Franchise Services of North America Inc.

Interim Consolidated Financial Statements

As at June 30, 2011
and for the three and nine months ended June 30, 2011 and 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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Consolidated Financial Statements

Franchise Services of North America Inc.

Consolidated Balance Sheets

		Unaudited June 30, 2011		Audited September 30, 2010
Assets				
Cash and cash equivalents	$	**2,633,008**	$	2,165,389
Restricted cash and cash equivalents (Note 4)		**2,156,050**		2,791,630
Accounts receivable, net of allowance for doubtful accounts ($366,715 at 6/30/11 and $298,938 at 9/30/10)		**663,528**		922,421
Related party accounts receivable		**206,405**		120,890
Related party notes receivable		**172,500**		172,500
Other notes receivable (Note 6)		**52,865**		-
Prepaid expenses		**243,612**		207,654
Total current assets		**6,127,968**		6,380,484
Property, Plant and Equipment, net (Note 7)		**158,729**		189,560
Other:				
Related party notes receivable, net of allowance for doubtful notes ($1,281,780 at 6/30/11 and $1,299,566 at 9/30/10) (Note 5)		**1,568,023**		1,736,356
Other notes receivable, net of discount and allowance for doubtful notes ($16,798 at 9/30/10) (Note 6)		**48,300**		-
Other assets (Note 9)		**127,970**		129,658
Goodwill		**3,959,473**		3,959,473
Other intangible assets, net (Note 8)		**2,287,828**		2,383,735
		8,150,323		8,398,782
Total assets	$	**14,278,291**	$	14,779,266

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Balance Sheets

		Unaudited June 30, 2011		Audited September 30, 2010
Liabilities and Shareholders' Equity				
Liabilities				
Accounts payable and accrued liabilities	$	**2,457,394**	$	2,239,408
Deposits received from franchisees		**237,447**		244,517
Insurance loss reserves (Note 4)		**1,974,111**		2,560,675
Total current liabilities		**4,668,952**		5,044,600
Notes payable (Note 10)		**2,500,000**		2,500,000
Total liabilities		**7,168,952**		7,544,600
Commitments and contingencies (Notes 4, 14, 17)				
Shareholders' Equity				
Share capital (Note 11 a)		**15,117,041**		15,117,041
Contributed surplus (Note 11 b)		**1,549,665**		1,506,579
		16,666,706		16,623,620
Accumulated deficit		**(9,740,502)**		(9,563,027)
Accumulated other comprehensive income (Note 11 c)		**183,135**		174,073
		(9,557,367)		(9,388,954)
Total shareholders' equity		**7,109,339**		7,234,666
Total liabilities and shareholders' equity	$	**14,278,291**	$	14,779,266

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		Unaudited		Unaudited		Unaudited
		Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		**Nine Months Ended June 30, 2011**		Nine Months Ended June 30, 2010
Revenues								
Continuing franchisee and related fees	$	**903,243**	$	891,836	$	**2,771,492**	$	2,541,838
Initial franchise fees		**102,978**		58,698		**310,100**		566,093
Insurance premiums and related fees		**2,851,874**		3,075,105		**8,527,549**		8,646,789
Total revenues		**3,858,095**		4,025,639		**11,609,141**		11,754,720
Costs and expenses								
Direct operating								
Franchise operating		**1,120,751**		1,076,943		**3,353,347**		3,327,684
Insurance operating		**1,336,888**		1,388,621		**4,114,245**		3,724,262
Claims expense		**661,745**		1,067,332		**1,972,566**		3,201,400
Insurance underwriting expenses		**113,096**		199,647		**342,495**		690,734
General and administration		**532,313**		354,198		**1,658,962**		1,433,529
Provision (recovery of losses on related party notes receivable)		**-**		3,611		**(26,119)**		(4,214)
Stock-based compensation expense (Note 11a)		**14,362**		8,926		**43,086**		26,778
Interest expense		**62,469**		66,518		**187,893**		211,864
Amortization and depreciation		**53,054**		56,011		**162,003**		169,459
Total costs and expenses		**3,894,678**		4,221,807		**11,808,478**		12,781,496
Operating loss before income taxes		**(36,583)**		(196,168)		**(199,337)**		(1,026,776)
Income tax benefit (Note 12)		**(13,808)**		(4,329)		**(21,862)**		(10,526)
Net loss	$	**(22,775)**	$	(191,839)	$	**(177,475)**	$	(1,016,250)
Accumulated Deficit beginning of the period		**(9,717,727)**		(9,654,843)		**(9,563,027)**		(8,830,432)
Accumulated Deficit end of period	$	**(9,740,502)**	$	(9,846,682)	$	**(9,740,502)**	$	(9,846,682)
Loss per share (Note 11d)								
Basic and Diluted	$	**-**	$	-	$	**-**	$	(0.02)

