



Franchise Services of North America Inc.

Q1

First Quarter Report for the three months ended December 31, 2006

Report to Shareholders

Dear Fellow Shareholders

We are pleased to present to you the first quarterly report of the re-named Franchise Services of North America Inc. ("FSNA") for the quarter ended December 31, 2006.

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 Company now trades under the symbol FSN on the TSX Venture Exchange. The attached quarterly report only reflects 30 days of the combined entities' activity. 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.

Since the close of the transaction, we have already signed a new master franchise agreement for the Rent-A-Wreck brand in New Brunswick, and have announced the expansion of the U-Save brand into Canada. Development plans are already underway to expand the marketing of both brands.

To date, we have raised over CDN\$9.1 million of fresh capital into the combined entity through a private placement as part of the business combination transaction, and through a short-form prospectus offering. A portion of these funds has been used to retire debt which will have a positive effect on earnings prospectively. Our Franchise Sales efforts are making gains in terms of expanding the brands, and the marketing of our websites continues to generate substantial growth in hits and bookings.

We look forward to growing the system and awareness of the brands to the benefit of our franchisees and mutual shareholders.

Sincerely,

Sandy Miller
Co-Chairman
Co-Chief Executive Officer

Tom McDonnell
Co-Chairman
Co-Chief Executive Officer

February 26, 2007

Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") was prepared as at February 26, 2007 and should be read in conjunction with the unaudited interim Consolidated Financial Statements for the three months ended December 31, 2006, together with the audited Consolidated Financial Statements for the year ended September 30, 2006 and the notes to those financial statements and the financial statements contained in the Information Circular dated November 3, 2006, all available on SEDAR, at www.sedar.com.

Franchise Services of North America Inc. ("FSNA" or the "Company"), is a public company whose shares are listed on the TSX Venture Exchange under the symbol 'FSN'. 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 its wholly owned subsidiary Practicar Systems Inc. The Company operated at that time under the name Rent-A-Wreck Capital Inc. and traded under the symbol 'RAW'. This report describes the business and financial results of the Company for the three months ending and as of December 31, 2006, and includes the transactions resulting from the business combination transaction with U-Save Auto Rental of America, Inc. ("U-Save") completed on November 30, 2006. 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.

This MD&A contains forward-looking information relating, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may", and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. This management's discussion and analysis contains forward-looking information, included in, but not limited to, the sections titled 'Business Combination Transaction', 'Quarterly Results' and 'Subsequent Events'. Shareholders and prospective investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Some of the risks, uncertainties and other factors affecting the Company are discussed in our public filings with the securities regulatory authorities in Canada. Copies of the Company's Canadian filings, including our most recent management information circular, annual information form, annual financial statements, material change reports and news releases, are available online at www.sedar.com. Information in this document is presented as of February 26, 2007 and is subject to change after this date. However, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Currency

All amounts in this MD&A are in US dollars, unless specified otherwise.

Business Combination Transaction (“BCT”)

The Company completed a BCT on November 30, 2006 with U-Save Auto Rental of America, Inc. (“U-Save”), a privately held Mississippi company, based in Jackson, Mississippi. Under the terms of the Share Exchange Agreement, the Company obtained shareholder approval at a special meeting of the shareholders held on November 30, 2006 to approve the consolidation of its common shares, the acquisition by the Company of all of the outstanding stock of U-Save in a “reverse take-over” (“RTO”) transaction, the name change of the Company from Rent-A-Wreck Capital Inc. to Franchise Services of North America Inc., the appointment of a new Board of Directors, the amended and restated stock option plan and the extension of certain options of the Rent-A-Wreck option plan.

The transaction involved the conversion of the Company’s Convertible debentures and accrued interest to March 31, 2006 into common shares, the forgiveness of the interest on the Convertible debentures for the period from April 1, 2006 to November 30, 2006 by the debenture holders and the consolidation of the Company’s common shares on a 4.0785967-for-one basis resulting in 2,781,962 consolidated common shares. The Company issued 45,600,000 consolidated common shares to shareholders of U-Save, in exchange for all the shares of U-Save. At the conclusion of the transaction, the Company had 48,381,962 consolidated common shares and the former shareholders of U-Save held 94.25% of the outstanding shares and the former shareholders held 5.75% of the outstanding shares.

