Franchise Services of North America Inc.

Interim Consolidated Financial Statements

As of June 30, 2010
and for the three and nine months ended June 30, 2010

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these financial statements.

Franchise Services of North America Inc.

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Franchise Services of North America Inc.

Consolidated Balance Sheets

	Unaudited June 30, 2010	Audited September 30, 2009
Assets		
Cash and cash equivalents	$ **1,700,672**	$ 1,917,229
Restricted cash and cash equivalents (Note 4)	**3,012,635**	3,421,314
Accounts receivable, net of allowance for doubtful accounts ($344,248 at 6/30/10 and $273,440 at 9/30/09)	**913,139**	984,356
Related party accounts receivable	**90,401**	73,456
Related party notes receivable	**160,000**	-
Other notes receivable (Note 6)	**-**	23,817
Prepaid expenses	**213,824**	136,383
Total current assets	**6,090,671**	6,556,555
Property, Plant and Equipment, net (Note 7)	**196,778**	232,918
Other:		
Related party notes receivable, net of allowance for doubtful notes ($1,311,134 at 6/30/10 and $1,315,348 at 9/30/09) (Note 5)	**1,755,105**	2,829,164
Other notes receivable, net of discount (Note 6)	**16,798**	-
Other assets (Note 9)	**133,039**	118,638
Goodwill	**3,959,473**	3,959,473
Other intangible assets, net (Note 8)	**2,415,703**	2,502,190
	8,476,896	9,642,383
Total assets	$ **14,567,567**	$ 16,198,938

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Balance Sheets

	Unaudited	Audited
	June 30, 2010	September 30, 2009
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	$ **2,209,704**	$ 2,158,510
Deposits received from franchisees	**222,644**	238,232
Insurance loss reserves (Note 4)	**2,700,115**	2,437,393
Current portion of notes payable (Note 10)	**2,500,000**	-
Current portion of related party notes payable (Note 10)	**-**	958,191
Total current liabilities	**7,632,463**	5,792,326
Notes payable (Note 10)	**-**	2,500,000
Total liabilities	**7,632,463**	8,292,326
Commitments and contingencies (Notes 4, 10, 14, 17)		
Shareholders' Equity		
Share capital (Note 11 a)	**15,117,041**	15,117,041
Contributed surplus (Note 11 b)	**1,497,653**	1,470,875
	16,614,694	16,587,916
Accumulated deficit	**(9,846,682)**	(8,830,432)
Accumulated other comprehensive income (Note 11 c)	**167,092**	149,128
	(9,679,590)	(8,681,304)
Total shareholders' equity	**6,935,104**	7,906,612
Total liabilities and shareholders' equity	$ **14,567,567**	$ 16,198,938

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

	Unaudited Three Months Ended June 30, 2010	Unaudited Three Months Ended June 30, 2009	Unaudited Nine Months Ended June 30, 2010	Unaudited Nine Months Ended June 30, 2009
Revenues				
Continuing franchisee and related fees	$ **891,836**	$ 917,524	$ **2,541,838**	$ 2,733,408
Initial franchise fees	**58,698**	104,034	**566,093**	210,913
Insurance premiums and related fees	**3,075,105**	2,646,352	**8,646,789**	7,540,790
Total revenues	**4,025,639**	3,667,910	**11,754,720**	10,485,111
Costs and expenses				
Direct operating				
Franchise operating	**1,076,943**	1,201,312	**3,327,684**	3,551,308
Insurance operating	**1,388,621**	678,993	**3,724,262**	1,808,101
Claims expense	**1,067,332**	797,179	**3,201,400**	2,162,614
Insurance underwriting expenses	**199,647**	433,177	**690,734**	1,247,453
General and administration	**354,198**	556,248	**1,433,529**	1,673,103
Provision (recovery) for losses on related party notes receivable	**3,611**	-	**(4,214)**	-
Stock based compensation expense (Note 11)	**8,926**	4,637	**26,778**	13,451
Interest expense	**66,518**	88,910	**211,864**	257,606
Amortization and depreciation	**56,011**	70,697	**169,459**	223,362
Total costs and expenses	**4,221,807**	3,831,153	**12,781,496**	10,936,998
Operating loss before income taxes	**(196,168)**	(163,243)	**(1,026,776)**	(451,887)
Income tax benefit (Note 12)	**(4,329)**	(52,859)	**(10,526)**	(137,275)
Net loss	$ **(191,839)**	$ (110,384)	$ **(1,016,250)**	$ (314,612)
Accumulated Deficit beginning of the period	**(9,654,843)**	(1,901,583)	**(8,830,432)**	(1,697,355)
Accumulated Deficit end of period	$ **(9,846,682)**	$ (2,011,967)	$ **(9,846,682)**	$ (2,011,967)
Earnings (loss) per share (Note 11d)				
Basic and Diluted	$ **-**	$ -	$ **(0.02)**	$ (0.01)

