FORM 51-102F3
Material Change Report

PART 1 GENERAL INSTRUCTIONS AND INTREPRETAION

(a) Confidentiality

If this Report is filed on a confidential basis, state in block capitals "CONFIDENTIAL" at the beginning of the Report.

(b) Use of "Company"

Wherever this Form uses the word "company" the term includes other types of business organizations such as partnerships, trusts and other unincorporated business entities.

(c) Number and Headings

The numbering, headings and ordering of the items included in this Form are guidelines only. You do not need to include the headings or numbering or follow the order of items in this Form. Disclosure provided in response to any item need not be repeated elsewhere.

(d) Defined Terms

If a term is used but not defined in this Form, refer to Part 1 of National Instrument 51-102 and to National Instrument 14-101 *Definitions*. If a term is used in this Form and is defined in both the securities statute of a local jurisdiction and in National Instrument 51-102, refer to section 1.4 of Companion Policy 51-102CP.

(e) Plain Language

Write the Report so that readers are able to understand it. Consider both the level of detail provided and the language used in the document. Refer to the plain language principles listed in section 1.5 of Companion Policy 51-102CP. If you use technical terms, explain them in a clear and concise manner.

PART 2 CONTENT OF MATERIAL CHANGE REPORT

Item 1. Name and Address of Company

FAIRFAX CAPITAL INC.
7400 Wilson Avenue
Delta, BC
V4G 1H3

Item 2. Date of Material Change

January 29, 2007

Item 3. News Release

The news release was disseminated through Canada Stockwatch.

Item 4. Summary of Material Change

The Company entered into a business combination agreement with Free Energy Solutions Inc. pursuant to which the Company proposes to acquire all of the issued and outstanding shares of Free Energy.

Item 5. Full Description of Material Change

Fairfax Capital Inc. ("Fairfax") announced that it entered into an agreement (the "Agreement") dated January 29, 2007 with Free Energy Solutions Inc. ("Free Energy"), a private company, setting out the terms on which Fairfax proposes to acquire all of the issued and outstanding shares of Free Energy in exchange for common shares in the capital of Fairfax (the "Transaction").

Fairfax is a "Capital Pool Company" under the policies of the TSX Venture Exchange (the "Exchange"), and the acquisition of the shares of Free Energy will constitute a "Qualifying Transaction" in accordance with those Policy 2.4 of the Exchange.

Upon completion of the Qualifying Transaction, Free Energy will become a wholly owned subsidiary of Fairfax and Fairfax will be classified as an "industrial" issuer under Exchange policies. The Agreement provides for the shareholders of Free Energy to exchange their Free Energy shares on a 1:1 basis for Fairfax shares, which shares will be issued from Treasury. Free Energy currently has 9,746,453 common shares outstanding and has received subscriptions for an additional 50,000 shares at $1.00 per share which are expected to be issued within the next week. Accordingly, Free Energy expects to have 9,796,453 shares outstanding on closing. Free Energy may issue additional shares prior to completion of the Transaction, in which case the number of Fairfax shares to be issued on closing will increase to maintain the 1:1 exchange ratio.

Currently, Fairfax has approximately $440,000 in working capital and Free Energy has approximately $750,000 in working capital. Accordingly, Fairfax does not contemplate that any additional financing will be required on its part to complete the Transaction. Fairfax will require "minority shareholder approval" of the Qualifying Transaction and has applied to the Exchange for permission to obtain such approval by way of written consents from a majority of its shareholders other than those shareholders who are "related parties" of the Company and Free Energy. Completion of the Qualifying Transaction is subject to acceptance of required filings by the Exchange. There are no other significant conditions required to be satisfied in connection with the closing of the Qualifying Transaction.

<u>**Free Energy Solutions Inc.**</u>

Free Energy is a British Columbia corporation in the renewable energy sector. Its principal business is developing innovative technologies for the heating and cooling industry based on a new class of thermal superconductors now becoming available on the world market. Its head office and principal place of business is located in Richmond, British Columbia.

Free Energy's technologies build on the well-established principle of geoexchange, which allows a building to draw free heat out of the ground for heating and dump heat into the ground for cooling. Free Energy is in the process of developing a high efficiency condenser that can be used in commercial refrigeration applications, a seawater heat exchanger for large commercial air conditioning systems, and a simple heat exchanger that can be installed in the ground to act as a heat source or heat sink for conventional residential heating and air conditioning systems. Working prototypes of its geoheating and geocooling units have already been developed.

At this time, Free Energy has made 4 patent applications and is preparing 2 more. Three patent applications cover the core systems it expects to sell or license. One covers an essential component technology, another covers the application of these technologies to the heating and cooling of buildings, the company's key market, and the third one covers the application of these technologies to commercial refrigeration, a valuable parallel market from which Free Energy could derive early revenue through licensing.