The transaction also included the consolidation of the Company’s 640,000 outstanding stock options exercisable at CDN\$0.10 to 156,917 options exercisable at CDN\$0.41. The Company granted 6,865,169 consolidated stock options at an exercise price of CDN\$0.1016 and 920,693 consolidated stock options at an exercise price of CDN\$0.50 to replace the U-Save stock options outstanding at the time of the transaction.

In connection with the business combination transaction, the Company closed two concurrent private placements led by Blackmont Capital Inc. and Meridian Merchant Capital Canada Ltd. for gross proceeds of CDN\$3.5 million and net proceeds of CDN\$3,099,460 (US\$2,715,252), after direct expenses. The company issued 7 million consolidated shares at CDN\$0.50 per share and granted options to acquire 700,000 consolidated shares at CDN\$0.50 per share for 2 years. The proceeds will be used to expand the Rent-A-Wreck brand in Canada, introduce U-Save into Canada, retire debt of the Company, and expand its marketing and sales activities. After the closing of the private placement, the company had 55,381,962 consolidated common shares outstanding and 8,642,779 options to acquire consolidated common shares at prices ranging from CDN\$0.1016 and CDN\$0.50 per share.

At the request of the Company, the trading of the shares of the Company had been halted by the TSX Venture Exchange as of the June 7, 2006. Following the transaction, the shares resumed trading under the symbol ‘FSN’ on December 15, 2006.

The Company engaged Blackmont Capital Inc. ("Blackmont") to act as agent for a public equity offering of common shares of the Company (the "Offering"). An initial closing occurred on February 6, 2007 with the issue of 6,678,600 common shares at CDN\$0.85 per share for aggregate gross proceeds of CDN\$5,676,810. As agent of the offering, Blackmont received a cash commission equal to 9% of the gross proceeds of the offering and compensation options entitling it to purchase for a period of 24 months, at a price of CDN\$0.85 per share, a number of shares equal to 9% of the common shares sold pursuant to the offering. The Company and Blackmont may undertake an additional closing (the "Second Closing") in respect of up to a further 2,733,164 common shares at CDN\$0.85 per share. If the Second Closing is to occur it is anticipated to occur during the month of March 2007. Proceeds will be used primarily for debt reduction, growth of the Company's business in the airport and neighbourhood sectors of the car rental market and growth of the U-Save brand in Canada.

Financial Statements and basis of presentation

The Company's Consolidated Financial Statements as of and at December 31, 2006 include the information resulting from the business combination transaction. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company applied reverse take-over accounting principles to record the acquisition using the purchase method of accounting. The Balance Sheet includes all the assets and liabilities of all the subsidiaries of the Company including Practicar and U-Save, using the appropriate accounting treatment for a reverse take-over transaction. The Consolidated Statement of Operations and Retained Earnings and the Consolidated Statement of Cash Flow includes the operations for the three months ending December 31, 2006 for the Canadian operations, including Practicar, and corporate activities and one month ending December 31, 2006 for U-Save. Additional information concerning the transaction and subsequent information can be obtained on SEDAR (www.sedar.com) under the Company's listing, Franchise Services of North America Inc.

All comparative financial information dated September 30, 2006 or prior 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.

The following table provides details of the Statement of Operations for each of the major divisions of the Company and for the appropriate periods for each division as consolidated in the Consolidated Statement of Operations.

