	2,441	3,269	(828)	(25.3)
Saskatchewan	1,491	1,936	(445)	(23.0)
Manitoba	149	202	(53)	(26.2)
Northwest Territories	—	—	—	—
<b>Total</b>	<b>4,372</b>	<b>5,741</b>	<b>(1,369)</b>	<b>(23.8)</b>

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

## Revenue

Revenue – Oilfield Services						
Nine month periods ended September 30						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%	\$	%	\$	%
Company	234.9	76.1	202.8	73.5	32.1	15.8
Contractors	73.1	23.7	72.1	26.1	1.0	1.4
Other	0.7	0.2	0.9	0.4	(0.2)	(22.2)
<b>Total</b>	<b>308.7</b>	<b>100.0</b>	<b>275.8</b>	<b>100.0</b>	<b>32.9</b>	<b>11.9</b>

Segment revenue increased by \$32.9 million, or 11.9 percent, to \$308.7 million as compared to \$275.8 million in 2018 and represented 32.0 percent of pre-consolidated revenue as compared to 29.7 percent of pre-consolidated revenue in 2018. This increase in revenue was mainly attributable to the 2018 mid-year acquisition of AECOM ISD that contributed \$39.4 million of incremental revenue in the first half of 2019 and the rise in demand for large diameter pipeline hauling and stringing services. Revenue increased by \$20.4 million and \$23.1 million in the first and second quarters, respectively and then decreased by \$10.6 million in the third quarter due to poor industry conditions. Specific factors affecting the Oilfield Services segment's year to date revenue were:

- a \$31.6 million increase in revenue generated by those Business Units providing specialized services to the oil sands and water management industries including a \$23.7 million increase in pipeline hauling and stringing services;
- a \$23.8 million increase in revenue generated by those Business Units involved in the transportation of fluids and servicing of wells mainly due to the AECOM ISD acquisition being partially offset by a decline in demand for fluid transportation services as a result of the Alberta Government mandated oil curtailments;
- a \$21.3 million decrease in revenue generated by those Business Units most directly tied to oil and natural gas drilling activity as a result of lower drilling activity in the WCSB; and
- a \$1.1 million decrease in revenue generated by those Business Units providing drilling services.



## Direct Operating Expenses

Direct Operating Expenses – Oilfield Services						
Nine month periods ended September 30						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Company						
Wages and benefits	64.5	27.5	53.1	26.2	11.4	21.5
Fuel	17.7	7.5	17.6	8.7	0.1	0.6
Repairs and maintenance	39.0	16.6	36.8	18.1	2.2	6.0
Purchased transportation	1.7	0.7	1.4	0.7	0.3	21.4
Operating supplies	28.1	12.0	22.0	10.8	6.1	27.7
Other	6.6	2.8	6.2	3.1	0.4	6.5
	157.6	67.1	137.1	67.6	20.5	15.0
Contractors	60.2	82.4	57.1	79.2	3.1	5.4
Total	217.8	70.6	194.2	70.4	23.6	12.2

\*as a percentage of respective Oilfield Services revenue

DOE were \$217.8 million in 2019 as compared to \$194.2 million in 2018. The increase of \$23.6 million, or 12.2 percent, was directly related to the \$32.9 million, or 11.9 percent, increase in segment revenue. As a percentage of revenue these expenses increased by 0.2 percent to 70.6 percent compared to 70.4 percent in 2018 largely as a result of the change in revenue mix and inflationary cost pressures.

DOE associated with Company Equipment increased by \$20.5 million, or 15.0 percent, to \$157.6 million as compared to \$137.1 million in 2018. This increase was directly related to the \$32.1 million, or 15.8 percent, increase in Company revenue. As a percentage of Company revenue these expenses decreased by 0.5 percent to 67.1 percent as compared to 67.6 percent in 2018 primarily due to lower fuel costs as well as lower repairs and maintenance expense being partially offset by a rise in operating supplies expense, mainly due to the increase in Canadian Dewatering's product sales as well as costs related to Premay Pipeline's operations.

Contractors expense in 2019 increased to \$60.2 million, as compared to \$57.1 million in 2018. This \$3.1 million increase was directly related to the rise in Contractors revenue. As a percentage of Contractors revenue, Contractors expense increased to 82.4 percent as compared to 79.2 percent due to the nature of the AECOM ISD acquisition.

## Selling and Administrative Expenses

Selling and Administrative Expenses – Oilfield Services						
Nine month periods ended September 30						
<i>(unaudited)</i>						
<i>(\$ millions)</i>						
	2019		2018		Change	
	\$	%*	\$	%*	\$	%
Wages and benefits	19.9	6.4	19.8	7.2	0.1	0.5
Communications, utilities and general supplies	10.7	3.5	10.4	3.8	0.3	2.9
Profit share	3.6	1.2	2.5	0.9	1.1	44.0
Rent and other	1.4	0.4	2.9	1.0	(1.5)	(51.7)
Total	35.6	11.5	35.6	12.9	—	—

\*as a percentage of total Oilfield Services revenue

S&A expenses remained constant at \$35.6 million despite the \$3.3 million of incremental S&A expenses associated with acquisitions and the \$1.1 million increase in profit share expense. Offsetting these increases were various cost control initiatives and a \$1.5 million reduction in rent expense as a result of the adoption of IFRS 16 – Leases. S&A expenses as a percentage of segment revenue decreased by 1.4 percent to 11.5 percent due to the overall fixed nature of these expenses relative to the \$32.9 million increase in segment revenue and the reduction in rent expense as a result of the adoption of IFRS 16 – Leases.



## Operating Income Before Depreciation and Amortization

OIBDA increased by \$9.3 million, or 20.2 percent, to \$55.3 million. OIBDA increased by \$3.6 million, \$5.0 million and \$0.7 million in the first, second and third quarters, respectively. Operating margin<sup>1</sup> increased to 17.9 percent as compared to 16.7 percent in 2018, however, the adoption of IFRS 16 – Leases had a 0.5 percent positive impact on the operating margin<sup>1</sup>. On a comparative basis, after adjusting for the effect of the adoption of IFRS 16 – Leases, operating margin<sup>1</sup> improved by 0.7 percent. The net margin gain was due to the integration of the AECOM ISD assets and the change in revenue mix associated with certain large diameter pipeline projects that had a beneficial effect on margin being partially offset by the significant decline in margin generated by those Business Units most directly tied to drilling related activity. Specifically, the \$9.3 million year over year increase can be attributed to the following:

- a \$9.3 million increase relating to those Business Units leveraged to the oil sands and pipeline construction projects;
- a \$6.3 million increase in those Business Units involved in the transportation of fluids and servicing of wells; and
- a \$6.3 million decrease from Business Units tied to drilling and drilling related activity.

## Capital Expenditures

Net capital expenditures<sup>1</sup> were \$10.5 million in the first nine months of 2019, a decrease of \$2.8 million as compared to \$13.3 million in 2018. The Oilfield Services segment had gross capital expenditures of \$16.6 million and dispositions of \$6.1 million for net capital expenditures<sup>1</sup> of \$10.5 million in 2019. The majority of the capital was invested at Envolve to expand our disposal facility and capacity with the drilling of a new disposal well, which was completed in the second quarter of 2019. Capital was also allocated to meet customer demand by purchasing pumps at Canadian Dewatering and some equipment for Premay Pipeline. In 2018 gross capital expenditures were \$22.0 million and dispositions were \$8.7 million for net capital expenditures<sup>1</sup> of \$13.3 million.

## CORPORATE

The Corporate Office recorded a loss of \$6.4 million in the first nine months of 2019 as compared to a loss of \$3.9 million in 2018. The \$2.5 million increase in loss was mainly attributable to higher salary costs associated with the new retention plan for corporate personnel and Business Unit leaders and from lower income generated from real estate holdings. In the first nine months of 2019, the Corporate Office recorded a foreign exchange loss of \$0.2 million as compared to a foreign exchange gain of \$0.1 million in 2018.

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<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



# CAPITAL RESOURCES AND LIQUIDITY

## Consolidated Cash Flow Summary

<i>(unaudited)</i> (\$ millions)	Nine month periods ended September 30	
	2019	2018
Net cash from operating activities	\$ 116.4	\$ 84.2
Net cash from (used in) financing activities	16.8	(111.6)
Net cash used in investing activities	(59.3)	(106.4)
Change in cash and cash equivalents	73.9	(133.8)
Effect of exchange rate fluctuations on cash held	(0.3)	0.3
Cash and cash equivalents, beginning of period	3.9	134.5
Cash and cash equivalents, end of period	\$ 77.5	\$ 1.0

## Sources and Uses of Cash

Mullen Group continues to generate cash in excess of its operating needs by generating \$116.4 million in the first nine months of 2019 as compared to \$84.2 million in 2018. Net cash generated from financing activities in 2019 was \$16.8 million as compared to using \$111.6 million in 2018. The \$128.4 million increase in cash from financing activities was mainly due to issuing the 2019 Debentures as compared to repaying the Series D Notes upon maturity in 2018. Net cash used in investing activities decreased by \$47.1 million due to a reduction in cash used on acquisitions and a decrease in the amount of net capital expenditures<sup>1</sup> in 2019. Specific changes in cash flow are set forth below.

### Cash From Operating Activities

Net cash from operating activities increased to \$116.4 million in the first nine months of 2019 as compared to \$84.2 million in 2018. The increase of \$32.2 million, or 38.2 percent was mainly due to a \$13.7 million increase in OIBDA and from a \$27.4 million decrease in cash used in non-cash working capital items. These items were partially offset by a \$9.3 million increase in cash taxes paid. The change in non-cash working capital items from operating activities is detailed in the table below.

<i>(unaudited)</i> (\$ millions)	Nine month periods ended September 30		
	2019	2018	Variance
	\$	\$	\$
Sources (uses) of cash			
Trade and other receivables	(6.7)	(33.3)	26.6
Inventory	—	(2.9)	2.9
Prepaid expenses	(5.3)	(6.0)	0.7
Accounts payable and accrued liabilities	3.3	6.1	(2.8)
Total sources (uses) of cash from non-cash working capital items	(8.7)	(36.1)	27.4

In the first nine months of 2019 we continued to fund growth and used \$8.7 million of cash from changes in non-cash working capital items from operating activities as compared to using \$36.1 million of cash in 2018. This \$27.4 million variance was mainly due to the following factors.

- An additional \$26.6 million of cash was generated from trade and other receivables that resulted from the combined effect of a \$6.7 million use of cash in 2019 as compared to a \$33.3 million use of cash in 2018.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



- An additional \$2.9 million of cash was generated from inventory that resulted from the combined effect of a nil amount of cash used in 2019 as compared to a \$2.9 million use of cash in 2018.
- An additional \$0.7 million of cash was generated from prepaid expenses that resulted from the combined effect of a \$5.3 million use of cash in 2019 as compared to a \$6.0 million use of cash in 2018.

Somewhat offsetting these items was the following:

- An additional \$2.8 million of cash was used from accounts payable and accrued liabilities that resulted from the combined effect of a \$3.3 million source of cash in 2019 as compared to a \$6.1 million source of cash in 2018.

### ***Cash From (Used In) Financing Activities***

Net cash from financing activities was \$16.8 million in 2019 as compared to using \$111.6 million in 2018. This \$128.4 million variance was mainly due to the factors set forth below.

- A \$119.8 million increase in cash from issuing the 2019 Debentures in the second quarter of 2019.
- A \$71.6 million decrease in the repayment of long-term debt and loans, which was mainly due to the 2018 repayments of the Series D Notes (\$70.0 million) upon maturity and from repaying the debt acquired on the Canadian Hydrovac and DWS acquisitions.
- A \$0.9 million decrease in interest paid on lease liabilities and long-term debt.

