Franchise Services of North America Inc.

Consolidated Financial Statements

As of September 30, 2009
and for the years ended September 30, 2009 and 2008

Franchise Services of North America Inc.

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Auditors' Report

To the Shareholders of
Franchise Services of North America

We have audited the consolidated balance sheets of Franchise Services of North America as at September 30, 2009 and 2008 and the consolidated statements of operations and accumulated deficit, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2009 and 2008 and the results of its operations for the years then ended in accordance with Canadian generally accepted accounting principles.

RSM Richter LLP

Chartered Accountants
Licenced Public Accountants

Toronto, Ontario
January 27, 2010

RSM Richter is an independent member firm of RSM International,
an affiliation of independent accounting and consulting firms.

Franchise Services of North America Inc.

Consolidated Balance Sheets

		September 30, 2009		September 30, 2008 (Restated - Note 2)
Assets				
Cash and cash equivalents	$	**1,917,229**	$	1,152,099
Restricted cash and cash equivalents (Note 5)		**3,421,314**		4,725,323
Accounts receivable, net of allowance for doubtful accounts ($273,440 at 2009 and $229,279 at 2008)		**984,356**		1,306,472
Related party accounts receivable		**73,456**		25,258
Other notes receivable (Note 7)		**23,817**		58,760
Future income tax assets (Note 13)		**-**		1,005,000
Prepaid expenses		**136,383**		113,070
Total current assets		**6,556,555**		8,385,982
Property, Plant and Equipment, net (Note 8)		**232,918**		294,365
Other:				
Related party accounts receivable (Note 14)		**-**		620,986
Related party notes receivable, net of allowance for doubtful notes ($1,315,348 at 2009 and $30,000 at 2008) (Note 6)		**2,829,164**		3,608,006
Other notes receivable (Note 7)		**-**		19,983
Other assets (Note 10)		**118,638**		61,654
Future income tax assets (Note 13)		**-**		524,936
Goodwill		**3,959,473**		6,459,473
Other intangible assets, net (Note 9)		**2,502,190**		3,610,754
		9,642,383		15,200,157
Total assets	$	**16,198,938**	$	23,586,139

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Balance Sheets

	September 30, 2009	September 30, 2008 (Restated - Note 2)
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	**$ 2,158,510**	$ 2,519,237
Deposits received from franchisees	**238,232**	266,453
Insurance loss reserves (Note 5)	**2,437,393**	2,405,375
Current portion of related party notes payable (Note 11)	**958,191**	177,172
Total current liabilities	**5,792,326**	5,368,237
Notes payable (Note 11)	**2,500,000**	2,500,000
Related party notes payable (Note 11)	**-**	957,908
Total liabilities	**8,292,326**	8,826,145
Commitments and contingencies (Notes 5, 11, 15, 18)		
Shareholders' Equity		
Share capital (Note 12 a)	**15,117,041**	15,117,041
Contributed surplus (Note 12 b)	**1,470,875**	1,446,629
	16,587,916	16,563,670
Accumulated deficit	**(8,830,432)**	(1,963,438)
Accumulated other comprehensive income (Note 12 c)	**149,128**	159,762
	(8,681,304)	(1,803,676)
Total shareholders' equity	**7,906,612**	14,759,994
Total liabilities and shareholders' equity	**$ 16,198,938**	$ 23,586,139

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

(Signed) "*Sanford Miller*" Director

(Signed) "Michael Linn*"* Director

Franchise Services of North America Inc.

Consolidated Statements of Operations and Accumulated Deficit

	Year Ended September 30, 2009	Year Ended September 30, 2008
Revenues		
Continuing franchisee and related fees	$ **3,799,093**	$ 3,926,050
Initial franchise fees	**249,234**	516,662
Insurance premiums and related fees	**10,506,477**	11,576,888
Other income	**188,812**	-
Total revenues	**14,743,616**	16,019,600
Costs and expenses		
Direct operating		
Franchise operating	**5,031,387**	5,210,988
Insurance operating	**2,478,316**	3,343,194
Claims expense	**3,434,693**	2,225,104
Insurance underwriting expenses	**1,705,509**	1,950,252
General and administration	**2,048,463**	2,269,277
Provision for losses on related party notes receivable	**1,297,848**	163,350
Impairment loss on goodwill (Note 3)	**2,500,000**	-
Impairment loss on other intangible assets (Note 9)	**913,179**	-
Stock based compensation expense (Note 12)	**24,246**	34,752
Interest expense	**344,330**	334,629
Amortization and depreciation	**294,412**	315,339
Total costs and expenses	**20,072,383**	15,846,885
Operating income (loss) before income taxes	**(5,328,767)**	172,715
Future income tax expense (Note 13)	**1,538,227**	61,909
Net income (loss)	$ **(6,866,994)**	$ 110,806
Accumulated Deficit beginning of the period	**(1,963,438)**	(1,808,161)
Correction of Error (Note 2)	**-**	(266,083)
Accumulated Deficit beginning of the period - Restated	**(1,963,438)**	(2,074,244)
Accumulated Deficit end of period	$ **(8,830,432)**	$ (1,963,438)
Earnings (loss) per share (Note 12d)		
Basic and Diluted	$ **(0.11)**	$ -

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Comprehensive Income (Loss)

		Year Ended September 30, 2009		Year Ended September 30, 2008 (Restated - Note 2)
Net income (loss)	**$**	**(6,866,994)**	$	110,806
Other Comprehensive Loss				
Translation of Canadian dollar functional currency to US dollar reporting currency (Note 12 c)		**(10,634)**		(32,228)
Comprehensive income (loss)	**$**	**(6,877,628)**	$	78,578

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

		Year Ended September 30, 2009		Year Ended September 30, 2008
Operating activities				
Net income (loss)	$	**(6,866,994)**	$	110,806
Items not affecting cash:				
Amortization and depreciation (Notes 8 and 9)		**294,412**		315,339
Future income tax expense (Note 13)		**1,529,936**		80,966
Gain on settlement of liabilities in accounts payable		**(188,812)**		-
Provision for losses on related party notes receivable (Note 6)		**1,297,848**		163,350
Provision for doubtful accounts receivable		**142,751**		674,348
Impairment loss on goodwill (Note 3)		**2,500,000**		-
Impairment loss on other intangible assets (Note 9)		**913,179**		-
Stock-based compensation (Note 12)		**24,246**		34,752
		(353,434)		1,379,561
Changes in non-cash working capital:				
Accounts receivable		**25,039**		(530,621)
Prepaid expenses and other assets		**(78,906)**		161,696
Accounts payable and accrued liabilities		**5,239**		635,615
Insurance loss reserves		**32,018**		(1,105,220)
Deposits received from franchisees		**(28,221)**		(8,909)
Net change in non-cash working capital		**(44,831)**		(847,439)
Net cash provided by (used in) operating activities		**(398,265)**		532,122
Investing activities				
Change in restricted cash and cash equivalents		**1,304,009**		47,162
Property, plant and equipment expenditures		**(44,456)**		(75,168)
Payments for intangible assets		**-**		(201,408)
Proceeds from sale of property, plant and equipment		**7,640**		1,569
Advances on notes and other receivables		**-**		(100,000)
Repayments on notes and other receivables		**82,699**		51,559
Net cash provided by (used in) investing activities	$	**1,349,892**	$	(276,286)