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Comprehensive Loss

	Unaudited	Unaudited	Unaudited	Unaudited
	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	**Nine Months Ended June 30, 2010**	Nine Months Ended June 30, 2009
Net loss	**$ (191,839)**	$ (110,384)	**$ (1,016,250)**	$ (314,612)
Other Comprehensive Loss				
Translation of Canadian dollar functional currency to US dollar reporting currency (Note 11 c)	**(9,592)**	26,340	**17,964**	(30,672)
Comprehensive loss	**$ (201,431)**	$ (84,044)	**$ (998,286)**	$ (345,284)

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Unaudited **Three Months Ended June 30, 2010**	Unaudited Three Months Ended June 30, 2009	Unaudited **Nine Months Ended June 30, 2010**	Unaudited Nine Months Ended June 30, 2009
Operating activities				
Net loss	$ **(191,839)**	$ (110,384)	$ **(1,016,250)**	$ (314,612)
Items not affecting cash:				
Amortization and depreciation (Notes 7 and 8)	**56,011**	70,696	**169,460**	223,361
Future income tax recovery (Note 12)	**-**	(57,000)	**-**	(124,000)
Provision (recovery) for losses on related party notes receivable (Note 6)	**3,611**	6,250	**(4,214)**	6,250
Provision for doubtful accounts receivable	**19,079**	38,288	**82,079**	136,345
Note received in payment of franchise fee	**(16,798)**	-	**(16,798)**	-
Stock-based compensation (Note 11)	**8,926**	4,637	**26,778**	13,451
	(121,010)	(47,513)	**(758,945)**	(59,205)
Changes in non-cash working capital:				
Accounts receivable	**(62,602)**	113,516	**(27,832)**	(114,700)
Prepaid expenses and other assets	**(22,631)**	(39,250)	**(91,677)**	(200,737)
Accounts payable and accrued liabilities	**162,200**	113,412	**61,818**	(270,822)
Insurance loss reserves	**(34,059)**	72,661	**265,333**	(268,715)
Deposits received from franchisees	**(28,753)**	3,385	**(15,588)**	6,517
Net change in non-cash working capital	**14,155**	263,724	**192,054**	(848,457)
Net cash provided by (used in) operating activities	**(106,855)**	216,211	**(566,891)**	(907,662)
Investing activities				
Change in restricted cash and cash equivalents	**106,689**	(64,212)	**417,708**	639,420
Property, plant and equipment expenditures	**(20,828)**	(1,578)	**(37,413)**	(35,641)
Payments for intangible assets	**(9,420)**	-	**(9,420)**	-
Proceeds from sale of property, plant and equipment	**-**	-	**-**	7,640
Repayments on notes and other receivables	**3,307**	9,667	**34,282**	69,198
Net cash provided by (used in) investing activities	$ **79,748**	$ (56,123)	$ **405,157**	$ 680,617