Somewhat offsetting these items were the following:

- A \$54.0 million variance in cash on the Bank Credit Facility resulting from repaying \$30.0 million in 2019 as compared to borrowing \$24.0 million in 2018.
- A \$2.5 million increase in dividends paid to shareholders in 2019 as compared to 2018 due to an increase in the amount of the monthly dividend and the number of Common Shares outstanding.
- An \$8.9 million increase in the repayment of lease liabilities due to the January 1, 2019, adoption of IFRS 16 – Leases.

### ***Cash Used In Investing Activities***

Net cash used in investing activities decreased to \$59.3 million in 2019 as compared to \$106.4 million in 2018. This \$47.1 million decrease was mainly due to the factors set forth below.

- A \$30.8 million decrease in cash used to fund acquisitions due to the 2018 acquisitions of AECOM ISD, Canadian Hydrovac, DWS and Dakota as compared to the 2019 acquisitions of Argus, Inter-Urban and Jen Express.
- A \$10.6 million decrease in net capital expenditures<sup>1</sup>. In 2019 net capital expenditures<sup>1</sup> were \$47.6 million as compared to \$58.2 million in 2018.
- A \$2.7 million decrease in cash used on investments due to selling some portfolio investments for \$0.7 million in 2019 as compared to purchasing \$2.0 million of equity investments in 2018 (PCX).
- A \$6.0 million change in other assets and net investment in finance leases.

Somewhat offsetting these items was the following:

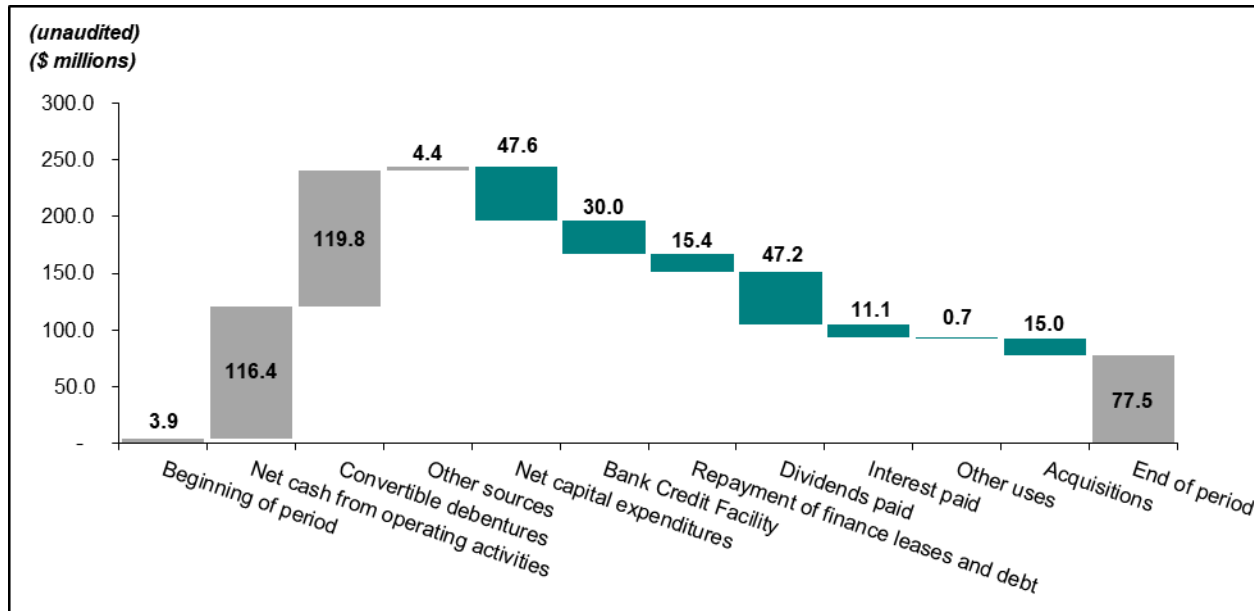
- A \$2.1 million variance in changes in non-cash working capital items from investing activities.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

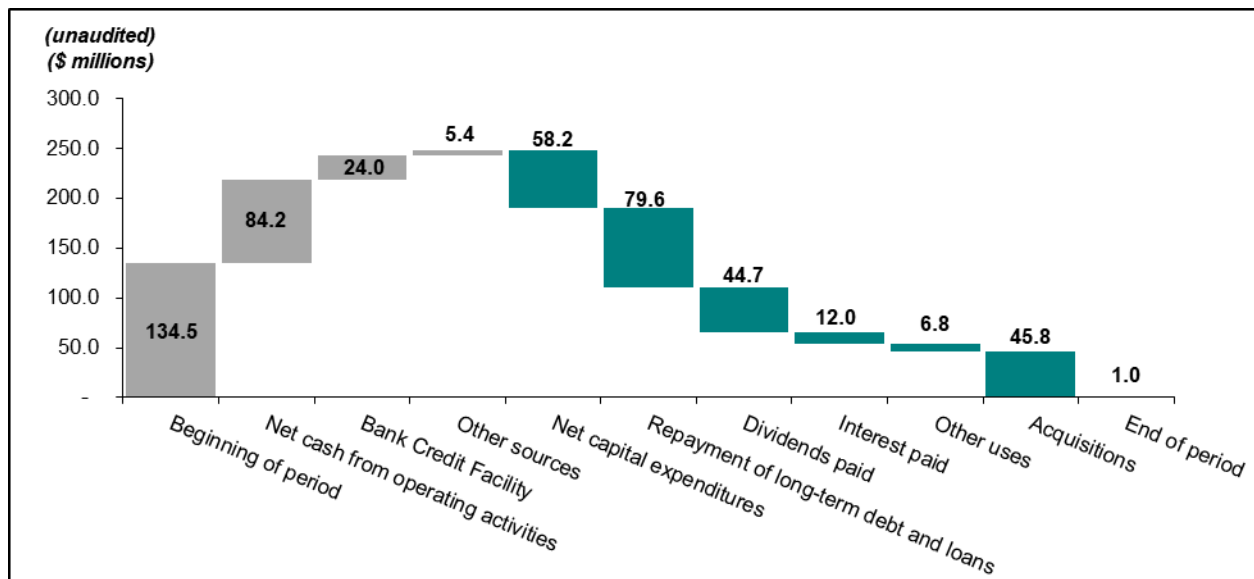


The following charts present the sources and uses of cash for comparative purposes.

### Nine month period ended September 30, 2019



### Nine month period ended September 30, 2018



In addition to the \$116.4 million (2018 – \$84.2 million) of net cash from operating activities, we also received \$124.2 million (2018 – \$24.0 million) of cash from other sources, which mainly consisted of issuing the 2019 Debentures, from changes in non-cash working capital items from financing and investing activities, cash received from net investment in finance leases, the sale of some investments and from interest income generated on cash and cash equivalents. Cash was used to repay the Bank Credit Facility of \$30.0 million (2018 – nil), repay lease liabilities of \$8.9 million (2018 – nil), fund acquisitions of \$15.0 million (2018 – \$45.8 million), repay long-term debt and loans of \$6.5 million (2018 – \$79.6 million), pay dividends totalling \$47.2 million (2018 – \$44.7 million), incur net capital expenditures<sup>1</sup> of \$47.6 million (2018 – \$58.2 million) and pay interest obligations of \$11.1 million (2018 – \$12.0 million). We also had \$0.7 million (2018 – \$6.8 million) of other uses.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".





## Working Capital

At September 30, 2019, we had \$240.6 million (December 31, 2018 – \$131.7 million) of working capital, which included \$77.5 million of cash and cash equivalents, of which \$11.4 million was denominated in U.S. currency. On June 21, 2019, our Bank Credit Facility was increased by \$25.0 million to \$150.0 million. This working capital also includes a current liability of \$7.9 million related to the current portion of lease liabilities. This working capital, the Bank Credit Facility and the anticipated cash flow from operating activities in 2019 are available to finance our ongoing working capital requirements, our 2019 capital budget, as well as various special projects and acquisition opportunities.

## Capital Expenditures

On February 6, 2019, the Board approved a \$75.0 million capital budget for 2019 exclusive of corporate acquisitions and special projects with \$40.0 million to be allocated to the Trucking/Logistics segment, primarily to replace trucks, trailers and specialized equipment to support the operations of these Business Units, \$20.0 million allocated to the Oilfield Services segment to support growth at Envolve and Canadian Dewatering and \$15.0 million allocated to the Corporate Office mainly to expand our real estate holdings. The Board will continue to monitor both of the sectors of the economy we serve and will adjust the capital budget as conditions warrant.

Generally, over the course of an economic cycle, our maintenance capital expenditures approximate our annual depreciation on property, plant and equipment. Our diverse business model, and wide range of operations, provides us with the ability to redeploy certain assets over different regions for greater utilization. In the first nine months of 2019, there were \$3.7 million of trucks and trailers transferred to Business Units in the Trucking/Logistics segment from the Oilfield Services segment. It also provides us with considerable flexibility in the amount of maintenance capital expenditure requirements in any given fiscal period.

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## Debt

As at September 30, 2019, we had net debt<sup>1</sup> outstanding of \$374.6 million, (December 31, 2018 – \$350.5 million), which consisted of total debt of \$623.1 million (December 31, 2018 – \$512.2 million) less working capital (excluding the current portion of lease liabilities) of \$248.5 million (December 31, 2018 – \$161.7 million). The primary reason for the increase in the carrying value of the long-term debt was due to issuing the 2019 Debentures and from adopting IFRS 16 – Leases on January 1, 2019, resulting in \$41.7 million of lease liabilities being added to the consolidated statement of financial position. Total debt is comprised of the Private Placement Debt, the 2019 Debentures, lease liabilities and the Bank Credit Facility. The following table summarizes our total debt and net debt<sup>1</sup> as at September 30, 2019, and December 31, 2018:

(\$ millions)	Interest Rate	September 30, 2019		December 31, 2018		Change in CDN. Dollar Equivalent
		U.S. Dollar	CDN. Dollar Equivalent	U.S. Dollar	CDN. Dollar Equivalent	
Private Placement Debt:						
Series G - matures October 22, 2024	3.84%	\$ 117.0	\$ 155.0	\$ 117.0	\$ 159.6	\$ (4.6)
Series H - matures October 22, 2026	3.94%	112.0	148.3	112.0	152.8	(4.5)
Series I - matures October 22, 2024	3.88%	—	30.0	—	30.0	—
Series J - matures October 22, 2026	4.00%	—	3.0	—	3.0	—
Series K - matures October 22, 2024	3.95%	—	58.0	—	58.0	—
Series L - matures October 22, 2026	4.07%	—	80.0	—	80.0	—
Bank Credit Facility	variable <sup>(1)</sup>	—	—	—	30.0	(30.0)
Less:						
Unamortized debt issuance costs		—	(1.1)	—	(1.2)	0.1
Long-term debt (including the current portion)		229.0	473.2	229.0	512.2	(39.0)
2019 Debentures – debt component	5.75%		108.2	—	—	108.2
Lease liabilities (including the current portion)	3.2%		41.7	—	—	41.7
<b>Total debt</b>		<b>\$ 229.0</b>	<b>\$ 623.1</b>	<b>\$ 229.0</b>	<b>\$ 512.2</b>	<b>\$ 110.9</b>
Less:						
Working capital (excluding the Bank Credit Facility and the current portion of leases)			248.5		161.7	86.8
<b>Net debt<sup>(2)</sup></b>			<b>\$ 374.6</b>		<b>\$ 350.5</b>	<b>\$ 24.1</b>

<sup>(1)</sup> Bank prime rate plus 0.5 percent or bankers' acceptance rates plus 1.5 percent.

