

FORM 27

MATERIAL CHANGE REPORT

1. **Reporting Issuer:**

Western Star Trucks Holdings Ltd.
2076 Enterprise Way
Kelowna, British Columbia
V1Y 6H8

2. **Date of Material Change:**

January 26, 2000

3. **Press Release:**

Date of Issuance: January 26, 2000
Place of Issuance: Kelowna, BC

4. **Summary of Material Change:**

Kelowna, British Columbia, January 26, 2000 - Western Star Trucks Holdings Ltd. (the "Company") announced its unaudited consolidated financial results for the quarter ended December 31, 1999.

HIGHLIGHTS *(in thousands of Canadian dollars except per share amounts)*

	Three months ending December 31		Six months ending December 31	
	1999	1998	1999	1998
Revenue	499,215	456,326	989,466	834,133
Net income	14,503	6,417	27,370	10,085
Net income per share	1.01	0.45	1.91	0.71
Cash flow from operations	30,097	10,691	56,413	21,707
Cash flow from operations per share	2.10	0.75	3.93	1.52
EBITDA	35,851	23,214	69,982	42,606

5. **Full Description of the Material Change:**

The Company has reported its highest quarterly earnings and EBITDA for the second quarter of fiscal 2000, showing an improvement in net income over the first quarter of fiscal 2000 and the same quarter in the prior year. EBITDA for the quarter is \$35.9 million, a \$12.6 million increase

over the same quarter of last year. The significant improvement over last year is a result of higher sales and gross margins of Western Star trucks and improved operations at Orion.

Revenue has grown by \$42.9 million or 9% from the second quarter of fiscal 1999 and by \$9.0 million or 2% from the previous quarter, and has increased across all product lines of the business, with the exception of ERF trucks. Orion reported a 26% increase in revenue from bus sales from the same quarter in the previous year as a result of increased production levels in the current quarter and the impact that the strike in Oriskany had in the second quarter of fiscal 1999. Revenue from sales of Western Star Class 8 trucks increased by 8% during the same period due to higher unit sales to the North American market.

The gross margin percentage for the quarter was 12.1%, which is an increase from 10.7% in the second quarter of last year. This is the result of improvements at Orion and increased margins on Western Star trucks.

Terry Peabody, Chairman, Chief Executive Officer and President states, "The Company has again reported a record quarter for earnings, our sixth consecutive quarter of improvement."

"Western Star Trucks had another strong quarter and maintained a build rate of 31 trucks per day at its Kelowna facility. We are closely monitoring the North American truck market, and although the market is forecasted to be down from last year's record high, the market is still expected to be strong this year. During the quarter, our South Carolina facility commenced production and is currently producing three trucks per day. In December, the Company sold its first Class 7 trucks to the North American market, with plans to increase sales over the upcoming year."

"Orion had a lot of success during the past quarter in increasing its order board taking in 763 orders valued at \$326 million with options for 733 buses valued at \$293 million. Orion's EBITDA for the quarter was \$5.5 million higher than the same quarter in the prior year and represents Orion's third consecutive profitable quarter. The float of unfinished buses was at 78 at the end of December, which is consistent with our expectations for the quarter."

"ERF is beginning to realize benefits from the assembly of Isuzu vehicles and the sale of Bedford parts, however, it continues to be faced with competitive pressure from European manufacturers due to the continuing strength of the pound sterling against the Euro."

"The quarter has shown growth of our after-market parts business, which the Company expects to continue as the number of our vehicles on the road increases."

Review of Operations

Quarter Ended December 31, 1999

Revenue

Revenue for the quarter increased by 9% from the second quarter of the prior year. Orion's bus sales increased by \$21.8 million over this period due to production improvements and the average build rate for the current quarter was higher at 23 buses per week as compared to 17 per week in the second quarter of last year. Bus sales in the second quarter of last year were also negatively impacted by the strike at the Oriskany facility.

Sales of Class 8 Western Star trucks increased by \$16.8 million over the same quarter in the prior year. Increased unit sales accounted for the improvement and was offset by decreased average selling prices due to a stronger Canadian dollar. In October 1999, the Company announced that it was entering the Class 7 medium duty truck market in North America with a product produced by Corsorcio G Grupo Dina ("DINA") of Mexico. The Company sold its first Class 7 trucks in December, adding \$2.5 million to revenue.

