

Franchise Services of North America Inc.

August 28, 2008

Management Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (“MD&A”) was prepared as at August 28, 2008 and should be read in conjunction with the unaudited interim Consolidated Financial Statements and related notes for the nine months ended June 30, 2008 and for the ten months ended June 30, 2007, as well as the audited Consolidated Financial Statements and related notes for the thirteen months ended September 30, 2007 and for the year ended August 31, 2006, all available on SEDAR, at www.sedar.com.

Adjustment to Reported Third 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 ten months ended June 30, 2007 presented herein have been adjusted to reflect the correction of an error in the originally issued Q3 fiscal year 2007 interim financial statements. During 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 Rent A Wreck Capital Inc. (“RAWC”) continuing as the reporting entity. In accordance with Canadian GAAP, the accounting acquirer, U-Save Auto Rental of America, Inc. (“U-Save”) is deemed to be the continuing entity for reporting purposes. Accordingly, the interim consolidated financial statements as of and for the ten months ended June 30, 2007, have been restated to properly reflect the recording of the RTO transaction. The net effect of this error was that net income after tax for the three months ended June 30, 2007 has been increased by \$105,855 and for the ten months ended June 30, 2007 has been decreased \$142,648. The impact on EPS for the third 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.

Franchise Services of North America Inc. (“FSNA” or the “Company”), is a public company whose common shares are listed on the TSX Venture Exchange under the symbol ‘FSN.’ The Company operates two principal 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 and U-Save Car & Truck Rental businesses worldwide 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

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Resource Center ("ARRC"). ARRC provides insurance discounts and products and services to its members who operate independent vehicle rental businesses. Practicar owns the Rent-A-Wreck trademark in Canada and operates the Rent-A-Wreck car rental and sales franchise system 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 its wholly owned subsidiary, Practicar. 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 nine month period ended and as of June 30, 2008, 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, and as further described below. As a result, any comparative reference to the prior period will be a reference to the nine months of the consolidated entity for the current period ending June 30, 2008, as compared to the ten month results of U-Save, and seven months of Practicar ending June 30, 2007 as accounted for as a result of the Business Combination Transaction in accordance with Canadian Generally Accepted Accounting Principles.

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 financial statements, material change reports, unaudited quarterly financial statements and news releases, are available online at www.sedar.com.

Certain information set out in the MD&A constitutes forward-looking information, including information respecting:

- (i) Traditional trends for vehicle rentals and sales, local rental and vehicle replacement markets are less likely to be followed in the near future as the economy and overall travel patterns have softened (as set out in "Quarterly Results," page 15);
- (ii) Forecasted increase rentals as new airport locations are opened vs. local markets and where the Company provides new airport franchisees with fleet liability coverage (as set out in "Quarterly Results," page 15);
- (iii) The growth in rental revenue that will generate higher royalty payments as the distribution channels available, and efficiency of channels, provide more reservation opportunities (as set out in "Quarterly Results," page 15);

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- (iv) Historical steady growth could be impacted by future economic downturn, impacting rental demand, rates and car availability (as set out in "Quarterly Results," page 16); and
- (v) The Company not anticipating significant cash requirements for capital asset acquisitions during the fiscal year 2008 and expects that these requirements will be met through operating cash flow and working capital. Additionally, the Company intends to negotiate with the holder of its working capital notes due December 31, 2008 to extend the maturities of those notes, as well as explore other alternative sources for working capital (as set out in "Liquidity and Capital Resources," page 17).

Forward-looking statements are often, but not always, identified by the use of words such as "may," "could," "should," "would," "expect," "intend," "estimate," "anticipate," "outlook" or "believe," and similar expressions often identify forward-looking information. By their nature, forward-looking statements require FSNA to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections will not prove to be accurate, that FSNA's assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. With respect to these forward-looking statements, we have made assumptions regarding, among other things, the impact of the North American economy and the cost of gasoline, and how this can impact the car rental industry, the overall impact of the tourism industry and the strength and/or weakness that sector can experience, and the Company's need for cash and liquidity as it relates to capital asset acquisitions being planned for and currently anticipated to be funded from operating cash flow and working capital. Some of the risks that could affect FSNA's future results and could cause results to differ materially from those expressed in the forward-looking statements include the overall economy, the cost of gasoline and its effect on tourism, the ability of our franchisees to grow their fleets and successfully rent their vehicles, and other risks detailed from time-to-time in the publicly filed disclosure documents of FSNA. FSNA's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In addition, the forward-looking statements are made only as of the date of this discussion, and except as required by applicable law, or as discussed below, FSNA undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise.

