



## Franchise Services of North America Inc.

# Q3

**Third Quarter Report for the Nine Months Ended June 30, 2007**

### Report to Shareholders

Dear Fellow Shareholders:

We are pleased to present to you the third quarterly report for Franchise Services of North America Inc. ("FSNA") for the nine months ended June 30, 2007.

As previously reported, Rent-A-Wreck Capital Inc. went through a name change in conjunction with the business combination transaction that was completed on November 30, 2006. The attached quarterly report reflects the activity of the combined entity, but the comparative information from the previous year does not reflect any of the results of U-Save Auto Rental of America, Inc. Because of the materiality of the U-Save operations in comparison to those of Practicar in Canada, we refer you to the filings on SEDAR for a more descriptive analysis of the combined entity.

The Third Quarter included an expansion into the Caribbean for the U-Save brand in addition to the opening of another airport location servicing Newark/Liberty, New Jersey International Airport. Several other franchise candidates have been identified and are under consideration. Practicar's entire IT platform has been replaced and the Rent-A-Wreck brand in Canada has begun a re-branding with an exciting new look. The FSNA website has been updated and we continue to expand our internet presence.

As we head into our final quarter of the year, we look forward to growing the system and awareness of the brands to the benefit of our franchisees and mutual shareholders.

Sincerely,

A handwritten signature in black ink, appearing to be "SM", written over a horizontal line.

Sandy Miller  
Co-Chairman  
Co-Chief Executive Officer

A handwritten signature in black ink, appearing to be "Tom McDonnell", written over a horizontal line.

Tom McDonnell  
Co-Chairman  
Co-Chief Executive Officer

August 27, 2007

The following unaudited Consolidated Financial Statements were not reviewed by the Company's Auditors.

<b>Franchise Services of North America Inc.</b>		
<b>Consolidated Balance Sheet</b>		
As at June 30, 2007 and September 30, 2006		
	June 2007 (unaudited) US \$	September 2006 (audited) US \$
<b>ASSETS</b>		
Current assets		
Cash	1,227,198	24,633
Restricted cash and equivalents	3,730,053	-
Accounts receivable	2,102,918	193,370
Related party and other notes receivables	113,678	-
Deferred income tax assets	2,230,000	-
Prepaid expenses and cash deposits held	396,661	44,978
	<u>9,800,508</u>	<u>262,981</u>
Related party and other notes receivables, less current portion	3,335,499	-
Deferred income taxes	380,000	-
Capital Assets	219,684	32,776
Intangible assets	1,345,053	9,906
Goodwill	7,247,462	306,836
Other assets	1,149,101	-
Marketing Account	30,158	109,631
	<u>23,507,465</u>	<u>722,130</u>
<b>LIABILITIES</b>		
Bank indebtedness	-	104,797
Accounts payable and accrued liabilities	2,669,562	313,631
Current portion of insurance loss reserves	2,719,456	-
Current portion of notes payable	208,399	-
Current portion of long-term debt	5,940	6,189
Current portion of capital lease obligations	8,548	4,821
Convertible debentures	-	43,827
	<u>5,611,905</u>	<u>473,265</u>
Insurance loss reserves	626,494	-
Notes payable	3,741,214	-
Long-term debt	-	4,126
Capital lease obligations	31,638	5,474
Convertible debenture	-	290,258
Marketing Account liability	30,158	109,631
<b>Total Liabilities</b>	<u>10,041,409</u>	<u>882,754</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	16,189,683	629,582
Equity portion of convertible debentures	-	11,512
Contributed Surplus	32,802	8,159
Deficit	(2,897,383)	(778,028)
Cumulative translation adjustment	140,954	(31,849)
Total Shareholders Equity	<u>13,466,056</u>	<u>(160,624)</u>
	<u>23,507,465</u>	<u>722,130</u>