<sup>(2)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

**Total Net Debt<sup>1</sup> to Operating Cash Flow.** Mullen Group's total net debt<sup>1</sup> cannot exceed 3.5 times operating cash flow calculated using the trailing twelve months' financial results normalized for acquisitions. The term total net debt<sup>1</sup> means all debt including the Private Placement Debt, lease liabilities, the Bank Credit Facility and letters of credit, excluding the 2019 Debentures less any unrealized gain on Cross-Currency Swaps plus any unrealized loss on Cross-Currency Swaps as disclosed within Derivatives on the consolidated statement of financial position. The term "**operating cash flow**", as defined within the 2014 Note Purchase Agreement, means, for any quarterly period, the trailing twelve months' consolidated net income adjusted for all amounts deducted in the computation thereof on account of (i) taxes imposed on or measured by income or excess profits; (ii) depreciation and amortization taken during such period; (iii) total interest charges, including interest on the 2019 Debentures; and (iv) non-cash charges. Total net debt<sup>1</sup> to operating cash flow financial covenant under our Private Placement Debt enables us to include the trailing twelve months operating cash flows from acquisitions. Although permitted, we have not included any operating cash flows generated prior to the date of the acquisition from our recent acquisitions in this financial covenant calculation.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



Total net debt<sup>1</sup> to operating cash flow was calculated as follows:

	September 30 2019	June 30 2019	March 31 2019	December 31 2018
<b>Total net debt<sup>(1)</sup> to operating cash flow</b>				
Total net debt <sup>(1)</sup>	\$ 474.1	\$ 477.5	\$ 519.1	\$ 474.1
Operating cash flow	\$ 206.1	\$ 205.2	\$ 198.5	\$ 192.8
Total net debt <sup>(1)</sup> to operating cash flow	2.30:1	2.33:1	2.62:1	2.46:1

<sup>(1)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

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

The term "**total earnings available for fixed charges**" means, for any period, consolidated net income plus all amounts deducted in the computation thereof on account of (i) taxes imposed on or measured by income or excess profits, (ii) the depreciation and amortization taken during such period, (iii) consolidated fixed charges, (iv) interest charges with respect to convertible debentures, and (v) non-cash charges, and less any non-cash gains included in the computation of consolidated net income. The term "**total fixed charges**" means, for any period, the sum of total interest charges and rental charges for such period.

	September 30 2019	June 30 2019	March 31 2019	December 31 2018
<b>Total Earnings Available for Fixed Charges to Total Fixed Charges</b>				
Total earnings available for fixed charges	\$ 211.4	\$ 213.5	\$ 209.5	\$ 206.6
Total fixed charges	\$ 26.1	\$ 29.1	\$ 32.0	\$ 35.1
Total earnings available for fixed charges to total fixed charges	8.09:1	7.35:1	6.55:1	5.89:1

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

Financial Covenants	Financial Covenant Threshold	September 30 2019	June 30 2019	March 31 2019	December 31 2018
Private Placement Debt Covenants					
(a) Total net debt <sup>(1)</sup> to operating cash flow cannot exceed	3.50:1	2.30:1	2.33:1	2.62:1	2.46:1
(b) Total earnings available for fixed charges to total fixed charges cannot be less than	1.75:1	8.09:1	7.35:1	6.55:1	5.89:1

<sup>(1)</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".

Total net debt<sup>1</sup> to operating cash flow was 2.30:1 at September 30, 2019. Assuming the \$474.1 million of total net debt<sup>1</sup> remains constant, we would need to generate approximately \$135.5 million of operating cash flow on a trailing twelve month basis to remain in compliance with this financial covenant. When a business is acquired, the trailing twelve months of operating cash flows generated by the newly acquired business may be added to our trailing twelve months' operating cash flows from the date of acquisition for financial covenant calculation purposes.

Mullen Group is also subject to a priority debt covenant. The term "**priority debt**" means all indebtedness secured by permitted liens excluding certain qualified subsidiary debt. Priority debt cannot exceed 15.0 percent of total assets. At September 30, 2019, the priority debt was \$0.8 million or an insignificant percentage of total assets.

<sup>1</sup> Refer to the section entitled "Glossary of Terms and Reconciliation of Non-GAAP Terms".



Our debt-to-equity ratio was 0.67:1 at September 30, 2019, as compared to 0.57:1 at December 31, 2018. This increase in the debt-to-equity ratio was due to the net effect of a \$110.9 million increase in total debt (including the current portion) and a \$26.8 million increase in equity as compared to December 31, 2018. The \$110.9 million increase in total debt was mainly due to an additional \$108.2 million of the debt component of the 2019 Debentures and from an additional \$41.7 million of lease liabilities (including the current portion) resulting from the January 1, 2019, adoption of IFRS 16 – Leases. These increases were somewhat offset by the \$30.0 million repayment of the amount drawn on our Bank Credit Facility and the \$9.1 million foreign exchange gain on the Corporation's U.S. dollar debt. The \$26.8 million increase in equity mainly resulted from the \$63.8 million of net income being recognized in the first nine months of 2019 and from the additional \$9.1 million of the equity component of the 2019 Debentures. These increases were somewhat offset by the \$47.2 million of dividends declared to shareholders in 2019.

## Contractual Obligations

An overview of Mullen Group's contractual obligations can be found on page 44 of the 2018 MD&A. As at September 30, 2019, Mullen Group's contractual obligations have not changed significantly from this overview, other than the 2019 Debentures, certain obligations assumed with our recent acquisitions and operating leases have been reclassified as lease liabilities with the adoption of the IFRS 16 – Leases.

### Convertible Unsecured Subordinated Debentures

In June 2019, we issued \$125.0 million of the 2019 Debentures, by way of a bought deal, at a price of \$1,000 per 2019 Debenture. The 2019 Debentures mature on November 30, 2026, and bear interest at an annual rate of 5.75 percent payable semi-annually in arrears on the last day of May and November of each year. Each \$1,000 2019 Debenture is convertible into 71.4286 Common Shares (or a conversion price of \$14.00) at any time at the option of the holders of the 2019 Debentures. As at the date of issuance, an aggregate of 8,928,575 Common Shares would be issued if all holders converted their principal amount.

The details of the 2019 Debentures are as follows:

(\$ millions)		September 30, 2019		December 31, 2018	
Year of Maturity	Interest Rate	Face Value	Carrying Amount	Face Value	Carrying Amount
2026	5.75%	\$ 125.0	\$ 108.2	\$ —	\$ —

## Share Capital

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

### Common Shares

Common Shares	# of Common Shares	Amount (\$ millions)
Authorized: Unlimited Number		
Balance at September 30, 2019	104,824,973	\$ 946.9

At September 30, 2019, there were 104,824,973 Common Shares outstanding representing \$946.9 million in share capital. There was no change in the number of Common Shares outstanding during the nine months of 2019.



## Stock Option Plan

	Options	Weighted average exercise price
Outstanding – December 31, 2018	3,462,500	\$ 19.15
Granted	—	—
Exercised	—	—
Forfeited	(155,000)	(17.79)
Outstanding – September 30, 2019	<b>3,307,500</b>	<b>\$ 19.21</b>
Exercisable – September 30, 2019	<b>2,364,157</b>	<b>\$ 20.21</b>

In the first nine months of 2019, there were no stock options granted, no stock options exercised and 155,000 stock options forfeited. As at September 30, 2019, Mullen Group had 3,307,500 stock options outstanding under the stock option plan.

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## SUMMARY OF QUARTERLY RESULTS

### Seasonality of Operations

Revenue and profitability within the Trucking/Logistics segment are generally lower in the first quarter than during the remainder of the year as freight volumes are typically lower following the holiday season due to less consumer demand and customers reducing shipments. Operating expenses also tend to increase within this segment in the winter months due to decreased fuel efficiency and increased repairs and maintenance expense resulting from cold weather conditions. The Trucking/Logistics segment represents approximately 68.0 percent of our pre-consolidated revenue on an annualized basis. Generally speaking, our third and fourth quarters tend to be the strongest in terms of demand for the services in this segment. As a result, our consolidated revenue is generally higher in these quarters compared to the first and second quarters of the year.

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

### Financial Results

	TTM <sup>(1)</sup>	2019			2018			2017	
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(unaudited)</i> (\$ millions, except per share amounts)	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	1,297.2	325.3	319.0	319.6	333.3	339.7	295.7	292.1	296.1
Operating income before depreciation and amortization	202.7	55.6	51.4	44.0	51.7	55.1	44.3	37.9	46.0
Net income (loss)	(17.3)	20.5	31.7	11.6	(81.1)	21.9	13.9	1.5	5.4
Earnings (loss) per share									
Basic	(0.16)	0.20	0.30	0.11	(0.77)	0.21	0.13	0.01	0.05
Diluted	(0.16)	0.20	0.30	0.11	(0.77)	0.21	0.13	0.01	0.05
<b>Other Information</b>									
Net foreign exchange (gain) loss	(9.6)	(3.9)	(6.8)	(1.1)	2.2	(1.8)	1.9	6.2	1.3
Decrease (increase) in fair value of investments	2.0	0.3	0.1	(0.1)	1.7	0.3	(0.4)	1.5	(0.6)

<sup>(1)</sup> TTM represents the "trailing twelve months" and consists of a summary of the Corporation's financial results for the most recently completed four quarters.

Consolidated revenue in the third quarter decreased by \$14.4 million to \$325.3 million as compared to \$339.7 million in 2018. Revenue in the Trucking/Logistics segment decreased by \$4.5 million during the quarter, which included \$7.1 million of incremental revenue from acquisitions while fuel surcharge revenue decreased by \$3.1 million. Excluding acquisitions and the change in fuel surcharge revenue, the Trucking/Logistics segment revenue declined by \$8.5 million due to lower demand for capital related project work and a softening in the general economy. Revenue generated by the Oilfield Services segment decreased by \$10.6 million or 9.3 percent and is mainly attributable to lower revenue generated by those Business Units involved in the transportation of fluids and servicing of wells due to intense competition and pricing pressure and from the Alberta Government's mandated crude oil curtailments. The significant decline in drilling activity in the WCSB also had a negative impact on those Business Units most directly tied to oil and natural gas drilling activity. These decreases were partially offset by greater revenue generated by Premay Pipeline. Net income in the third quarter of 2019 was \$20.5 million, a



decrease of \$1.4 million from the \$21.9 million of net income generated in 2018. The \$1.4 million decrease in net income was mainly attributable to a \$2.8 million increase in depreciation of right-of-use assets, a \$2.2 million increase in finance costs, and a \$1.2 million increase in amortization of intangible assets. These decreases were partially offset by a \$2.1 million positive variance in net foreign exchange, a \$1.9 million decrease in income tax expense and a \$0.5 million increase in OIBDA. As a result, basic earnings per share in the third quarter of 2019 was \$0.20, a decrease of \$0.01, from the \$0.21 of earnings per share generated in 2018.

Consolidated revenue in the second quarter increased by \$23.3 million to \$319.0 million as compared to \$295.7 million in 2018 with acquisitions accounting for \$28.4 million of incremental revenue. Revenue in the Trucking/Logistics segment increased by \$0.2 million during the quarter of which \$2.6 million was due to acquisitions while fuel surcharge revenue decreased by \$0.2 million. Excluding acquisitions and the change in fuel surcharge revenue, the Trucking/Logistics segment revenue declined by a modest \$2.2 million due to a reduction in freight volumes. Revenue generated by the Oilfield Services segment increased by \$23.1 million or 30.1 percent and is mainly attributable to \$25.8 million of incremental revenue related to the acquisitions of AECOM ISD and Canadian Hydrovac and improved revenue generated by Premay Pipeline. These increases were partially offset by a decline in drilling activity in the WCSB. Net income in the second quarter of 2019 was \$31.7 million, an increase of \$17.8 million from the \$13.9 million of net income generated in 2018. The \$17.8 million increase in net income was mainly attributable to a \$9.4 million decrease in income tax expense, an \$8.7 million positive variance in net foreign exchange and a \$7.1 million increase in OIBDA. These increases were partially offset by a \$2.8 million increase in depreciation of right-of-use assets, a \$1.9 million increase in loss on disposal of property, plant and equipment, a \$0.8 million increase in depreciation of property, plant and equipment and a \$0.8 million increase in amortization of intangible assets. As a result, basic earnings per share in the second quarter of 2019 was \$0.30, an increase of \$0.17, from the \$0.13 of earnings per share generated in 2018.