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Forward-looking information respecting:

- (i) Traditional trends for vehicle rental, sales, local markets and vehicle replacement are less likely to be followed in the near future are based on the fact that the economy is softer in 2008 than it was in 2007 and the economy continues to be under recessionary pressures.
- (ii) The forecasted increase in rentals as new airport locations are opened vs. local markets and where the Company provides new airport franchisees with fleet liability coverage is based upon the nature of the car rental business whereby an airport location will open and operate with a larger fleet of rental vehicles as opposed to a local market rental location. The larger fleet affords for the higher number of vehicles to be rented and potentially insured through the Company's insurance programs. Each airport location the Company has added has historically insured more cars, and rented more cars than a neighborhood store, thus generating higher fee income per month.
- (iii) The anticipated growth in rental revenue that will generate higher royalty payments as the distribution channels are available and efficiency of channels provide more reservation opportunities is based upon the reservation channels the Company already has and continues to develop. Each new location that is added where the Company previously did not have a point of distribution affords the Company the opportunity to generate reservations for the new franchisee to this new point from the marketing efforts the Company already participates in. Each new reservation channel developed has the ability to deliver incremental business to the franchisees already operating.
- (iv) The possible impact on historical steady growth from future economic downturn, impacting rental demand, rates and car availability is based upon the general economic outlook for the United States as the majority of the Company's operations take place within that country. It is also based upon the representations and statements made by other publicly held car rental companies in their filings and information that is readily available in industry trade publications.
- (v) The meeting of cash requirements for capital asset acquisitions during the fiscal year 2008 through operating cash flow and working capital is based upon the anticipation that the Company is not currently planning any type of significant acquisition requiring capital funding, and that the historical operations of the Company have supported the Company's operations and annual need for capital expenditures. In addition, the

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holder of the working capital notes is open to discussion on extensions of the maturity dates, and we have been in contact with commercial lenders regarding alternative sources of working capital.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. We undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf, at the time of a significant event relative specifically to the Company's business through the issuance of a press release, or as necessary in the following financial periods Management's Discussion and Analysis. The Company does not undertake the responsibility of addressing changing factors in the car rental industry, or with general economic conditions, unless the event specifically impacts the Company, warranting the issuance of a press release.

Currency

All amounts in this MD&A are expressed in U. S. 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., a privately held Mississippi company, based in Jackson, Mississippi. Under the terms of the transaction, the Company obtained shareholder approval to consolidate its common shares, to acquire 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) all of the outstanding stock of U-Save in a "reverse take-over" ("RTO") transaction, change the name of the Company from Rent-A-Wreck Capital Inc. to Franchise Services of North America Inc., appoint a new Board of Directors, and amend and restate the Company's 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, 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 of the Company held 5.75% of the outstanding shares.

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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 \$2,996,116 (US \$2,623,110), 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 two years. The proceeds were 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.

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. A second closing took place in March 2007, where an additional 642,000 common shares were issued for aggregate gross proceeds of CDN \$545,700. 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. Proceeds were 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 into Canada.

Business Acquisition

Effective January 15, 2007, the Company, through its wholly owned subsidiary, U-Save Financial Services, Inc., acquired certain assets of DRSN Holdings, LLC, an Arizona-based limited liability company. These assets consisted of a full-service insurance agency with an established book of business across various product lines and customers throughout North

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America. The initial purchase price, which totaled \$1,191,214, was paid with cash funded by a major shareholder. In addition, the agreement calls for two subsequent contingent payments of \$188,150 payable on or about January 15, 2008 and 2009, which can be adjusted based on the amount of revenue retained in relation to specified baseline revenue. Any additional consideration paid will be reflected in goodwill.

The acquisition was accounted for using the purchase method of accounting and the purchase price was allocated to the identifiable assets and liabilities acquired based on their estimated fair value at the acquisition date. Any excess of the purchase price over the estimated fair values of the net identifiable assets acquired was allocated to goodwill. The results from operations have been included in the Company's consolidated financial statements from the acquisition date.

The initial purchase price was allocated as follows:

Goodwill	\$ 409,838
Customer List	\$ 703,000
Non-Compete Agreement	<u>\$ 78,376</u>
	<u>\$1,191,214</u>

The purchase price was based on 2.2x annual revenue of the book of business, \$703,000 or \$1,567,514. The purchase price was allocated to the customer list at 1x annual revenue stream of \$703,000, 5% or \$78,376 to the covenant not to compete and the difference (excluding the contingent consideration, discussed below) to Goodwill of \$409,838. The excess of the purchase price over the value ascribed to the customer lists and the covenant not to compete was attributed to goodwill as there were no other significant assets or liabilities acquired.

The contingent consideration noted above was excluded from the initial purchase price allocation. Under Canadian GAAP, if the contingency can be determined beyond a reasonable doubt, it should be recognized as part of the cost of the purchase. When it cannot be reasonably estimated or the outcome cannot be recognizably determined beyond a reasonable doubt, details of the contingency should be disclosed. It is the opinion of management that the outcome cannot be reasonably determined until the contingency is resolved (based on each measurement date) and the consideration is issued or becomes issuable. The consideration, if any is due, is a function of the successful retention of the baseline revenue as established in the agreement. Thus, the fair value of that consideration issued or issuable will be recognized as an additional cost of the purchase when the contingency is resolved. For these reasons, and in line with the guidance, any future contingent consideration paid on the anniversary dates of January 15, 2008 and 2009 will be recorded as part of the purchase price and allocated to goodwill. An initial contingent payment of \$188,150 was made in February 2008.

