Franchise Services of North America Inc.

Interim Consolidated Financial Statements

As of December 31, 2008
and for the three months ended December 31, 2008

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 **December 31, 2008**		Audited September 30, 2008
Assets				
Cash and cash equivalents	$	**1,096,919**	$	1,152,099
Restricted cash and cash equivalents (Note 4)		**3,194,505**		3,950,329
Accounts receivable, net of allowance for doubtful accounts ($249,206 at 12/31/08 and $229,279 at 9/30/08)		**1,406,117**		1,306,472
Related party accounts receivable		**20,864**		25,258
Related party notes receivable		**37,500**		-
Other notes receivable		**43,894**		58,760
Future income tax assets		**801,000**		1,005,000
Prepaid expenses		**186,121**		113,070
Total current assets		**6,786,920**		7,610,988
Capital Assets, net (Note 6)		**276,551**		294,365
Other:				
Related party accounts receivable (Note 12)		**-**		620,986
Related party notes receivable (Note 5)		**4,293,910**		3,608,006
Other notes receivable		**19,983**		19,983
Other assets (Note 8)		**63,097**		61,654
Future income tax assets (Note 11)		**699,236**		524,936
Goodwill		**6,459,473**		6,459,473
Other intangible assets, net (Note 7)		**4,071,515**		4,126,875
		15,883,765		15,716,278
Total assets	$	**22,670,685**	$	23,327,266

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Balance Sheets

	Unaudited December 31, 2008	Audited September 30, 2008
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	$ **2,131,859**	$ 2,193,394
Deposits received from franchisees	**262,528**	266,453
Current portion of insurance loss reserves	**1,414,219**	1,826,833
Current portion of related party notes payable	**134,066**	177,172
Current portion of capital lease obligations	**20,643**	26,742
Total current liabilities	**3,963,315**	4,490,594
Insurance loss reserves (Note 4)	**271,719**	357,497
Notes payable (Note 9)	**2,500,000**	2,500,000
Related party notes payable (Note 9)	**957,908**	957,908
Capital lease obligations	**28,769**	33,018
Total liabilities	**7,721,711**	8,339,017
Commitments and contingencies (Notes 4, 9, 13, 16)		
Shareholders' Equity		
Share capital (Note 10 a)	**15,117,041**	15,117,041
Contributed surplus (Note 10 b)	**1,451,095**	1,446,629
	16,568,136	16,563,670
Accumulated deficit	**(1,688,682)**	(1,697,355)
Accumulated other comprehensive income (Note 10 c)	**69,520**	121,934
	(1,619,162)	(1,575,421)
Total shareholders' equity	**14,948,974**	14,988,249
Total liabilities and shareholders' equity	$ **22,670,685**	$ 23,327,266

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

(Signed) "*Sanford Miller*" Director

(Signed) "Michael J. Linn" Director

Franchise Services of North America Inc.

Consolidated Statements of Operations and Accumulated Deficit

	Unaudited Three Months Ended December 31, 2008	Unaudited Three Months Ended December 31, 2007
Revenues		
Continuing franchisee and related fees	$ **838,591**	$ 938,052
Initial franchise fees	**18,793**	215,000
Insurance premiums and related fees	**2,542,358**	3,061,722
Total revenues	**3,399,742**	4,214,774
Costs and expenses		
Direct operating		
Franchise operating	**1,106,197**	1,197,886
Insurance operating	**657,956**	762,235
Claims expense	**485,228**	490,565
Insurance underwriting expenses	**385,082**	530,845
General and administration	**580,243**	571,001
Stock based compensation expense	**4,466**	14,894
Interest expense	**82,550**	87,147
Amortization and depreciation	**78,608**	77,345
Total costs and expenses	**3,380,330**	3,731,918
Operating income before income taxes	**19,412**	482,856
Income tax expense (Note 11)	**10,739**	203,503
Net income	$ **8,673**	$ 279,353
Accumulated Deficit beginning of the period	**(1,697,355)**	(1,808,161)
Accumulated Deficit end of period	$ **(1,688,682)**	$ (1,528,808)
Earnings per share (Note 10d)		
Basic and Diluted	$ **-**	$ -

