



Franchise Services of North America Inc.

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Calgary, AB

June 4, 2008

Alberta Securities Commission
British Columbia Securities Commission
Manitoba Securities Commission
Nova Scotia Securities Commission
Ontario Securities Commission
Saskatchewan Financial Services Commission

EXPLANATION LETTER:
FILING OF RESTATED FIRST QUARTER FINANCIAL STATEMENTS
FOR FISCAL YEAR 2008

Sir or Madam,

Franchise Services of North America Inc. ("FSNA") reports the re-filing of its Q1 Financial Statements for the period ended December 31, 2007, originally filed on February 29, 2008. Material changes in this re-filing versus the originally filed Q1 Financial Statements include:

A). Additional disclosure in Note 2, see "Adjustment to Reported First Quarter Fiscal 2007 Results", regarding correction of an error as it relates to the original accounting for the Business Combination Transaction with Rent-A-Wreck Capital Inc. completed November 30, 2006 in a reverse takeover (RTO) transaction.

B). Reclassification (see Note 2 "Reclassifications") of certain notes payable at December 31, 2007 totaling \$2,500,000 to current liabilities based on amended maturity dates.

This re-filing is in support of the current review by the Alberta Securities Commission of the Company's continuous disclosure record and providing supplemental disclosures to better inform the Corporation's investors.

Kind Regards,

Dennis Via (s)
CFO
Franchise Services of North America Inc.
480-538-7187



Franchise Services of North America Inc.

Restated Interim Consolidated Financial Statements

**As of December 31, 2007
and for the three months ended December 31, 2007**

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	Audited
	December 31, 2007	September 30, 2007
Assets		
Cash and cash equivalents	\$ 1,247,374	\$ 1,022,167
Restricted cash and cash equivalents	3,686,563	3,997,491
Accounts receivable, net of allowance for doubtful accounts (\$208,000 at 12/31/07 and \$82,000 at 9/30/07)	1,577,822	1,490,830
Related party accounts receivable	980,684	778,454
Related party notes receivables	209,466	209,466
Other notes receivable	20,088	10,548
Future income tax assets	1,937,959	2,085,098
Prepaid expenses	266,414	271,028
Total current assets	9,926,370	9,865,082
Furniture and equipment, net	277,564	262,518
Other:		
Related party notes receivable, less current portion	3,420,562	3,433,062
Other notes receivable, less current portion	201,443	9,678
Other assets	68,088	67,447
Future income tax assets	413,000	452,000
Goodwill	6,271,323	6,271,323
Other intangible assets, net	4,293,443	4,338,787
	14,945,423	14,834,815
Total assets	\$ 24,871,793	\$ 24,699,897

Franchise Services of North America Inc.

Consolidated Balance Sheets

	Unaudited	Audited
	December 31, 2007	September 30, 2007
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,827,233	\$ 1,556,625
Deposits received from franchisees	274,545	275,362
Current portion of insurance loss reserves	2,426,558	2,700,050
Current portion of notes payable	2,552,901	54,626
Current portion of capital lease obligations	15,543	21,037
Total current liabilities	7,096,780	4,607,700
Insurance loss reserves, less current portion	473,175	589,500
Notes payable, less current portion	-	2,500,000
Related party notes payable, less current portion	1,191,214	1,191,214
Capital lease obligations	18,162	18,163
Future income tax liabilities	926,196	926,196
Total liabilities	9,705,527	9,832,773
Commitments and contingencies (Notes 5, 10, 15, 18)		
Shareholders' Equity		
Share capital (Note 11 a)	15,109,246	15,109,246
Contributed surplus (Note 11 b)	1,426,771	1,411,877
Accumulated deficit	(1,528,808)	(1,808,161)
Accumulated other comprehensive income (Note 11 c)	159,057	154,162
Total shareholders' equity	15,166,266	14,867,124
Total liabilities and shareholders' equity	\$ 24,871,793	\$ 24,699,897

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

(Signed) "Sanford Miller" Director

(Signed) "Phil A. De Leon" Director

Franchise Services of North America Inc.

Consolidated Statement of Operations and Accumulated Deficit

	Unaudited Three Months Ended December 31, 2007	Unaudited Restated Four Months Ended December 31, 2006
Revenues		
Continuing franchisee and related fees	\$ 938,052	\$ 1,077,911
Initial franchise fees	215,000	113,373
Insurance premiums and related fees	3,061,722	4,113,319
Total revenues	4,214,774	5,304,603
Costs and expenses		
Direct operating		
Franchise operating	1,197,886	1,427,712
Insurance operating	762,235	541,515
Claims expense	490,565	1,547,214
Insurance underwriting expenses	530,845	905,419
General and administration	571,001	764,602
Stock based compensation expense	14,894	19,640
Interest expense	87,147	314,871
Amortization and depreciation	77,345	33,332
Total costs and expenses	3,731,918	5,554,305
Operating income (loss) before income taxes	482,856	(249,702)
Income tax expense (benefit) (Note 12)	203,503	(91,683)
Net income (loss)	\$ 279,353	\$ (158,019)
Accumulated Deficit beginning of the period	\$ (1,808,161)	\$ (2,297,899)
Accumulated Deficit end of period	\$ (1,528,808)	\$ (2,455,918)
Earnings per share (Note 11)		
Basic	\$ -	\$ -
Diluted	\$ -	\$ -

See accompanying notes to consolidated financial statements.