## Franchise Services of North America Inc.

### Consolidated Statement of Operations and Retained Earnings

(unaudited)

for the three months ended

for the nine months ended

June 30,

June 30,

2007

2006

2007

2006

US \$

US \$

US \$

US \$

#### Revenue

Insurance premiums and related fees	3,023,370	33,231	6,860,822	92,160
Royalties, licensee fees and other	986,238	128,506	2,496,494	360,772
Franchise fees	100,176	1,184	464,066	20,097
	<b>4,109,784</b>	162,921	<b>9,821,382</b>	473,029

#### Expenses

Franchise system development	1,066,011	101,039	2,768,707	304,946
Insurance operating	681,310	-	1,506,527	-
Claims expense	909,670	-	2,531,550	-
Insurance underwriting expense	597,039	-	1,422,571	-
General and administrative	522,435	77,094	1,292,787	228,817
Amortization	63,943	3,446	131,735	10,089
Interest expense (recovery)	89,044	7,691	(512,297)	19,894
Loss on sale of capital assets	-	-	1,521	-
Stock based compensation	-	-	24,579	-
	<b>3,929,452</b>	189,270	<b>9,167,680</b>	563,746

Net Income (Loss) from Operations, before the following:	180,332	(26,349)	653,702	(90,717)
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Business combination expenses	(2,391)	-	28,323	-
Income tax expense	53,567	-	317,558	-

<b>Net Income (Loss)</b>	<b>129,156</b>	(26,349)	<b>307,821</b>	(90,717)
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#### Retained Earnings (Deficit)

Beginning	(3,026,539)	(780,556)	(3,205,204)	(716,188)
End of period	<b>(2,897,383)</b>	(806,905)	<b>(2,897,383)</b>	(806,905)

<b>Net income (loss) per share:</b>	<b>\$ -</b>	<b>(\$0.01)</b>	<b>\$ -</b>	<b>(\$0.01)</b>
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## Franchise Services of North America Inc.

### Consolidated Statement of Cash Flows

(unaudited)

for the three months ended  
June 30,

for the nine months ended  
June 30,

2007  
US \$

2006  
US \$

2007  
US \$

2006  
US \$

#### Cash provided by (used in)

##### Operating Activities

Net Income (Loss)	129,156	(26,349)	307,821	(90,717)
Items not affecting cash:				
Amortization	63,942	3,446	131,735	10,089
Loss on sale of capital assets	-	-	1,521	-
Interest expense (recovery) on debt	-	6,485	(808,604)	18,625
Accretion of subordinated debt discount	-	-	37,513	-
Stock-based compensation	-	-	24,579	-
	<u>193,098</u>	<u>(16,418)</u>	<u>(305,435)</u>	<u>(62,003)</u>
Net change in non-cash working capital	(1,068,459)	29,653	(686,739)	31,203
	<u>(875,361)</u>	<u>13,235</u>	<u>(992,174)</u>	<u>(30,800)</u>

##### Financing Activities

Proceeds (expenses) from issue of common shares, net	(18,247)	-	7,335,053	-
Proceeds from Notes payable	68,551	-	1,259,765	-
Repayment on Notes payable	-	-	(5,134,500)	-
Repayment (advances) on Notes Receivable	(140,999)	-	(339,009)	-
Repayments on bank debt	-	14,434	(104,797)	25,294
Capital lease obligations	3,482	(1,071)	24,403	(3,040)
Long term debt repayments	(1,036)	(1,538)	(4,375)	(4,505)
	<u>(88,249)</u>	<u>11,825</u>	<u>3,036,540</u>	<u>17,749</u>

##### Investing Activities

Purchase of capital assets	(27,134)	-	(116,909)	-
Proceeds on sale of capital assets	-	-	6,971	-
Intangible assets	(74,779)	-	(74,779)	-
Disposition (acquisition) of Other assets	323,988	-	(270,265)	-
Acquisition of business assets	-	-	(1,567,514)	-
Cash acquired in Business Combination Transaction	-	-	1,180,695	-
	<u>222,075</u>	<u>-</u>	<u>(841,801)</u>	<u>-</u>