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Comprehensive Income

		Unaudited **Three Months Ended December 31, 2008**		Unaudited Three Months Ended December 31, 2007
Net Income	**$**	**8,673**	$	279,353
Other Comprehensive Income				
Translation of Canadian dollar functional currency to US dollar reporting currency		**(52,414)**		4,895
Comprehensive income (loss)	**$**	**(43,741)**	$	284,248

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Unaudited Three Months Ended December 31, 2008	Unaudited Three Months Ended December 31, 2007
Operating activities		
Net income	$ **8,673**	$ 279,353
Items not affecting cash:		
Depreciation and amortization	**78,608**	77,313
Future income tax provision	**29,700**	186,139
Provision for notes receivable	**-**	12,500
Provision for doubtful accounts receivable	**34,255**	58,000
Stock-based compensation	**4,466**	14,894
	155,702	628,199
Changes in non-cash working capital:		
Accounts receivable	**(254,715)**	(449,444)
Prepaid expenses and other assets	**(77,480)**	4,407
Accounts payable and accrued liabilities	**(47,758)**	269,489
Insurance loss reserves	**(498,392)**	(389,817)
Deposits received from franchisees	**(3,925)**	(817)
Net change in non-cash working capital	**(882,270)**	(566,182)
Net cash provided by (used in) operating activities	**(726,568)**	62,017
Investing activities		
Change in restricted cash and cash equivalents	**755,824**	310,928
Capital expenditures	**(11,803)**	(35,677)
Payments for intangible assets	**-**	(10,432)
Advances on notes and other receivables	**-**	(100,000)
Repayments on notes and other receivables	**14,866**	1,635
Net cash provided by investing activities	$ **758,887**	$ 166,454

Franchise Services of North America Inc.

Consolidated Statements of Cash Flows

	Unaudited Three Months Ended December 31, 2008	Unaudited Three Months Ended December 31, 2007
Financing activities		
Repayments of notes payable	$ **(43,106)**	$ (1,759)
Capital lease obligations	**(7,308)**	(5,532)
Net cash used in financing activities	**(50,414)**	(7,291)
Effect of exchange rate changes on cash	**(37,085)**	4,027
Net increase (decrease) in cash and cash equivalents	**(55,180)**	225,207
Cash and cash equivalents, beginning of period	**1,152,099**	1,022,167
Cash and cash equivalents, end of period	$ **1,096,919**	$ 1,247,374
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes paid, net of refunds	$ **31,783**	$ 47,815
Interest	**82,250**	108,981
Non-cash investing activities:		
Related party accounts receivable converted to notes receivable	**723,404**	-
Accounts receivable converted to notes receivable	-	102,940

See accompanying notes to consolidated financial statements.

The interim unaudited Consolidated Financial Statements of Franchise Services of North America Inc. as of and for the three months ended December 31, 2008 and 2007 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The interim unaudited 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, 2008 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 14 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 December 31, 2008, certain of the Company's financial instruments are denominated in the Canadian dollar as follows:

	C$
Cash	302,488
Accounts receivable	174,429
Accounts payable	114,834
Capital lease obligation	24,514

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 (see Note 4). In May 2008, as required by one of the Company's insurance carriers, an annual renewable letter of credit for $1,600,000 was renewed in the amount of $1,100,000 for payment of claims, insurance premiums and any other obligations to the carrier. In June 2008, a letter of credit was established with a new carrier in the amount of $500,000 under similar terms. Both letters of credit are secured by cash of

the same amounts and are reflected in the Company's restricted cash balance at December 31, 2008.

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 16 for further discussion of financial instrument risks.

Capital Assets

Capital assets 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, software & website development	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.

See Note 2, "Measurement Uncertainty" for further details as to the nature of goodwill and its review and also Note 7, "Other Intangibles" for 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 December 31, 2008 expected to be deductible for tax purposes through

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

	Three Months Ended December 31, 2008	Year Ended September 30, 2008
Changes in liability claim estimates	$ (437,000)	$ (1,130,000)

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit

carryforwards. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that future income tax assets will not 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. The Company's U.S. operations are currently generating taxable income and utilizing non-capital loss carryforwards. 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 more likely than not that the Company will realize the benefit of these future tax assets and accordingly has recognized 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 capital assets 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.