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, 2011	Three Months Ended June 30, 2010	**Nine Months Ended June 30, 2011**	Nine Months Ended June 30, 2010
Net loss	**$ (22,775)**	$ (191,839)	**$ (177,475)**	$ (1,016,250)
Other Comprehensive Loss				
Translation of Canadian dollar functional currency to US dollar reporting currency (Note 11 c)	**(477)**	(8,592)	**9,062**	17,964
Comprehensive loss	**$ (23,252)**	$ (200,431)	**$ (168,413)**	$ (998,286)

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Unaudited	Unaudited	**Unaudited**	Unaudited
	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	**Nine Months Ended June 30, 2011**	Nine Months Ended June 30, 2010
Operating activities				
Net loss	$ **(22,775)**	$ (191,839)	$ **(177,475)**	$ (1,016,250)
Items not affecting cash:				
Amortization and depreciation (Notes 7 and 8)	**53,054**	56,011	**162,004**	169,460
Provision (recovery) of losses on related party notes receivable (Note 5)	**-**	3,611	**(26,119)**	(4,214)
Provision for doubtful accounts receivable (Note 17)	**31,500**	19,079	**94,500**	82,079
Note received in payment of franchise fee	**(96,952)**	(16,798)	**(103,974)**	(16,798)
Stock-based compensation (Note 11a)	**14,362**	8,926	**43,086**	26,778
	(20,811)	(121,010)	**(7,978)**	(758,945)
Changes in non-cash working capital:				
Accounts receivable	**20,267**	(62,602)	**100,844**	(27,832)
Prepaid expenses and other assets	**6,279**	(22,631)	**(30,898)**	(91,677)
Accounts payable and accrued liabilities	**359,793**	162,200	**204,417**	61,818
Insurance loss reserves	**(414,735)**	(34,059)	**(610,680)**	265,333
Deposits received from franchisees	**568**	(28,753)	**(7,070)**	(15,588)
Net change in non-cash working capital	**(27,828)**	14,155	**(343,387)**	192,054
Net cash used in operating activities	**(48,639)**	(106,855)	**(351,365)**	(566,891)
Investing activities				
Change in restricted cash and cash equivalents	**398,622**	106,689	**659,696**	417,708
Property, plant and equipment expenditures	**(20,436)**	(20,828)	**(35,266)**	(37,413)
Payments for intangible assets	**-**	(9,420)	**-**	(9,420)
Repayments on notes and other receivables	**2,809**	3,307	**188,928**	34,282
Net cash provided by investing activities	$ **380,995**	$ 79,748	$ **813,358**	$ 405,157