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Year Ended September 30, 2009	Year Ended September 30, 2008
Financing activities		
Repayments of notes payable	$ **(674,555)**	$ (110,693)
Borrowings under notes payable	**497,666**	-
Proceeds from issue of common shares	**-**	7,795
Net cash used in financing activities	**(176,889)**	(102,898)
Net increase in cash and cash equivalents	**774,738**	152,938
Effect of exchange rate changes on cash	**(9,608)**	(23,006)
Cash and cash equivalents, beginning of period	**1,152,099**	1,022,167
	1,142,491	999,161
Cash and cash equivalents, end of period	$ **1,917,229**	$ 1,152,099

Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes paid, net of recoveries	$ **65,586**	$ 95,632
Interest	**343,315**	376,980
Non-cash investing activities:		
Related party accounts receivable converted to notes receivable	**723,404**	-
Accounts receivable converted to notes receivable	-	159,676
Notes receivable offset with accounts payable and accrued expenses	**176,625**	20,772

See accompanying notes to consolidated financial statements.

1. Nature of Business

Organization and Nature of the Business

Franchise Services of North America Inc. (“FSNA” or the “Company”), formerly Rent-A-Wreck Capital Inc., is a public company incorporated under the Canada Business Corporations Act on August 27, 1998 and whose common shares are listed on the TSX Venture Exchange under the symbol ‘FSN.’

In November 2006, the Company completed a business combination (the “Business Combination Transaction”) with U-Save Auto Rental of America, Inc. (“U-Save”), a privately held company based in Jackson, Mississippi. Under the terms of the Amended and Restated Share Exchange Agreement, the Company obtained shareholder approval at a special meeting of the shareholders held on November 30, 2006 to approve (i) the consolidation of its common shares, (ii) the acquisition by the Company (indirectly through the Company’s acquisition of U-Save Holdings, Inc. (“Holdings”) and directly through the Company’s acquisition of the remaining U-Save common shares not owned by Holdings) of all of the outstanding stock of U-Save in a “reverse take-over” (“RTO”) transaction, (iii) the name change of the Company from Rent-A-Wreck Capital Inc. (“RAWC”) to Franchise Services of North America Inc., (iv) the appointment of a new Board of Directors, (v) the amended and restated stock option plan and (vi) the extension of certain options of the Rent-A-Wreck option plan. Consistent with the accounting guidelines for reverse take-over business combinations, the transaction was accounted for as an acquisition of the net assets of the Company by U-Save, which was deemed the acquirer for accounting purposes.

In January 2007, the Company, through its wholly owned subsidiary, U-Save Financial Services, Inc., acquired certain assets of DRSN Holdings, LLC, an Arizona-based limited liability company (the “DRSN Acquisition”). These assets consisted of a full-service insurance agency with an established book of business across various product lines and customers throughout North America.

As a result of the Business Combination Transaction, the Company owns two operating subsidiaries, U-Save and Practicar. U-Save licenses franchises to operate U-Save Auto Rental businesses in the United States and abroad. In addition, U-Save offers to franchisees and independent car rental operators (“associates”) insurance products including liability and physical damage coverage on their rental fleet. U-Save also operates an association, Auto Rental Resource Center (“ARRC”). ARRC provides insurance discounts and products and services to its members who operate independent vehicle rental businesses. As a result of the DRSN Acquisition, the Company owns a full-service insurance agency, providing insurance products to its franchisees, associates, and third-party customers predominately in the auto rental business. Practicar licenses franchises to operate Rent-A-Wreck vehicle rental and sales businesses in Canada. Thus, overall, the Company operates in one reportable business segment, the auto rental segment. See Note 16 related to Segments.

2. Correction of Error

During the preparation of the audited financial statements for the year ended September 30, 2009, the Company discovered an error in the presentation of certain insurance transactions for its Canadian subsidiary. The Company's Canadian subsidiary operates an insurance program for participating franchisees providing coverage for certain liability claims. These activities were erroneously excluded from the Company's consolidated financial statements, resulting in an understatement of restricted cash, insurance reserves, insurance premium revenue and claims expense. While the net effect of these errors was not material to the Company's Consolidated Statements of Operations or Cash Flows for the year ended September 30, 2008, the Consolidated Balance Sheet as of September 30, 2008 has been restated to reflect an increase in restricted cash of $774,994, increase in insurance loss reserves of $221,045, decrease in other intangible assets of $516,121, and an increase in the beginning balance of accumulated other comprehensive income of $37,828.

The Company also discovered an error in the recording of certain accruals for professional fees for the year ended September 30, 2007. While the net effect of this error was not material to the Company's Consolidated Statement of Operations or Cash Flows for the year ended September 30, 2008, the Company's Consolidated Balance Sheet as of September 30, 2008 has been restated to reflect an increase in the opening Accumulated Deficit of $266,083 and a corresponding increase in accounts payable and accrued liabilities.

3. Summary of Significant Accounting Policies

Currency

In these consolidated financial statements, all dollar amounts are expressed in United States (U.S.) dollars, unless indicated otherwise. The Company has adopted the U.S. dollar as its reporting currency because the majority of its operations are located in the United States. All references to US$ or to $ are to United States dollars and references to C$ are to Canadian dollars.

At September 30, 2009, certain of the Company's financial instruments are denominated in Canadian dollars as follows:

	C$
Cash	285,557
Restricted cash	692,528
Accounts receivable	175,567
Accounts payable	124,156
Insurance reserves	196,205
Capital lease obligations	20,899

Basis of Consolidation

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated.

Foreign Currency Translation

The Company and its operating subsidiary in Canada (Practicar) have a functional currency which is the Canadian dollar. The accounts of their self-sustaining operations are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates during the period. Translation gains and losses relating to the self-sustaining operations are included in accumulated other comprehensive income.

Cash Equivalents

The Company considers unrestricted highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash is held in short-term investment funds and carried at fair value. Restricted cash and cash equivalents are restricted for the payment of estimated insurance claims and premiums, with some balances held in the Company's name at financial institutions and other balances held on the Company's behalf by insurance carriers (see Note 5). In May 2008, as required by one of the Company's insurance carriers, an annual renewable letter of credit for $1,600,000 was replaced with a letter of credit in the amount of $1,100,000 for payment of claims, insurance premiums and any other obligations to the carrier. In September 2009, this letter of credit was replaced with a letter of credit in the amount of $500,000. In June 2008, a letter of credit was established with a new carrier in the amount of $500,000 under similar terms. Both letters of credit are secured by cash of the same amounts and are reflected in the Company's restricted cash balance at September 30, 2009.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Receivables are written off when deemed uncollectible. See Note 18 for further discussion of financial instrument risks.