Consolidated revenue in the first quarter improved from the prior year with the Trucking/Logistics segment generating record first quarter revenue along with revenue gains also being experienced in the Oilfield Services segment. Consolidated revenue in the first quarter of 2019 increased by \$27.5 million, or 9.4 percent, to \$319.6 million as compared to \$292.1 million in 2018. The increase of \$27.5 million was primarily due to \$23.4 million of incremental revenue from acquisitions. Revenue in the Trucking/Logistics segment increased by \$7.7 million during the quarter of which \$4.0 million was due to acquisitions while fuel surcharge revenue decreased by \$0.3 million. Our regional LTL business improved due to revenue gains at Gardewine while truckload services benefitted from certain one-time projects. Revenue generated by the Oilfield Services segment increased by \$20.4 million or 24.1 percent and is mainly attributable to the AECOM ISD and Canadian Hydrovac acquisitions and stronger demand for large diameter pipeline hauling and stringing services. These increases were partially offset by a decline in drilling activity in the WCSB. Net income in the first quarter of 2019 was \$11.6 million, an increase of \$10.1 million from the \$1.5 million of net income generated in 2018. The \$10.1 million increase in net income was mainly attributable to a \$7.3 million positive variance in net foreign exchange, a \$6.1 million increase in OIBDA, a \$1.6 million positive variance in the fair value of investments and a \$0.5 million decrease in finance costs. These increases were partially offset by a \$2.8 million increase in depreciation of right-of-use assets, a \$1.0 million increase in depreciation of property, plant and equipment and a \$0.9 million increase in amortization of intangible assets. As a result, basic earnings per share in the first quarter of 2019 was \$0.11, an increase of \$0.10, from the \$0.01 of earnings per share generated in 2018.

Consolidated revenue in the fourth quarter of 2018 improved from the prior year with the Trucking/Logistics segment generating record fourth quarter revenue along with revenue gains also being experienced in the Oilfield Services segment. Consolidated revenue in the fourth quarter of 2018 increased by \$37.2 million, or 12.6 percent, to \$333.3 million as compared to \$296.1 million in 2017. The increase of \$37.2 million was primarily due to \$29.2 million of incremental revenue from acquisitions. Revenue in the Trucking/Logistics segment increased by \$13.1 million during the quarter of which \$7.9 million was due to acquisitions while fuel surcharge revenue rose by \$5.2 million. Our regional LTL business improved and revenue from our truckload services rose due to greater customer demand. Revenue generated by the Oilfield Services segment increased by \$24.7 million or 27.6 percent and is mainly attributable to the AECOM ISD and Canadian Hydrovac acquisitions and stronger demand for large diameter pipeline hauling and stringing services. These increases were partially offset by a decline in drilling activity in the WCSB. Net income (loss) in the fourth quarter of 2018 was \$(81.1) million, a decrease of \$86.5 million from the \$5.4 million of net income generated in 2017. The \$86.5 million decrease in net income was mainly attributable to a \$100.0 million impairment of goodwill, a \$2.3 million negative variance in the fair value of investments and a \$1.1 million increase in amortization of intangible assets. These decreases were partially offset by a \$5.9 million decrease in depreciation of property, plant and equipment, a \$5.7 million increase in OIBDA and a \$4.1 million decrease in income tax expense. As a result, basic earnings (loss) per share in the fourth quarter of 2018 was \$(0.77), a decrease of \$0.82, from the \$0.05 of earnings per share generated in 2017.



## TRANSACTIONS WITH RELATED PARTIES

A description of transactions with related parties can be found on page 63 of the 2018 MD&A. As at September 30, 2019, other than the \$5.0 million of the 2019 Debentures that were subscribed to certain officers and directors of the Corporation, the transactions with related parties have not changed significantly from these descriptions.

All of the transactions with related parties occurred in the normal course of operations with terms consistent with those offered to arms-length parties and are measured at the exchange amount. Mullen Group has no long-term contracts with any related party other than the \$5.0 million of the 2019 Debentures subscribed to certain officers and directors of the Corporation.

## PRINCIPAL RISKS AND UNCERTAINTIES

A description of principal risks and uncertainties can be found beginning on page 64 of the 2018 MD&A. As at September 30, 2019, these business risks and uncertainties have not changed significantly from those descriptions and are summarized as follows:

STRATEGIC RISKS:	FINANCIAL RISKS:	OPERATIONAL RISKS:
<ul style="list-style-type: none"><li>geopolitical risks<ul style="list-style-type: none"><li>general economy</li><li>natural gas and oil drilling and oil sands development</li><li>changes in the legal framework</li></ul></li><li>e-commerce and supply chain evolution</li><li>acquisitions</li><li>competition</li></ul>	<ul style="list-style-type: none"><li>foreign exchange rates</li><li>investments</li><li>access to financing</li><li>reliance on major customers</li><li>impairment of goodwill or intangible assets</li><li>credit risk</li><li>interest rates</li></ul>	<ul style="list-style-type: none"><li>labour relations</li><li>cost escalation &amp; fuel costs</li><li>operations risks &amp; insurance</li><li>digital infrastructure &amp; cyber security</li><li>business continuity</li><li>environmental liability risks</li><li>weather &amp; seasonality</li><li>access to parts &amp; key suppliers</li><li>regulation</li><li>litigation</li></ul>

## CRITICAL ACCOUNTING ESTIMATES

This MD&A summarizes Mullen Group's financial condition and results of operations and is based upon our Interim Financial Statements, which have been prepared in accordance with IFRS and comply with IAS 34 Interim Financial Reporting. The Interim Financial Statements require management to select significant accounting policies and make certain critical accounting estimates that affect the reported assets, liabilities, revenue and expenses. A description of critical accounting estimates can be found beginning on page 79 of the 2018 MD&A. As at September 30, 2019, our critical accounting estimates have not changed significantly from such description.





## SIGNIFICANT ACCOUNTING POLICIES

### New Standards and Interpretations Not Yet Adopted

A description of new standards and interpretations not yet adopted can be found on page 82 of the 2018 MD&A. There have been no new standards or interpretations issued during 2019 that significantly impact Mullen Group.

### Changes in Accounting Policies

#### *IFRS 16 – Leases*

Effective January 1, 2019, Mullen Group adopted IFRS 16 – Leases using the modified retrospective method. Under the modified retrospective method, comparative financial information is not restated and continues to be reported under the accounting standards in effect for those periods. Under the principles of the new standard, Mullen Group recognized lease liabilities related to its lease commitments. These lease liabilities are measured at the present value of the remaining lease payments, discounted using the Corporation's incremental borrowing rate as at January 1, 2019. The associated right-of-use assets were measured at the lease liability amount on January 1, 2019 resulting in no adjustment to the opening balance of retained earnings. The Corporation is using the following practical expedients permitted under the new standard:

- (i) Leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases;
- (ii) Leases of low dollar value will continue to be expensed as incurred; and
- (iii) The Corporation will not apply any grandfathering practical expedients.

Effective January 1, 2019, Mullen Group adopted IFRS 16 – Leases which resulted in the initial recognition of right-of-use assets and lease liabilities of approximately \$42.2 million.

## DISCLOSURE AND INTERNAL CONTROLS

### Disclosure Controls and Internal Controls over Financial Reporting

As at September 30, 2019, an evaluation of the effectiveness of our disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**"). Based on this evaluation, the CEO and the CFO concluded that, as at September 30, 2019, the design and operation of our disclosure controls and procedures was effective.

Internal control over financial reporting is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its internal control over financial reporting as at September 30, 2019.

Based on this evaluation, the CEO and CFO concluded that as at September 30, 2019, our internal control over financial reporting was effective. We utilize the Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the Treadway Commission. As at September 30, 2019 there was no change in our internal control over financial reporting that materially affected or is reasonably likely to materially affect our internal control over financial reporting.



## FORWARD-LOOKING INFORMATION STATEMENTS

This MD&A contains forward-looking statements within the meaning of applicable Canadian Securities laws. Readers are cautioned that expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The following is a list of forward-looking statements contained within this MD&A, along with the respective assumptions:

- Mullen Group's comment that there is little doubt in our mind that we will continue to grow our business for many years, as referred to in the Executive Summary section beginning on page 4. This forward-looking statement is based on the assumption that acquisition opportunities are significant and we are confident that we will gain market share as our competition struggles within the current macro environment.
- Mullen Group's comment that as we enter the fourth quarter of 2019, we expect a continuation of the current macro trends, as referred to in the Outlook section beginning on page 6. This forward-looking statement is based on the assumption that we do not see any evidence or catalyst that will encourage or reaccelerate capital investment within Canada, the missing ingredient to growth in our view.
- Mullen Group's comment that we fully expect valuations on acquisitions to become even more attractive, as referred to in the Outlook section beginning on page 6. This forward-looking statement is based on the assumption that the current business outlook of no growth as evidenced by recent economic data will continue.
- Mullen Group's belief that meeting our full year guidance is still achievable, however, the risks are elevated, as referred to in the Outlook section beginning on page 6. This forward-looking statement is based on the assumption that the Canadian economy would continue to expand, even if the growth was modest, along with a recovery in drilling activity in western Canada during the last half of the year. Both of these assumptions are under pressure given the current macro and political environment.
- Mullen Group's intention to pay monthly dividends of \$0.05 per Common Share for 2019, as referred to in the Dividends section beginning on page 9. This forward-looking statement is based on the assumption that we will generate sufficient cash in excess of our financial obligations to support the monthly dividend.
- Mullen Group's approval of a \$75.0 million capital budget for 2019, exclusive of corporate acquisitions and special projects, with \$40.0 million allocated towards the Trucking/Logistics segment primarily to replace trucks, trailers and specialized equipment to support the operations of these Business Units, \$20.0 million to the Oilfield Services segment to support growth at Envolve and Canadian Dewatering and \$15.0 million allocated to the Corporate Office mainly to expand our real estate holdings, as referred to in the Capital Expenditures section beginning on pages 9 and 47. This forward-looking statement is based on the assumption that our Business Units will require capital to support their ongoing operations and growth opportunities.
- Mullen Group's intention to use working capital, the Bank Credit Facility (as defined on page 12) and the anticipated cash flow from operating activities in 2019 to finance our ongoing working capital requirements, our 2019 capital budget, as well as various special projects and acquisition opportunities, as referred to in the Capital Resources and Liquidity section beginning on page 44. This forward-looking statement is based on our belief that our access to cash will exceed our expected requirements.

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

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



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

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

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

### Operating Margin

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

### Net Income – Adjusted and Earnings per Share – Adjusted

Net income – adjusted and earnings per share – adjusted are calculated by adjusting net income and basic earnings per share by the impact of any net foreign exchange gains and losses and from the change in fair value of investments. Management adjusts net income and earnings per share by excluding these specific factors to more clearly reflect earnings from an operating perspective. See pages 21 and 37 for detailed calculations of net income – adjusted and earnings per share – adjusted.

### Net Capital Expenditures

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

<i>(unaudited)</i> (\$ millions)	Three month periods ended September 30		Nine month periods ended September 30	
	2019	2018	2019	2018
Purchase of property, plant and equipment	\$ 18.0	\$ 37.1	\$ 51.3	\$ 67.8
Proceeds on sale of property, plant and equipment	(1.2)	(2.1)	3.7	(9.6)
Net capital expenditures	\$ 16.8	\$ 35.0	\$ 47.6	\$ 58.2



## Net Debt

Net debt is calculated by subtracting total working capital (current assets less current liabilities) from total debt (long-term debt plus the debt component of lease liabilities and the 2019 Debentures). Management calculates net debt to monitor its capital structure and makes adjustments to it in light of changes in economic conditions.