Franchise Services of North America Inc.

Consolidated Statement of Comprehensive Income

	Unaudited	
	Three Months Ended December 31, 2007	Unaudited Restated Four Months Ended December 31, 2006
Net Income (loss)	\$ 279,353	\$ (158,019)
Other Comprehensive Income		
Translation of Canadian dollar functional currency to US dollar reporting currency	4,895	3,505
Comprehensive income (loss)	\$ 284,248	\$ (154,514)

See accompanying notes to consolidated financial statements

Franchise Services of North America Inc.

Consolidated Statement of Cash Flows

	Unaudited Three Months Ended December 31, 2007	Unaudited Restated Four Months Ended December 31, 2006
Operating activities		
Net income (loss)	\$ 279,353	\$ (158,019)
Items not affecting cash:		
Depreciation and amortization	77,313	33,332
Future income tax provision	186,139	-
Loss on sale of assets	-	1,521
Provision for notes receivable	12,500	35,000
Provision (recovery) for doubtful accounts receivable	58,000	156,000
Accretion of subordinated debt discount	-	59,719
Stock-based compensation	14,894	19,640
	628,199	147,193
Changes in non-cash working capital:		
Accounts receivable	(449,444)	(20,942)
Prepaid expenses and other assets	4,407	45,809
Accounts payable and accrued liabilities	269,489	307,123
Insurance loss reserves	(389,817)	(42,622)
Deposits received from franchisees	(817)	1,925
Net change in non-cash working capital	(566,182)	291,293
Net cash provided by operating activities	62,017	438,486
Investing activities		
Change in restricted cash and cash equivalents	310,928	(172,805)
Capital expenditures	(35,677)	(28,808)
Payments for intangibles assets	(10,432)	-
Purchase of net assets of business, net of cash acquired	-	(640,450)
Proceeds from sale of depreciable assets	-	4,240
Advances on notes and other receivables	(100,000)	-
Repayments on notes and other receivables	1,635	13,466
Net cash provided by (used in) investing activities	\$ 166,454	\$ (824,357)

Franchise Services of North America Inc.

Consolidated Statement of Cash Flows

	Unaudited Three Months Ended December 31, 2007	Unaudited Restated Four Months Ended December 31, 2006
Financing activities		
Repayments of notes payable	\$ (1,759)	\$ (1,627,377)
Capital lease obligations	(5,532)	(1,481)
Proceeds from issue of common shares	-	2,583,756
Net cash provided by (used in) financing activities	(7,291)	954,898
Effect of exchange rate changes on cash	4,027	3,505
Net increase in cash and cash equivalents	225,207	572,532
Cash and cash equivalents, beginning of period	1,022,167	1,079,958
Cash and cash equivalents, end of period	\$ 1,247,374	\$ 1,652,490
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 108,981	\$ 223,535
Non-cash investing activities:		
Non-cash exchange of share capital for purchase of RAWC	-	1,217,808
Accounts receivable converted to notes receivable	102,940	-

See accompanying notes to consolidated financial statements

Franchise Services of North America Inc.

Notes to Consolidated Statements

The interim unaudited Consolidated Financial Statements of Franchise Services of North America Inc. as of and for the three months ended December 31, 2007 and as of and for the four months ended December 31, 2006 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 thirteen months ended September 30, 2007 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.'

On November 30, 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 has been accounted for as an acquisition of the net assets of the Company by U-Save, which is deemed the acquirer for accounting purposes. Amounts presented in the Consolidated Statement of Operations and Accumulated Deficit, Consolidated Statements of Comprehensive Income and the Consolidated Statements of Cash Flows for the four months ended December 31, 2006 reflect four months operations and cash flows of U-Save, the accounting acquirer and one month of Practicar.

Effective January 15, 2007, the Company, through its wholly owned subsidiary, U-Save Financial Services, Inc., acquired certain assets of DRSN Holdings, LLC, an Arizona-based limited liability company (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

Franchise Services of North America Inc.