Notes Receivable

Notes receivable are classified as impaired when there is no longer reasonable assurance of the timely collection of outstanding advances. In determining the provision for possible note receivable losses, the Company considers the length of time the notes have been outstanding, whether they are in arrears, the overall financial strength of the borrower and the residual value of security pledged. If necessary, a provision for losses on impaired notes receivable is made to reduce the carrying amount to the estimated realizable amounts. During the year ended September 30, 2009, the Company recorded provisions for losses on impaired notes receivable of $1,297,848. See Note 6.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and amortized generally on the straight-line method for financial reporting purposes using estimated useful lives as follows:

Assets under capital lease	5	Years
Furniture and equipment	5	Years
Vehicles (U.S.)	5	Years
Vehicles (Canada)	20%	declining balance
Computers and software	3-5	Years

Goodwill and Intangible Assets

Goodwill and identifiable intangible assets carried on the books of the Company are mainly the result of acquisitions. Goodwill and identifiable intangible assets with indefinite lives are not amortized, but rather reviewed annually for impairment and not more frequently, unless events or circumstances warrant such a review. On an annual basis, management reviews the carrying amount of goodwill for possible impairment by conducting a two-step test. In the first step, fair value of the reporting unit, as determined by discounted cash flows, is compared to its carrying value. If the fair value is less than the carrying value, the second step is conducted whereby the fair value of goodwill is determined on the same basis as a business combination. If fair value of goodwill is less than the carrying value of goodwill, goodwill is written down to its estimated fair value.

During the year ended September 30, 2009, the Company recorded an impairment loss of $2.5 million to reduce the carrying value of goodwill. The impairment loss was determined during the Company's annual review as described above. The amount of the impairment was calculated after giving consideration to the projected future cash flows and fair value of the related reporting unit. Once a potential impairment was identified, the Company conducted a review to determine the fair value of the assets and liabilities of the related reporting unit. After allocating the fair value to net tangible assets and other intangible assets, the Company determined an impairment of $2.5 million existed as of the testing date. The Company also recorded an impairment loss on other intangible assets of $913,179 during the year ended September 30, 2009. See Note 9.

The "Measurement Uncertainty" section contains further details as to the nature of goodwill and its review and also Note 9, "Other Intangible Assets" has further details as to the nature of intangible assets with an indefinite or finite life.

Intangible assets that have a finite life are amortized using the straight-line basis over the estimated useful lives as follows:

Customer list	7-8	years
Advertising jingle	5	years
Non-compete agreement	3	years

The amount of goodwill at September 30, 2009 expected to be deductible for tax purposes through the amortization method permitted by the Internal Revenue Service is approximately $698,000.

Revenue Recognition

Initial franchise fee revenue from an individual franchise is recognized when all material services or conditions relating to the transaction have been substantially performed or satisfied by the Company. Generally, substantial performance occurs prior to the commencement of operations by the franchisee. Continuing license fees are recognized as revenue as the fees are earned and are based on the number of cars operated by the individual franchisee or as a percentage of the individual franchisee's time and mileage revenue.

Income from insurance operations is recorded as revenue when earned and recognized ratably over the term of the coverage.

Other income includes other non-recurring or one time revenues. In the year ended September 30, 2009, the Company recognized other income of $188,812 resulting from the settlement of accrued liabilities from an inactive subsidiary of the Company.

Insurance Reserves

The Company recognizes loss reserves primarily for re-insured property and physical damage claims and liability claims. The Company funds, through monthly installments, loss funds specified by the fronting insurance companies, plus underwriting expenses. For liability claims, these loss funds are used to pay up to the first $10,000, $20,000, or $100,000 of such loss, depending on the policy and fronting insurer. For property claims, the Company is responsible for the first $25,000 and any amount in excess of $50,000 per vehicle per claim. Operating costs are charged for estimated losses and underwriting fees. The charges are based on the estimated ultimate liability related to claims and differ from period to period due to claim payment and settlement practices as well as changes in development factors for estimated claims incurred but not reported. On a monthly basis, the Company receives from its fronting insurance companies estimates of selected ultimate losses that are based on actuarial analysis, which management uses to estimate the Company's expected losses. Charges to operations are then adjusted to reflect these estimates.

The Company recorded decreases related to changes in liability claim estimates from the prior period estimate, based on carrier reports, approximately as follows:

	Year Ended September 30, 2009	Year Ended September 30, 2008
Changes in liability claim estimates	$ (71,000)	$ (1,130,000)

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that future income tax assets will be realized. The Company is subject to income tax in both Canada and the United States.

To the extent the Canadian operations generate taxable income, such income would be taxed at the applicable Canadian statutory tax rates. To date, the Company's Canadian operations have not generated taxable income. The Company has not recognized a future tax asset related to the resulting non-capital loss carryforwards for its Canadian operations because management has concluded that it is more likely that such future income tax assets will not be realized.

To the extent the U.S. operations generate taxable income, such income would be taxed at the applicable U.S. statutory tax rates. Based upon the level of historical taxable income and anticipated future taxable income over the periods in which the future tax assets are deductible, management believes it is not likely that the Company will realize the full benefit of these future tax assets and accordingly has recorded a full valuation allowance against these future tax assets in its financial statements.

Stock-Based Compensation

The Company uses the fair value method of accounting for common share options granted to employees and non-employees. Under this method, for employee grants, the Company recognizes compensation expense based on the fair value of the options on the date of grant which is determined by using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and contributed surplus. For non-employee grants, the fair value of the options granted is measured at the earlier of the date of the completion of the service rendered, performance commitments reached or upon vesting. The Company estimates forfeitures of stock options when determining stock-based compensation.

Long-Lived Assets

Long-lived assets, which comprise property, plant and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the sum of future undiscounted net cash flows expected to be generated by the asset and residual value. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows and residual value, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Discontinued operations are reported separately, including the discontinuation of a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the year ended September 30, 2009, the Company recorded an impairment loss on certain of its intangible assets with finite lives. See Note 9.

Advertising Expense

Advertising costs are expensed in the period incurred. The Company incurred advertising expense of $123,999 and $89,490 for the years ended September 30, 2009 and 2008, respectively.

Risk and Uncertainties

The auto rental industry is highly competitive with various companies focusing on different markets, such as business and vacation travel at or near airports, insurance replacement and neighborhood rental. The success of the Company is based largely on the success of its franchisees. Franchisees are located throughout the United States and Canada. The U-Save brand is also represented internationally.

The royalty revenue trend for the Company's vehicle rentals and sales is greatly influenced by the tourism cycle; consequently, the summer quarter ending in September, the (4th) quarter of our fiscal year, traditionally generates the highest levels of revenue, followed by the spring (3rd) quarter ending in June, then the fall (1st) quarter ending in December, which includes the Christmas holiday season and finally, the winter (2nd) quarter which is usually the lowest in both tourism and car sales. Although tourism is a significant part of the rental revenue, the system also caters to the local rental markets and vehicle replacement market. These markets do not necessarily follow the same cycle patterns as tourism; for example, the vehicle replacement market is typically stronger during the winter months.

The insurance premiums reported are a function of the number of cars insured by the underlying franchisees. The seasonality aspects that are attributed above to the tourism cycle also greatly influence the number of vehicles a franchisee will operate and make available for rent. Additionally, as the number of airport locations increase based upon a successful opening of a new location, these airport locations tend to rent a greater number of vehicles than a local market store. Thus, as each airport location is opened, if the Company also provides that location with its vehicle liability insurance for its fleet, the overall car count of insured vehicles will increase thereby having a positive effect on this revenue stream.