ERF truck sales increased slightly in unit numbers and in pounds sterling in the current quarter compared to the second quarter of fiscal 1999. However, the exchange rates in the current quarter were lower than the same quarter in the prior year, resulting in lower reported Canadian dollar revenues, even though the average selling price in pounds sterling was slightly higher in the current quarter.

Revenue from the sale of after-market parts increased again this quarter as compared to the second quarter of fiscal 1999. This was due to increased sales of the Company's truck and bus products and sales from the Bedford parts business, acquired by ERF in May 1999.

Gross Margin

The improvement in gross margin from the second quarter of fiscal 1999 to 12.1% was the result of improved margins on the sale of Orion buses and Western Star trucks. Orion's gross margin on bus sales were negatively impacted in the second quarter of fiscal 1999 by the effects of the strike in Oriskany. Higher average weekly build rates also helped margins as a result of production efficiencies. Western Star Trucks reported increased gross margin on truck sales over the second quarter of last year due to efficiencies gained as a result of operating at higher production levels. Margins on the sale of ERF trucks have decreased in pounds sterling due to competitive pricing in the current United Kingdom market. ERF gross margins in Canadian dollars were further eroded by less favourable exchange rate impacts.

Selling and Administrative Expenses

Selling and administrative expenses have increased slightly from the second quarter of the previous year. However, as a percentage of revenue, these costs were 6.8%, compared to 7.4% in the prior fiscal year. The current quarter includes favourable foreign exchange on translation of \$0.8 million compared to \$1.0 million favourable in the second quarter of last year and \$1.8 million unfavourable in the prior quarter.

Interest Expense

Interest expense has decreased by \$0.9 million from the second quarter of fiscal 1999 and was consistent with the prior quarter as the Company continues to reduce its borrowing levels.

EBITDA

Earnings before interest, taxes, depreciation and amortization have increased by \$12.6 million this quarter as compared to the same quarter in the prior year. Orion's EBITDA in the current quarter was \$4.6 million compared to a loss of \$1.0 million in the second quarter of fiscal 1999, which included \$4.0 million of costs related to the Oriskany strike. The Western Star segment also reported an increase in EBITDA of \$4.9 million.

Net Income

Net income has increased by \$8.1 million in the current quarter over the same quarter of the prior year due mainly to improved operations at Orion during the quarter and increased revenue and gross margins on the sale of Western Star trucks.

Fully diluted earnings per share is impacted by the preferred shares held by the Province of British Columbia which are convertible into common shares of the Company.

Liquidity and Capital Resources

The Company's cash position improved by \$3.5 million from the second quarter of fiscal 1999 and decreased by \$18.6 million from the first quarter of fiscal 2000. Its debt position was reduced by \$17.4 million from the same quarter in the prior year. The Company spent approximately \$39.1 million during the quarter on the buyout and construction of the South Carolina facility, which was funded through drawings on the revolving credit line and cash on hand. The South Carolina facility was previously being financed off-balance sheet but in October the Company exercised a buyout option to purchase it. ERF drew on its bank overdraft line to fund operations and to purchase equipment for its new facility.

Changes in non-cash working capital balances decreased by \$34.2 million over the quarter due mainly to changes in accounts receivable, as a result of increased sales volumes and unbilled revenue. Unbilled revenue increased as the number of finished buses, awaiting inspection, was 48 units higher. Inventory increased from the first quarter of 2000 due mainly to the South Carolina facility commencing production in the quarter and the Company's entrance into the Class 7 truck market.

During the quarter, the Company spent \$44.5 million on capital asset additions, the majority of which was for the South Carolina facility. The remainder was spent on general operations. Deferred cost expenditures totalling \$5.2 million for the quarter related to various product development projects and the start-up of the South Carolina facility.

Outlook

The Class 8 market for North America continues to be challenging and, even though the market is expected to be lower than in calendar 1999, it is still anticipated that the market will be strong from a historical perspective. Western Star Trucks continues to maintain a strong order board with many new initiatives to enhance product awareness, gain new customers and increase market share while retaining respectable gross margins. It is also continuing with its dealer expansion program in North America.