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Unaudited **Three Months Ended June 30, 2010**	Unaudited Three Months Ended June 30, 2009	Unaudited **Nine Months Ended June 30, 2010**	Unaudited Nine Months Ended June 30, 2009
Financing activities				
Repayments of notes payable	$ **-**	$ (44,453)	$ **(61,758)**	$ (131,581)
Borrowings under notes payable	**-**	-	**-**	497,666
Net cash provided by (used in) financing activities	**-**	(44,453)	**(61,758)**	366,085
Net increase (decrease) in cash and cash equivalents	**(27,107)**	115,635	**(223,492)**	139,040
Effect of exchange rate changes on cash	**(4,455)**	17,265	**6,935**	(26,587)
Cash and cash equivalents, beginning of period	**1,732,234**	1,131,652	**1,917,229**	1,152,099
	1,727,779	1,148,917	**1,924,164**	1,125,512
Cash and cash equivalents, end of period	$ **1,700,672**	$ 1,264,552	$ **1,700,672**	$ 1,264,552

Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Income taxes paid (recoveries), net	$ **(6,911)**	$ 9,616	$ **(40,770)**	$ 56,206
Interest	**66,160**	80,299	**209,170**	242,820
Non-cash investing activities:				
Related party accounts receivable converted to notes receivable	**-**	-	**-**	723,404
Related party note receivable offset with related party note payable	**-**	-	**896,433**	-
Notes receivable offset with accounts payable and accrued expenses	**-**	-	**11,375**	-

See accompanying notes to consolidated financial statements.

The unaudited Interim Consolidated Financial Statements of Franchise Services of North America Inc. as of and for the three and nine months ended June 30, 2010 and 2009 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The unaudited Interim Consolidated Financial Statements have been prepared following the same significant accounting policies and methods of calculation as the audited Consolidated Financial Statements for the year ended September 30, 2009 and should be read in conjunction with those statements and the notes thereto.

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 15 related to Segments.

2. 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 June 30, 2010, certain of the Company's financial instruments are denominated in Canadian dollars as follows:

	C$
Cash	59,331
Restricted cash	434,764
Accounts receivable	222,305
Accounts payable	129,197
Insurance reserves	373,535

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 4). At June 30, 2010, the Company has annual renewable letters

of credit totaling $1.25 million outstanding to the Company's insurance carriers as security for payment of claims, insurance premiums and any other obligations to the carrier. These letters of credit are secured by cash of the same amounts and are reflected in the Company's restricted cash balance at June 30, 2010.

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 17 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 5.

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 8.

The "Measurement Uncertainty" section contains further details as to the nature of goodwill and its review and also Note 8, "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 June 30, 2010 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.

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 increases (decreases) related to changes in liability claim estimates from the prior period estimate, based on carrier reports, approximately as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Changes in liability claim estimates	$ (92,000)	$ 13,000	$ 408,000	$ (214,000)

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 8.

Advertising Expense

Advertising costs are expensed in the period incurred. The Company incurred advertising expense of $24,655 and $32,148 for the three months ended June 30, 2010 and 2009, 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 June 30, 2010 and September 30, 2009 represents 27.2% and 24.4% 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 2, "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.

3. 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.

Impaired Loans

Effective October 1, 2009, the Company adopted 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. 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.

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.

4. 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. At June 30, 2010, the Company has annual renewable letters of credit totaling $1.25 million outstanding to the Company's insurance carriers as security for payment of claims, insurance premiums and any other obligations to the carrier. These letters of credit are secured by cash of the same amounts and are reflected in the Company's restricted cash balance at June 30, 2010.