Statement of Operations by Division	for the three months ended December 31,				
	2006				2005
	U-Save Operations	Canadian Operations	Corporate Operations	Total	Canadian and Corporate
1 month US\$	3 months US\$	3 months US\$	3 months US\$	3 months US\$	
Revenue					
Insurance premiums and related fees	923,567	31,915		955,482	39,656
Royalties, licensee fees and other	269,442	119,210	528	389,180	118,410
Initial Franchise fees	-	43,890		43,890	1,098
	1,193,009	195,015	528	1,388,552	159,164
Expenses					
Franchise system development	306,169	72,028		378,197	100,704
Insurance operating	135,549			135,549	-
Claims expense	342,857			342,857	-
Insurance underwriting expense	211,934			211,934	-
General and administrative	174,730	85,378	23,071	283,179	68,239
Amortization	7,790	2,559		10,349	3,295
Interest expense (recovery)	(235,713)	5,593	(12,900)	(243,020)	6,411
Loss on sale of capital assets		1,521		1,521	-
Stock based compensation			24,579	24,579	-
	943,316	167,079	34,750	1,145,145	178,649
Net Income (Loss) from Operations, before the following:	249,693	27,936	(34,222)	243,407	(19,485)
Business combination expenses			39,900	39,900	-
Income Tax expense	104,871			104,871	-
Net Income (Loss)	144,822	27,936	(74,122)	98,636	(19,485)
Retained Earnings (Deficit) Beginning	(2,395,327)	(322,114)	(487,763)	(3,205,204)	(716,188)
End of period	(2,250,505)	(294,178)	(561,885)	(3,106,568)	(735,673)
Net income (loss) per share:	\$ -	\$ -	\$ -	\$ -	\$ -

Operations

For the quarter ended December 31, 2006, the Company reported a net income from operations of \$243,407 and net income of \$98,636 after expenses of the BCT and income taxes, an improvement of \$118,121 over the net loss of \$19,485 for the quarter ended December 31, 2005. The net income from operations is a combination of a net income of \$249,693 for the month of December for U-Save, net income of \$27,936 from Canadian operations for the three months ending December 31, 2006 and a net loss of \$34,222 from corporate operations for the three months ending December 31, 2006.

The net income from operations from U-Save includes the benefit of the reversal of interest expense in the amount of \$300,000 and the net loss from corporate operations includes the benefit of interest expense reversal of \$12,900.

During the quarter, Rent-A-Wreck granted one new area franchise to an existing franchisee and during the month of December, U-Save granted no new franchises. At December 2006, U-Save had 219 franchise locations and 737 ARRC locations. Rent-A-Wreck had 49 locations compared to a total of 50 Rent-A-Wreck locations at December 31, 2005.

Revenue

Revenue for Insurance premiums and related fees was \$955,482 at December 2006 (\$39,656 at December 2005), of which \$923,567 represented one month of operations from U-Save. Royalties, licensee fee and other revenue during the quarter totalled \$389,180 (\$118,410 at December 2005). The Initial Franchise fees revenue of \$43,890 represents the granting of one Rent-A-Wreck area franchise to an existing franchisee.

Expenses

Expenses from operations totalled \$1,145,145 for the three months ending December 31, 2006 (\$178,649 at December 31, 2005). Of the current amount, U-Save incurred \$943,316 for the month of December, the Canadian operations incurred \$167,079 and \$34,750 were incurred in the Corporate division. In addition, the U-Save division incurred income tax expense of \$104,871 and the corporate division had non-recurring expenses from the BCT of \$39,900.

All major expense categories increased significantly as a result of the inclusion of the U-Save operations for the month of December 2006 and the non-recurring corporate expenses relating to the BCT.

Selected information

The following financial information is derived from the Company's audited consolidated financial statements for each of the three most recently completed fiscal years and the unaudited consolidated financial statements for the three months ended December 31, 2006:

Selected Annual Information	Three months ended December 31,	Years ended September 30		
	US \$	CDN \$		
	2006	2006	2005	2004
Total revenues	\$ 1,388,552	\$ 823,710	\$ 783,868	\$ 1,254,705
Net income (loss) before discontinued operations	\$ 98,636	\$ (71,690)	\$ (195,046)	\$ 241,491
per share - basic	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
per share - diluted	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
Net income (loss) after discontinued operations	\$ 98,636	\$ (71,690)	\$ (195,046)	\$ 241,491
per share - basic	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
per share - diluted	\$ -	\$ (0.01)	\$ (0.03)	\$ 0.03
Total assets	\$ 21,363,672	\$ 805,392	\$ 868,636	\$ 1,064,096
Total long-term financial liabilities	\$ 836,103	\$ 334,432	\$ 350,470	\$ 34,349
Cash dividends declared per share	\$ nil	\$ nil	\$ nil	\$ nil

Quarterly results

The following financial information is derived from the Company's unaudited consolidated financial statements for each of the nine most recently completed quarterly periods. The amounts for the quarter ending December 31, 2006 show significant increases with the inclusion of the U-Save operations for the month of December 31, 2006, following the November 30, 2006 BCT. Future quarters will combine the operations of all divisions for the full period.