The Company's royalty revenue stream and insurance premiums are greatly influenced by the performance of the underlying franchisees. This can be affected in either a positive or negative manner based upon current trends in the car rental industry.

Measurement Uncertainty

The consolidated financial statements have been prepared in conformity with Canadian GAAP. Accordingly, management has made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to estimates and assumptions include the net carrying amount of intangible assets including goodwill, insurance loss reserves, valuation allowances for receivables, future income taxes and stock-based compensation. Actual results could differ from those estimates.

The Company's goodwill balance of $3,959,473 at September 30, 2009 and $6,459,473 at September 30, 2008, represents 24.4% and 27.4% respectively, of total assets of the Company. This goodwill resulted from insurance related acquisitions made in January 2000, February 2005 and January 2007 which are ongoing operations of the Company. Assumptions considered in the annual review of goodwill include retention of members and customers, growth in the membership and customer base, cash flows, as well as the goods, services and products provided. Synergies of the operations in terms of leveraging brands, products, services and technologies are also reviewed annually in support of goodwill. Management believes these assumptions to be reasonable in support of goodwill. There is an inherent level of uncertainty related to any goodwill. Goodwill is reviewed annually for impairment and not more frequently, unless events or circumstances warrant such a review. During the year ended September 30, 2009, the Company recorded an impairment loss of $2.5 million as a result of its annual review of goodwill. See Note 3, "Goodwill and Intangible Assets."

Financial Instruments

a) Financial instruments – recognition and measurement

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including any derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments, and other financial liabilities which are measured at amortized cost determined using the effective interest rate method. For all financial instruments, at initial recognition, cost of the instrument is fair value, adjusted for any transaction costs. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in the fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized at which time the amounts would be recorded in net income.

Following adoption of these standards, the Company has classified all cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts and notes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and notes payable are classified as other financial liabilities which are measured at amortized cost.

b) Derivatives

The Company does not have any derivative instruments or hedging activities.

c) Transaction costs

Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument on an effective yield method. Transaction costs attributable to financial instruments held for trading are expensed.

4. Changes in Accounting Policies

Going Concern

The Canadian Institute of Chartered Accountants ("CICA") amended Handbook Section 1400, "General Standards of Financial Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and the Company adopted this standard effective October 1, 2008. The adoption of this standard had no impact on the Company's Consolidated Financial Statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective October 1, 2008, the Company adopted Emerging Issues Committee Abstract 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173"). EIC 173 requires an entity's own credit risk and the credit risk of the counterparty to be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company has determined that this change had no material effect on its Consolidated Financial Statements.

Future Accounting Changes

Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, has been amended as a result of issuing Sections 1582, 1601 and 1602. The amendments are effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

Impaired Loans

CICA Handbook Section 3025, Impaired Loans, has been amended to conform the definition of a loan to that in amended Section 3855 and to include held-to-maturity investments within the scope of this Section. These amendments are effective for the Company for its annual financial statements beginning on October 1, 2009. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Equity

CICA Handbook Section 3251, Equity, has been amended as a result of issuing Section 1602 to require disclosure of non-controlling interests in equity. This amendment is effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Financial Instruments – Recognition and Measurement

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, has been amended to change the categories into which a debt instrument is required or permitted to be classified, change the impairment model for held-to-maturity financial assets to the incurred credit loss model in Section 3025 and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These changes are effective for the Company for its annual financial statements beginning on October 1, 2009. Also, Section 3855 has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

Financial Instruments – Disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures, has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. These changes are effective for the Company for its annual financial statements for the year ending September 30, 2010. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

Business Combinations

CICA Handbook Section 1582, Business Combinations, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. This standard is effective for the Company for interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Consolidated Financial Statements and Non-Controlling Interests

CICA Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-controlling Interests replace CICA Handbook Section 1600, Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. CICA Handbook Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Company for interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) effective January 1, 2011. The Company will transition to IFRS on October 1, 2011 and is currently evaluating the impact of IFRS on its Consolidated Financial Statements.

5. Insurance Programs

The Company provides insurance coverage to participating franchisees and associates covering liability, property and physical damage, and commercial and general liability. Under the arrangements described below, the Company pays fronting (or underwriting) fees to its insurance carriers and the Company is required to make deposits to funds restricted for claim payments within the deductibles. In May 2008, as required by one of the Company's insurance carriers, an annual renewable letter of credit for $1.6 million was renewed in the amount of $1.1 million for payment of claims, insurance premiums and any other obligations to the carrier. In September 2009, this letter of credit was replaced with a letter of credit in the amount of $500,000. In June 2008, a letter of credit was established with a new carrier in the amount of $500,000 under similar terms. Both letters of credit are secured by cash of the same amounts and are reflected in the Company's restricted cash balance at September 30, 2009.

In January 2009, one of our insurance carriers, as beneficiary under a $1.1 million secured letter of credit, drew $497,666 on the letter of credit to fund the payment of claims, as allowed under our agreement with the insurance carrier. Draws on the letter of credit bore interest at 6% and matured in June 2009. In July 2009, the Company renewed the borrowings under this letter of credit. The new note bore interest at 2.75% and matured in August 2009. In September 2009, the Company repaid all borrowings under this letter of credit with cash securing the letter of credit. The Company then issued a new $500,000 letter of credit to the insurance carrier secured by an equal amount of cash, as reflected in the Company's restricted cash balance. The existing $1.1 million letter of credit was cancelled.

The Company, through licensed insurers, provides participating franchisees and associates automobile liability insurance for claims arising as a result of personal injury and property damage for which drivers of rental vehicles or franchisees may be legally liable. The Company is responsible, through a funded obligation, for varying deductibles (depending on the policy and insurer), for each claim. The Company has no further obligation to its insurer to fund claims that exceed its funded deductible. The Company has accrued a liability for both incurred and incurred but not reported losses. See item (a) below of Key figures for the Company's insurance programs.

The Company deposits funds with the insurance carriers, in a restricted account, to pay claims and other expenses within the deductibles. See item (c) below of Key figures for the Company's insurance programs.

The Company also provides its participating franchisees and associates with physical damage insurance coverage. Under this program, the Company has responsibility for a deductible up to $25,000 per claim, per vehicle. Losses in excess of $25,000, up to a maximum of $50,000 per incident, are insured by an insurance carrier. The Company has accrued a liability for claims expected to be reported and claims reported but not paid. See item (b) below of Key figures for the Company's insurance programs.

In conjunction with these insurance programs, the Company generally requires participating franchisees to pay a deposit equal to the larger of fifteen percent of estimated annual insurance premium or $2,000.

The Company, as agent, also may provide other insurance programs such as commercial and general liability, business interruption, workers compensation, and directors' and officers' liability. The Company has entered into various agreements with several insurance carriers to provide coverage on these types of policies.