Change in cash for the period	(741,535)	25,060	1,202,565	(13,051)
Cash, Beginning	1,968,733	-	24,633	38,111
Cash, End	<u>1,227,198</u>	<u>25,060</u>	<u>1,227,198</u>	<u>25,060</u>

These unaudited interim consolidated financial statements should be read in conjunction with the Company's third quarter report as of and for the period ending June 30, 2007, the audited consolidated financial statements for the year ended September 30, 2006 and the notes to those financial statements as well as the financial statements of U-Save Auto Rental of America, Inc. included in the Company's Information Circular dated November 3, 2006 available on SEDAR, at [www.sedar.com](http://www.sedar.com).

## **Notes to Consolidated Financial Statements (unaudited)**

**June 30, 2007**

### **1 Basis of Presentation**

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 shares are listed on the TSX Venture Exchange under the symbol 'FSN.'

The Company owns two operating subsidiaries, U-Save Auto Rental of America, Inc. ("U-Save") and Practicar Systems Inc. ("Practicar"). U-Save licenses franchises to operate U-Save Auto Rental businesses in the United States and offers to franchisees and independent car rental operators ("associates") insurance products including liability and physical damage coverages 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. The Company also owns a full-service insurance agency, providing insurance products to its franchisees, associates, and third-party customers. Practicar licenses franchises to operate Rent-A-Wreck vehicle rental and sales businesses in Canada.

Prior to November 30, 2006, the Company's principal asset was the Rent-A-Wreck trademark and franchise system in Canada, owned and operated by Practicar Systems Inc.

These financial statements report the financial results of the Company for the nine months ending and at June 30, 2007, and include the transactions resulting from the BCT with U-Save completed on November 30, 2006. The results from operations include the nine months ending June 30, 2007 for FSNA as a corporation and Practicar, and seven months ending June 30, 2007 for U-Save.

All financial data is presented in US dollars, including the comparative financial information dated September 30, 2006 or prior which includes only the Canadian and Corporate operations of the company as was previously reported originally for each of these periods, and has been converted to US dollars.

## **2 Significant Accounting Policies**

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These interim financial statements have been prepared following the same accounting methods and policies used in the audited consolidated financial statements for the fiscal year ended September 30, 2006. Operating results for the nine months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending September 30, 2007. The nine months year-to-date numbers reflect only seven months of U-Save's operations, and would not be representative of the results that should be anticipated in future quarterly reports or for the report covering the fiscal year.

The notes included in these interim financial statements are incremental to the notes included with the audited consolidated financial statements at September 30, 2006, as filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and should be read in conjunction with the June 30, 2007 quarterly report, the audited consolidated financial statements at September 30, 2006 and the financial statements of U-Save contained in the Company's Information Circular dated November 3, 2006, also filed on SEDAR.

## **3 Goodwill**

Goodwill includes \$6,154,904 carried forward from the prior fiscal year's balances from each entity involved in the BCT plus an addition of \$306,420 as a result of the BCT. Additional goodwill of \$786,138 was recorded in conjunction with the insurance agency acquisition from DRSN Holdings, LLC (see Note 8).

## **4 Other Assets**

Other assets include \$378,433 carried forward from the prior fiscal year's balances from each entity involved in the BCT plus an addition of \$965,024 representing expenditures related to the BCT less disposals of short term investments totalling \$318,228.

## **5 Notes Payable**

Upon conclusion of the second prospectus offering, the Company paid in full \$5,000,000 of outstanding subordinated debt. Upon payment, the debt holder forgave \$795,705 in accrued interest and forgave warrants that were attached to the debt.

In conjunction with its purchase of an insurance agency (see Note 8), the Company entered into a note payable with a major shareholder for \$1,191,214. The note bears interest at 8.25% per annum and is unsecured. The note matures January 2010.