The United Kingdom heavy duty truck market is expected to remain competitive through the remainder of fiscal 2000 and ERF expects to continue to feel the pressure of this market. ERF is moving forward with its plans to extend its range of vehicles, gain maximum benefit from the sale of Bedford parts and the Isuzu assembly process, improve market share, improve its after-market parts process and control overhead costs. ERF is also progressing on the construction of its new facility that is expected to be complete in the summer of 2000.

Orion's focus for the remainder of the year will remain on increasing sales and reducing the cost of materials. At the end of the quarter, its order board was at 771 units with options outstanding for an additional 1,537 units. Orion is continuing with its development of new products, including a new generation low floor/step bus. It will also be bringing over prototypes of the mini-bus acquired from Marshalls during the year for testing in the light/feeder transit business and the hotel/shuttle bus market.

The Company expects its after-market parts business to continue to grow in the coming year across all business units.

Year 2000 Compliance

The Company and its operating subsidiaries have not experienced any material adverse impacts due to the transition from December 31, 1999 to January 1, 2000 and the total cost of the Year 2000 issue, including project costs, has not had a material effect on the Company's results of operations, liquidity or financial condition. The Company will continue to monitor the effect of the transition throughout calendar year 2000.

Note: Certain of the statements contained in the press release, including information regarding the future economic performance and financial condition of the Company and heavy-duty vehicle markets and build rates, are forward-looking in nature. Additional information concerning important factors that could cause actual results to differ from the forward-looking information contained in this release are included in the Company's publicly filed documents, such as its annual reports, annual information forms and prospectuses.

Additional Disclosure

1) Business Segments

Western Star's business comprises three principal product lines: Western Star trucks, ERF trucks, and Orion buses. The Western Star segment designs, assembles, and distributes Western Star branded heavy-duty trucks. The ERF segment designs, assembles, and distributes ERF branded heavy-duty trucks. The Orion segment designs, assembles, and distributes Orion branded transit buses. All three segments also distribute after-market parts for their products. The Other segment includes the expenses of the corporate office and amounts that are not allocated to the other business segments. The business segments are decentralized and the chief operating officer of each segment is responsible for the business results of that operation. Inter-segment revenues are accounted for at market prices and trade terms.

(in thousands of Canadian dollars)	Western Star	ERF	Orion	Other	Total
Three months ended December 31, 1999					
External revenue					
Western Star trucks - Class 8	221,618	—	—	—	221,618
Class 7	2,543	—	—	—	2,543
ERF trucks	1,147	87,126	—	—	88,273
Orion buses	—	—	105,475	—	105,475
Parts	30,867	42,544	7,895	—	81,306
Total	256,175	129,670	113,370	—	499,215
Inter-segment revenue					
ERF trucks	—	1,362	—	—	1,362
Parts	366	—	—	—	366
EBITDA¹	23,257	7,233	4,567	794	35,851
Depreciation & amortization	3,635	2,881	1,827	1,081	9,424
Interest income	36	27	—	100	163
Interest expense	506	2,564	1,250	1,623	5,943
Assets	329,422	304,481	205,339	94,410	933,652
Capital expenditures & goodwill	43,602	266	659	5	44,532
Three months ended December 31, 1998					
External revenue					
Western Star trucks – Class 8	204,780	—	—	—	204,780
ERF trucks	1,379	91,550	—	—	92,929
Orion buses	—	—	83,720	—	83,720
Parts	32,559	35,231	7,107	—	74,897
Total	238,718	126,781	90,827	—	456,326
Inter-segment revenue					
Parts	—	939	—	—	939
EBITDA	18,302	7,640	(971)	(1,757)	23,214
Depreciation & amortization	3,274	2,362	1,320	997	7,953
Interest income	141	42	21	50	254
Interest expense	1,060	2,175	2,881	818	6,934
Assets	286,016	247,395	208,048	61,824	803,283
Capital expenditures & goodwill	2,559	754	1,578	104	4,995

¹ EBITDA is earnings before interest, taxes, depreciation and amortization. EBITDA in the Other segment is reduced by \$217 [Q2 1999 - \$188] for amortized issue costs which are included in both depreciation & amortization and interest expense and includes a foreign exchange loss on intercompany loans of \$1,254 [Q2 1999 - \$818], of which \$837 [Q2 1999 - \$(105)] relates to the Western Star segment, \$414 [Q2 1999 - \$1,064] to the ERF segment and \$3 [Q2 1999 - \$(141)] to the Orion segment.