Quarter Ending	Royalties Revenues	Total Revenues	Net Income (Loss)		
				per Share	
				Basic	Diluted
Fiscal year ended September 2007 Q1, December 31, 2006 US \$	389,180	1,388,552	98,636	0.00	0.00
Fiscal year ended September 2006					
Q4, September 30, 2006 CDN \$	192,564	279,964	32,590	0.00	0.00
Q3, June 30, 2006 CDN \$	116,958	182,781	(29,369)	0.00	0.00
Q2, March 31, 2006 CDN \$	103,555	174,218	(52,049)	(0.01)	(0.01)
Q1, December 31, 2005 CDN \$	110,631	186,747	(22,862)	0.00	0.00
Fiscal year ended September 2005					
Q4, September 30, 2005 CDN \$	190,358	239,949	(17,364)	0.00	0.00
Q3, June 30, 2005 CDN \$	119,573	194,892	(30,394)	0.00	0.00
Q2, March 31, 2005 CDN \$	103,322	171,389	(67,493)	(0.01)	(0.01)
Q1, December 31, 2004 CDN \$	108,444	177,638	(79,795)	(0.01)	(0.01)

The total revenues for the quarter ending December 31, 2006 include the Insurance premiums and related fees of \$923,567 for U-Save for the month of December 2006.

The royalties revenue trend for the Company's vehicle rentals, sales and leasing is greatly influenced by the tourism cycle; consequently the summer quarter ending in September, the 4th quarter of our fiscal year, 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 rentals revenue, the system also caters to the local rental markets and vehicle replacement market and both these markets do not necessarily follow the same cycle patterns as tourism; for example, the vehicle replacement market is usually stronger during the winter months.

The total revenues in each quarter are impacted by the franchise fees revenue resulting from the granting of new franchises. Franchise fee revenues do not follow a particular pattern and accordingly may have a significant impact in any quarter.

The total expense levels are generally uniform during the year, apart from bad debt expense fluctuations. The quarter ending December shows a considerable increase in expense following the inclusion of the operations of U-Save for the month of December 2006 and the non-recurring expenses related to the business transaction.

Liquidity and capital resources

Following the transaction, the Company repaid the total bank indebtedness, cancelled the two facilities and repaid the total amount due to an officer and director.

The Company's working capital deficiency increased to \$2,010,899 at December 31, 2006 including the U-Save working capital deficit. Following the end of the quarterly period, the Company completed the initial closing of a public equity offering on February 6, 2007 with the issue of 6,678,600 common shares at CDN\$0.85 per share for aggregate gross proceeds of CDN\$5,676,810 and net proceeds of CDN\$5,165,897. Of these net proceeds US\$3.5 million was used to repay a portion of the notes payable. After these transactions in February 2007, the Company has a positive working capital position of approximately \$2,700,000.

The Company and Blackmont may undertake a Second Closing of the public equity offering in respect of up to a further 2,733,164 common shares at CDN\$0.85 per share. If the Second Closing is to occur it is anticipated to occur during the month of March 2007. Proceeds will be used primarily for debt reduction, growth of the Company's business in the airport and neighbourhood sectors of the car rental market and growth of the U-SAVE brand in Canada.

The Company does not anticipate significant cash requirements for capital asset acquisitions during the fiscal year 2007 and expects that these requirements will be met through cash flow and working capital.

Related party transactions

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 December 31, 2006, related party receivables totalled \$560,000.

Financial instruments

The Company's financial instruments included in the balance sheet at December 31, 2006 consist of cash and cash equivalents, accounts receivable, prepaid expenses and cash deposits held, accounts payable and accrued liabilities, insurance reserves, long-term debt and capital lease obligations.

The fair value of all short-term financial instruments approximates their carrying amounts. The fair value of the long-term debt and capital lease obligations is not significantly different than their carrying values.