Key figures for the Company's insurance programs are as follows:

	September 30, 2009	September 30, 2008 (Restated - Note 2)
(a) Funded Deductible Program		
Deductibles of $10,000, $20,000 or $100,000		
Accrued liability for incurred and incurred but not reported losses	$ 2,097,960	$ 2,168,744
(b) Physical Damage Deductible Program		
Deductibles of $25,000		
Excess of $25,000 to $50,000 max separately insured		
Accrued liability for expected claims and claims reported and not paid	339,433	236,631
Insurance loss reserves	$ 2,437,393	$ 2,405,375
(c) Restricted Cash		
Amounts held related to estimated liability for claims and expenses	$ 3,421,314	$ 4,725,323

6. Related Party Notes Receivable

		September 30, 2009		September 30, 2008
Prior to the Business Combination Transaction with RAWC as described in Note 1, this balance existed on the books of Holdings as indebtedness to U-Save. This balance arose from the original acquisition of U-Save by a major shareholder and Co-Chief Executive Officer of the Company. The balance is comprised of payments made by U-Save on behalf of the shareholder/Holdings in respect of loans incurred by Holdings to acquire U-Save. On consolidation, the receivable owing from Holdings to U-Save was eliminated. As a result, what remains is a receivable from the shareholder to FSNA. The note is non-interest bearing, unsecured and payable on demand. The note has been classified as non-current based on management's estimate of when the note receivable will be collected.	$	2,423,823	$	2,423,823
This balance originated from certain accounts receivable (insurance, royalties, reservation fees) of a former franchisee of which a Co-Chief Executive Officer of the Company was formerly a co-owner. The note is unsecured and bears an interest rate of 6%. Annual payments of $71,694 consisting of principal and accrued interest are due beginning August 2007. The note matures in August 2011. During the year ended September 30, 2009, the Company applied accrued compensation due to this Co-Chief Executive Officer of the Company of $176,625 against the note in partial repayment of the amounts due under the note.		125,375		302,000
This balance originated from interest payments paid or payable by U-Save on behalf of the Co-Chief Executive Officers on related loans incurred to acquire common shares of U-Save through ownership in Holdings. Holdings is required to reimburse U-Save for payments made in this regard. This balance is non-interest bearing and is unsecured, and has been classified as non-current based on management's estimate of when the balance will be collected. A portion of the balance attributable to one of the Company's Co-Chief Executive Officers ($255,298) was fully reserved in September 2009 after consideration of the financial strength of the borrower and the unsecured nature of the note.		510,264		510,264
Subtotal	$	3,059,462	$	3,236,087

Note 6 – Related party notes receivable, continued		**September 30, 2009**		September 30, 2008
Balance brought forward	**$**	**3,059,462**	**$**	**3,236,087**
Note receivable from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest. Note originated in December 2008 reconstituting certain outstanding accounts receivable of $723,404 and existing notes receivable of $284,419, totaling $1,007,823. The note required a $37,500 down payment that was received in January 2009. The note bears interest at 6%, requires interest only payments in the first year and graduated principal and interest payments thereafter, with a final maturity in 2014. Though payments on this note are current, the Company has fully reserved this note after consideration of the financial strength of the borrower and the value of the underlying collateral pledged as security for the note.		980,050		-
Note receivable from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest. Effective December 31, 2008, this note was combined into a new note for $980,050 as reflected above.		-		284,419
Note receivable from an executive officer of the Company. This note originated in May 2000, is non-interest bearing and is unsecured. The note matures in 2010 and allows $30,000 of the note to be forgiven if the balance is paid in full. During the year ended September 30, 2009, the Company fully reserved this note after considering the likelihood that the note will ultimately be repaid.		80,000		80,000
Note receivable from an executive officer of the Company. This note originated at $50,000 in 2007, bears interest at 6% and is unsecured. The note matures in 2012 and $12,500 of the note is forgiven on an annual basis so long as the executive officer remains an employee of the Company.		25,000		37,500
Allowance for notes deemed uncollectible:		(1,315,348)		(30,000)
Total	$	2,829,164	$	3,608,006

During the year ended September 30, 2009, the Company recorded a provision for losses on impaired notes receivable of $1,297,848. Of this amount, $255,298 is attributable to outstanding notes due from a Co-Chief Executive Officer of the Company, $980,050 is attributable to a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest, and $62,500 is attributable to forgiveness of notes due from certain Executive Officers of the Company as required under their employment agreements with the Company, with $12,500 of this $62,500 recorded as a write-off of the related note.

7. Other Notes Receivable

	September 30, 2009	September 30, 2008
Various unsecured notes receivable due from franchisees. The notes bear interest at rates ranging from 0% to 12% and mature in 2010.	$ **23,817**	$ 78,743

8. Property, Plant and Equipment

September 30, 2009	Cost	Accumulated Depreciation	Net
Assets under capital lease	$ 94,331	$ (38,526)	$ 55,805
Furniture and equipment	513,081	(464,664)	48,417
Vehicles	24,200	(15,327)	8,873
Computers and software	942,504	(822,681)	119,823
	$ **1,574,116**	$ **(1,341,198)**	$ **232,918**

September 30, 2008	Cost	Accumulated Depreciation	Net
Assets under capital lease	$ 93,110	$ (20,107)	$ 73,003
Furniture and equipment	487,915	(442,665)	45,250
Vehicles	38,190	(15,214)	22,976
Computers and software	923,519	(770,383)	153,136
	$ **1,542,734**	$ **(1,248,369)**	$ **294,365**

The Company recorded total depreciation expense of $98,125 and $90,080 for the years ended September 30, 2009 and 2008, respectively.

9. Other Intangible Assets

	September 30, 2009			September 30, 2008 (Restated - Note 2)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Finite-life intangible assets:						
Customer list	**$ 983,000**	**$ (397,741)**	**$ 585,259**	$ 983,000	$ (269,866)	$ 713,134
Advertising jingle	**10,000**	**(10,000)**	**-**	10,000	(4,167)	5,833
Non-compete agreement	**254,158**	**(254,158)**	**-**	254,158	(152,268)	101,890
	$ 1,247,158	**$ (661,899)**	**$ 585,259**	$ 1,247,158	$ (426,301)	$ 820,857
Indefinite-life intangible assets:						
Rent-A-Wreck Brand	**$ 1,916,931**	**$ -**	**$ 1,916,931**	$ 2,516,932	$ -	$ 2,516,932
Domain Name	**-**	**-**	**-**	161,653	-	161,653
Reacquired franchise rights	**-**	**-**	**-**	90,000	-	90,000
Trademarks	**-**	**-**	**-**	21,312	-	21,312
	$ 1,916,931	**$ -**	**$ 1,916,931**	$ 2,789,897	$ -	$ 2,789,897
	$ 3,164,089	**$ (661,899)**	**$ 2,502,190**	$ 4,037,055	$ (426,301)	$ 3,610,754

During the year ended September 30, 2009, the Company recorded an impairment loss on other intangible assets of $913,179. This impairment loss included $600,000 for the Rent-A-Wreck Brand, $40,214 for other finite-life intangible assets and $272,965 for other indefinite-life intangible assets. The impairment loss for the Rent-A-Wreck Brand was determined after a review of the projected future cash flows from the Rent-A-Wreck Brand as compared to the carrying value. Impairment of other finite-life and indefinite-life intangibles was determined after review of the nature of each intangible, the net present value of the future cash flows attributable to each intangible.