<i>(unaudited)</i> (\$ millions)	September 30, 2019		December 31, 2018	
Long-term debt	\$	473.2	\$	482.2
Convertible debentures - debt component		108.2		—
Lease liabilities (non-current portion)		33.8		—
Total debt		615.2		482.2
Less working capital:				
Current assets		365.7		272.1
Current liabilities		(125.1)		(140.4)
Total working capital		240.6		131.7
Net debt	\$	374.6	\$	350.5

## Total Net Debt

The term "*total net debt*" means all debt including the Private Placement Debt, lease liabilities, the Bank Credit Facility and letters of credit less any unrealized gain on Cross-Currency Swaps plus any unrealized loss on Cross-Currency Swaps, as disclosed within Derivatives on the consolidated statement of financial position. Management calculates total net debt to monitor its capital structure and makes adjustments to it in light of changes in economic conditions.

<i>(unaudited)</i> (\$ millions)	September 30, 2019	
Private Placement Debt	\$	473.2
Lease liabilities (including the current portion)		41.7
Letters of credit		4.1
Total debt		519.0
Less: unrealized gain on Cross-Currency Swaps		(44.9)
Add: unrealized loss on Cross-Currency Swaps		—
Total net debt	\$	474.1

## Cash Flow per Share

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

<i>(unaudited)</i> (\$ millions, except share and per share amounts)	Three month periods ended September 30		Nine month periods ended September 30	
	2019	2018	2019	2018
Net cash from operating activities	\$ 46.5	\$ 26.5	\$ 116.4	\$ 84.2
Weighted average number of Common Shares outstanding	104,824,973	104,821,061	104,824,973	104,087,666
Cash flow per share	\$ 0.44	\$ 0.25	\$ 1.11	\$ 0.81





**SEPTEMBER 30, 2019**

**INTERIM FINANCIAL REPORT**

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(unaudited)</i> <i>(thousands)</i>	Note	September 30 2019	December 31 2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 77,561	\$ 3,916
Trade and other receivables	6	228,069	218,089
Inventory		33,886	33,878
Prepaid expenses		17,344	11,838
Current tax receivable		8,827	4,404
		<b>365,687</b>	<b>272,125</b>
Non-current assets:			
Property, plant and equipment		961,136	965,683
Right-of-use assets	7	37,859	—
Goodwill		268,707	265,277
Intangible assets		53,741	50,270
Investments		37,900	36,269
Deferred tax assets		8,139	9,187
Derivative financial instruments	8	44,908	42,211
Other assets	9	6,516	4,830
		<b>1,418,906</b>	<b>1,373,727</b>
<b>Total Assets</b>		<b>\$ 1,784,593</b>	<b>\$ 1,645,852</b>
<b>Liabilities and Equity</b>			
Current liabilities:			
Bank indebtedness	13	\$ —	\$ 30,000
Accounts payable and accrued liabilities		111,655	99,276
Dividends payable	10	5,241	5,241
Current tax payable		302	5,905
Lease liabilities – current portion	12	7,874	—
		<b>125,072</b>	<b>140,422</b>
Non-current liabilities:			
Convertible debentures – debt component	14	108,177	—
Long-term debt	13	473,186	482,185
Lease liabilities	12	33,863	—
Asset retirement obligations		1,056	1,044
Deferred tax liabilities		118,332	124,125
		<b>734,614</b>	<b>607,354</b>
Equity:			
Share capital	15	946,910	946,910
Convertible debentures – equity component	14	9,116	—
Contributed surplus		16,511	15,477
Deficit		(47,630)	(64,311)
		<b>924,907</b>	<b>898,076</b>
<b>Total Liabilities and Equity</b>		<b>\$ 1,784,593</b>	<b>\$ 1,645,852</b>

The notes which begin on page 64 are an integral part of these condensed interim consolidated financial statements.

Approved by the Board of Directors on October 23, 2019, after review by the Audit Committee.

**"Signed: Murray K. Mullen"**

Murray K. Mullen, Director

**"Signed: Philip J. Scherman"**

Philip J. Scherman, Director



# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(unaudited)</i> <i>(thousands, except per share amounts)</i>	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2019	2018	2019	2018
Revenue	18	\$ 325,298	\$ 339,698	\$ 963,866	\$ 927,511
Direct operating expenses		228,337	240,163	687,623	665,267
Selling and administrative expenses		41,309	44,465	125,203	124,984
Operating income before depreciation and amortization		55,652	55,070	151,040	137,260
Depreciation of property, plant and equipment		18,624	18,642	53,796	52,056
Depreciation of right-of-use assets		2,879	—	8,436	—
Amortization of intangible assets		5,112	3,974	14,020	11,138
Finance costs		6,851	4,670	17,147	15,322
Net foreign exchange (gain) loss	8	(3,905)	(1,790)	(11,834)	6,320
Other (income) expense	19	(210)	(5)	(458)	(1,707)
Income before income taxes		26,301	29,579	69,933	54,131
Income tax expense	11	5,808	7,674	6,081	16,835
Net income and total comprehensive income		\$ 20,493	\$ 21,905	\$ 63,852	\$ 37,296
Earnings per share:	16				
Basic		\$ 0.20	\$ 0.21	\$ 0.61	\$ 0.36
Diluted		\$ 0.20	\$ 0.21	\$ 0.61	\$ 0.36
Weighted average number of Common Shares outstanding:	16				
Basic		104,825	104,821	104,825	104,088
Diluted		104,825	104,822	104,825	104,736

The notes which begin on page 64 are an integral part of these condensed interim consolidated financial statements.



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(unaudited)</i> <i>(thousands)</i>	Share capital	Convertible debentures – equity component	Contributed surplus	Deficit	Total
<b>Balance at January 1, 2019</b>	\$ 946,910	\$ —	\$ 15,477	\$ (64,311)	\$ 898,076
Total comprehensive income for the period	—	—	—	63,852	63,852
Convertible debentures issued	—	12,403	—	—	12,403
Deferred tax on convertible debentures	—	(3,287)	—	—	(3,287)
Stock-based compensation expense	—	—	1,034	—	1,034
Dividends declared to common shareholders	—	—	—	(47,171)	(47,171)
<b>Balance at September 30, 2019</b>	<b>\$ 946,910</b>	<b>\$ 9,116</b>	<b>\$ 16,511</b>	<b>\$ (47,630)</b>	<b>\$ 924,907</b>

<i>(unaudited)</i> <i>(thousands)</i>	Share capital	Convertible debentures – equity component	Contributed surplus	Retained earnings	Total
<b>Balance at January 1, 2018</b>	\$ 933,303	\$ 550	\$ 13,807	\$ 42,071	\$ 989,731
Total comprehensive income for the period	—	—	—	37,296	37,296
Common Shares issued on conversion of convertible debentures	11,607	(550)	—	—	11,057
Common shares issued on acquisition	2,000	—	—	—	2,000
Stock-based compensation expense	—	—	1,286	—	1,286
Dividends declared to common shareholders	—	—	—	(46,871)	(46,871)
<b>Balance at September 30, 2018</b>	<b>\$ 946,910</b>	<b>\$ —</b>	<b>\$ 15,093</b>	<b>\$ 32,496</b>	<b>\$ 994,499</b>

The notes which begin on page 64 are an integral part of these condensed interim consolidated financial statements.





# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(unaudited)</i> <i>(thousands)</i>	Note	Nine month periods ended September 30	
		2019	2018
Cash provided by (used in):			
<b>Cash flows from operating activities:</b>			
Net income		\$ 63,852	\$ 37,296
Adjustments for:			
Depreciation and amortization		76,252	63,194
Finance costs		17,147	15,322
Stock-based compensation expense		1,034	1,286
Foreign exchange (gain) loss on cross-currency swaps	8	(2,697)	(2,840)
Foreign exchange (gain) loss		(8,865)	8,818
Change in fair value of investments	19	280	1,427
Loss (gain) on sale of property, plant and equipment	19	1,824	(470)
Earnings from equity investments	19	(2,574)	(2,674)
Accretion on asset retirement obligations	19	12	10
Income tax expense	11	6,081	16,835
Cash flows from operating activities before non-cash working capital items		152,346	138,204
Changes in non-cash working capital items from operating activities	20	(8,717)	(36,080)
Cash generated from operating activities		143,629	102,124
Income tax paid		(27,193)	(17,882)
Net cash from operating activities		116,436	84,242
<b>Cash flows from financing activities:</b>			
Net proceeds of convertible debentures	14	119,797	—
Cash dividends paid to common shareholders		(47,171)	(44,740)
Interest paid		(11,156)	(12,006)
Repayment of long-term debt and loans		(6,486)	(78,103)
Proceeds from bank credit facility		—	24,000
Repayment of bank credit facility		(30,000)	—
Repayment of lease liabilities	12	(8,860)	—
Repayment of convertible debentures		—	(1,545)
Changes in non-cash working capital items from financing activities	20	654	724
Net cash from (used in) financing activities		16,778	(111,670)
<b>Cash flows from investing activities:</b>			
Acquisitions net of cash acquired	5	(14,979)	(45,836)
Purchase of intangible assets		(360)	—
Purchase of property, plant and equipment		(51,351)	(67,798)
Proceeds on sale of property, plant and equipment		3,706	9,604
Net investment in finance leases		936	—
Proceeds on sale (purchases) of investments		663	(2,000)
Dividends from equity investees		—	226
Interest received		1,516	1,769
Other assets		289	(4,810)
Changes in non-cash working capital items from investing activities	20	283	2,447
Net cash used in investing activities		(59,297)	(106,398)
Change in cash and cash equivalents		73,917	(133,826)
Cash and cash equivalents at January 1		3,916	134,533
Effect of exchange rate fluctuations on cash held		(272)	342
Cash and cash equivalents at September 30		\$ 77,561	\$ 1,049

The notes which begin on page 64 are an integral part of these condensed interim consolidated financial statements.



# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

Three and nine month periods ended September 30, 2019 and 2018 (unaudited)  
(Tabular amounts in thousands, except share and per share amounts)

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## 1. Reporting Entity

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

## 2. Basis of Presentation

### (a) Statement of Compliance

These Interim Financial Statements have been prepared in accordance to and comply with International Financial Reporting Standards ("**IFRS**"), which include the International Accounting Standards ("**IAS**") and the interpretations developed by the International Financial Reporting Interpretations Committee ("**IFRIC**"), as issued by the International Accounting Standards Board ("**IASB**"). These Interim Financial Statements comply with IAS 34 Interim Financial Reporting and do not include all of the information required for annual financial statements.

### (b) Basis of Measurement

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

### (c) Functional and Presentation Currency

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

## 3. Significant Accounting Policies

### (a) Significant Accounting Policies

Except as indicated below, the accompanying Interim Financial Statements should be read in conjunction with Note 3 to Mullen Group's audited annual consolidated financial statements for the year ended December 31, 2018, (the "**Annual Financial Statements**") as the accounting policies applied by the Corporation in these Interim Financial Statements are the same as those disclosed therein.

### (b) Change in Accounting Policies

#### *IFRS 16 – Leases*

Effective January 1, 2019, Mullen Group adopted IFRS 16 – Leases using the modified retrospective method. Under the modified retrospective method, comparative financial information is not restated and continues to be reported under the accounting standards in effect for those periods. The modified retrospective method does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings (deficit).

Under IFRS 16 – Leases, the Corporation has recognized lease liabilities in relation to leases which were previously classified as "operating leases" under the principles of IAS 17 – Leases. Mullen Group assesses whether a contract is or contains a lease at inception of the contract. For contracts entered into before January 1, 2019, it was determined whether the arrangement was or contained a lease. As lease liabilities are recognized, there is a corresponding right-of-use asset recorded at the date of which the asset becomes available for use. As lease payments are made there is a reduction to the principal portion of the lease liability as well as an amount allocated to finance costs. The finance cost is expensed within the condensed consolidated statement of comprehensive income over the lease term. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

The Corporation uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The Corporation is using the following practical expedients permitted under the new standard:

- (i) Leases with a remaining lease term of less than twelve months as at January 1, 2019 as short-term leases;
- (ii) Leases of low dollar value will continue to be expensed as incurred; and
- (iii) The Corporation did not apply any grandfathering practical expedients.

Effective January 1, 2019, Mullen Group adopted IFRS 16 – Leases that resulted in the initial recognition of right-of-use assets and lease liabilities of approximately \$42.2 million.