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Unaudited Three Months Ended June 30, 2011	Unaudited Three Months Ended June 30, 2010	Unaudited Nine Months Ended June 30, 2011	Unaudited Nine Months Ended June 30, 2010
Financing activities				
Repayments of notes payable	$ -	$ -	$ -	$ (61,758)
Net cash used in financing activities	-	-	-	(61,758)
Net increase (decrease) in cash and cash equivalents	332,356	(27,107)	461,993	(223,492)
Effect of exchange rate changes on cash	1,304	(4,455)	5,626	6,935
Cash and cash equivalents, beginning of period	2,299,348	1,732,234	2,165,389	1,917,229
	2,300,652	1,727,779	2,171,015	1,924,164
Cash and cash equivalents, end of period	$ 2,633,008	$ 1,700,672	$ 2,633,008	$ 1,700,672
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Income taxes paid (recoveries), net	$ 33,827	$ (6,911)	$ 42,336	$ (40,770)
Interest	63,407	66,160	189,216	209,170
Non-cash investing activities:				
Related party note receivable offset with related party note payable (Note 5)	-	-	-	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 at and for the three and nine months ended June 30, 2011 and 2010 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, 2010 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, 2011, certain of the Company's financial instruments are denominated in Canadian dollars as follows:

	C$
Cash	43,443
Restricted cash	294,590
Accounts receivable	197,589
Accounts payable	201,881
Insurance reserves	294,590

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 for some, but not all, of the Company's insurance programs, 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, 2011, the Company has annual renewable letters of credit totaling $1.435 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, 2011.

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 years ended September 30, 2010 and 2009, the Company recorded provisions for losses on impaired notes receivable of $13,516 and $1,297,848, respectively. 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:

Furniture and equipment	5	Years
Vehicle	5	Years
Computer equipment	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. There were no impairment losses recorded during the year ended September 30, 2010. 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, 2011 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.

Franchise Activity

The following provides a summary of the number of franchises granted, acquired and closed during the nine months ended June 30, 2011 and the year ended September 30, 2010:

Franchise Activity	**Nine Months Ended June 30, 2011**	Year Ended September 30, 2010
Number of franchises - beginning of period	**199**	205
New franchises granted	**11**	14
Franchises closed	**(13)**	(20)
Number of franchises - end of period	**197**	199

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, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Changes in liability claim estimates	$ (389,000)	$ (92,000)	$ (577,000)	$ 408,000

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. There was no impairment loss recorded during the year ended September 30, 2010. See Note 8.

Advertising Expense

Advertising costs are expensed in the period incurred. The Company incurred advertising expense of $30,953 and $24,655 for the three months ended June 30, 2011 and 2010, 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 (4^{th}) quarter of the fiscal year, traditionally generates the highest levels of revenue, followed by the spring (3^{rd}) quarter ending in June, then the fall (1^{st}) quarter ending in December, which includes the Christmas holiday season and finally, the winter (2^{nd}) 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, 2011 and September 30, 2010 represents 27.7% and 26.8% 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, other than held-for-trading financial securities.

Following adoption of these standards, the Company has classified all cash and cash equivalents as held-for-trading, which is measured at fair value, with changes in fair value recognized in net income. Third party and related party 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 classified as held-for-trading are expensed.

3. Changes in Accounting Policies

Impaired Loans

Effective October 1, 2009, the Company has adopted the amendments to the Canadian Institute of Chartered Accountants' Handbook Section 3025, Impaired Loans, which has been changed to conform the definition of a loan to that in amended Section 3855, Financial Instruments – Recognition and Measurement, and to include held-to-maturity investments within the scope of this Section. The Company has determined that these amendments have no material effect on its financial statements.

Goodwill and Intangible Assets

Effective October 1, 2009, the Company has adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. As a result of adopting this new standard, the Company has determined that these changes had no material effect on its financial statements.

Financial Instruments – Recognition and Measurement

Effective October 1, 2009, the Company has adopted the amendments to the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement which 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, Impaired Loans, and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. The Company has determined that these amendments have no material effect on its financial statements.

Also, effective October 1, 2009, the Company has adopted the amendment to CICA Handbook Section 3855, concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Company has determined that this amendment has no material effect on its financial statements.

Financial Instruments – Disclosures

Effective October 1, 2009, the Company has adopted the amendments to the CICA Handbook Section 3862, Financial Instruments – Disclosures, which has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The Company has determined that these amendments have no material effect on its financial statements. The disclosures required by these changes are in Note 17.