Notes to Consolidated Statements

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 franchisees 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 16 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, 2007, certain of the Company’s financial instruments are denominated in the Canadian dollar as follows:

	C\$
Cash	322,139
Accounts Receivable	273,921
Accounts Payable	72,254
Other	7,527

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. However, considering the acquisition of U-Save described in Note 1 and the application of the reverse takeover accounting provisions under Canadian GAAP, U-Save is deemed to be the acquirer for accounting purposes. Accordingly, the accompanying consolidated financial statements report the financial results of the Company for the three months ended December 31, 2007, and include the transactions resulting from the business combination with U-Save completed on November 30, 2006. Amounts presented in the Consolidated Statement of Operations and Accumulated Deficit, Consolidated Statements of Comprehensive Income and the Consolidated Statements of Cash

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Notes to Consolidated Statements

Flows for the four months ended December 31, 2006 reflect four months operations and cash flows of U-Save, the accounting acquirer and one month of Practicar. All significant intercompany transactions have been eliminated.

Adjustment to Reported First Quarter Fiscal 2007 Results

As previously announced on February 22, 2008, interim quarterly financial statements issued for the quarters ended December 31, 2006, March 31, 2007 and June 30, 2007 should not be relied upon due to the determination that the RTO transaction was not recorded in accordance with Canadian GAAP. Net earnings for the four months ended December 31, 2006 presented herein have been adjusted to reflect the correction of an error in the originally issued Q1 fiscal year 2007 interim financial statements. Following the completion of the annual audit for the issuance of the consolidated financial statements for the year ended September 30, 2007, management determined that the original accounting for the RTO transaction was incorrect and was based on the legal acquirer (RAWC) continuing as the reporting entity. In accordance with Canadian GAAP, the accounting acquirer (U-Save) is deemed to be the continuing entity for reporting purposes. Accordingly, the interim consolidated financial statements as of and for the four months ended December 31, 2006, have been restated to properly reflect the recording of the RTO transaction. The net effect of this error was that net earnings for the four months ended December 31, 2006 has been reduced by \$256,655, net of a tax benefit of \$196,554. The impact on EPS for the first quarter of fiscal 2007 was negligible. The adjustment was already taken into account in the audited financial statements issued for the year ended September 30, 2007.

Reclassifications

In addition certain notes payable totaling \$2,500,000 have been reclassified at December 31, 2007 as current liabilities based on amended maturity dates. See Note 10, Notes Payable. These notes were reflected in error as long term liabilities in the previously reported Balance Sheet of the unaudited interim consolidated financial statements for the quarter ended December 31, 2007. This reclassification had no impact on net income or earnings per share.

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 as a separate component of shareholders' equity.

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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 are carried at cost, which approximates fair value. Restricted cash and cash equivalents are restricted for the payment of estimated insurance claims and premiums (see Note 5). In May 2007, as required by one of the Company's insurance carriers, an annual renewable letter of credit was established for \$1,600,000 for payment of claims, insurance premiums and any other obligations to the carrier. The letter of credit is secured by cash of the same amount and is reflected in the Company's restricted cash balance at December 31, 2007.

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 18 for further discussion of financial instrument risks.

Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days.

Furniture and Equipment

Capital assets are stated at cost and are amortized on the straight-line method for financial reporting purposes using estimated useful lives of three to seven years.

Goodwill and Intangible Assets

Goodwill and identifiable intangible assets with indefinite lives are reviewed annually for impairment and not more frequently, unless events or circumstances warrant such a review. The measurement of possible impairment is based on the estimated fair value of these assets. Identifiable intangible assets with finite lives are amortized generally on a straight-line method over their respective useful lives. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset is not recoverable and exceeds its estimated fair value.

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The amount of goodwill at December 31, 2007 expected to be deductible for tax purposes through amortization method permitted by the Internal Revenue Service is approximately \$510,000.

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.

For the three months ended December 31, 2007 and the four months ended December 31, 2006, the Company recorded increases (decreases) related to changes in liability claim estimates from the prior year estimate approximately as follows:

2007 (3 months ended)	\$ (277,000)
2006 (4 months ended)	15,000

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

Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that future income tax assets will be realized. The Company is subject to income tax in both Canada and the United States.

To the extent the Canadian operations generate taxable income such income would be taxed at the applicable Canadian statutory tax rates. To date, the Company's Canadian operations have not generated taxable income. The Company has not recognized a future tax asset related to the resulting non-capital loss carryforwards for its Canadian operations because management has concluded that it is not more likely than not that these future income tax assets will 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 have been reached or upon vesting.

Long Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate

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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 future undiscounted net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, 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 \$12,156 and \$12,802 for the three months ended December 31, 2007, and the four months ended December 31, 2006, 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. In the fiscal year ended September 30, 2007, this trend was not as prevalent as Q3 royalty revenue declined due to a general slowdown in car rental activity and tourism in the third fiscal quarter of the year. The Company does not anticipate that trend to continue into subsequent years.

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 new franchisee with his vehicle liability program for his fleet, the overall car count of insured vehicles will increase, having a positive effect on this revenue stream.