(in thousands of Canadian dollars)	Western Star	ERF	Orion	Other	Total
Six months ended December 31, 1999					
External revenue					
Western Star trucks - Class 8	436,990	—	—	—	436,990
Class 7	2,543	—	—	—	2,543
ERF trucks	2,133	178,873	—	—	181,006
Orion buses	—	—	209,461	—	209,461
Parts	63,049	80,377	16,040	—	159,466
Total	504,715	259,250	225,501	—	989,466
Inter-segment revenue					
ERF trucks	—	2,221	—	—	2,221
Parts	557	—	—	—	557
EBITDA²	45,298	14,074	10,772	(162)	69,982
Depreciation & amortization	8,019	5,728	3,644	2,197	19,588
Interest income	130	75	—	160	365
Interest expense	1,005	5,024	2,209	3,593	11,831
Capital expenditures & goodwill	46,581	1,955	922	5	49,463
Six months ended December 31, 1998					
External revenue					
Western Star trucks – Class 8	384,963	—	—	—	384,963
ERF trucks	2,307	173,016	—	—	175,323
Orion buses	—	—	130,662	—	130,662
Parts	60,676	69,013	13,496	—	143,185
Total	447,946	242,029	144,158	—	834,133
Inter-segment revenue					
ERF trucks	—	186	—	—	186
Parts	—	1,101	—	—	1,101
EBITDA	28,622	16,365	(8,974)	6,593	42,606
Depreciation & amortization	6,721	4,850	2,609	1,751	15,931
Interest income	243	65	42	133	483
Interest expense	2,499	4,293	5,549	1,316	13,657
Capital expenditures & goodwill	6,222	2,117	2,269	217	10,825

² EBITDA in the Other segment is reduced by \$433 [Q2 1999 - \$376] for amortized issue costs which are included in both depreciation & amortization and interest expense and includes a foreign exchange loss on intercompany loans of \$800 [Q2 1999 - \$(9,327)], of which \$823 [Q2 1999 - \$(2,881)] relates to the Western Star segment, \$(26) [Q2 1999 - \$(1,782)] to the ERF segment and \$3 [Q2 1999 - \$(4,664)] to the Orion segment.

Geographic Revenue	Three months ending December 31		Six months ending December 31	
	1999	1998	1999	1998
	Canada	114,816	97,698	213,495
United States	236,067	200,996	479,144	347,664
United Kingdom	119,993	115,773	244,614	219,202
Other	28,339	41,859	52,213	82,964
Total	499,215	456,326	989,466	834,133

Revenues are attributed to countries based on the location of the customer.

2) Other Operating Data

<i>(in thousands of Canadian dollars, except units sold and build rates)</i>	Three months ending December 31		Six months ending December 31	
	1999	1998	1999	1998
	Units Sold			
Western Star trucks - Class 8	1,835	1,689	3,591	3,219
Class 7	43	—	43	—
ERF Trucks	734	727	1,486	1,430
Transit Buses	262	205	501	320
Build Rates (average / period)				
Western Star Trucks	32 / day	29 / day	32 / day	28 / day
ERF	70 / week	53 / week	67 / week	62 / week
Orion	23 / week	17 / week	23 / week	15 / week

Western Star Trucks Holdings Ltd.

Consolidated Balance Sheet

(Unaudited, in thousands of Canadian dollars)

As at December 31	1999	1998
ASSETS		
Current		
Cash	3,505	-
Accounts receivable	295,163	239,719
Unbilled revenue	98,241	37,814
Inventories	236,452	252,093
Prepaid expenses	12,586	15,407
Total current assets	645,947	545,033
Capital assets	174,397	145,034
Deferred costs	72,957	83,127
Future tax asset	13,578	3,756
Goodwill	11,396	10,692
Prepaid pension expense	14,679	14,071
Investments and other assets	698	1,570
	933,652	803,283
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	-	72
Accounts payable and accrued liabilities	349,077	322,516
Short-term indebtedness	32,964	29,070
Current portion of customer deposits and advances	8,923	5,590
Current portion of long-term debt	24,014	32,635
Total current liabilities	414,978	389,883
Future tax liability	15,752	-
Customer deposits and advances	-	353
Long-term debt	164,485	177,110
Total liabilities	595,215	567,346
Shareholders' equity		
Common share capital	124,362	122,430
Preferred share capital	60,000	-
Retained earnings	154,075	113,507
Total shareholders' equity	338,437	235,937
	933,652	803,283

Comparative Figures

Certain of the Company's comparative figures have been reclassified to conform to the presentation adopted in the current year.