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 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.

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.

Multiple Deliverable Revenue Arrangements

EIC 175, Multiple Deliverable Revenue Arrangements, has been issued to address some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EIC 175 provides guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. Also, there are new disclosure requirements. These changes are effective for the Company for its annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

International Financial Reporting Standards (IFRS)

The CICA is converging Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) effective January 1, 2011. The Company will transition to IFRS on October 1, 2010, and will begin reporting under IFRS for the quarter ending December 31, 2011. The Company 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, 2011, the Company has annual renewable letters of credit totaling $1.435 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, 2011.

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, 2011		September 30, 2010
(a) Funded Deductible Program				
Deductibles of $10,000, $20,000 or $100,000				
Accrued liability for incurred and incurred but not reported losses	$	1,802,862	$	2,379,777
(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		171,249		180,898
Insurance loss reserves	$	1,974,111	$	2,560,675
(c) Restricted Cash				
Amounts held related to estimated liability for claims and expenses	$	2,156,050	$	2,791,630

5. Related Party Notes Receivable

		June 30, 2011		September 30, 2010
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.	$	**104,000**	$	114,000
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. 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**		255,298
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.		**1,632,355**		1,782,355
Subtotal	$	**1,991,653**	$	2,151,653

Note 5 – Related party notes receivable, continued		**June 30, 2011**		September 30, 2010
Balance brought forward	**$**	**1,991,653**	$	2,151,653
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.		**938,150**		964,269
Note receivable from an executive officer of the Company. This note originated in May 2000, is non-interest bearing and is unsecured. The note matured in May 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.		**12,500**		12,500
Allowance for notes deemed uncollectible:		**(1,281,780)**		(1,299,566)
Current portion of related party notes receivable		**(172,500)**		(172,500)
Total	$	**1,568,023**	$	1,736,356

During the nine months ended June 30, 2011, the Company recorded a net recovery of losses on impaired notes receivable of $26,119, which was a recovery on a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest.

During the year ended September 30, 2010, the Company recorded a net recovery of losses on impaired notes receivable of $3,282, which included a recovery of $15,782 on a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest, offset by a $12,500 loss attributable to forgiveness of a note due from an Executive Officer of the Company as required under his employment agreement with the Company, with the loss 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, 2011		September 30, 2010
Unsecured notes receivable due from franchisee. The notes bear interest at rates from 0% - 4.0% and mature in 2012 and 2013.	$	**102,500**	$	20,000
Discount:		**(1,335)**		(3,202)
Allowance for notes deemed uncollectible:		**-**		(16,798)
Current portion of notes receivable:		**(52,865)**		-
Total	$	**48,300**	$	-

7. Property, Plant and Equipment

				June 30, 2011		
		Cost		**Accumulated Depreciation**		**Net**
Furniture and equipment	$	530,045	$	(499,650)	$	30,395
Vehicles		24,200		(23,797)		403
Computer equipment		1,105,941		(978,010)		127,931
	$	**1,660,186**	$	**(1,501,457)**	$	**158,729**

	September 30, 2010		
	Cost	Accumulated Depreciation	Net
Furniture and equipment	$ 524,020	$ (480,641)	$ 43,379
Vehicles	24,200	(20,167)	4,033
Computer equipment	1,076,702	(934,554)	142,148
	$ 1,624,922	**$ (1,435,362)**	**$ 189,560**

The Company recorded total depreciation expense of $21,085 and $24,042 for the three months ended June 30, 2011 and 2010, respectively.

8. Other Intangible Assets

	June 30, 2011			September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Finite-life intangible assets:						
Customer list	**$ 983,000**	**$ (621,523)**	**$ 361,477**	$ 983,000	$ (525,616)	$ 457,384
Advertising jingle	**10,000**	**(10,000)**	**-**	10,000	(10,000)	-
Non-compete agreement	**254,158**	**(254,158)**	**-**	254,158	(254,158)	-
	$ 1,247,158	**$ (885,681)**	**$ 361,477**	$ 1,247,158	$ (789,774)	$ 457,384
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**	9,420	-	9,420
	$ 1,926,351	**$ -**	**$ 1,926,351**	$ 1,926,351	$ -	$ 1,926,351
	$ 3,173,509	**$ (885,681)**	**$ 2,287,828**	$ 3,173,509	$ (789,774)	$ 2,383,735

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 was recorded for the three months ended June 30, 2011 and 2010.