Amortization expense of $196,287 and $225,259 was recorded for the years ended September 30, 2009 and 2008, respectively.

10. Other Assets

Other Assets consisted of the following:

	September 30, 2009	September 30, 2008
Security Deposits	**$ 103,847**	$ 54,871
Other	**14,791**	6,783
	$ 118,638	$ 61,654

11. Notes Payable

		September 30, 2009		September 30, 2008
In January 2007, the Company, through a wholly owned subsidiary, acquired an insurance agency. The initial purchase price of $1,191,214 was funded by a major shareholder and officer of the Company. In this regard, the Company entered into an unsecured note payable to the major shareholder with monthly interest only payments of 8.25% per annum. In May 2008, the note was amended to an interest rate of 7% per annum with monthly principal and interest payments of $19,850. The note matures May 2010.	$	**958,191**	$	1,135,080
In December 2003, the Company entered into two notes payable with a non-related party totaling $2,500,000. The notes were renewed in December 2008 into a single note bearing an interest rate of 10% per annum. Interest only payments are due monthly. The note is collateralized with personal assets of a shareholder and stock of Auto Rental Resource Center, Inc. (a wholly owned subsidiary of the Company). The note matures December 2010.		**2,500,000**		2,500,000
Subtotal	$	**3,458,191**	$	3,635,080
Less current portion		**(958,191)**		(177,172)
Total	$	**2,500,000**	$	3,457,908

Maturities of notes payable are as follows:

		Year Ending September 30
2010		958,191
2011		2,500,000
Total	$	3,458,191

Interest expense was $344,330 and $334,629 for the years ended September 30, 2009 and 2008, respectively.

12. Shareholders' Equity

12. (a) Share Capital

Authorized:
Unlimited common shares, without par value
Unlimited preferred shares, without par value

Issued:

Common Shares	September 30, 2009		
	Number		Amount
Balance at September 30, 2008	**62,820,426**	**$**	**15,117,041**
No activity	**-**		**-**
Balance at September 30, 2009	**62,820,426**	**$**	**15,117,041**

Common Shares	September 30, 2008		
	Number		Amount
Balance at September 30, 2007	62,744,279	$	15,109,246
Issued for cash on exercise of stock options (i)	76,147		7,795
Balance at September 30, 2008	62,820,426	$	15,117,041

There were no outstanding preferred shares at September 30, 2009 or 2008.

(i) Stock options

The Company has adopted the Franchise Services of North America Inc. Stock Option Plan ("the Plan") as approved by the shareholders on November 30, 2006. Under the Plan, the Company may grant stock options to directors, officers, employees or agents of the Company. The number of common shares reserved for issuance shall not at any time exceed 20% of the aggregate number of issued and outstanding shares of the Company on a non-diluted basis.

As of September 30, 2009, the Company had granted 9,508,659 stock options under the terms of its Plan. Of these options, all were granted to directors, officers, employees and consultants and none were granted to agents of the Company.

Options granted vest over a range of periods from immediately to four years and expire within a range of two to ten years from the date of grant.

The fair value of options granted to employees is calculated on the date of grant using the Black-Scholes option pricing model. The fair value of options granted in 2009 was calculated to be $258,000 using the following assumptions: 10 year term, expected volatility of 429%, risk-free interest rate of 3.65% and zero dividend yield. No options were granted in 2008. Stock-based compensation expense of $24,246 and $34,752 was recorded for the years ended September 30, 2009 and 2008, respectively.

A summary of stock option activity during the years ended September 30, 2009 and 2008 is summarized as follows:

	Options Outstanding		Weighted Average Exercise Price
Balance oustanding at September 30, 2007	**10,434,893**	$	0.32
Options exercised	(76,147)		0.10
Options forfeited	(106,467)		0.37
	(182,614)		
Balance outstanding at September 30, 2008	**10,252,279**	$	0.32
Options granted	1,937,500		0.14
Options expired	(1,508,854)		0.84
Options forfeited	(1,172,266)		0.65
	(743,620)		
Balance outstanding at September 30, 2009	**9,508,659**	$	0.15

The weighted average remaining contractual life of stock options outstanding at September 30, 2009 is presented below:

Total Outstanding Options by price range - C$ September 30, 2009	**Total Options Outstanding**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.10 to $0.14	8,548,337	7.7	$	0.11
$0.41 to $0.55	930,322	6.9		0.50
$0.85	30,000	7.5		0.85
Total Options Outstanding	9,508,659	7.7	$	0.15

Exercisable Options by price range - C$ September 30, 2009	**Exercisable Options**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.10 to $0.14	6,610,837	7.1	$	0.10
$0.41 to $0.55	90,322	6.9		0.50
$0.85	15,000	7.5		0.85
Total Exercisable Options	6,716,159	7.1	$	0.15

The weighted average remaining contractual life of stock options outstanding at September 30, 2008 is presented below:

Total Outstanding Options by price range - C$ September 30, 2008	**Total Options Outstanding**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.10	6,735,000	8.2	$	0.10
$0.41 to $0.55	1,599,425	5.8		0.50
$0.85 to $1.04	1,917,854	3.9		0.92
Total Options Outstanding	10,252,279	7.0	$	0.32

Exercisable Options by price range - C$ September 30, 2008	**Exercisable Options**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.10	6,735,000	8.2	$	0.10
$0.41 to $0.55	1,449,425	5.5		0.50
$0.85 to $1.04	1,696,604	3.4		0.91
Total Exercisable Options	9,881,029	7.0	$	0.30

12. (b) Contributed Surplus

	September 30, 2009	September 30, 2008
Balance at beginning of period	$ **1,446,629**	$ 1,411,877
Stock-based compensation expense	**24,246**	34,752
Balance at end of period	$ **1,470,875**	$ 1,446,629

12. (c) Accumulated Other Comprehensive Income

	September 30, 2009	September 30, 2008
Balance at beginning of period	$ **159,762**	$ 154,162
Correction of error (Note 2)	**-**	37,828
Balance at beginning of period - Restated	**159,762**	191,990
Translation adjustment, current period	**(10,634)**	(32,228)
Balance at end of period	$ **149,128**	$ 159,762

12. (d) Weighted Shares Outstanding

	Year Ended September 30, 2009	Year Ended September 30, 2008
Weighted average common shares outstanding - Basic	**62,820,426**	62,796,927
Dilutive stock options	**-**	6,570,297
Weighted average common shares outstanding - Diluted	**62,820,426**	69,367,224
Net Income (loss)	$ **(6,866,994)**	$ 110,806
Earnings (loss) per Share - Basic	$ **(0.11)**	$ 0.00
Earnings (loss) per Share - Diluted	$ **(0.11)**	$ 0.00
Options excluded from the earnings per share calculation as their impact would have been anti-dilutive:	**9,134,176**	3,517,279

13. Income Taxes

Income tax expense of continuing operations consists of the following:

	September 30, 2009	September 30, 2008
Federal (U.S.):		
Current	$ -	$ -
Future	(884,536)	68,662
Valuation allowance	2,490,804	-
	1,606,268	68,662
State (U.S.):		
Current	8,291	(19,057)
Future	(76,332)	12,304
	(68,041)	(6,753)
Income tax expense	$ 1,538,227	$ 61,909

A full valuation allowance has been recorded against the net potential future income assets associated with all the loss carryforwards and other deductible temporary differences as their utilization is not considered more likely than not at this time.