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:

	June 30, 2010	September 30, 2009
(a) Funded Deductible Program		
Deductibles of $10,000, $20,000 or $100,000		
Accrued liability for incurred and incurred but not reported losses	$ 2,589,009	$ 2,097,960
(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	111,106	339,433
Insurance loss reserves	$ 2,700,115	$ 2,437,393
(c) Restricted Cash		
Amounts held related to estimated liability for claims and expenses	$ 3,012,635	$ 3,421,314

5. Related Party Notes Receivable

		June 30, 2010		September 30, 2009
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. This note was restructured, effective February 1, 2010, into a new note with a face amount of $1,782,355 – see below.	$	**-**	$	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. This note was restructured, effective February 1, 2010. The new note is unsecured, bears interest at prime+2% (currently 5.25%) payable quarterly, with annual principal payments of $10,000. The note matures in 2020.		**114,000**		125,375
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. Effective February 1, 2010, the portion of this balance that had not been previously reserved was restructured into a new note with a face amount of $1,782,355 – see below.		**255,298**		510,264
This note originated February 1, 2010, as a restructuring of certain amounts due from and payable to a Co-Chief Executive Officer of the Company. The note is unsecured, bears interest at prime+2% (currently 5.25%) payable quarterly, with annual principal payments of $150,000. The note matures in 2020.		**1,782,355**		-
Subtotal	$	**2,151,653**	$	3,059,462

Note 5 – Related party notes receivable, continued		**June 30, 2010**		September 30, 2009
Balance brought forward	**$**	**2,151,653**	$	3,059,462
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. 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.		**969,586**		980,050
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**		25,000
Allowance for notes deemed uncollectible:		**(1,311,134)**		(1,315,348)
Total	$	**1,915,105**	$	2,829,164

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.

Effective February 1, 2010, the Company's Co-Chief Executive Officers agreed to restructure certain notes payable to and receivable from the Company. The restructuring of these notes and the related terms and conditions were approved at the Company's Annual General Meeting on March 31, 2010. The notes require annual principal payments and quarterly interest payments. One of the Company's Co-Chief Executive Officers agreed to combine a non-interest bearing note with a principal balance of $2,423,823, an other non-interest bearing receivable of $254,966, and offset a note payable due to that Co-Chief Executive Officer with a principal balance of $896,434 resulting in a new note with a net principal balance due from the Co-Chief Executive Officer of $1,782,355.

6. Other Notes Receivable

	June 30, 2010	September 30, 2009
Various unsecured notes receivable due from franchisees. The notes bear interest at rates ranging from 0% to 12% and mature in 2010 and 2013.	$ 16,798	$ 23,817

7. Property, Plant and Equipment

June 30, 2010

	Cost	Accumulated Depreciation	Net
Assets under capital lease	$ 94,331	$ (50,116)	$ 44,215
Furniture and equipment	509,868	(474,948)	34,920
Vehicles	24,200	(18,957)	5,243
Computers and software	979,917	(867,517)	112,400
	$ 1,608,316	**$ (1,411,538)**	**$ 196,778**

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**

The Company recorded total depreciation expense of $24,042 and $24,482 for the three months ended June 30, 2010 and 2009, respectively.

8. Other Intangible Assets

	June 30, 2010			September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Finite-life intangible assets:						
Customer list	**$ 983,000**	**$ (493,648)**	**$ 489,352**	$ 983,000	$ (397,741)	$ 585,259
Advertising jingle	**10,000**	**(10,000)**	**-**	10,000	(10,000)	-
Non-compete agreement	**254,158**	**(254,158)**	**-**	254,158	(254,158)	-
	$ 1,247,158	**$ (757,806)**	**$ 489,352**	$ 1,247,158	$ (661,899)	$ 585,259
Indefinite-life intangible assets:						
Rent-A-Wreck Brand	**$ 1,916,931**	**$ -**	**$ 1,916,931**	$ **1,916,931**	$ -	$ 1,916,931
Trademark	**9,420**	**-**	**9,420**	**-**	-	-
	$ 1,926,351	**$ -**	**$ 1,926,351**	$ 1,916,931	$ -	$ 1,916,931
	$ 3,173,509	**$ (757,806)**	**$ 2,415,703**	$ 3,164,089	$ (661,899)	$ 2,502,190

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 $31,969 and $46,214 was recorded for the three months ended June 30, 2010 and 2009, respectively.