Advertising Expense

Advertising costs are expensed in the period incurred. The Company incurred advertising expense of $29,423 and $12,156 for the three months ended December 31, 2008 and 2007, 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 $6,459,473 at December 31, 2008 and September 30, 2008,

represents 28.5% and 27.7% 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. See Note 2, "Goodwill and Intangible Assets."

3. Changes in Accounting Policies

Financial Instruments

Effective October 1, 2006, the Company adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook ("HB"), "Financial Instruments – Recognition and Measurement," HB Section 1530, "Comprehensive Income," HB Section 3861, "Financial Instruments-Disclosure and Presentation," and HB Section 3865, "Hedges." The Company has adopted these standards retrospectively without restatement. The adoption of these standards had no effect on opening retained earnings.

a) Financial instruments – recognition and measurement

The new standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Financial instruments must be 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, notes payable and capital lease obligations 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) Other comprehensive income

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income.

d) 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. There has been no impact on the Company's Consolidated Financial Statements related to transaction costs.

Further to this, the CICA has issued new HB Sections 3862, "Financial Instruments-Disclosures," and HB Section 3863, "Financial Instruments-Presentation" effective for fiscal years beginning on or after October 1, 2007, replacing HB Section 3861. HB Section 3863 carries forward unchanged the related presentation of HB Section 3861, while HB Section 3862 requires additional financial disclosures related to the nature and extent of risk arising from financial instruments and how the entity manages those risks. The Company adopted these new standards in its 2008 fiscal year. See Note 16 for further discussion of risks associated with financial instruments.

Accounting Changes

In July 2006, the CICA issued the new HB Section 1506, "Accounting Changes," effective for annual and interim periods relating to fiscal years beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company of any new primary source of GAAP that has been issued but is not yet effective. This new standard is not expected to have a material effect on the Company's financial position or results of operations. This standard applies to the Company's interim and annual financial statements beginning October 1, 2007. The Company adopted this new standard in its 2008 fiscal year.

Capital Disclosures

In November 2006, the CICA issued the new HB Section 1535, "Capital Disclosures," effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. This new standard will have no effect on our financial position or results of operations as it is a disclosure standard only. This standard applies to the Company's interim and annual financial statements beginning October 1, 2007. The Company adopted this new standard in its 2008 fiscal year. See Note 15 for disclosures.

Goodwill and Intangible Assets

In February 2008, the CICA issued the new HB Section 3064, "Goodwill and Intangible Assets" effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2008, and the Company adopted this standard effective October 1, 2008. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's Consolidated Financial Statements.

Going Concern

The CICA amended HB 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.

Future Accounting Changes

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.

Business Combinations

CICA HB Section 1582, Business Combinations, which replaces CICA HB 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 HB Section 1601, Consolidated Financial Statements and HB Section 1602, Non-controlling Interests replace CICA HB Section 1600, Consolidated Financial Statements. HB Section 1601 establishes standards for the preparation of consolidated financial statements. HB Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. HB 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.

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. In May 2008, as required by one of the Company's insurance carriers, an annual renewable letter of credit for $1,600,000 was renewed in the amount of $1,100,000 for payment of claims, insurance premiums and any other obligations to the carrier. In June 2008, a letter of credit was established with a new carrier in the amount of $500,000 under similar terms. Both letters of credit are secured by cash of the same amounts and are reflected in the Company's restricted cash balance at December 31, 2008.