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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 and future income taxes. Actual results could differ from those estimates.

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, "Financial Instruments – Recognition and Measurement", Section 1530, "Comprehensive Income", Section 3861, "Financial Instruments-Disclosure and Presentation", and Section 3865, "Hedges". The Company has adopted these standards prospectively and as such the comparative financial statements have not been restated.

The adoption of these standards has no effect on opening retained earnings or accumulated other comprehensive income.

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 earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is

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derecognized at which time the amounts would be recorded in net earnings.

Following adoption of these standards, the Company has classified its cash 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, accrued liabilities, notes payable and long-term debt are classified as other financial liabilities which are measured at amortized cost. Due to the short-term nature of the accounts receivable and accounts payable and accrued liabilities, carrying amount approximates fair value. The fair value of notes and loans due to and from related parties cannot be reliably measured.

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 handbook Sections 3862, "Financial Instruments-Disclosures", and Section 3863, "Financial Instruments-Presentation" effective for fiscal years beginning on or after October 1, 2007, replacing HB 3861. HB 3863 carries forward unchanged the related presentation of HB 3861, while HB 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 has adopted these new standards for its 2008 fiscal year. See Note 18 for further discussion of risks associated with financial instruments.

Accounting Changes

In July 2006, the CICA issued the new handbook 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 our financial position or results of operations. This

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standard applies to the Company's interim and annual financial statements beginning October 1, 2007. The Company has adopted this new standard for its 2008 fiscal year.

Capital Disclosures

In November 2006, the CICA issued the new handbook 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 has adopted this new standard for its 2008 fiscal year. See Note 17 for disclosures.

Future Accounting Changes

International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) over a transition period that is expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

Goodwill and Intangible Assets

In February 2008, the CICA issued the new handbook Section 3064, "Goodwill and Intangible Assets" effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2008. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The Company is in the process of assessing the impact (if any) this new standard might have on the Company's consolidated financial statements.

4. Acquisitions

Rent-A-Wreck Capital Inc.

On November 30, 2006, the Company completed 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

Franchise Services of North America Inc.

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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. 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 has been accounted for as an acquisition of the net assets of the Company by U-Save, which is deemed the acquirer for accounting purposes. Amounts presented in the Consolidated Statement of Operations and Accumulated Deficit, Consolidated Statements of Comprehensive Income and the Consolidated Statements of Cash Flows for the four months ended December 31, 2006 reflect four months operations and cash flows of U-Save, the accounting acquirer and one month of Practicar.

The acquisition has been accounted for as a reverse takeover of RAWC by U-Save as follows:

- a) The financial statements of the combined entities are presented as a continuation of the financial statements of U-Save;
- b) As U-Save is the acquirer for accounting purposes, its assets and liabilities are included in the financial statements at their carrying values;
- c) The net identifiable assets of RAWC were recorded at their estimated fair values as of November 30, 2006;
- d) Existing RAWC stock options were adopted by the Company; and
- e) The results of RAWC's operations have been included in the consolidated financial statements only from the date of the transaction, November 30, 2006.
- f) The capital structure of the Company, being the capital structure of the legal parent (U-Save), differs from that appearing in the financial statements of the legal subsidiary in periods prior to the Business Combination Transaction, due to reverse takeover accounting.

For purposes of this transaction, consideration has been determined by the fair value of the net assets acquired and has been ascribed to the 11,346,501 common shares of RAWC which were outstanding on November 30, 2006. The 11,346,501 common shares of RAWC were consolidated at the time of the transaction at 4.0785967 to 1 to 2,781,962 consolidated shares issued at a deemed price of C\$0.50. The exchange ratio for the number of shares and the ascribed value of each share was determined jointly by both the acquiring and acquired companies and their respective Board of Directors in conjunction with the completion of the Amended and Restated Share Exchange Agreement and the advice and guidance of investment bankers sponsoring and managing the reverse takeover, private placements and subsequent public offerings.

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Net assets acquired	C\$	US\$
Rent-A-Wreck brand	3,464,352	3,033,053
Cash	11,663	10,211
Accounts receivable	218,077	190,927
Prepaid expenses	34,125	29,877
Furniture and Equipment	34,507	30,211
Accounts payable and accrued liabilities	(370,261)	(324,165)
Bank indebtedness	(128,437)	(112,448)
Long-term debt and capital lease assumed	(8,276)	(7,245)
Future income tax liability	(800,561)	(700,894)
Net assets acquired	2,455,189	2,149,527

The Company incurred direct costs related to this transaction totaling approximately \$922,000 which has been included as an integral part of the deemed purchase price of RAWC.

5. 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, we pay fronting (or underwriting) fees to our insurance carriers and we are required to make deposits to funds restricted for claim payments within the deductibles. In May 2007, as required by one of the Company's insurance carriers, an annual renewable letter of credit was established for \$1,600,000 for payment of claims, insurance premiums and any other obligations to the carrier. The letter of credit is secured by cash of the same amount and is reflected in the Company's restricted cash balance at December 31, 2007.