9. Other Assets

Other Assets consisted of the following:

		June 30, 2011		September 30, 2010
Security Deposits	**$**	**99,166**	$	99,165
Other		**28,804**		30,493
	$	**127,970**	$	129,658

10. Notes Payable

		June 30, 2011		September 30, 2010
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 2012.	$	**2,500,000**	$	2,500,000
Subtotal	$	**2,500,000**	$	2,500,000
Less current portion		**(-)**		(-)
Total	$	**2,500,000**	$	2,500,000

Maturities of notes payable are as follows:

		Year Ending September 30
2013		2,500,000
Total	$	2,500,000

Interest expense was $62,469 and $66,518 for the three months ended June 30, 2011 and 2010, 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, 2011		
	Number		Amount
Balance at September 30, 2010	**62,820,426**	**$**	**15,117,041**
No activity	**-**		**-**
Balance at June 30, 2011	**62,820,426**	**$**	**15,117,041**

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

There were no outstanding preferred shares at June 30, 2011 or September 30, 2010.

(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, 2011, the Company had granted 9,338,056 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 (the most recent grant date) 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 $14,362 and $8,926 was recorded for the three months ended June 30, 2011 and 2010, respectively.

A summary of stock option activity during fiscal 2010 and the nine months ended June 30, 2011 is summarized as follows:

	Options Outstanding	Weighted Average Exercise Price C$
Balance oustanding at September 30, 2009	**9,508,659**	$ 0.15
Options expired	(31,874)	0.41
Options forfeited	(31,843)	0.15
	(63,717)	
Balance outstanding at September 30, 2010	**9,444,942**	$ 0.15
Options forfeited	(106,886)	0.19
	(106,886)	
Balance outstanding at June 30, 2011	**9,338,056**	$ 0.15

The weighted average remaining contractual life of stock options outstanding at June 30, 2011 is presented below:

Total Outstanding Options by price range - C$ June 30, 2011	**Total Options Outstanding**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.1016 to $0.14	8,432,924	6.0	$	0.11
$0.50	875,132	5.4		0.50
$0.85	30,000	5.7		0.85
Total Outstanding Options	9,338,056	5.9	$	0.15

Exercisable Options by price range - C$ June 30, 2011	**Exercisable Options**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.1016 to $0.14	7,479,174	5.7	$	0.11
$0.50	875,132	5.4		0.50
$0.85	30,000	5.7		0.85

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

Total Outstanding Options by price range - C$ September 30, 2010	**Total Options Outstanding**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.1016 to $0.14	8,519,077	6.7	$	0.11
$0.50	895,865	6.2		0.50
$0.85	30,000	6.5		0.85
Total Outstanding Options	9,444,942	6.7	$	0.15

Exercisable Options by price range - C$ September 30, 2010	**Exercisable Options**	**Weighted Average Remaining Life (years)**		**Weighted Average Exercise Price C$**
$0.1016 to $0.14	7,073,452	6.3	$	0.10
$0.50	895,865	6.2		0.50
$0.85	22,500	6.5		0.85

11. (b) Contributed Surplus

		June 30, 2011		September 30, 2010
Balance at beginning of period	$	**1,535,303**	$	1,470,875
Stock-based compensation expense		**14,362**		35,704
Balance at end of period	$	**1,549,665**	$	1,506,579

11. (c) Accumulated Other Comprehensive Income

		June 30, 2011		September 30, 2010
Balance at beginning of period	$	**183,612**	$	149,128
Translation adjustment, current period		**(477)**		24,945
Balance at end of period	$	**183,135**	$	174,073