## 6 Share Capital

### a) Authorized

Unlimited number of common shares  
Unlimited number of preferred shares

### b) Issued

#### Common Shares

Balance as at:	Number of Shares	Amount US \$
September 30, 2006	7,590,501	629,582
June 30, 2007	62,731,985	16,102,253

### c) Stock Options

The Company grants stock options for the benefit of directors, officers, employees and agents of the Company. Options may be granted, at the discretion of the Board of Directors, to purchase not more than 20% of the common shares of the Company, excluding agents' options. A stock option can be granted at any time at a discount to the current market price as listed on the TSX Venture Exchange within the guidelines for such discount limits as set forth by the TSX Venture Exchange. Options granted vest over a range of periods from immediately to four years and expire within a range of two to ten years after the date of grant.

Stock options outstanding:

	Options	Exercise Price Range CDN \$
September 30, 2006	<u>640,000</u>	\$0.10
June 30, 2007		
Directors, officers, employees and consultants	8,969,452	\$0.10 to \$1.04
Agents	<u>1,508,854</u>	\$0.50 to \$0.85
Total	<u>10,478,306</u>	

## 7 Related Party Balances

Members of the Company's Board of Directors 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. At June 30, 2007, related party receivables totaled \$801,995.

At June 30, 2007, an unsecured note receivable from a shareholder for \$302,000 was outstanding. The note bears an interest rate of 6% with five annual payments of principal and accrued interest due beginning August 2007. The note matures in August 2011.

## 8 Business Combination

Effective January 15, 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. These assets consisted of a full-service insurance agency with an established book of business across various product lines and customers throughout North America. The purchase price, which totaled \$1,567,514, consisted of a cash down payment of \$1,191,214 with the remaining balance to be paid in equal installments of \$188,150 on January 15, 2008 and 2009. In addition, the payments on the remaining balance may be adjusted upward or downward based on the amount of revenue retained in relation to a specified baseline revenue. Any additional consideration paid will be reflected in goodwill. The acquisition was accounted for using the purchase method of accounting and the purchase price was allocated to the assets and liabilities acquired based on their estimated fair value at the acquisition date. Any excess of the purchase price over the estimated fair values of the net assets acquired was allocated to goodwill. The results from operations have been included in the accompanying consolidated financial statements from the acquisition date. The purchase price was allocated as follows:

Goodwill	\$ 786,138
Other intangible assets	<u>\$ 781,376</u>
	<u>\$1,567,514</u>

# Franchise Services of North America Inc.

## Corporate Information

### Directors

Philip A. DeLeon  
Toronto, Ontario, Canada

David I. Forseth  
Calgary, Alberta, Canada

Thomas P. McDonnell, III  
Madison, Mississippi, USA

Sanford Miller  
Ormond Beach, Florida, USA

J. Michael Linn  
Daytona Beach, Florida, USA

### Officers

Thomas P. McDonnell, III  
Co-Chairman and  
Co-Chief Executive Officer

Sanford Miller  
Co-Chairman and  
Co-Chief Executive Officer

Robert M. Barton  
Executive Vice President and  
Chief Operating Officer

O. Kendall Moore  
Vice President, General Counsel  
and Secretary

Dennis M. Via  
Senior Vice President and  
Chief Financial Officer

Henri H. Lefebvre  
Chief Accounting Officer and  
Canadian General Manager

### Stock Exchange Listing

TSX Venture Exchange  
Symbol: FSN

### Transfer Agent

Computershare Trust Company of Canada  
Calgary, Alberta, Canada

### Auditors

BDO Seidman, LLP  
Memphis, Tennessee, USA

### Legal Counsel

Osler, Hoskin & Harcourt LLP  
Toronto, Ontario, Canada  
Calgary, Alberta, Canada

### Investor Relations

CHF Investor Relations  
Toronto, Ontario, Canada  
Calgary, Alberta, Canada

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[www.fsna-inc.com](http://www.fsna-inc.com)



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