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 incurred and incurred but not reported losses. See item (a) below of Key Figures for Company's Insurance Programs.

The Company deposits funds with the insurance carriers, in a restricted account, to pay claims and other

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expenses within the deductibles. See item (b) below of Key Figures for 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 (c) below of Key Figures for 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, 2007	September 30, 2007
	\$	\$
(a) Funded Deductible Program		
Deductibles of \$10,000, \$20,000 or \$100,000		
Accrued liability for incurred and incurred but not reported losses	2,683,991	3,077,871
(b) Restricted Cash		
Amounts held related to estimated liability for claims and expenses	3,686,563	3,997,491
(c) 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	215,742	211,679

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Notes to Consolidated Statements

6. Related Party Receivables and Other Notes Receivable

	<u>December 31, 2007</u>	<u>September 30, 2007</u>
<p>Prior to the business combination transaction with RAWC as described in Note 4, 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.</p>	\$ 2,652,994	2,652,994
<p>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 bears an interest rate of 6% with five annual payments of principal and accrued interest due beginning August 2007. The note matures in August 2011. Currently, no payments have been made on this note, however, all amounts outstanding under this note are deemed collectible.</p>	\$ 302,000	302,000
<p>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 has been classified as non-current based on management's estimate of when the note receivable will be collected.</p>	\$ 301,865	301,865

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At December 31, 2007 and September 30, 2007, various unsecured notes receivable, primarily from franchisees, were outstanding. The notes bear interest at rates ranging from 0% to 9.25%. At December 31, 2007 and September 30, 2007 an allowance of \$77,500 and \$65,000, respectively, was established for notes deemed uncollectible. Of these notes receivable, approximately \$286,000 as of December 31, 2007 and September 30, 2007 were from franchisees in which one of the Company's Co-CEOs had a financial interest. (see Note 18, Financial Instruments, <i>Credit Risk</i> for further discussion)	\$	672,200	470,895
Allowance for notes deemed uncollectible		<u>(77,500)</u>	<u>(65,000)</u>
Total	\$	3,851,559	3,662,754

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7. Furniture and Equipment

December 31, 2007

	Cost	Accumulated Depreciation	Net
Assets under capital lease	\$ 52,596	\$ (15,331)	\$ 37,265
Furniture and equipment	484,098	(429,501)	54,597
Vehicles	38,958	(9,856)	29,102
Computers and software	889,447	(732,847)	156,600
	\$ 1,465,099	\$ (1,187,535)	\$ 277,564

September 30, 2007

	Cost	Accumulated Depreciation	Net
Assets under capital lease	\$ 52,764	\$ (12,065)	\$ 40,699
Furniture and equipment	474,644	(425,341)	49,303
Vehicles	39,166	(8,227)	30,939
Computers and software	863,620	(722,043)	141,577
	\$ 1,430,194	\$ (1,167,676)	\$ 262,518

The Company recorded depreciation expense of \$3,262 and \$394 for assets under capital lease for the three months ended December 31, 2007 and four months ended December 31, 2006, respectively.

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8. Other intangible assets

	Estimated Life (In Years)	December 31, 2007	September 30, 2007
Amortized intangible assets:			
Customer list	7-8	\$ 983,000	\$ 983,000
Advertising jingle	5	10,000	10,000
Non-compete agreement	3	254,158	254,158
Less accumulated amortization		(256,818)	(201,042)
		\$ 990,340	\$ 1,046,116

	December 31, 2007	September 30, 2007
Unamortized intangibles:		
Rent-A-Wreck Brand	\$ 3,033,053	\$ 3,033,053
Domain Name	161,653	161,653
Reacquired franchise rights	90,000	90,000
Trademarks	18,397	7,965
	3,303,103	3,292,671
	\$ 4,293,443	\$ 4,338,787

Amortization expense of \$56,714 and \$14,000 was recorded for the three months ended December 31, 2007 and four months ended December 31, 2006, respectively.

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Notes to Consolidated Statements

9. Other Assets

Other Assets consisted of the following:

	December 31, 2007		September 30, 2007
Security Deposits	\$ 61,305	\$	60,664
Other	6,783		6,783
	\$ 68,088	\$	67,447

10. Notes Payable

	<u>December 31, 2007</u>	<u>September 30, 2007</u>
<p>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 a note payable to the major shareholder. The note bears interest at 8.25% per annum and is unsecured. Payments of interest only are due monthly. The note matures January 2010.</p>	\$ 1,191,214	1,191,214
<p>In conjunction with its purchase of Xpress Rent-A-Car Association in February 2005, the Company entered into two note payable arrangements with the former owner of Xpress totaling \$200,000. One note payable of \$50,000 bearing no interest was paid in full August 1, 2005. The remaining note of \$150,000 has an interest rate of 6% and matures February 2008. The note is payable in three annual installments of principal and interest of \$56,116 beginning February 2006 and is unsecured.</p>	\$ 50,000	50,000
<p>In December 2003, the Company entered into a note payable with a non-related party for \$1,500,000 bearing interest at the rate of 10% per annum. Interest only</p>	\$ 1,500,000	1,500,000

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payments are due monthly. A shareholder of the Company has collateralized the note with personal assets. The note matured in December 2007. In December 2007, an amendment to the note was executed which extended the maturity date to December 2008.