9. Other Assets

Other Assets consisted of the following:

	June 30, 2010	September 30, 2009
Security Deposits	**$ 99,165**	$ 103,847
Other	**33,874**	14,791
	$ 133,039	$ 118,638

10. Notes Payable

		June 30, 2010		September 30, 2009
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 Co-Chief Executive 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. Effective February 1, 2010, this note was restructured and netted against other notes receivable from the Co-Chief Executive Officer of the Company. See Note 5.	$	**-**	$	958,191
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	$	**2,500,000**	$	3,458,191
Less current portion		**(2,500,000)**		(958,191)
Total	$	**-**	$	2,500,000

Maturities of notes payable are as follows:

		Year Ending September 30
2010		-
2011		2,500,000
Total	$	2,500,000

Interest expense was $66,518 and $88,910 for the three months ended June 30, 2010 and 2009, respectively.

11. Shareholders' Equity

11. (a) Share Capital

Authorized:

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

Issued:

Common Shares	June 30, 2010		
	Number		Amount
Balance at September 30, 2009	**62,820,426**	**$**	**15,117,041**
No activity	**-**		**-**
Balance at June 30, 2010	**62,820,426**	**$**	**15,117,041**

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

There were no outstanding preferred shares at June 30, 2010 or September 30, 2009.

(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 June 30, 2010, the Company had granted 9,449,942 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. Stock-based compensation expense of $8,926 and $4,637 was recorded for the three months ended June 30, 2010 and 2009, respectively.

A summary of stock option activity during fiscal 2009 and the nine months ended June 30, 2010 is summarized as follows:

	Options Outstanding		Weighted Average Exercise Price
Balance oustanding 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
Options expired	(31,874)		0.41
Options forfeited	(26,843)		0.15
	(58,717)		
Balance outstanding at June 30, 2010	**9,449,942**	$	0.15

The weighted average remaining contractual life of stock options outstanding at June 30, 2010 is presented below:

Total Outstanding Options by price range - C$ June 30, 2010	Total Options Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price C$
$0.1016 to $0.14	8,524,077	7.0	$	0.11
$0.50	895,865	6.4		0.50
$0.85	30,000	6.7		0.85
Total Options Outstanding	9,449,942	6.9	$	0.15

Exercisable Options by price range - C$ June 30, 2010	Exercisable Options	Weighted Average Remaining Life (years)		Weighted Average Exercise Price C$
$0.1016 to $0.14	7,074,702	6.6	$	0.10
$0.50	895,865	6.4		0.50
$0.85	22,500	6.7		0.85
Total Exercisable Options	7,993,067	6.6	$	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

11. (b) Contributed Surplus

		June 30, 2010		September 30, 2009
Balance at beginning of period	$	**1,470,875**	$	1,446,629
Stock-based compensation expense		**26,778**		24,246
Balance at end of period	$	**1,497,653**	$	1,470,875

11. (c) Accumulated Other Comprehensive Income

		June 30, 2010		September 30, 2009
Balance at beginning of period	$	**149,128**	$	159,762
Translation adjustment, current period		**17,964**		(10,634)
Balance at end of period	$	**167,092**	$	149,128

11. (d) Weighted Shares Outstanding

		Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		Nine Months Ended June 30, 2010		Nine Months Ended June 30, 2009
Weighted average common shares outstanding - Basic		**62,820,426**		62,820,426		**62,820,426**		62,820,426
Dilutive stock options		**-**		-		**-**		-
Weighted average common shares outstanding - Diluted		**62,820,426**		62,820,426		**62,820,426**		62,820,426
Net loss	$	**(191,839)**	$	(110,384)	$	**(1,016,250)**	$	(314,612)
Earnings (loss) per Share - Basic	$	**(0.00)**	$	(0.00)	$	**(0.02)**	$	(0.01)
Earnings (loss) per Share - Diluted	$	**(0.00)**	$	(0.00)	$	**(0.02)**	$	(0.01)
Options excluded from the earnings per share calculation as their impact would have been anti-dilutive:		**9,229,303**		8,988,509		**9,237,106**		8,988,509