The majority of the Company's accounts receivable are with franchisees and are subject to normal industry credit risk which is considered moderate to high. Management reviewed the accounts receivable as at the date of balance sheet and the Company provided for all the amounts considered uncollectible.

Outstanding Share Data

Authorized

Unlimited number of common shares
 Unlimited number of preferred shares

Issued:

December 31, 2006	55,411,385 common shares
February 26, 2007	62,089,985 common shares

Stock options

Stock options outstanding:

	Options	Exercise price Range CDN \$
December 31, 2006	14,937,875	\$0.10 to \$0.50
February 26, 2007	15,754,526	\$0.10 to \$1.04

Disclosure controls and procedures

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual and interim filings and other reports filed under regulatory securities requirements is reported within the time periods specified by the securities regulations. The Co-Chief Executive Officers and the Chief Accounting Officer have determined that, based on their evaluations, the Company's controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by the Company is reported within the periods as established by the securities regulations. The Co-Chief Executive Officers and the Chief Accounting Officer do not expect that the disclosure controls and procedures will prevent all errors and fraud; a control system, however well conceived or managed, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Additional information relating to the Company is available on the SEDAR website at www.sedar.com under Franchise Services of North America Inc.

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

Franchise Services of North America Inc.		
Consolidated Balance Sheet		
As at December 31, 2006 and September 30, 2006		
	December 2006 (unaudited) US \$	September 2006 (audited) US \$
ASSETS		
Current assets		
Cash	1,652,425	24,633
Restricted cash and equivalents	3,622,027	-
Accounts receivable	1,645,309	193,370
Related party and other notes receivables	104,584	-
Deferred income tax assets	2,230,000	-
Prepaid expenses and cash deposits held	147,674	44,978
	<u>9,402,019</u>	<u>262,981</u>
Related party and other notes receivables, less current portion	3,001,309	-
Deferred income taxes	380,000	-
Capital Assets	153,063	32,776
Intangible assets	573,793	306,836
Goodwill	6,433,536	9,906
Other assets	1,345,720	-
Marketing Account	74,232	109,631
	<u>21,363,672</u>	<u>722,130</u>
LIABILITIES		
Bank indebtedness	-	104,797
Accounts payable and accrued liabilities	2,978,017	313,631
Current portion of insurance loss reserves	2,663,589	-
Current portion of notes payable	5,760,634	-
Current portion of long-term debt	5,919	6,189
Current portion of capital lease obligations	4,759	4,821
Convertible debentures	-	43,827
	<u>11,412,918</u>	<u>473,265</u>
Insurance loss reserves	774,492	-
Notes payable	50,000	-
Long-term debt	2,466	4,126
Capital lease obligations	9,145	5,474
Convertible debenture	-	290,258
Marketing Account liability	74,232	109,631
Total Liabilities	<u>12,323,253</u>	<u>882,754</u>
SHAREHOLDERS' EQUITY		
Share capital	12,103,557	629,582
Equity portion of convertible debentures	-	11,512
Contributed Surplus	32,802	8,159
Deficit	(3,106,568)	(778,028)
Cumulative translation adjustment	10,628	(31,849)
Total Shareholders Equity	<u>9,040,419</u>	<u>(160,624)</u>
	<u>21,363,672</u>	<u>722,130</u>

Franchise Services of North America Inc.
Consolidated Statement of Operations and Retained Earnings
(unaudited)

for the three months ended
December 31,
2006 2005
US\$ US\$

Revenue

Insurance premiums and related fees	955,482	39,656
Royalties, licensee fees and other	389,180	118,410
Franchise fees	43,890	1,098
	1,388,552	159,164

Expenses

Franchise system development	378,197	100,704
Insurance operating	135,549	-
Claims expense	342,857	-
Insurance underwriting expense	211,934	-
General and administrative	283,179	68,239
Amortization	10,349	3,295
Interest expense (recovery)	(243,020)	6,411
Loss on sale of capital assets	1,521	-
Stock based compensation	24,579	-
	1,145,145	178,649

Net Income (Loss) from Operations, before the following:	243,407	(19,485)
Business combination expenses	39,900	-
Income tax expense	104,871	-
Net Income (Loss)	98,636	(19,485)

Retained Earnings (Deficit)

Beginning	(3,205,204)	(716,188)
End of period	(3,106,568)	(735,673)

Net income (loss) per share:	\$ -	\$ -
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Franchise Services of North America Inc.