In December 2003, the Company entered into another note payable with a non-related party for \$1,000,000. The note is collateralized by stock of Auto Rental Resource Center, Inc. (a wholly-owned subsidiary of the Company), and bears interest at the rate of 10% per annum. Interest only payments are due monthly. The note matured in December 2007. In December 2007, an amendment to the note was executed which extended the maturity date to December 2008.

Other Canada notes		2,901	4,626
Total	\$	3,744,115	3,745,840

Maturities of notes payable are as follows:

		Year Ending September 30
2008	\$	52,901
2009		2,500,000
2010		1,191,214
Total	\$	3,744,115

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Notes to Consolidated Statements

11. Shareholders Equity

11. (a) Share Capital

Authorized:

Unlimited common shares, without par value

Unlimited preferred shares without par value

Issued:

Common Shares	December 31, 2007	
	Number	Amount
Balance at September 30, 2007	62,744,279	\$ 15,109,246
Balance at December 31, 2007	62,744,279	\$ 15,109,246

Common Shares	September 30, 2007	
	Number	Amount
Balance at August 31, 2006	6,262,884	\$ 6,983,636
Shares of U-Save tendered to the Company	(6,262,884)	-
Shares issued to shareholders of U-Save, (i)	45,600,000	-
Acquisition of Rent-A-Wreck Capital Inc., (i)	2,781,962	1,217,808
Reclassification of treasury stock	-	(25,000)
Private placement (ii)	7,000,000	2,558,756
Public share issues (ii)	7,320,600	4,362,663
Issued for cash on exercise of stock options (iii)	41,717	11,383
Balance at September 30, 2007	62,744,279	\$ 15,109,246

Preferred Shares

There were no outstanding preferred shares at December 31, 2007 or September 30, 2007.

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Notes to Consolidated Statements

(i) Acquisition of Rent-A-Wreck Capital, Inc.

On November 30, 2006, the Company completed a Business Combination Transaction with U-Save Auto Rental of America, Inc. ("U-Save"), a privately held Mississippi company. As a result of the transaction, the shareholders of U-Save received 45,600,000 shares of the Company's common stock in exchange for their shares of U-Save and the shareholders of Rent-A-Wreck Capital Inc. received 2,781,962 shares of the Company at a deemed value of C\$0.50 per share. The acquisition has been accounted for as a reverse takeover of RAWC by U-Save.

(ii) Shares issued for cash

	Number	Amount C\$	Amount US\$
November 30, 2006			
Common shares issued by private placements			
Blackmont Capital Inc.	7,000,000	\$ 3,500,000	\$ 3,064,262
Meridian Merchant Capital Canada Ltd.	C\$0.50		
Direct cash expenses		(474,538)	(415,028)
Direct non-cash expenses		(103,344)	(90,478)
	Net Proceeds	\$ 2,922,118	\$ 2,558,756

The non-cash expenses relate to stock based compensation recognized in connection with compensating options granted as part of the private placement.

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	Number		Amount C\$		Amount US\$
February 6, 2007					
Common shares issued by public offering	6,678,600	\$	5,676,810	\$	4,799,873
	C\$0.85				
Direct cash expenses			(848,902)		(723,784)
Direct non-cash expenses			(113,807)		(96,226)
		\$	4,714,101	\$	3,979,863

The non-cash expenses relate to stock based compensation recognized in connection with compensating options granted as part of the public offering.

	Number		Amount C\$		Amount US\$
March 8, 2007					
Common shares issued by second public offering	642,000	\$	545,700	\$	462,536
	C\$0.85				
Direct cash expenses			(86,667)		(74,050)
Direct non-cash expenses			(6,709)		(5,686)
		\$	452,324	\$	382,800

The non-cash expenses relate to stock based compensation recognized in connection with compensating options granted as part of the public offering.

(iii) 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, 2007, the Company had granted 10,395,664 stock options under the terms of its Plan. Of these options, 8,273,774 were granted to directors, officers and employees and 2,121,890 were granted to agents of the Company.

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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 \$14,894 was recorded for the three months ended December 31, 2007.