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:

	December 31, 2008	September 30, 2008
(a) Funded Deductible Program		
Deductibles of $10,000, $20,000 or $100,000		
Accrued liability for incurred and incurred but not reported losses	$ 1,511,123	$ 1,947,699
(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	174,815	236,631
Insurance loss reserves	$ 1,685,938	$ 2,184,330
(c) Restricted Cash		
Amounts held related to estimated liability for claims and expenses	$ 3,194,505	$ 3,950,329

5. Related Party Notes Receivable and Other Notes Receivable

	December 31, 2008	September 30, 2008
Prior to the Business Combination Transaction with RAWC as described in Note 1, this balance existed on the books of Holdings as indebtedness to U-Save. This balance arose from the original acquisition of U-Save by a major shareholder and officer of the Company. The balance is comprised of payments made by U-Save on behalf of the shareholder/Holdings in respect of loans incurred by Holdings to acquire U-Save. On consolidation, the receivable owing from Holdings to U-Save was eliminated. As a result, what remains is a receivable from the shareholder to FSNA. The note is non-interest bearing, unsecured and payable on demand. The note has been classified as non-current based on management's estimate of when the note receivable will be collected.	$ 2,423,823	$ 2,423,823
Subtotal	$ 2,423,823	$ 2,423,823

Note 5 – Related party notes receivable and other notes receivable, continued		**December 31, 2008**		September 30, 2008
Balance brought forward	**$**	**2,423,823**	**$**	**2,423,823**
This balance originated from certain accounts receivable (insurance, royalties, reservation fees) of a former franchisee of which a major shareholder and officer of the Company was formerly a co-owner. The note is unsecured and bears an interest rate of 6%. Annual payments of $71,694 consisting of principal and accrued interest are due beginning August 2007. The note matures in August 2011. Currently, no payments have been made on this note, however, all amounts outstanding under this note are deemed ultimately collectible.		302,000		302,000
This balance originated from interest payments paid or payable by U-Save on behalf of major shareholders 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. The note is non-interest bearing and is unsecured. The note has been classified as non-current based on management's estimate of when the note will be collected.		510,264		510,264
Note receivable from a franchisee in which one of the Company's Co-Chief Executive Officers has a 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 (see Note 16, "Financial Instruments", *Credit Risk* for further discussion).		1,007,823		-
At December 31, 2008 and September 30, 2008, various unsecured notes receivable, primarily from franchisees, were outstanding. The notes bear interest at rates ranging from 0% to 12%. Of these notes receivable, approximately $284,419 as of September 30, 2008 was from franchisees in which one of the Company's Co-Chief Executive Officers has a financial interest (see Note 16, "Financial Instruments", *Credit Risk* for further discussion).		181,377		480,662
Allowance for notes deemed uncollectible:		(30,000)		(30,000)
Total	$	4,395,287	$	3,686,749

6. Capital Assets

	December 31, 2008		
	Cost	Accumulated Depreciation	Net
Assets under capital lease	$ 89,803	$ (24,505)	$ 65,298
Furniture and equipment	489,999	(446,911)	43,088
Vehicles	36,423	(16,232)	20,191
Computers and software	929,625	(781,651)	147,974
	$ 1,545,850	**$ (1,269,299)**	**$ 276,551**

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

The Company recorded depreciation expense of $5,108 and $3,622 for assets under capital lease for the three months ended December 31, 2008 and 2007, respectively.

7. Other Intangible Assets

	December 31, 2008			September 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Finite-life intangible assets:						
Customer list	$ 983,000	$ (301,835)	$ 681,165	$ 983,000	$ (269,866)	$ 713,134
Advertising jingle	10,000	(4,667)	5,333	10,000	(4,167)	5,833
Non-compete agreement	254,158	(175,159)	78,999	254,158	(152,268)	101,890
	$ 1,247,158	$ (481,661)	$ 765,497	$ 1,247,158	$ (426,301)	$ 820,857
Indefinite-life intangible assets:						
Rent-A-Wreck Brand	$ 3,033,053	$ -	$ 3,033,053	$ 3,033,053	$ -	$ 3,033,053
Domain Name	161,653	-	161,653	161,653	-	161,653
Reacquired franchise rights	90,000	-	90,000	90,000	-	90,000
Trademarks	21,312	-	21,312	21,312	-	21,312
	$ 3,306,018	$ -	$ 3,306,018	$ 3,306,018	$ -	$ 3,306,018
	$ 4,553,176	$ (481,661)	$ 4,071,515	$ 4,553,176	$ (426,301)	$ 4,126,875

Amortization expense of $55,360 and $56,714 was recorded for the three months ended December 31, 2008 and 2007, respectively.