12. Income Taxes

Income tax expense of continuing operations consists of the following:

	June 30, 2010	June 30, 2009
Federal (U.S.):		
Current	$ **-**	$ -
Future	**(63,267)**	(49,953)
Valuation allowance	**73,000**	-
	9,733	(49,953)
State (U.S.):		
Current	**(4,329)**	4,141
Future	**(9,733)**	(7,047)
	(14,062)	(2,906)
Income tax benefit	$ **(4,329)**	$ (52,859)

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:

	June 30, 2010	June 30, 2009
Computed "expected" tax expense (recovery)	$ **(77,094)**	$ (64,154)
Foreign (earnings) loss taxed at different rates	**11,847**	(14,340)
Federal benefit of state income taxes (recovery)	**(1,472)**	1,408
Imputed interest income	**-**	9,049
Valuation allowance	**73,000**	-
Other	**(10,610)**	15,178
Income tax benefit	$ **(4,329)**	$ (52,859)

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 June 30, 2010, the Company has a net operating loss carryforward of approximately $4,359,259 expiring as follows:

		June 30, 2010
U.S. - Net Operating Loss Carryforwards		
Expiring		
2024	$	2,662,633
2028		844,120
2029		402,877
2030		449,629
	$	4,359,259

The Company also has non-capital tax loss carryforwards related to its Canadian operations totaling C$808,678 expiring as follows:

		June 30, 2010
Canada - Non-Capital Loss Carryforward		
Expiring		
2010	C$	53,713
2012		23,631
2013		31,514
2014		122,162
2015		577,658
	C$	808,678

Significant components of future income tax assets and liabilities at June 30, 2010 and September 30, 2009 are as follows:

	June 30, 2010	September 30, 2009
Future income tax assets:		
Insurance loss reserves	$ **850,000**	$ 845,000
Accounts receivable allowance	**523,000**	498,000
Intangibles	**425,000**	456,000
Tax credits	**81,000**	81,000
Stock based compensation	**67,000**	58,000
Charitable contributions	**3,000**	1,000
Net operating loss carryforward	**1,635,000**	1,455,000
	3,584,000	3,394,000
Future income tax liabilities:		
Intangibles	**(827,196)**	(827,196)
Furniture and equipment	**(47,000)**	(66,000)
Other	**(10,000)**	(10,000)
	(884,196)	(903,196)
	2,699,804	2,490,804
Less: valuation allowance	**(2,699,804)**	(2,490,804)
Future income tax assets, net	$ **-**	$ -

Future income tax assets, net is comprised of:

	June 30, 2010	September 30, 2009
Future income tax assets - current	$ **1,428,500**	$ 1,404,000
Future income tax assets - long term	**1,271,304**	1,086,804
	2,699,804	2,490,804
Less: valuation allowance	**(2,699,804)**	(2,490,804)
Future income tax assets, net	$ **-**	$ -

13. Related Party Transactions

Notes to and from related parties are described in Notes 5 and 10. 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:

		Three months ended June 30, 2010		Three months ended June 30, 2009
Continuing franchise and related fees	$	65,642	$	80,839
Insurance premiums and related fees	$	47,446	$	55,968
Interest expense	$	-	$	15,098
Vehicle leases	$	11,070	$	-

At June 30, 2010 and September 30, 2009, related party accounts receivable totaled $90,401 and $73,456, respectively.