**Judgements:**

Mullen Group assesses whether a contract is or contains a lease at inception of the contract. For contracts entered into before January 1, 2019, it was determined whether the arrangement was or contained a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether Mullen Group obtains substantially all the economic benefits from the use of that asset, and whether Mullen Group has the right to direct the use of the asset. Furthermore, Mullen Group assesses and reassess the likelihood of it exercising renewal options.

**Estimates:**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Mullen Group's incremental borrowing rate. Generally, Mullen Group uses its incremental borrowing rate as the discount rate, which is estimated at the inception of the lease. At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at Mullen Group's incremental borrowing rate as at January 1, 2019. Mullen Group's incremental borrowing rate is estimated using prevailing interest rates, market precedents and Mullen Group's credit rating.

**Impact of Adoption:**

Lease payments on short-term leases with lease terms of less than twelve months or low value leases are accounted for as expenses within the condensed consolidated statement of comprehensive income.

Assets and liabilities arising from a lease are initially measured on a present value basis. The value of lease liabilities includes the net present value of fixed payments, the value of any options to extend a lease where the Corporation is reasonably certain to do so, payments of penalties for terminating a lease, less any lease incentives received. The Corporation uses the cost model whereby right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability adjusted for any lease payments made before the commencement date, any initial direct costs and restoration costs. The cost of the right-of-use assets is adjusted for any remeasurement of the lease liability and is less any accumulated depreciation and accumulated impairment losses, if any.

The impact of adopting IFRS 16 – Leases as at January 1, 2019, is as follows:

Condensed Consolidated Statement of Financial Position Adjustments	As reported at December 31, 2018	Effect of adopting IFRS 16 – Leases	Restated balance at January 1, 2019
<b>Assets</b>			
<b>Current Assets:</b>			
Trade and other receivables <sup>(1)</sup>	\$ 218,089	\$ 1,000	\$ 219,089
	218,089	1,000	219,089
<b>Non-current Assets:</b>			
Right-of-use assets <sup>(1), (2), (3)</sup>	—	38,176	38,176
Other assets <sup>(1)</sup>	4,830	2,088	6,918
	4,830	40,264	45,094
<b>Total Assets</b>	<b>222,919</b>	<b>41,264</b>	<b>264,183</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities <sup>(3)</sup>	99,276	(914)	98,362
Lease liabilities – current portion <sup>(2)</sup>	—	10,283	10,283
	99,276	9,369	108,645
<b>Non-current liabilities:</b>			
Lease liabilities <sup>(2)</sup>	—	31,895	31,895
	—	31,895	31,895
<b>Total Liabilities</b>	<b>\$ 99,276</b>	<b>\$ 41,264</b>	<b>\$ 140,540</b>

<sup>(1)</sup> This adjustment is to record \$3.1 million of net investment in finance leases, which mainly related to subleases on real property with an offsetting amount recorded against right-of-use assets.

<sup>(2)</sup> This adjustment is to record \$42.2 million of the initial lease liabilities with a corresponding amount recorded in right-of-use assets.

<sup>(3)</sup> This adjustment is to reclassify \$0.9 million of lease inducements on real property leases that were previously recognized within accounts payable and accrued liabilities.

**IFRIC 23 – Uncertainty over Income Tax Treatments**

IFRIC 23 – Uncertainty over Income Tax Treatments specifies how to reflect uncertainty in accounting for income taxes and is mandatory for the accounting period beginning on January 1, 2019. There was no impact on the measurement of taxes as a consequence of this adoption.



*Annual Improvements to IFRS Standards*

On December 12, 2017, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019. Each of the amendments has its own specific transition requirements. Amendments were made to the following standards:

- IFRS 3 – Business Combinations and IFRS 11 – Joint Arrangements – to clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 – Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits; and
- IAS 23 – Borrowing Costs – to clarify that specific borrowings – i.e. funds borrowed specifically to finance the construction of a qualifying asset – should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

Mullen Group has adopted these amendments in its financial statements effective January 1, 2019. The extent of the impact of adoption of the amendments is not material.

**4. Determination of Fair Values**

The following table compares the fair value of certain financial assets and financial liabilities to its corresponding carrying amount as presented in the condensed consolidated statement of financial position.

September 30, 2019 Financial Instrument	Fair Value Hierarchy	Carrying Amount	Fair Value
Investments (excluding investments accounted for by using the equity method)	Level 1	\$ 1,860	\$ 1,860
Derivative Financial Instruments	Level 2	\$ 44,908	\$ 44,908
Private Placement Debt	Level 2	\$ 473,186	\$ 391,549
Convertible Debentures – debt component	Level 2	\$ 108,177	\$ 111,713

**5. Acquisitions**

*2019 Acquisitions*

Argus Carriers Ltd. and Inter-Urban Delivery Service Ltd. – On July 1, 2019, Mullen Group acquired all of the issued and outstanding shares of Argus Carriers Ltd. ("**Argus**") and Inter-Urban Delivery Service Ltd. ("**Inter-Urban**") for total cash consideration of \$20.0 million. Mullen Group recorded \$13.5 million of cash used to acquire all of the issued and outstanding shares of Argus and Inter-Urban on its condensed consolidated statement of cash flows, which consists of \$20.0 million of total consideration less \$6.5 million allocated to the repayment of shareholder loans and bank debt. Both Argus and Inter-Urban provide transportation and logistics services in the Lower Mainland of British Columbia. Mullen Group acquired Argus and Inter-Urban as part of our strategy to invest in transportation and logistics companies that have a strong regional less-than-truckload ("**LTL**") presence centrally located to serve consumers in large urban centres. Argus and Inter-Urban have been integrated into the operations of Tenold Transportation Ltd., whose financial results are included in the Trucking/Logistics segment.

Jen Express Inc. – On May 1, 2019, Mullen Group acquired the business and assets of Jen Express Inc. ("**Jen Express**") for cash consideration of \$1.5 million. Included in this amount is \$0.3 million of contingent consideration. Pursuant to the purchase and sale agreement, the vendor may receive cash consideration of up to \$0.3 million for achieving certain financial targets over the two year period ending May 1, 2021. Mullen Group has estimated the fair value of this contingent consideration to be \$0.3 million. The funds to settle this liability have been set aside in an escrow account, which have been presented within cash and cash equivalents. Located in Stettler, Alberta, Jen Express offers LTL services and has been integrated into the operations of the Hi-Way 9 Group of Companies, whose financial results are included in the Trucking/Logistics segment.



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

	2019
<b>Assets:</b>	
Non-cash working capital items	\$ 772
Property, plant and equipment	3,663
Right-of-use assets	2,531
Intangible assets	17,131
Goodwill (not deductible for tax purposes)	3,430
	<b>27,527</b>
<b>Assumed liabilities:</b>	
Lease liabilities	2,531
Due to shareholder and bank debt	6,486
Deferred income taxes	3,531
	<b>12,548</b>
Net assets before cash and cash equivalents	14,979
Cash and cash equivalents	625
Net assets	<b>15,604</b>
<b>Consideration:</b>	
Cash	15,304
Contingent consideration	300
	<b>\$ 15,604</b>

Due to the limited time between the closing of these acquisitions and the preparation of these Interim Financial Statements, the value of the assets acquired and the liabilities assumed are based upon preliminary financial information available to management as of the date of this report and are subject to change.

## 6. Trade and Other Receivables

	September 30 2019	December 31 2018
Trade receivables	\$ 191,345	\$ 190,150
Other receivables	34,784	27,289
Net investment in finance leases <sup>(1)</sup>	797	—
Contract assets	1,143	650
	<b>\$ 228,069</b>	<b>\$ 218,089</b>

<sup>(1)</sup> Net investment in finance leases includes amounts owing within 12 months or less and mainly consist of the net investment in subleases on real property where the Business Unit has entered into the head lease.



## 7. Right-of-Use Assets

	Real Property	Operating Equipment	Total
Cost			
Balance at January 1, 2019 <sup>(1)</sup>	\$ 39,462	\$ 2,716	\$ 42,178
Additions	2,961	5,922	8,883
Subleases <sup>(2)</sup>	(3,476)	(20)	(3,496)
Disposals <sup>(3)</sup>	(1,978)	—	(1,978)
Balance at September 30, 2019	36,969	8,618	45,587
Accumulated Depreciation			
Balance at January 1, 2019	—	—	—
Depreciation expense	6,815	1,621	8,436
Disposals	(708)	—	(708)
Balance at September 30, 2019	6,107	1,621	7,728
<b>Net book value at September 30, 2019</b>	<b>\$ 30,862</b>	<b>\$ 6,997</b>	<b>\$ 37,859</b>

<sup>(1)</sup> Includes \$42.2 million of the initial lease liabilities with a corresponding amount recorded in right-of-use assets.

<sup>(2)</sup> Includes \$3.5 million of net investment in finance leases, which mainly related to subleases on real property.

<sup>(3)</sup> Includes \$0.9 million of lease inducements on real property.

## 8. Derivative Financial Instruments

On July 25, 2014, Mullen Group entered into two cross-currency swap contracts with a Canadian bank to swap \$117.0 million U.S. dollars and \$112.0 million U.S. dollars into Canadian dollars (collectively, the "**Cross-Currency Swaps**") at foreign exchange rates of \$1.1047 and \$1.1148 that mature on October 22, 2024 and October 22, 2026, respectively. These Cross-Currency Swaps hedge the principal amount of the Series G and Series H Notes.

For the nine month period ended September 30, 2019, Mullen Group has recorded a net foreign exchange (gain) loss of \$(11.8) million (2018 – \$6.3 million). This was due to the impact of the change over the period in the value of the Canadian dollar relative to the U.S. dollar on the Corporation's U.S. dollar debt and from the change in the fair value of its Cross-Currency Swaps as summarized in the table below:

Net Foreign Exchange (Gain) Loss	Nine month periods ended September 30			
	CDN. \$ Equivalent			
	2019		2018	
Foreign exchange (gain) loss on U.S. \$ debt	\$	(9,137)	\$	9,160
Foreign exchange (gain) loss on Cross-Currency Swaps		(2,697)		(2,840)
Net foreign exchange (gain) loss	\$	(11,834)	\$	6,320

For the nine month period ended September 30, 2019, Mullen Group recorded a foreign exchange (gain) loss on U.S. dollar debt of \$(9.1) million (2018 – \$9.2 million) as summarized in the table below:

Foreign Exchange (Gain) Loss on U.S. \$ Debt	Nine month periods ended September 30					
	2019			2018		
	U.S. \$ Debt	Exchange Rate	CDN. \$ Equivalent	U.S. \$ Debt	Exchange Rate	CDN. \$ Equivalent
Ending – September 30	229,000	1.3243	303,265	229,000	1.2945	296,441
Beginning – January 1	229,000	1.3642	312,402	229,000	1.2545	287,281
Foreign exchange (gain) loss on U.S. \$ debt			(9,137)			9,160



For the nine month period ended September 30, 2019, Mullen Group recorded a foreign exchange (gain) loss on its Cross-Currency Swaps of \$(2.7) million (2018 – \$(2.8)million). This was due to the change over the period in the fair value of these Cross-Currency Swaps as summarized in the table below:

Foreign Exchange (Gain) Loss on Cross-Currency Swaps	Nine month periods ended September 30			
	2019		2018	
	U.S. \$ Swaps	CDN. \$ Change in Fair Value of Swaps	U.S. \$ Swaps	CDN. \$ Change in Fair Value of Swaps
Cross-Currency Swap maturing October 22, 2024	117,000	(800)	117,000	(1,837)
Cross-Currency Swap maturing October 22, 2026	112,000	(1,897)	112,000	(1,003)
Foreign exchange (gain) loss on Cross-Currency Swaps		(2,697)		(2,840)

## 9. Other Assets

	September 30, 2019		December 31, 2018	
Debentures – equity investee	\$	3,200	\$	3,200
Promissory notes		784		1,037
Net investment in finance leases <sup>(1)</sup>		2,115		—
Other		417		593
	\$	6,516	\$	4,830

<sup>(1)</sup> Net investment in finance leases includes amounts owing after 12 months and mainly consists of the net investment in subleases on real property where the Business Unit has entered into the head lease.