A summary of stock option activity during fiscal 2007 and three months ended December 31, 2007 is summarized as follows:

	Options Outstanding	Weighted Average Exercise Price
Balance at August 31, 2006	1,069,341	\$ 0.60
Options converted - U-Save	7,785,866	\$ 0.15
Options converted - RAWC	156,917	0.41
Balance at November 30, 2006	7,942,783	
Options granted	2,567,854	\$ 0.79
Options cancelled	(41,717)	0.32
Options forfeited	(34,027)	0.19
Balance outstanding at September 30, 2007	10,434,893	\$ 0.38
Options forfeited	(39,229)	0.41
Balance outstanding at December 31, 2007	10,395,664	\$ 0.38

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The weighted average remaining contractual life of stock options outstanding at December 31, 2007 is presented below:

Total Outstanding Options by price range - C\$ December 31, 2007	Total Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price C\$
\$0.1016	6,827,197	8.9	\$ 0.1016
\$0.41 to \$0.55	1,650,613	6.5	0.5015
\$0.85 to \$1.04	1,917,854	4.7	0.9248
Total Options Outstanding	10,395,664	7.8	\$ 0.3170

Exercisable Options by price range - C\$ December 31, 2007	Exercisable Options	Weighted Average Remaining Life (years)	Weighted Average Exercise Price C\$
\$0.1016	3,413,604	8.9	\$ 0.1016
\$0.41 to \$0.55	991,993	4.8	0.4924
\$0.85 to \$1.04	1,472,254	3.3	0.8988
Total Exercisable Options	5,877,851	6.8	\$ 0.3672

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The weighted average remaining contractual life of stock options outstanding at September 30, 2007 is presented below:

Total Outstanding Options by price range - C\$ September 30, 2007	Total Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price C\$
\$0.1016	6,827,197	9.2	\$ 0.1016
\$0.41 to \$0.55	1,689,842	6.6	0.4994
\$0.85 to \$1.04	1,917,854	4.9	0.9248
Total Options Outstanding	10,434,893	8.0	\$ 0.3173

Exercisable Options by price range - C\$ September 30, 2007	Exercisable Options	Weighted Average Remaining Life (years)	Weighted Average Exercise Price C\$
\$0.1016	3,413,604	9.2	\$ 0.1016
\$0.41 to \$0.55	1,031,222	4.9	0.4893
\$0.85 to \$1.04	1,472,254	3.6	0.8988
Total Exercisable Options	5,917,080	7.0	\$ 0.3675

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11. (b) Contributed Surplus

	December 31, 2007	September 30, 2007
Balance at beginning of period	\$ 1,411,877	\$ 1,211,113
Cancellation of warrants on re-payment of subordinated debenture (Note 10)	-	(471,551)
Additional consideration from shareholders	-	373,000
Stock-based compensation expense	14,894	106,924
Stock-based compensation expense incurred in connection with private placement and public offerings	-	192,391
Balance at end of period	\$ 1,426,771	\$ 1,411,877

11. (c) Accumulated Other Comprehensive Income

	December 31, 2007	September 30, 2007
Balance at beginning of period	\$ 154,162	\$ -
Translation adjustment, current period	4,895	154,162
Balance at end of period	\$ 159,057	\$ 154,162

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11. (d) Weighted Shares Outstanding

	December 31, 2007		September 30, 2007
Weighted average common shares outstanding - Basic	62,744,279	\$	57,515,455
Dilutive stock options	7,826,327		5,938,084
Weighted average common shares outstanding - Diluted	70,570,606		63,453,539
Net Income	\$ 279,353	\$	489,738
Earnings per Share - Basic	\$ 0.00	\$	0.01
Earnings per Share - Diluted	\$ 0.00	\$	0.01

Approximately 3,568,467 options were excluded from the earnings per share calculation at December 31, 2007 and 1,917,854 at September 30, 2007, as their impact would have been anti-dilutive.

12. Income Taxes

Income tax expense of continuing operations consists of the following:

	December 31, 2007		September 30, 2007
Federal			
Current	\$ -	\$	-
Future	161,021		253,277
	161,021		253,277
State:			
Current	16,940		47,860
Future	25,542		44,300
	42,482		92,160
Income tax expense	\$ 203,503	\$	345,437

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Income tax expense differs from amounts computed by applying United States Federal income tax rate of 34 percent to pretax earnings (loss) from continuing operations as a result of the following:

	December 31, 2007	September 30, 2007
Computed "expected" tax expense	\$ 166,435	\$ 232,877
State income taxes, net of federal income tax benefit	11,181	31,588
Other	25,887	80,972
Income tax expense	\$ 203,503	\$ 345,437

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, 2007, the Company has a net operating loss carryforward of approximately \$2,458,000 that will not begin to expire until 2024.

The Company also has unused non-capital tax losses related to its Canadian operations totaling CDN\$293,838.