11. (d) Weighted Shares Outstanding

		Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		Nine Months Ended June 30, 2011		Nine Months Ended June 30, 2010
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	$	**(22,775)**	$	(191,839)	$	**(177,475)**	$	(1,016,250)
Loss per Share - Basic	$	**(0.00)**	$	(0.00)	$	**(0.00)**	$	(0.02)
Loss per Share - Diluted	$	**(0.00)**	$	(0.00)	$	**(0.00)**	$	(0.02)
Options excluded from the earnings per share calculation as their impact would have been anti-dilutive:		**9,338,056**		9,229,303		**9,338,056**		9,237,106

12. Income Taxes

Income tax expense (benefit) of continuing operations consists of the following:

		June 30, 2011		June 30, 2010
Current	$	**(13,808)**	$	(4,329)
Future		**3,000**		(73,000)
Valuation allowance		**(3,000)**		73,000
Income tax benefit	$	**(13,808)**	$	(4,329)

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, 2011		June 30, 2010
Computed "expected" tax recovery	$	**(14,377)**	$	(77,094)
Foreign loss taxed at different rates		**20,630**		11,847
Federal benefit of state income tax recovery		**(4,695)**		(1,472)
Imputed interest income		**-**		-
Valuation allowance		**(3,000)**		73,000
Other		**(12,366)**		(10,610)
Income tax benefit	$	**(13,808)**	$	(4,329)

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, 2011, the Company has a net operating loss carryforward of approximately $4,720,716 expiring as follows:

		June 30, 2011
U.S. - Net Operating Loss Carryforwards		
Expiring		
2024	$	2,662,633
2028		844,120
2029		402,877
2030		268,453
2031		542,633
	$	4,720,716

The Company also has non-capital tax loss carryforwards related to its Canadian operations totaling C$1,324,200 expiring as follows:

		June 30, 2011
Canada - Non-Capital Loss Carryforward		
Expiring		
2015	C$	23,631
2026		31,514
2027		119,614
2028		497,606
2029		305,425
2030		346,410
	C$	1,324,200

Significant components of future income tax assets and liabilities at June 30, 2011 and September 30, 2010 are as follows:

	June 30, 2011	September 30, 2010
Future income tax assets:		
Insurance loss reserves	$ **626,000**	$ 808,000
Accounts receivable allowance	**505,000**	493,000
Intangibles	**381,000**	412,000
Tax credits	**81,000**	81,000
Stock-based compensation	**86,000**	71,000
Charitable contributions	**3,000**	3,000
Net operating loss carryforward	**1,770,000**	1,558,000
	3,452,000	3,426,000
Future income tax liabilities:		
Intangibles	**(827,196)**	(827,196)
Furniture and equipment	**(23,000)**	(41,000)
Other	**(10,000)**	(10,000)
	(860,196)	(878,196)
	2,591,804	2,547,804
Less: valuation allowance	**(2,591,804)**	(2,547,804)
Future income tax assets, net	$ **-**	$ -

Future income tax assets, net is comprised of:

	June 30, 2011	September 30, 2010
Future income tax assets - current	$ **1,252,125**	$ 1,422,125
Future income tax assets - long-term	**1,339,679**	1,125,679
	2,591,804	2,547,804
Less: valuation allowance	**(2,591,804)**	(2,547,804)
Future income tax assets, net	$ **-**	$ -

13. Related Party Transactions

Notes due from related parties are described in Note 5. 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, 2011	Three months ended June 30, 2010
Continuing franchise and related fees	$ 54,853	$ 65,642
Insurance premiums and related fees	45,539	47,446
Interest income	22,727	39,081
Vehicle leases	11,070	11,070

At June 30, 2011 and September 30, 2010, related party accounts receivable totaled $206,405 and $120,890, 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. In December 2010, the uncertainty related to the contingent payments was resolved with no resulting adjustment to the purchase price as previously recorded.