## 10. Dividends Payable

For the nine month period ended September 30, 2019, Mullen Group declared monthly dividends of \$0.05 per Common Share totalling \$0.45 per Common Share (2018 – \$0.45 per Common Share). On February 6, 2019, Mullen Group announced its intention to pay annual dividends of \$0.60 per Common Share (\$0.05 per Common Share on a monthly basis) for 2019. At September 30, 2019, Mullen Group had 104,824,973 Common Shares outstanding and a dividend payable of \$5.2 million (December 31, 2018 – \$5.2 million), which was paid on October 15, 2019. Mullen Group also declared a dividend of \$0.05 per Common Share on October 22, 2019, to the holders of record at the close of business on October 31, 2019.

## 11. Income Taxes

The following table provides a reconciliation of the effective tax rates based on the applicable tax rates in various provincial jurisdictions during the period.

	Three month periods ended September 30		Nine month periods ended September 30	
	2019	2018	2019	2018
Income before income taxes	\$ 26,301	\$ 29,579	\$ 69,933	\$ 54,131
Combined statutory tax rate	27%	27%	27%	27%
Expected income tax	7,101	7,986	18,882	14,615
Add (deduct):				
Non-deductible (taxable) portion of net foreign exchange (gain) loss	(517)	(242)	(1,568)	853
Non-deductible (taxable) portion of the change in fair value of investments	33	47	37	193
Stock-based compensation expense	93	102	274	347
Changes in unrecognized deferred tax asset	(517)	(242)	(1,568)	853
Decrease in income tax due to changes in income tax rates	(70)	—	(9,469)	—
Other	(315)	23	(507)	(26)
Income tax expense	\$ 5,808	\$ 7,674	\$ 6,081	\$ 16,835



During the second quarter of 2019, the Government of Alberta passed Bill 3, which will reduce the Alberta provincial corporate tax rate from 12.0 percent to 8.0 percent in a phased approach between July 1, 2019 and January 1, 2022. As a result of this change, the Corporation made an adjustment to current and deferred income taxes of \$0.2 million and \$9.4 million, respectively, which was recorded in the second quarter of 2019. As the tax rate change came into effect on July 1, 2019, the combined federal and provincial statutory income tax rate for 2019 decreased to 26.6 percent.

## 12. Lease Liabilities

	Nine month period ended September 30, 2019	
Beginning – January 1, 2019	\$	42,178
Additions		8,883
Disposals		(464)
Lease payments		(9,875)
Interest expense		1,015
Ending balance – September 30, 2019		41,737
Less:		
Lease liabilities – current portion		7,874
Lease liabilities	\$	33,863

The following are the contractual maturities of lease liabilities, including the value of any options to extend a lease where Mullen Group is reasonably certain to do so:

	September 30, 2019	
2019	\$	3,207
2020 – 2021		20,936
2022 – 2023		10,804
Thereafter		10,660
Contractual cash flows	\$	45,607
Carrying amount	\$	41,737

Mullen Group's lease liabilities mainly relate to real property leases that are utilized by the Business Units within their operations. Certain Business Units have also entered into leases pertaining to various pieces of operating equipment including rail cars, trucks and trailers. Leases are entered into and terminated when they meet specific business requirements. The Corporation has recognized these lease liabilities, which are measured at the present value of the remaining lease payments at an average incremental borrowing rate of 3.2 percent.

On adoption of IFRS 16 – Leases, the Corporation has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, service contracts, short-term and low-value leases, and discounted using the Corporation's incremental borrowing rate as of January 1, 2019. The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019, adjusted by the amount of any lease inducements and subleases relating to the lease recognised in the statement of financial position immediately before the date of transition, with no impact on retained earnings (deficit). There was no impact to lessor accounting from the adoption of IFRS 16 – Leases.

For the nine month period ended September 30, 2019, Mullen Group incurred variable lease payments, short-term and low dollar value lease expense of \$3.2 million, \$4.7 million and \$0.05 million, respectively. The Corporation also recognized \$0.04 million of sublease income during the period.

## 13. Long-Term Debt and Credit Facility

On October 24, 2018, Mullen Group entered into an agreement with its lender to amend the amount available to be borrowed on its credit facility (the "Bank Credit Facility"). The amount available to be borrowed on the Bank Credit Facility was increased by \$50.0 million to \$125.0 million. On June 21, 2019, the amount available to be borrowed on the Bank Credit Facility was increased by \$25.0 million to \$150.0 million. Interest on the Bank Credit Facility is payable monthly and is based on either the bank prime rate plus 0.50 percent or bankers' acceptance rates plus an acceptance fee of 1.50 percent. As at September 30, 2019, no amounts were drawn on this facility. All other terms under the Bank Credit Facility remain the same. This facility does not have any financial covenants, however, Mullen Group cannot be in default of its Private Placement Debt and it must be in compliance with certain reporting and general covenants. Mullen Group is in compliance with all of these reporting and general covenants.

Mullen Group has \$4.1 million of letters of credit outstanding, which were issued to guarantee certain performance and payment obligations. These letters of credit reduce the amount available under the Bank Credit Facility.





Mullen Group's long-term debt is mainly comprised of a series of unsecured debt (collectively, the "Private Placement Debt"), the details of which are set forth below:

Notes	Principal amount	Maturity	Interest Rate <sup>(1)</sup>
Series G	\$ 117,000 U.S.	October 22, 2024	3.84%
Series H	\$ 112,000 U.S.	October 22, 2026	3.94%
Series I	\$ 30,000 CDN.	October 22, 2024	3.88%
Series J	\$ 3,000 CDN.	October 22, 2026	4.00%
Series K	\$ 58,000 CDN.	October 22, 2024	3.95%
Series L	\$ 80,000 CDN.	October 22, 2026	4.07%

<sup>(1)</sup> Interest is payable semi-annually.

Mullen Group's unamortized debt issuance costs of \$1.1 million related to its Private Placement Debt have been netted against its carrying value at September 30, 2019 (December 31, 2018 – \$1.2 million). Mullen Group has certain financial covenants that must be met under its unsecured Private Placement Debt, which include a total net debt to operating cash flow ratio and a total earnings available for fixed charges to total fixed charges ratio. Mullen Group's total net debt cannot exceed 3.5 times operating cash flow calculated using the trailing twelve months financial results normalized for acquisitions. The term "total net debt" means all debt including the Private Placement Debt, lease liabilities, the Bank Credit Facility and letters of credit less any unrealized gain on Cross-Currency Swaps plus any unrealized loss on Cross-Currency Swaps, as disclosed within Derivatives on the condensed consolidated statement of financial position. The term "operating cash flow" means, for any quarterly period, the trailing twelve month consolidated net income adjusted for all amounts deducted in the computation thereof on account of (i) taxes imposed on or measured by income or excess profits, (ii) depreciation and amortization taken during such period, (iii) total interest charges, including interest on the Debentures and lease liabilities; and (iv) non-cash charges. Mullen Group cannot have a fixed charge coverage ratio less than 1.75:1 calculated using the trailing twelve months financial results. Mullen Group is in compliance with all the Private Placement Debt financial covenants.

The following table summarizes the Corporation's total debt:

	September 30, 2019	December 31, 2018
Current liabilities:		
Private Placement Debt	\$ —	\$ —
Lease liabilities – current portion	7,874	—
Bank Credit Facility	—	30,000
	7,874	30,000
Non-current liabilities:		
Private Placement Debt	473,186	482,185
Lease liabilities	33,863	—
	507,049	482,185
	\$ 514,923	\$ 512,185

The details of total debt, as at the date hereof, are as follows:

	Year of Maturity	Interest Rate	September 30, 2019		December 31, 2018	
			Face Value	Carrying Amount	Face Value	Carrying Amount
			\$	\$	\$	\$
Bank Credit Facility	—	Variable	—	—	30,000	30,000
Lease liabilities	2019 – 2028	3.20%	45,607	41,737	—	—
Private Placement Debt	2024 – 2026	3.84% – 4.07%	474,265	473,186	483,402	482,185
			519,872	514,923	513,402	512,185



#### 14. Convertible Unsecured Subordinated Debentures

In June 2019, Mullen Group issued convertible unsecured subordinated debentures (the "2019 Debentures") at a price of \$1,000 per 2019 Debenture. The 2019 Debentures mature on November 30, 2026 and are publicly-traded and listed on the TSX under the symbol 'MTL.DB'. The 2019 Debentures bear interest at a rate of 5.75% per annum, payable semi-annually in arrears on May 31 and November 30 of each year, with the first interest payment on November 30, 2019. The November 30, 2019 interest payment will represent accrued interest from the closing to, but excluding, November 30, 2019. Mullen Group may elect to satisfy its interest obligation on any interest payment date by issuing and delivering, subject to regulatory approval, Common Shares to debenture holders. Each \$1,000 2019 Debenture is convertible into 71.4286 Common Shares of Mullen Group (or a conversion price of \$14.00) at any time at the option of the holders of the 2019 Debentures. As at the date of issuance, an aggregate of 8,928,575 Common Shares would be issued if all holders converted their principal amount. In the event that a holder of the 2019 Debentures exercises their conversion right, such holder will be entitled to receive accrued and unpaid interest, in addition to the applicable number of Common Shares to be received on conversion, for the period from the date of the last interest payment to the date of conversion.

The 2019 Debentures shall not be redeemable by the Corporation prior to November 30, 2023. On or after November 30, 2023 and prior to November 30, 2025, the 2019 Debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the arithmetic average of the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125.0 percent of the conversion price. On or after November 30, 2025 and prior to the maturity date, the 2019 Debentures may be redeemed in whole or in part at the option of the Corporation on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest if any, up to but excluding the date set for redemption.

The 2019 Debentures are comprised of both a debt and equity component. The debt component represents the total discounted present value of both the semi-annual interest obligations and the principal payment due at maturity, using the rate of interest that would have been applicable to a non-convertible debt instrument of comparable term and risk at the date of issue. In the event the 2019 Debentures are converted prior to maturity, the difference between the carrying amount of such 2019 Debentures and their face value would be charged to interest expense. The remaining equity component of the 2019 Debentures represents the difference between the face value of the 2019 Debentures (namely, \$125.0 million) and the accounting value assigned to the debt component of the 2019 Debentures at the date of issue (namely, \$112.6 million). Subject to the impact of the 2019 Debentures being converted, this equity component amount will remain constant over the term of the 2019 Debentures. Upon conversion of the 2019 Debentures into common shares, a proportionate amount of both the debt and equity components are transferred to Shareholders' capital. Accretion and interest expense on the 2019 Debentures are reflected as finance costs in the consolidated statement of comprehensive income.

The transaction costs associated with the 2019 Debentures were \$5.2 million and are being amortized over the term of the 2019 Debentures. If the holders of the 2019 Debentures convert the principal portion to Common Shares prior to maturity, the unamortized transaction costs would be expensed at that time.

As subordinated debt, the accounting value assigned to the 2019 Debentures including any related interest expense is excluded from our financial covenant calculations under our Private Placement Debt.

The details of the 2019 Debentures are as follows:

Year of Maturity	Interest Rate	September 30, 2019		December 31, 2018	
		Face Value	Carrying Amount	Face Value	Carrying Amount
2026	5.75%	\$ 125,000	\$ 108,177	\$ —	\$ —

The cumulative carrying amount of the 2019 Debentures is as follows:

	Cumulative as at September 30, 2019	
Proceeds from issue of the 2019 Debentures	\$	125,000
Debt issuance costs		(5,203)
Net proceeds		119,797
Amount classified as equity		(12,403)
Accretion on debt		783
Carrying amount of the 2019 Debentures	\$	108,177



## 15. Share Capital

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

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

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

	Note	# of Common Shares	
		2019	2018
Issued Common Shares at January 1		104,824,973	103,654,316
Common Shares issued on acquisition		—	133,334
Common Shares issued on conversion of 2009 Debentures <sup>(1)</sup>	14	—	1,037,323
Issued Common Shares at September 30		104,824,973	104,824,973

<sup>(1)</sup> On May 1, 2009, Mullen Group issued convertible unsecured subordinated debentures (the "**2009 Debentures**") at a price of \$1,000 per 2009 Debenture. The 2009 Debentures matured on July 1, 2018, and were either converted into Common Shares of the Corporation or repaid with cash.