Consolidated Statement of Cash Flows

(unaudited)

for the three months ended
December 31,

	2006 US\$	2005 US\$
Cash provided by (used in)		
Operating Activities		
Net Income (Loss)	98,636	(19,485)
Items not affecting cash:		
Amortization	10,349	3,295
Loss on sale of capital assets	1,521	
Interest recovery on debt, net	(243,020)	6,028
Stock-based compensation	24,579	
	(132,514)	(10,162)
Net change in non-cash working capital	666,981	2,632
	534,467	(7,530)
Financing Activities		
Proceeds from private placement, net	2,715,252	-
Repayment on Notes payable	(1,506,466)	-
Repayment on Notes receivable	4,275	-
Repayments on bank debt	(104,797)	(9,381)
Capital lease obligations payments	(1,129)	(972)
Long term debt repayments	(1,660)	(1,487)
	1,105,475	(11,840)
Investing Activities		
Capital Assets	(16,390)	-
Proceeds on sale of capital assets	4,240	-
	(12,150)	-
Change in cash for the period	1,627,792	(19,370)
Cash, Beginning	24,633	35,158
Cash, End	1,652,425	15,788

These unaudited interim consolidated financial statements should be read in conjunction with the Company's 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.

Notes to Consolidated Financial Statements (unaudited)

December 31, 2006

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. 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 three months ending and at December 31, 2006, and include the transactions resulting from the BCT with U-Save completed on November 30, 2006. The results from operations include the three months ending December 31, 2006 for FSNA as a corporation and Practicar, and one month ending December 31, 2006 for U-Save.

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 three months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the year ending September 30, 2007. This Quarterly report reflects only one month 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) and should be read in conjunction with 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 \$278,632 as result of the BCT.

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 \$967,287 representing expenditures related to the BCT.

5 Notes payable

Following the BCT, the Company repaid, in December 2006, \$1,500,000 of the notes payable. In addition, \$300,000 of the accrued interest related to the note was forgiven by the note holder.

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
December 31, 2006	55,381,962	12,103,557

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 immediately and expire three years after the date of grant.

Stock options outstanding:

	Options	Exercise price Range CDN \$
September 30, 2006	<u>640,000</u>	\$0.10
December 31, 2006		
Directors, officers, employees and consultants	7,937,875	\$0.10 to \$0.41
Agents	<u>7,000,000</u>	\$0.50
Total	<u>14,937,875</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 December 31, 2006, related party receivables totalled \$560,000.

8 Subsequent events

The Company engaged Blackmont Capital Inc. ("Blackmont") to act as agent for a public equity offering of common shares of the Company (the "Offering"). An initial closing occurred on February 6, 2007 with the issue of 6,678,600 common shares at CDN\$0.85 per share for aggregate gross proceeds of CDN\$5,676,810. As agent of the offering, Blackmont received a cash commission equal to 9% of the gross proceeds of the offering and compensation options entitling it to purchase for a period of 24 months, at a price of CDN\$0.85 per share, a number of shares equal to 9% of the common shares sold pursuant to the offering.

The Company and Blackmont may undertake an additional closing (the "Second Closing") in respect of up to a further 2,733,164 common shares at CDN\$0.85 per share. If the Second Closing is to occur it is anticipated to occur during the month of March 2007.

Proceeds will be used primarily for reduction of the notes payable, growth of the Company's business in the airport and neighbourhood sectors of the car rental market and growth of the U-Save brand in Canada.

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
Ormong Beach, Florida, USA

Vicki R. Pyne
Hartford, Connecticut, 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
Chief Operating Officer

O. Kendall Moore
Vice President, General Counsel
and Secretary

Henri H. Lefebvre
Chief Accounting Officer and
Canadian General Manager

Ashley M. Chambliss
Controller

Stock Exchange Listing

TSX Venture Exchange
Symbol: FSN

Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Auditors

BDO Seidman, LLP
Memphis, Tennessee

Legal Counsel

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