8. Other Assets

Other Assets consisted of the following:

	December 31, 2008	September 30, 2008
Security Deposits	$ 54,548	$ 54,871
Other	8,549	6,783
	$ **63,097**	$ 61,654

9. Notes Payable

		December 31, 2008		September 30, 2008
In January 2007, the Company, through a wholly owned subsidiary, acquired an insurance agency. The initial purchase price of $1,191,214 was funded by a major shareholder and officer of the Company. In this regard, the Company entered into an unsecured note payable to the major shareholder with monthly interest only payments of 8.25% per annum. In May 2008, the note was amended to an interest rate of 7% per annum with monthly principal and interest payments of $19,850. The note matures May 2010.	$	1,091,974	$	1,135,080
In December 2003, the Company entered into two notes payable with a non-related party totaling $2,500,000. The notes were renewed in December 2008 into a single note bearing an interest rate of 10% per annum. Interest only payments are due monthly. The note is collateralized with personal assets of a shareholder and stock of Auto Rental Resource Center, Inc. (a wholly owned subsidiary of the Company). The note matures December 2010.		2,500,000		2,500,000
Subtotal	$	3,591,974	$	3,635,080
Less current portion		(134,066)		(177,172)
Total	$	3,457,908	$	3,457,908

Maturities of notes payable are as follows:

		Year Ending September 30
2009	$	134,066
2010		957,908
2011		2,500,000
Total	$	3,591,974

Interest expense was $82,550 and $87,147 for the three months ended December 31, 2008 and 2007, respectively.

10. Shareholders Equity

10. (a) Share Capital

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

Issued:

Common Shares	December 31, 2008		
	Number		Amount
Balance at September 30, 2008	**62,820,426**	$	15,117,041
No activity	**-**		-
Balance at December 31, 2008	**62,820,426**	$	15,117,041

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

Preferred Shares

There were no outstanding preferred shares at December 31, 2008 or September 30, 2008.

(i) Stock options

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

As of December 31, 2008, the Company had granted 9,399,827 stock options under the terms of its Plan. Of these options, 8,740,973 were granted to directors, officers and employees and 658,854 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 with the following assumptions: 10 year term, 40.5% expected volatility, risk-free interest rate ranging from 3.88% to 4.53% and zero dividend yield. Stock-based compensation expense of $4,466 and $14,894 was recorded for the three months ended December 31, 2008 and 2007, respectively.

A summary of stock option activity during fiscal 2008 and three months ended December 31, 2008 is summarized as follows:

	Options Outstanding		Weighted Average Exercise Price
Balance oustanding at September 30, 2007	**10,434,893**	$	0.38
Options exercised	(76,147)		0.10
Options forfeited	(106,467)		0.37
Balance outstanding at September 30, 2008	**10,252,279**	$	0.32
Options expired	(850,000)		0.50
Options forfeited	(2,452)		0.41
Balance outstanding at December 31, 2008	**9,399,827**	$	0.29

The weighted average remaining contractual life of stock options outstanding at December 31, 2008 is presented below:

Total Outstanding Options by price range - C$ December 31, 2008	Total Options Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price C$
$0.1016	6,735,000	7.9	$	0.1016
$0.41 to $0.55	1,146,973	7.8		0.5062
$0.85 to $1.04	1,517,854	4.7		0.9445
Total Options Outstanding	9,399,827	7.4	$	0.2871

Exercisable Options by price range - C$ December 31, 2008	Exercisable Options	Weighted Average Remaining Life (years)		Weighted Average Exercise Price C$
$0.1016	6,735,000	7.9	$	0.1016
$0.41 to $0.55	996,973	7.7		0.4996
$0.85 to $1.04	1,296,604	4.1		0.9331
Total Exercisable Options	9,028,577	7.3	$	0.2650

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

Total Outstanding Options by price range - C$ September 30, 2008	Total Options Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price C$
$0.1016	6,735,000	8.2	$	0.1016
$0.41 to $0.55	1,599,425	5.8		0.5043
$0.85 to $1.04	1,917,854	3.9		0.9248
Total Options Outstanding	10,252,279	7.0	$	0.3184