Income tax expense differs from amounts computed by applying the United States Federal income tax rate of 39.3 percent to pretax earnings (loss) from continuing operations as a result of the following:

	September 30, 2009	September 30, 2008
Computed "expected" tax expense (recovery)	$ (2,094,205)	$ 67,877
Foreign earnings (loss) taxed at different rates	2,249	(37,577)
Federal benefit of state income taxes (recovery)	2,819	(6,583)
Imputed interest income	36,197	39,620
Intangible impairment	708,191	
Valuation allowance	2,490,804	-
Other	392,172	(1,428)
Income tax expense	$ 1,538,227	$ 61,909

The Company's effective income tax rate may differ from the statutory rates applied to pretax earnings from continuing operations. The U.S. statutory tax rate is used in the reconciliation of the expected tax provision to the actual tax provision because U-Save, a U.S. taxpayer, was considered the accounting acquirer for financial reporting purposes pursuant to the RTO.

As of September 30, 2009, the Company has a net operating loss carryforward of approximately $3,881,124 expiring as follows:

		September 30, 2009
U.S. - Net Operating Loss Carryforwards		
Expiring		
2024	$	2,662,633
2028		844,120
2029		374,371
	$	3,881,124

The Company also has non-capital tax loss carryforwards related to its Canadian operations totaling C$856,196 expiring as follows:

		September 30, 2009
Canada - Non-Capital Loss Carryforward		
Expiring		
2009	C$	47,518
2010		53,713
2012		23,631
2013		31,514
2014		122,162
2015		577,658
	C$	856,196

Significant components of future income tax assets and liabilities at September 30, 2009 and 2008 are as follows:

	September 30, 2009	September 30, 2008
Future income tax assets:		
Insurance loss reserves	$ 845,000	$ 819,000
Accounts receivable allowance	498,000	96,000
Intangibles	456,000	96,000
Tax credits	81,000	80,000
Stock based compensation	58,000	49,000
Charitable contributions	1,000	-
Net operating loss carryforward	1,455,000	1,307,132
	3,394,000	2,447,132
Future income tax liabilities:		
Intangibles	(827,196)	(827,196)
Furniture and equipment	(66,000)	(80,000)
Other	(10,000)	(10,000)
	(903,196)	(917,196)
	2,490,804	1,529,936
Less: valuation allowance	(2,490,804)	-
Future income tax assets, net	$ -	$ 1,529,936

Future income tax assets, net is comprised of:

	September 30, 2009	September 30, 2008
Future income tax assets - current	$ 1,404,000	$ 1,005,000
Future income tax assets - long term	1,086,804	524,936
	2,490,804	1,529,936
Less: valuation allowance	(2,490,804)	-
Future income tax assets, net	$ -	$ 1,529,936

14. Related Party Transactions

Notes to and from related parties are described in Notes 6 and 11. Members of the Company's Board of Directors, who are also officers and significant shareholders of the Company, have investments in certain vehicle rental operations and transportation companies, which have transactions with the Company.

Transactions include insurance, reservation and royalty payments that were provided in the normal course of business and recorded at the exchange amount. The Company also leases vehicles for two officers of the Company from a franchisee in which one of the officers (who is also a significant shareholder and member of the Company's Board of Directors) has a non-controlling financial interest.

The Company recorded revenues and expenses related to these transactions as follows:

		Year ended September 30, 2009		Year ended September 30, 2008
Continuing franchise and related fees	$	304,361	$	618,409
Insurance premiums and related fees	$	230,882	$	447,000
Interest expense	$	61,317	$	67,017
Vehicle leases	$	34,170	$	-

At September 30, 2009 and 2008, related party accounts receivable totaled $73,456 and $646,244, respectively.

15. Commitments and Contingencies

Contingencies

The Company is periodically involved in legal actions and automobile accident claims (see Note 5) that arise as a result of events occurring in the normal course of operations. In the regular course of business, the Company evaluates estimated losses or costs related to litigation and provision is made for anticipated losses whenever the Company believes that such losses are probable and can be reasonably estimated.

In January 2007, the Company, through its wholly owned subsidiary, U-Save Financial Services, Inc., acquired certain assets of DRSN Holdings, LLC, an Arizona-based limited liability company. The initial purchase price, which totaled $1,191,214, was paid with cash funded by a major shareholder. In addition, the agreement called for two subsequent contingent payments of $188,150 payable on or about January 15, 2008 and 2009, which can be adjusted based on the amount of revenue retained in relation to specified baseline revenue. Any additional consideration paid will be reflected in goodwill.

The contingent consideration noted above was excluded from the initial purchase price allocation. Under Canadian GAAP, if the contingency can be determined beyond a reasonable doubt, it should be recognized as part of the cost of the purchase. When it cannot be reasonably estimated or the outcome cannot be recognizably determined beyond a reasonable doubt, details of the contingency should be disclosed. It is the opinion of management that the outcome cannot be reasonably determined until the contingency is resolved (based on each measurement date) and the consideration is issued or becomes issuable. The consideration, if any is due, is a function of the successful retention of the baseline revenue as established in the agreement. Thus, the fair value of the consideration issued or issuable will be recognized as an additional cost of the purchase when the contingency is resolved. For these

reasons, and in line with the guidance, any future contingent consideration paid on or about the anniversary dates of January 15, 2008 and 2009 will be recorded as part of the purchase price and allocated to goodwill. An initial contingent payment of $188,150 was made in February 2008. As of the date of this report, the amount (if any) to be paid as the final consideration has not yet been determined.

Lease Commitments

The Company leases office space and certain furniture and equipment under non-cancellable operating leases. Rental expense was approximately $347,000 and $357,000 for the years ended September 30, 2009 and 2008, respectively. The minimum rental commitments under non-cancelable operating leases with initial or remaining terms in excess of one year are as follows:

Year ending September 30		**Amount**
2010	$	240,027
2011		207,918
2012		206,436
2013		184,180
2014		74,949
Thereafter		-
	$	**913,510**

16. Segment Information

While the Company has one reportable segment, the following segment information is for geographic presentation purposes only.

	As of and for the year ended September 30, 2009		
	USA	Canada	Total
Revenue	$ 13,947,154	$ 796,462	$ 14,743,616
Expenses	18,312,025	1,760,358	20,072,383
Net loss before income taxes	(4,364,871)	(963,896)	(5,328,767)
Property, plant and equipment expenditures	44,456	-	44,456
Property, plant and equiment, net	204,625	28,293	232,918
Other intangible assets, net	585,259	1,916,931	2,502,190
Goodwill	3,959,473	-	3,959,473
Total assets	8,114,091	8,084,847	16,198,938

The impairment loss on goodwill of $2,500,000 for the year ended September 30, 2009 related entirely to the USA.