Western Star Trucks Holdings Ltd. Consolidated Statement of Operations

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	For the three months ended December 31		For the six months ended December 31	
	1999	1998	1999	1998
Revenue	499,215	456,326	989,466	834,133
Cost of sales	438,784	407,553	866,233	747,914
Gross margin	60,431	48,773	123,233	86,219
Selling and administrative	33,950	33,578	72,771	59,651
Interest expense - net	5,780	6,680	11,466	13,174
Net income before taxes	20,701	8,515	38,996	13,394
Income tax expense	6,198	2,098	11,626	3,309
Net income	14,503	6,417	27,370	10,085
Net income per share	1.01	0.45	1.91	0.71
Fully diluted net income per share	0.87	0.44	1.65	0.69
Weighted average number of common shares outstanding (in thousands)	14,357	14,276	14,347	14,267
Earnings before interest, taxes, depreciation and amortization	35,851	23,214	69,982	42,606

Comparative Figures

Certain of the Company's comparative figures have been reclassified to conform to the presentation adopted in the current year.

Western Star Trucks Holdings Ltd.

Consolidated Statement of Cash Flows

(Unaudited, in thousands of Canadian dollars, except per share amounts)

	For the three months ended December 31		For the six months ended December 31	
	1999	1998	1999	1998
Operating Activities				
Net income	14,503	6,417	27,370	10,085
Adjustments for items not involving cash				
Depreciation	6,533	4,395	13,322	9,354
Amortization	2,891	3,558	6,266	6,577
Future income taxes	6,170	(3,679)	9,455	(4,309)
Cash flow from operations	30,097	10,691	56,413	21,707
Changes in non-cash working capital balances relating to operations	(34,197)	15,431	(40,798)	5,683
Cash provided by (used in) operating activities	(4,100)	26,122	15,615	27,390
Financing Activities				
Bank indebtedness	-	(6,358)	-	(1,771)
Short term indebtedness	32,964	(2,094)	32,964	(5,718)
Dividends paid	(1,436)	(1,428)	(2,870)	(2,854)
Long-term debt borrowings	4,408	300	5,406	8,762
Repayment of long-term debt	(1,566)	(8,082)	(7,625)	(10,656)
Common shares issued (net of issue costs)	686	305	1,309	589
Cash provided by (used in) by financing activities	35,056	(17,357)	29,184	(11,648)
Investing Activities				
Capital asset additions	(44,532)	(4,995)	(49,463)	(10,825)
Disposal of capital assets	-	-	13,475	-
Increase in deferred costs	(5,166)	(4,076)	(8,753)	(5,681)
Decrease in investments and other	103	306	171	764
Cash used in investing activities	(49,595)	(8,765)	(44,570)	(15,742)
Increase (decrease) in cash	(18,639)	-	229	-
Cash, beginning of period	22,144	-	3,276	-
Cash, end of period	3,505	-	3,505	-
Cash flow from operations per share	2.10	0.75	3.93	1.52
Fully diluted cash flow from operations per share	1.79	0.71	3.36	1.45

Comparative Figures

Certain of the Company's comparative figures have been reclassified to conform to the presentation adopted in the current year.

6. **Reliance on Confidentiality Provisions of the Act:**

Not applicable.

7. **Omitted Information:**

Not applicable.

8. **Senior Officers:**

For further information contact:

David Burke, Chief Financial Officer at (250) 860-3319

9. **Statement of Senior Officer:**

The foregoing accurately discloses the material change referred to herein.

DATED at Kelowna, British Columbia, this 26th day of January, 2000.

David L. Burke
Executive Vice President,
Chief Financial Officer