Exercisable Options by price range - C$ September 30, 2008	Exercisable Options	Weighted Average Remaining Life (years)		Weighted Average Exercise Price C$
$0.1016	6,735,000	8.2	$	0.1016
$0.41 to $0.55	1,449,425	5.5		0.4996
$0.85 to $1.04	1,696,604	3.4		0.9135
Total Exercisable Options	9,881,029	7.0	$	0.2994

10. (b) Contributed Surplus

		December 31, 2008		September 30, 2008
Balance at beginning of period	$	**1,446,629**	$	1,411,877
Stock-based compensation expense		4,466		34,752
Balance at end of period	$	**1,451,095**	$	1,446,629

10. (c) Accumulated Other Comprehensive Income

		December 31, 2008		September 30, 2008
Balance at beginning of period	$	121,934	$	154,162
Translation adjustment, current period		(52,414)		(32,228)
Balance at end of period	$	**69,520**	$	121,934

10.(d) Weighted Shares Outstanding

Weighted Shares Outstanding

		Three Months Ended December 31, 2008		Three Months Ended December 31, 2007
Weighted average common shares outstanding - Basic		62,820,426		62,744,279
Dilutive stock options		-		7,826,327
Weighted average common shares outstanding - Diluted		62,820,426		70,570,606
Net Income	$	8,673	$	293,353
Earnings per Share - Basic	$	0.00	$	0.00
Earnings per Share - Diluted	$	0.00	$	0.00
Options excluded from the earnings per share calculation as their impact would have been anti-dilutive:		9,963,654		3,568,467

11. Income Taxes

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

	December 31, 2008	December 31, 2007
Federal (U.S.):		
Current	$ -	$ -
Future	25,380	160,597
	25,380	160,597
State (U.S.):		
Current	(18,961)	17,364
Future	4,320	25,542
	(14,641)	42,906
Income tax expense	$ 10,739	$ 203,503

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

	December 31, 2008	December 31, 2007
Computed "expected" tax expense	$ 7,629	$ 189,762
Foreign earnings taxed at different rates	3,310	2,616
Federal benefit of state income taxes	(6,447)	5,904
Imputed interest income	9,049	9,905
Other	(2,802)	(4,684)
Income tax expense	$ 10,739	$ 203,503

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 December 31, 2008, the Company has a net operating loss carryforward of approximately $3,881,822 expiring as follows:

		December 31, 2008
U.S. - Net Operating Loss Carryforwards		
Expiring		
2024	US$	2,662,633
2028		824,843
2029		394,346
	US$	3,881,822

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

		December 31, 2008
Canada - Non-Capital Losses Carryforward		
Expiring		
2009	C$	47,518
2010		53,713
2012		23,631
2013		31,514
2014		122,162
2015		577,658
	C$	856,196

Significant components of future income tax assets and liabilities at December 31, 2008 and September 30, 2008 are presented below:

	December 31, 2008	September 30, 2008
Future income tax assets:		
Insurance loss reserves	$ 632,000	$ 819,000
Accounts receivable allowance	103,000	96,000
Intangibles	91,000	96,000
Tax credits	81,000	80,000
Stock based compensation	50,000	49,000
Net operating loss carryforward	1,454,432	1,307,132
	2,411,432	2,447,132
Future income tax liabilities:		
Intangibles	(827,196)	(827,196)
Furniture and equipment	(74,000)	(80,000)
Other	(10,000)	(10,000)
	(911,196)	(917,196)
Future income tax assets, net	$ 1,500,236	$ 1,529,936

Future income tax assets, net is comprised of:

	December 31, 2008	September 30, 2008
Future income tax assets - current	$ 801,000	$ 1,005,000
Future income tax assets - long term	699,236	524,936
Future income tax assets, net	$ 1,500,236	$ 1,529,936

12. Related Party Transactions

Notes to and from related parties are described in Notes 5 and 9. 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 recorded revenues and expenses related to these transactions as follows:

		Three months ended December 31, 2008		Three months ended December 31, 2007
Continuing franchise and related fees	$	139,245	$	192,672
Insurance premiums and related fees	$	84,904	$	142,500
Interest expense	$	16,445	$	19,564

At December 31, 2008 and September 30, 2008, related party accounts receivable totaled $20,864 and $646,244, respectively.