The impairment loss on other intangible assets of $913,179 for the year ended September 30, 2009 consisted of $284,988 related to the USA and $621,191 related to Canada.

	As of and for the year ended September 30, 2008 (Restated - Note 2)		
	USA	Canada	Total
Revenue	$ 15,180,358	$ 839,242	$ 16,019,600
Expenses	14,550,979	1,295,906	15,846,885
Net income (loss) before income taxes	629,379	(456,664)	172,715
Property, plant and equipment expenditures	75,168	-	75,168
Property, plant and equiment, net	243,787	50,578	294,365
Other intangible assets, net	1,044,886	2,565,868	3,610,754
Goodwill	6,459,473	-	6,459,473
Total assets	14,820,748	8,765,391	23,586,139

17. Capital

The Company's objectives when managing capital are to: (1) maintain liquidity in order to preserve its ability to meet financial obligations; (2) deploy capital to provide an appropriate investment return to its shareholders; and (3) maintain a capital structure that allows multiple financing options to the Company should a financing need arise.

The Company manages its capital to maintain its ability to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of the following:

	September 30, 2009	September 30, 2008 (Restated - Note 2)
Notes payable, including current portion	$ 3,458,191	$ 3,635,080
Share capital	15,117,041	15,117,041
Contributed surplus	1,470,875	1,446,629
Accumulated deficit and accumulated other comprehensive income	(8,681,304)	(1,803,676)
	$ 11,364,803	$ 18,395,074

The Company manages its capital structure and makes adjustments in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through consideration of new share or debt issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management is consistent and remains unchanged from the year ended September 30, 2008.

Under the existing capital structure of the Company, its current daily need for capital is funded from the Company's operations. The need for additional capital above its existing structure would not be from operations, but would be sourced from additional expansion or acquisitions, both of which would require the approval of the Board of Directors.

18. Financial Instruments

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risk to which the Company is exposed is concentration of credit risk described below.

a) *Credit Risk*

Financial instruments that could potentially subject the Company to credit risk consist principally of accounts receivable associated with customers. The risk is that a customer will be unable to pay amounts due to the Company. Customers are located primarily throughout the United States and Canada. A portion of the customers' ability to honor their obligations is dependent upon the local economy. Allowances are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed in the balance sheet are net of these allowances for estimated bad debts. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when

objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, credit worthiness and the economic environment in which the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual receivable. All bad debt write-offs are charged to bad debt expense through the allowance for doubtful accounts.

The aging of accounts receivable balances is presented as follows:

Aging of Accounts Receivable		**September 30, 2009**		September 30, 2008
Current	$	**745,512**	$	748,299
Past due 1-30 days		**125,880**		420,517
Past due 31-60 days		**28,646**		89,570
Past due 61-90 days		**14,000**		94,817
Over 91 days past due		**417,214**		828,792
Less: Allowance for doubtful accounts		**(273,440)**		(229,279)
Total	$	**1,057,812**	$	1,952,716

A reconciliation of the allowance accounts during the current period is presented as follows:

Accounts Receivable Allowance for Doubtful Accounts		**September 30, 2009**		September 30, 2008
Balance at beginning of period	$	**229,279**	$	181,736
Bad debt provision		**142,751**		674,348
Write-offs, net of recoveries		**(98,564)**		(626,805)
Effect of exchange rate		**(26)**		-
Balance at end of period	$	**273,440**	$	229,279
Notes Receivable Allowance for Notes Receivable				
Balance at beginning of period	$	**30,000**	$	65,000
Bad debt provision		**1,297,848**		163,350
Write-offs		**(12,500)**		(198,350)
Balance at end of period	$	**1,315,348**	$	30,000

The Company has also converted certain accounts receivable of franchise operators and associates into notes receivable. These notes are included as part of the balances disclosed in Note 6 of $980,050 and $284,419 at September 30, 2009 and 2008, respectively and in Note 7 of $23,817 and $78,743 at September 30, 2009 and 2008, respectively.

Effective December 31, 2008, the Company entered into an arrangement with a franchisee of which a major shareholder and officer of the Company is a co-owner. The Company issued a secured note to the franchisee reconstituting certain outstanding accounts receivable of $723,404 and notes receivable of $284,419, totaling $1,007,823. After consideration of a $37,500 down payment received in January 2009, the Company issued a five year note in the amount of $970,323 bearing an interest rate of 6%.

The note calls for interest only payments the first year, followed by graduated principal and interest payments of $7,500, $9,000, $10,500 and $12,000 in years 2-5 respectively, with a balloon payment of $723,754 at the end of the term. The executed note agreement and a separate security agreement were both signed on behalf of the franchise and individually by the independent co-owner of the franchise. The note matures January 1, 2014. The previous separate notes that were combined as part of the new note were cancelled contemporaneously with the execution of this note. Though payments on this note are current, the Company has fully reserved this note as of September 30, 2009, after consideration of the financial strength of the borrower and the value of the underlying collateral pledged as security for the note.

The Company maintains cash at financial institutions which, at September 30, 2009 and 2008 and other times throughout the year, exceeded federally insured limits. The Company has not experienced any losses of such funds and management believes the Company is not exposed to significant risk on cash.

Other risks include:

b) Fair Value

The fair values of accounts receivable, notes receivable, accounts payable and accrued liabilities, approximate their carrying values due to their short term nature. The fair value of notes payable approximate their carrying value based on current interest rates, market values and pricing of financial instruments with comparable terms. The fair value of certain notes due to and from related parties cannot be determined as there are no comparable market rates.

c) Liquidity Risk

Liquidity risk implies maintaining sufficient cash and cash equivalents to meet its financial obligations. The Company maintains restricted cash balances to secure the servicing of its insurance obligations and deposits from franchises participating in its insurance programs. The Company anticipates that given the nature of its notes payable obligations and past and present arrangements, it has the flexibility to renew and/or extend maturing obligations at or near maturity which is currently in 2010. Significant future maturities of note payable obligations include a note payable with an outstanding balance of $958,191 at September 30, 2009 which matures in May 2010, and a note payable with an outstanding balance of $2.5 million at September 30, 2009 which matures in December 2010.

d) Foreign Exchange Risk

A portion of the Company's financial instruments are denominated in foreign currency (see Note 3 – "Currency"). The Company has no contracts in place to mitigate this exposure.

e) Interest Rate Risk

The Company's Notes Payable, Related Party Notes Payable, and Related Party Notes Receivable are fixed rate notes and not subject to interest rate fluctuations.

f) Market Risk

The Company's exposure to financial market risk is limited since there are no financial instruments which will fluctuate as a result of changes in market prices. Because the Company has certain financial instruments denominated in a foreign currency, a sensitivity analysis at September 30, 2009 and 2008 indicates that a 1% increase in the exchange rate on the financial statements of the operating subsidiary in Canada would result in a decrease of the translation of Canadian dollar functional currency to U.S. dollar reporting currency of approximately $7,100 and $8,600, respectively, in other comprehensive income (loss).

19. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.