Lease Commitments

The Company leases office space and certain furniture and equipment under non-cancellable operating leases. Rental expense was approximately $75,000 and $82,000 for the three months ended June 30, 2011 and 2010, 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
2011	$	72,232
2012		292,541
2013		223,222
2014		87,844
2015		409
Thereafter		-
	$	**676,248**

15. Segment Information

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

	As at and for the three months ended June 30, 2011			As at and for the nine months ended June 30, 2011		
	USA	Canada	Total	USA	Canada	Total
Revenue	$ 3,597,481	$ 260,614	$ 3,858,095	$ 10,796,896	$ 812,245	$ 11,609,141
Expenses	3,517,917	376,761	3,894,678	10,733,782	1,074,696	11,808,478
Net income (loss) before income taxes	79,564	(116,147)	(36,583)	63,114	(262,451)	(199,337)
Property, plant and equipment expenditures	19,863	573	20,436	34,693	573	35,266
Property, plant and equiment, net				145,305	13,424	158,729
Other intangible assets, net				361,477	1,926,351	2,287,828
Goodwill				3,959,473	-	3,959,473
Total assets				6,986,679	7,291,612	14,278,291

	As at and for the three months ended June 30, 2010			As at 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

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, 2011	September 30, 2010
Notes payable, including current portion	$ 2,500,000	$ 2,500,000
Share capital	15,117,041	15,117,041
Contributed surplus	1,549,665	1,506,579
Accumulated deficit and accumulated other comprehensive income	(9,557,367)	(9,388,954)
	$ 9,609,339	$ 9,734,666

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, 2010.

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 and related parties. 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 Company also has credit risk associated with notes receivable from related parties. The Company monitors this risk by reviewing the financial position of each borrower on a periodic basis.

The aging of accounts receivable balances is presented as follows:

Aging of Accounts Receivable		**June 30, 2011**		September 30, 2010
Current	$	**725,184**	$	811,143
Past due 1-30 days		**23,294**		119,111
Past due 31-60 days		**49,278**		22,354
Past due 61-90 days		**21,028**		40,591
Over 91 days past due		**417,864**		349,050
Less: Allowance for doubtful accounts		**(366,715)**		(298,938)
Total	$	**869,933**	$	1,043,311

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

Accounts Receivable Allowance for Doubtful Accounts		**June 30, 2011**		September 30, 2010
Balance at beginning of period	$	**298,938**	$	273,440
Bad debt provision		**86,707**		141,192
Write-offs, net of recoveries		**(21,896)**		(115,864)
Effect of exchange rate		**2,966**		170
Balance at end of period	$	**366,715**	$	298,938
Notes Receivable Allowance for Notes Receivable				
Balance at beginning of period	$	**1,316,364**	$	1,315,348
Bad debt provision (recovery)		**(17,787)**		13,516
Write-offs		**(16,797)**		(12,500)
Balance at end of period	$	**1,281,780**	$	1,316,364

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 $938,150 and $964,269 at June 30, 2011 and September 30, 2010, respectively, and in Note 6 of $102,500 and $20,000 at June 30, 2011 and September 30, 2010, respectively.

The Company maintains cash at financial institutions which, at June 30, 2011 and September 30, 2010 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.

Fair value measurements recognized in the balance sheet must be classified in accordance with the fair value hierarchy established by CICA Handbook Section 3862, which reflects the significance of the inputs used in determining the measurements. The inputs can either be observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:
Level 1: Inputs are quoted, unadjusted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3: Inputs for the asset or liability that are not based on observable market data.

The only fair value measurements recognized in the balance sheet are cash and cash equivalents, which are determined using Level 2 inputs.

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 2012. Significant future maturities of note payable obligations include a note payable with an outstanding balance of $2.5 million at June 30, 2011 which matures in December 2012.

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 are fixed rate notes and not subject to interest rate fluctuations. However, certain of the Company's Related Party Notes Receivable bear interest at a floating rate, prime plus 2%.

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, 2011 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 $3,200 (2010 - $8,800) in other comprehensive income (loss).