## 16. Earnings per Share

### (a) Basic Earnings per Share

Basic earnings per share is calculated as net income attributable to common shareholders divided by the weighted average number of Common Shares outstanding for the period. Net income attributable to common shareholders for the three and nine month periods ended September 30, 2019, were \$20.5 million and \$63.8 million (2018 – \$21.9 million and \$37.3 million), respectively. The weighted average number of Common Shares outstanding for the three and nine month periods ended September 30, 2019 and 2018 was calculated as follows:

	Note	Three month periods ended September 30		Nine month periods ended September 30	
		2019	2018	2019	2018
Issued Common Shares at beginning of period	15	104,824,973	104,645,041	104,824,973	103,654,316
Effect of Common Shares issued		—	130,435	—	43,956
Effect of the 2009 Debentures converted	14	—	45,585	—	389,394
Weighted average number of Common Shares at end of period – basic		104,824,973	104,821,061	104,824,973	104,087,666

### (b) Diluted Earnings per Share

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

		Three month periods ended September 30		Nine month periods ended September 30	
		2019	2018	2019	2018
Net income	\$	20,493	\$ 21,905	\$ 63,852	\$ 37,296
Effect on finance costs from conversion of the 2009 Debentures (net of tax)		—	50	—	76
Net income – adjusted	\$	20,493	\$ 21,955	\$ 63,852	\$ 37,372



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

	Three month periods ended September 30		Nine month periods ended September 30	
	2019	2018	2019	2018
Weighted average number of Common Shares – basic	104,824,973	104,821,061	104,824,973	104,087,666
Effect of "in the money" stock options	—	—	—	—
Effect of conversion of the 2009 Debentures	—	1,013	—	647,929
Weighted average number of Common Shares at end of period – diluted	104,824,973	104,822,074	104,824,973	104,735,595

For the three and nine month periods ended September 30, 2019 and 2018, all stock options outstanding were excluded from the diluted weighted average number of Common Shares calculation as their effect would have been anti-dilutive. The average market value of the Corporation's Common Shares for the purposes of calculating the dilutive effect of stock options was based on quoted market prices for the periods ended September 30, 2019 and 2018. For the three and nine month periods ended September 30, 2019 and 2018, the Common Shares that would be issued upon conversion of the 2019 Debentures and 2009 Debentures were excluded from the diluted weighted average calculation as their effect would have been anti-dilutive.

## 17. Seasonality of Operations

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

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



## 18. Revenue

Disaggregation of revenue:

The following tables detail Mullen Group's revenue by type of service and timing of the transfer of goods or services by segment:

Nine month period ended September 30, 2019	Trucking/ Logistics	Oilfield Services	Corporate	Intersegment eliminations	Total
Revenue by service line					
Transportation	\$ 503,601	\$ 166,474	\$ —	\$ —	\$ 670,075
Logistics	90,671	3,497	—	—	94,168
Other <sup>(1)</sup>	71,493	141,202	3,181	—	215,876
Eliminations	(8,796)	(2,496)	—	(4,961)	(16,253)
	\$ 656,969	\$ 308,677	\$ 3,181	\$ (4,961)	\$ 963,866
Timing of revenue recognition					
Over time	\$ 523,600	\$ 209,830	\$ 1,917	\$ —	\$ 735,347
Point in time	142,165	101,343	1,264	—	244,772
Eliminations	(8,796)	(2,496)	—	(4,961)	(16,253)
	\$ 656,969	\$ 308,677	\$ 3,181	\$ (4,961)	\$ 963,866

<sup>(1)</sup> Included within other revenue is \$30.8 million of rental revenue comprised of \$25.6 million, \$3.3 million and \$1.9 million recorded in the Oilfield Services segment, the Trucking/Logistics segment and Corporate, respectively.

Nine month period ended September 30, 2018	Trucking/ Logistics	Oilfield Services	Corporate	Intersegment eliminations	Total
Revenue by service line					
Transportation	\$ 503,769	\$ 160,880	\$ —	\$ —	\$ 664,649
Logistics	91,370	5,481	—	—	96,851
Other <sup>(1)</sup>	66,994	111,800	4,399	—	183,193
Eliminations	(8,501)	(2,329)	—	(6,352)	(17,182)
	\$ 653,632	\$ 275,832	\$ 4,399	\$ (6,352)	\$ 927,511
Timing of revenue recognition					
Over time	\$ 521,797	\$ 200,434	\$ 3,804	\$ —	\$ 726,035
Point in time	140,336	77,727	595	—	218,658
Eliminations	(8,501)	(2,329)	—	(6,352)	(17,182)
	\$ 653,632	\$ 275,832	\$ 4,399	\$ (6,352)	\$ 927,511

<sup>(1)</sup> Included within other revenue is \$34.9 million of rental revenue comprised of \$27.9 million, \$3.8 million and \$3.2 million recorded in the Oilfield Services segment, Corporate and the Trucking/Logistics segment, respectively.

## 19. Other (Income) Expense

	Three month periods ended September 30		Nine month periods ended September 30	
	2019	2018	2019	2018
Change in fair value of investments	\$ 252	\$ 342	\$ 280	\$ 1,427
Loss (gain) on sale of property, plant and equipment	405	323	1,824	(470)
Earnings from equity investments	(871)	(673)	(2,574)	(2,674)
Accretion on asset retirement obligations	4	3	12	10
Other (income) expense	\$ (210)	\$ (5)	\$ (458)	\$ (1,707)



## 20. Changes in non-cash working capital

	Nine month periods ended September 30	
	2019	2018
Trade and other receivables	\$ (6,686)	\$ (33,301)
Inventory	(8)	(2,938)
Prepaid expenses	(5,355)	(5,940)
Accounts payable and accrued liabilities	4,269	9,270
	\$ (7,780)	\$ (32,909)

	Nine month periods ended September 30	
	2019	2018
Changes in non-cash working capital items from:		
Operating activities	\$ (8,717)	\$ (36,080)
Financing activities	654	724
Investing activities	283	2,447
	\$ (7,780)	\$ (32,909)

## 21. Operating Segments

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

Three month period ended September 30, 2019	Trucking/ Logistics	Oilfield Services	Corporate	Intersegment eliminations		Total
				Trucking/ Logistics	Oilfield Services	
	\$	\$	\$	\$	\$	\$
Revenue	222,163	103,838	662	(877)	(488)	325,298
Income before income taxes	17,307	6,893	2,101	—	—	26,301
Depreciation of property, plant and equipment	6,780	10,303	1,541	—	—	18,624
Amortization of intangible assets	4,087	1,025	—	—	—	5,112
Capital expenditures <sup>(1)</sup>	10,723	4,114	3,187	—	(12)	18,012
Total assets at September 30, 2019	655,495	480,078	649,020	—	—	1,784,593

<sup>(1)</sup> Excludes business acquisitions

Three month period ended September 30, 2018	Trucking/ Logistics	Oilfield Services	Corporate	Intersegment eliminations		Total
				Trucking/ Logistics	Oilfield Services	
	\$	\$	\$	\$	\$	\$
Revenue	226,754	114,517	1,022	(1,936)	(659)	339,698
Income before income taxes	22,054	5,933	1,592	—	—	29,579
Depreciation of property, plant and equipment	5,941	11,095	1,606	—	—	18,642
Amortization of intangible assets	2,949	1,025	—	—	—	3,974
Capital expenditures <sup>(1)</sup>	12,094	15,157	9,872	—	(38)	37,085
Total assets at December 31, 2018	573,859	501,857	570,136	—	—	1,645,852

<sup>(1)</sup> Excludes business acquisitions



Nine month period ended September 30, 2019	Trucking/ Logistics	Oilfield Services	Corporate	Intersegment eliminations		Total
				Trucking/ Logistics	Oilfield Services	
				\$	\$	
Revenue	656,969	308,677	3,181	(3,749)	(1,212)	963,866
Income before income taxes	48,933	9,882	11,118	—	—	69,933
Depreciation of property, plant and equipment	19,375	29,826	4,595	—	—	53,796
Amortization of intangible assets	10,945	3,075	—	—	—	14,020
Capital expenditures <sup>(1)</sup>	32,258	16,593	6,332	(90)	(3,742)	51,351
Total assets at September 30, 2019	655,495	480,078	649,020	—	—	1,784,593

<sup>(1)</sup> Excludes business acquisitions

Nine month period ended September 30, 2018	Trucking/ Logistics	Oilfield Services	Corporate	Intersegment eliminations		Total
				Trucking/ Logistics	Oilfield Services	
				\$	\$	
Revenue	653,632	275,832	4,399	(5,015)	(1,337)	927,511
Income (loss) before income taxes	55,116	5,074	(6,059)	—	—	54,131
Depreciation of property, plant and equipment	16,832	30,503	4,721	—	—	52,056
Amortization of intangible assets	8,693	2,445	—	—	—	11,138
Capital expenditures <sup>(1)</sup>	36,744	21,985	10,498	(39)	(1,390)	67,798
Total assets at December 31, 2018	573,859	501,857	570,136	—	—	1,645,852

<sup>(1)</sup> Excludes business acquisitions

Performance is measured based on segment income before income tax, as included in the internal management reports that are reviewed by Mullen Group's CEO and President. Segment income is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries.

## 22. Related Party Disclosures

### Related Party Transactions

In June 2019, certain officers and directors of Mullen Group subscribed for \$5.0 million of the 2019 Debentures under the same terms and conditions as those issued to unrelated third parties. Other than these \$5.0 million of 2019 Debentures, Mullen Group has no contracts with any related party.



## CORPORATE INFORMATION

### DIRECTORS | OFFICERS

**Murray K. Mullen**

Chairman of the Board, Chief Executive Officer,  
President and Director

**Sonia Tibbatts, MBA**

Lead Director

**Greg Bay, CFA**

Director

**Stephen H. Lockwood, LLB**

Director

**Christine McGinley, CPA, CA, ICD.D**

Director

**David E. Mullen**

Director

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

Director

**P. Stephen Clark, FCPA, FCMA, ICD.D**

Chief Financial Officer

**Richard J. Maloney**

Senior Vice President

**Joanna K. Scott**

Corporate Secretary and  
Vice President, Corporate Services

**Carson Urlacher, CPA, CA**

Corporate Controller

### CORPORATE OFFICE

**Mullen Group Ltd.**

Chimney Rock Centre  
121A, 31 Southridge Drive  
Okotoks, Alberta T1S 2N3

**Telephone:** 403-995-5200

**Canada/U.S.:** 1-866-995-7711

**Facsimile:** 403-995-5296

**Internet:** [www.mullen-group.com](http://www.mullen-group.com)

**Email:** [IR@mullen-group.com](mailto:IR@mullen-group.com)

### BANKER

**The Royal Bank of Canada**

Calgary, Alberta

### AUDITORS

**PricewaterhouseCoopers LLP**

Calgary, Alberta

### STOCK EXCHANGE

**Toronto Stock Exchange**

Trading Symbol: MTL

### TRANSFER AGENT AND REGISTRAR

**Computershare Trust Company of Canada**

Toronto, Ontario

Telephone: 1-800-564-6253

Internet: [www.investorcentre.com](http://www.investorcentre.com)

Shareholder Inquiries:

[www.investorcentre.com/service](http://www.investorcentre.com/service)

### ONLINE INFORMATION

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please visit Mullen Group's website at  
[www.mullen-group.com](http://www.mullen-group.com).*

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