Significant components of future income tax assets and liabilities at December 31, 2007 and September 30, 2007 are presented below:

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	December 31, 2007	September 30, 2007
Future income tax assets:		
Insurance loss reserves	\$ 1,087,000	\$ 1,234,000
Accounts receivable allowance	107,000	81,000
Intangibles	109,000	114,000
Tax credits	85,000	80,000
Stock based compensation	41,000	36,000
Net operating loss carryforward	922,000	992,000
	2,351,000	2,537,000
Future income tax liabilities:		
Intangibles	(827,000)	(827,000)
Furniture and equipment	(89,000)	(89,000)
Other	(10,000)	(10,000)
	(926,000)	(926,000)
Future income tax assets, net	\$ 1,425,000	\$ 1,611,000

Future income tax assets, net is comprised of:

	December 31, 2007	September 30, 2007
Future income tax assets - current	\$ 1,938,000	\$ 2,085,000
Future income tax assets - long term	413,000	452,000
Future income tax liabilities - long term	(926,000)	(926,000)
Future income tax assets, net	\$ 1,425,000	\$ 1,611,000

The ultimate realization of the future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and the tax planning strategies in making this assessment. Based upon the level of historical taxable income and anticipated future taxable income over the periods in which the future tax assets are deductible,

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management believes it is more likely than not that the Company will realize the benefits of these deductible differences; therefore, no valuation allowance was established at December 31, 2007 or September 30, 2007.

14. Related Party Transactions

Loans to and from related parties are described in Notes 6 and 10. Members of the Company's Board of Directors who are also officers and significant shareholders of the Company have investments in certain vehicle rental operations and transportation companies, which have transactions with the Company. Transactions include insurance, reservation and royalty payments that were provided in the normal course of business.

The Company recorded revenues and expenses related to these transactions as follows:

	Three months ended December 31, 2007	Four months ended December 31, 2006
Continuing franchise and related fees	\$ 192,672	\$ 294,728
Insurance premiums and related fees	\$ 142,500	\$ 254,879
Interest expense	\$ 19,564	\$ -

At December 31, 2007 and September 30, 2007, related party accounts receivable totaled \$980,684 and \$778,454, respectively.

15. Commitments and Contingencies

Contingencies

The Company is periodically involved in legal actions and automobile accident claims (see Note 5) 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

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reasonably estimated.

Lease Commitments

The Company leases office space and certain furniture and equipment under noncancellable operating leases. Rental expense was approximately \$87,000 and \$92,000 for the three months ended December 31, 2007 and the four months ended December 31, 2006, 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
2008	\$ 288,865
2009	177,517
2010	45,406
2011	4,515
	<u>\$ 516,303</u>

16. Segment Information

Management has determined that the Company operates in one dominant industry segment (the auto rental segment) in multiple jurisdictions, which involves (i) licensing to franchisees to operate auto rental business under Company owned brands and (ii) providing franchisees, independent auto rental operators and other related auto rental operations with financial services related to insurance products.

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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
Net income (loss) before tax	623,976		(141,120)		482,856
Other intangibles, 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

As of and for the four months ended December 31, 2006

	USA \$		Canada \$		Total \$
Revenue	\$ 5,213,327	\$	91,276	\$	5,304,603
Expenses	5,431,620		122,685		5,554,305
Net loss before tax	(218,293)		(31,409)		(249,702)
Other intangibles, net	438,018		2,886,290		3,324,308
Goodwill	5,861,485		-		5,861,485
Total assets	\$ 17,536,471	\$	5,538,590	\$	23,075,061

17. 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.

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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 cash and cash equivalents, long-term debt, including current portion, and issued capital, contributed surplus and deficit. 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, 2007.

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.

18. 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.

Credit Risk

Financial instruments that could potentially subject the Company to credit risk consist principally of accounts receivable, which are associated with franchisees. The risk is that a franchisee will be unable to pay amounts due to the Company. The franchisees are located primarily throughout the United States and Canada. A portion of the franchisees' 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 as part of general and administrative expenses.

In this regard, the Company has converted certain accounts receivable of two franchise operations into notes receivable. These notes are included as part of the balances disclosed in Note 6 of \$672,200 and \$470,895 at December 31, 2007 and September 30, 2007, respectively. A major shareholder and officer of the Company is co-owner of one franchise with a note for \$206,853 dated January 1, 2007 with an

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interest rate of 9.25%, a term of 48 months, monthly principal and interest payments of \$5,172, maturing December 30, 2011. The second converted receivable with a non-related party franchise is represented by a note for \$102,940 dated December 7, 2007 with an interest rate of 8.25%, a term of 48 months, monthly principal and interest payments of \$1,729, maturing December 30, 2011. The notes are both carried at amortized costs which currently represents their fair value. No reserves have been established, as there are no concerns regarding collectability.

The Company maintains cash at finance institutions which, at December 31, 2007 and September 30, 2007 and at 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.