14. Commitments and Contingencies

Contingencies

The Company is periodically involved in legal actions and automobile accident claims (see Note 4) 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 $82,000 and $85,000 for the three months ended June 30, 2010 and 2009, 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	$	70,271
2011		281,489
2012		280,211
2013		212,069
2014		79,859
Thereafter		409
	$	**924,308**

15. Segment Information

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

	As of and for the three months ended June 30, 2010			As of and for the nine months ended June 30, 2010		
	USA	Canada	Total	USA	Canada	Total
Revenue	$ 3,796,402	$ 229,237	$ 4,025,639	$ 11,024,657	$ 730,063	$ 11,754,720
Expenses	3,889,854	331,953	4,221,807	11,315,642	1,465,854	12,781,496
Net income (loss) before income taxes	(93,452)	(102,716)	(196,168)	(290,985)	(735,791)	(1,026,776)
Property, plant and equipment expenditures	19,182	1,646	20,828	35,767	1,646	37,413
Property, plant and equiment, net				176,420	20,358	196,778
Other intangible assets, net				489,352	1,926,351	2,415,703
Goodwill				3,959,473	-	3,959,473
Total assets				7,004,235	7,563,332	14,567,567

	As of and for the three months ended June 30, 2009			As of and for the nine months ended June 30, 2009		
	USA	Canada	Total	USA	Canada	Total
Revenue	$ 3,498,034	$ 169,876	$ 3,667,910	$ 10,090,927	$ 394,184	$ 10,485,111
Expenses	3,622,431	208,722	3,831,153	10,298,634	638,364	10,936,998
Net loss before income taxes	(124,397)	(38,846)	(163,243)	(207,707)	(244,180)	(451,887)
Property, plant and equipment expenditures	1,578	-	1,578	35,641	-	35,641
Property, plant and equiment, net				217,292	31,648	248,940
Other intangible assets, net				911,049	3,066,648	3,977,697
Goodwill				6,459,473	-	6,459,473
Total assets				14,501,512	8,315,563	22,817,075

16. 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:

	June 30. 2010	September 30, 2009
Notes payable, including current portion	$ 2,500,000	$ 3,458,191
Share capital	15,117,041	15,117,041
Contributed surplus	1,497,653	1,470,875
Accumulated deficit and accumulated other comprehensive income	(9,679,590)	(8,681,304)
	$ 9,435,104	$ 11,364,803

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, 2009.

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.

17. 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		June 30, 2010		September 30, 2009
Current	$	**796,396**	$	745,512
Past due 1-30 days		**61,295**		125,880
Past due 31-60 days		**34,768**		28,646
Past due 61-90 days		**14,854**		14,000
Over 91 days past due		**440,475**		417,214
Less: Allowance for doubtful accounts		**(344,248)**		(273,440)
Total	$	**1,003,540**	$	1,057,812

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

Accounts Receivable Allowance for Doubtful Accounts		June 30, 2010		September 30, 2009
Balance at beginning of period	$	**273,440**	$	229,279
Bad debt provision		**82,079**		142,751
Write-offs, net of recoveries		**(11,295)**		(98,564)
Effect of exchange rate		**24**		(26)
Balance at end of period	$	**344,248**	$	273,440
Notes Receivable				
Allowance for Notes Receivable				
Balance at beginning of period	$	**1,315,348**	$	30,000
Bad debt provision (recovery)		**(4,214)**		1,297,848
Write-offs		**-**		(12,500)
Balance at end of period	$	**1,311,134**	$	1,315,348

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 5 of $969,586 at June 30, 2010 and $980,050 September 30, 2009, and in Note 6 of $16,798 and $23,817 at June 30, 2010 and September 30, 2009, 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. The Company has fully reserved

this note as of June 30, 2010, 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 June 30, 2010 and September 30, 2009 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 $2.5 million at June 30, 2010 which matures in December 2010.

d) Foreign Exchange Risk

A portion of the Company's financial instruments are denominated in foreign currency (see Note 2 – "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 June 30, 2010 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 $8,800 in other comprehensive income (loss).

18. Comparative Figures

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