Free Energy files its patents as Canadian provisional patents which will be converted to PCT (Patent Co-operation Treaty) and US applications within one year, retaining in the process the priority rights associated with the date of application in Canada. The Company considers this the most efficient and convenient route through the patent process. The Company and its consultants plan to engage US patent attorneys with extensive experience in the energy technology field as counsel for finalizing the claims when they are converted from provisional to PCT patent applications.

Free Energy was incorporated December 20, 2001 and to date has focused its resources on developing and patenting its technologies. It does not currently generate any revenue. It has financed its operations through a series of exempt private placements. Fairfax has not made any loans to Free Energy and does not propose to make any loans to Free Energy prior to closing. Set out below is a summary of significant financial information relating to Free Energy. This information is unaudited.

SUMMARY OF INCOME STATEMENT INFORMATION

Income Statement	**12 Months 31-Aug-06**	**12 Months 31-Aug-05**
Revenue	-	-
Expenses		
Research & Development	107,308	137,492
Patent Consulting	186,994	91,585
General & Marketing	266,350	172,358
Total Expenses	560,652	401,435
Net Operating Loss	560,652	401,435

SUMMARY OF BALANCE SHEET INFORMATION

Balance Sheet	**31-Aug-06**	**31-Aug-05**
Cash & Cash Equivalents	528,139	466,094
Total Assets	566,421	494,426
Total Liabilities	142,578	428,231
Share Capital	1,385,930	467,630
Shareholders Equity	423,843	66,195
Total Liabilities and Shareholder's Equity	566,421	494,426

As at August 31, 2006, Free Energy had raised $1,385,930 by issuing common shares. Since August 31, 2006, Free Energy has raised an additional $690,453 by selling an additional 50,000 shares for $0.50 each and 665,453 shares for $1.00 each, with the result that Free Energy currently has approximately $750,000 in working capital.

Free Energy currently has 124 shareholders. The names and jurisdictions of residence of the two principal shareholders of Free Energy are set out below.

Name and Jurisdiction of Resident	No. of Free Energy Shares
Mark McCooey, Richmond, BC	3,000,000
Lynn Mueller, Richmond, BC	3,000,000

Mark McCooey and Lynn Mueller are currently directors of both Fairfax and Free Energy. Mark McCooey beneficially owns or controls 200,000 shares in Fairfax and indirectly holds options to purchase up to 67,000 additional shares for $0.25 each until three years from Fairfax' listing date. Lynn Mueller also beneficially owns or controls 200,000 shares in Fairfax and indirectly holds options to purchase up to 67,000 additional shares for $0.25 each until three years from Fairfax' listing date. Neither individual is in a control position in Fairfax. The acquisition of Free Energy will not constitute a "Non Arm's Length Qualifying Transaction" under Exchange Policy 2.4.

Fairfax Capital Inc.

Fairfax is a British Columbia corporation with its head office in Vancouver, British Columbia. Fairfax is a Capital Pool Company, the common shares of which are listed for trading on the Exchange. Fairfax has a total of 2,840,000 common shares issued and outstanding, of which 840,000 shares are held in escrow pursuant to the terms of an Escrow Agreement which provides for the release of 10% of such shares from escrow on the date (the "Acceptance Date") the Exchange issues a bulletin evidencing Exchange acceptance of the Qualifying Transaction and an additional 15% of such shares each six months thereafter. The 6,000,000 shares proposed to be issued to Mark McCooey and Lynn Mueller on completion of the Qualifying Transaction are expected to be subject to the same escrow provisions. Additional information on the escrow requirements applicable to principals of Fairfax is set out in Fairfax' prospectus, which is available for review on SEDAR at www.sedar.com.

Fairfax has granted an option to Canaccord Capital Corp. to purchase up to 200,000 shares for $0.25 each until two years from Fairfax' listing date and has options outstanding to directors and officers to purchase up to an aggregate of 268,000 shares for $0.25 each until three years from Fairfax' listing date. In addition, Fairfax has today granted options to purchase up to an aggregate of 16,000 shares for $0.44 each until three years from Fairfax' listing date to a recently appointed director. Options to purchase up to an additional 500,000 shares for $0.50 each for a period of five years from the Acceptance Date will be issued on completion of the Qualifying Transaction, as noted below under "Post-Closing Board of Directors and Insiders". Fairfax does not have any convertible securities issued and outstanding. Fairfax is seeking to acquire an interest in a technology company that constitutes a Qualifying Transaction pursuant to the policies of the Exchange, the completion of which transaction will allow Fairfax to graduate to Tier 2.

Post-Closing Board of Directors and Insiders

It is anticipated that upon completion of the Qualifying Transaction, the Board of Directors will consist of the following members:

Alfred Sanderson **- President and Director**

Alf Sanderson has been President and a director of the Fairfax since its incorporation. Since August, 2003 he has also been a commercial realtor and business broker with NAI Goddard & Smith. From April 1992 to August 2003 he operated as a private consultant to firms operating in the private sector and public markets, including acting as interim CFO for private and public companies. From December 1984 to April 1992, he was Vice President, Operations and Sales, for Go Vacations America Inc. Mr. Sanderson will remain President of Fairfax after completion of the Qualifying Transaction at an annual base salary of $84,000 and will be granted five year options to purchase up to 500,000 shares of Fairfax for $0.50 each. In addition, Mr. Sanderson will be eligible for an annual bonus equal to up to 25% of his annual salary.