13. 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 noncancellable operating leases. Rental expense was approximately $86,000 and $87,000 for the three months ended December 31, 2008 and 2007, 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**
2009	$	183,758
2010		93,019
2011		50,108
2012		39,509
2013		13,293
	$	**379,687**

14. Segment Information

	As of and for the three months ended December 31, 2008		
	USA **$**	**Canada** **$**	**Total** **$**
Revenue	$ 3,282,247	$ 117,495	$ 3,399,742
Expenses	3,190,851	189,479	3,380,330
Income (loss) before income taxes	91,396	(71,984)	19,412
Capital asset expenditures	11,803	-	11,803
Capital assets, net	235,785	40,766	276,551
Other intangible assets, net	994,287	3,077,228	4,071,515
Goodwill	6,459,473	-	6,459,473
Total assets	14,279,160	8,391,525	22,670,685

	As of and for the three months ended December 31, 2007		
	USA $	Canada $	Total $
Revenue	$ 4,029,966	$ 184,808	$ 4,214,774
Expenses	3,405,990	325,928	3,731,918
Income (loss) before income taxes	623,976	(141,120)	482,856
Capital asset expenditures	35,677	-	35,677
Capital assets, net	236,496	41,068	277,564
Other intangible assets, net	1,195,480	3,097,963	4,293,443
Goodwill	6,271,323	-	6,271,323
Total assets	14,625,114	10,246,679	24,871,793

15. 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:

	December 31, 2008	September 30, 2008
Notes payable, including current portion	$ 3,591,974	$ 3,635,080
Share capital	15,117,041	15,117,041
Contributed surplus	1,451,095	1,446,629
Accumulated deficit	(1,688,682)	(1,697,355)
	$ 18,471,428	$ 18,501,395

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

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

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

16. 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		**December 31, 2008**		September 30, 2008
Current	$	663,458	$	748,299
Past due 1-30 days		209,019		420,517
Past due 31-60 days		180,789		89,570
Past due 61-90 days		93,883		94,817
Over 91 days past due		529,038		828,792
Less: Allowance for doubtful accounts		(249,206)		(229,279)
Total	$	1,426,981	$	1,952,716

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

Accounts Receivable Allowance for Doubtful Accounts		**December 31, 2008**		September 30, 2008
Balance at beginning of period	$	229,279	$	181,736
Bad debt provision		34,255		674,348
Write-offs, net of recoveries		(13,794)		(626,805)
Effect of exchange rate		(534)		-
Balance at end of period	$	249,206	$	229,279
Notes Receivable Allowance for Notes Receivable				
Balance at beginning of period	$	30,000	$	65,000
Bad debt provision		-		163,350
Write-offs		-		(198,350)
Balance at end of period	$	30,000	$	30,000

The Company has also converted certain accounts receivable of franchise operators and associates into notes receivable. These notes are included as part of the balances disclosed in Note 5 of $1,007,823 and $181,377 at December 31, 2008 and $480,662 at September 30, 2008.

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 maintains cash at financial institutions which, at December 31, 2008 and September 30, 2008 and other times throughout the year, exceeded federally insured limits. The Company has not experienced any losses of such funds and management believes the Company is not exposed to significant risk on cash.

Other risks include:

b) Fair Value

The fair values of accounts receivable, notes receivable, accounts payable and accrued liabilities, approximate their carrying values due to their short term nature. The fair value of notes payable, capital lease obligations and notes due to and from related parties approximate their carrying value based on current interest rates, market values and pricing of financial instruments with comparable terms.

c) Liquidity Risk

Liquidity risk implies maintaining sufficient cash and cash equivalents to meets 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.

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.

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 December 31, 2008 indicates that a 1% increase in the exchange rate on the financial statements of the operating subsidiary in Canada would result in a decrease of the translation of Canadian dollar functional currency to U.S. dollar reporting currency of approximately $3,500 in other comprehensive income.

17. Comparative Figures

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