Mark McCooey **– Secretary and Director**

Mark McCooey has been a director of Fairfax since its incorporation. Since January, 1985 he has been the President and Director of SEI Industries Ltd. and, since January 1995, the President and a director of Land Sea Power Ltd. Since May 1997 he has been the President and a director of Nor E First Response Inc. and, since January 2002, Vice President and a director of Earth Source Energy Inc. Since October 2004 he has been the President and a director of Free Energy Solutions Inc. and since January 2005, the President and a director of Famatech Industries Ltd.

Lynn Mueller **– Director**

Lynn Mueller has been a director of Fairfax since its incorporation. From March, 1993 to June, 1995 he was the President and a director of Water Furnace Inc. Since 1995 he has been the President and a director of ICON Agencies Ltd. and since March 1998 he has been the President and a director of Pacific Geo Exchange Inc. Since January, 2002, he has been President and a director of Earth Source Energy Inc. and since October, 2004 he has been Vice President and a director of Free Energy Solutions Inc.

Dean Bethune **– Director**

Dean Bethune has been a director of Fairfax Capital Inc. since its incorporation. He is currently the President and Chief Executive Officer of Crossfire Holdings Inc. (formerly Reality Commerce Corporation) ("Reality Commerce") an energy service company which is listed on the Exchange. Prior to joining Reality Commerce, Mr. Bethune was the Vice President, Corporate Development at IPEC Ltd. From February, 2001 to November 2001, IPEC was an oilfield service company providing small and medium diameter pipeline and oilfield construction services. IPEC merged with Flint Energy Services Ltd. Prior to the merger, IPEC traded on the Toronto Stock Exchange (TSE). From September 1999 to February 2001, Mr. Bethune was Vice President, Chief Operating Officer of Destiny Resources Services Corp., which is listed on the TSE.

Patrick Haberl **- Director**

Patrick Haberl is a shareholder of Owen Bird Law Corporation, located in Vancouver, B.C., where he has practiced law in the areas of business, corporate and financial services since 1990.

It is anticipated that following closing the Fairfax Audit Committee will be comprised of Alfred Sanderson, Lynn Mueller and Dean Bethune, and that the Fairfax Corporate Governance Committee will be comprised of Patrick Haberl, Lynn Mueller and Dean Bethune.

Upon completion of the Qualifying Transaction, no person other than the aforementioned directors and officers will be "insiders" of Fairfax.

Completion of the transaction is subject to a number of conditions, including but not limited to, Exchange acceptance and if applicable pursuant to Exchange requirements, majority of the minority shareholder approval. Where applicable, the transaction cannot close until the required shareholder approval is obtained. There can be no assurance that the transaction will be completed as proposed or at all.

Investors are cautioned that, except as disclosed in the management information circular or filing statement to be prepared in connection with the transaction, any information released or received with respect to the transaction may not be accurate or complete and should not be relied upon. Trading in the securities of a capital pool company should be considered highly speculative.

The TSX Venture Exchange Inc. has in no way passed upon the merits of the proposed transaction and has neither approved nor disapproved the contents of this press release.

Canaccord Capital Corporation, subject to completion of satisfactory due diligence, has agreed to act as sponsor in connection with the transaction. An agreement to sponsor should not be construed as any assurance with respect to the merits of the transaction or the likelihood of completion.

INSTRUCTION

If your company is engaged in oil and gas activities, the disclosure under Item 5 must also satisfy the requirements of Part 6 of National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities.

Item 6. Reliance on subsection 7.1(2) or (3) of National Instrument 51-102

Not applicable

INSTRUCTION

Refer to subsections 7.1 (4), (5), (6) and (7) of National Instrument 51-102 concerning continuing obligations in respect of reports filed under subsection 7.1(2) or (3) of National Instrument 51-102.

Item 7. Omitted Information

Not applicable

INSTRUCTIONS

In certain circumstances where a material change has occurred and a Report has been or is about to be filed but subsection 71.(2), (3) or (5) of National Instrument 51-102 is not or will no longer be relied upon, your company may nevertheless believe one or more significant facts otherwise required to be disclosed in the Report should remain confidential and not be disclosed or not be disclosed in full detail in the Report.

Item 8. Executive Officer

The following executive officer (or the name of an officer through whom such executive officer may be contacted) of the Company is knowledgeable about the material change disclosed in this report.

Alf Sanderson, President
Business Telephone No.: 604-657-5638

Item 9. Date of Report

DATED THIS 6^{th} day of January, 2007