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Financial Statements and Basis of Presentation

The Company's unaudited interim Consolidated Financial Statements as of and at June 30, 2008 have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Consolidated Balance Sheet includes all the assets and liabilities of all the subsidiaries of the Company including Practicar and U-Save. The Consolidated Statement of Operations and Accumulated Deficit, Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows include the operations for the nine months ended June 30, 2008. The comparative Consolidated Statement of Operations and Accumulated Deficit, Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows include the operations for the ten months ended June 30, 2007 for U-Save (the accounting acquirer) and seven months for Practicar. These comparative financial statements have been restated to conform with the presentation and accounting for the BCT as reflected in the audited Consolidated Financial Statements at September 30, 2007. 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.

Selected Financial 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 current unaudited quarter:

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Selected Annual Information	Nine Months ended June 30 2008 unaudited US \$	13 Months ended September 30 2007 audited US \$	12 Months ended August 31 2006 audited US \$	12 Months ended August 31 2005 audited US \$
Total revenues	\$ 11,850,078	\$ 18,180,802	\$ 18,027,381	\$ 16,149,499
Net income before discontinued operations	\$ 258,071	\$ 489,738	\$ 1,483,698	\$ 49,585
per share - basic	\$ 0.00	\$ 0.01	\$ 0.03	\$ 0.00
per share - diluted	\$ 0.00	\$ 0.01	\$ 0.03	\$ 0.00
Net income after discontinued operations	\$ 258,071	\$ 489,738	\$ 1,483,698	\$ 49,585
per share - basic	\$ 0.00	\$ 0.01	\$ 0.03	\$ 0.00
per share - diluted	\$ 0.00	\$ 0.01	\$ 0.03	\$ 0.00
Total assets	\$ 24,464,017	\$ 24,699,897	\$ 19,350,537	\$ 18,183,467
Total long-term financial liabilities	\$ 1,183,279	\$ 3,709,377	\$ 3,518,184	\$ 6,709,261
Cash dividends declared per share	\$ nil	\$ nil	\$ nil	\$ nil

Note: The year ended September 30, 2007 reflects 13 months activity of U-Save and only 10 months of the Canadian operations as the BCT transaction was completed on November 30, 2006. Selected annual information for the 12 months ended August 31, 2006 and 2005 reflect only that of U-Save Auto Rental of America, Inc., a private Mississippi Corporation prior to the BCT. 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.

The following table reports the selected financial information of the Company by geographic jurisdictions. 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. As previously discussed, the comparative ten month results for the period ending June 30, 2007 reflect ten months activity of U-Save and seven months activity of Practicar and the parent company, FSNA (a Canadian corporation) as a result of the BCT completed on November 30, 2006.

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Segmented Information	Three Months ended June 30, 2008			Three Months ended June 30, 2007		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 3,589,511	\$ 155,866	\$ 3,745,377	\$ 3,927,966	\$ 182,699	\$ 4,110,665
Expenses	3,392,988	356,853	3,749,841	3,557,758	264,329	3,822,087
Net income (loss) before tax	196,523	(200,987)	(4,464)	370,208	(81,630)	288,578
Income tax expense	88,068	(76,965)	11,103	53,567	-	53,567
Net income (loss)	\$ 108,455	\$ (124,022)	\$ (15,567)	\$ 316,641	\$ (81,630)	\$ 235,011

Segmented Information	Nine Months ended June 30, 2008			Ten Months ended June 30, 2007		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 11,292,718	\$ 557,360	\$ 11,850,078	\$ 14,077,352	\$ 431,233	\$ 14,508,585
Expenses	10,506,141	946,462	11,452,603	13,372,578	723,834	14,096,412
Net income (loss) before tax	786,577	(389,102)	397,475	704,774	(292,601)	412,173
Income tax expense	327,701	(188,297)	139,404	247,000	-	247,000
Net income (loss)	\$ 458,876	\$ (200,805)	\$ 258,071	\$ 457,774	\$ (292,601)	\$ 165,173
Total assets	\$ 14,254,032	\$ 10,209,985	\$ 24,464,017	\$ 16,437,193	\$ 8,642,199	\$ 25,079,392
Total long-term financial liabilities	\$ 1,161,572	\$ 21,707	\$ 1,183,279	\$ 3,771,350	\$ 1,502	\$ 3,772,852

Note: The financial information for the three months and ten months ending June 30, 2007 has been restated to conform with the audited consolidated financial statements for the thirteen months ended September 30, 2007. Net Income (loss) for Canada includes all costs of the parent company, FSNA, incurred in Canada from December 1, 2006.

Operations

For the three months ended June 30, 2008, the Company reported a net loss from operations of \$15,567, as compared to net income of \$235,011 for the quarter ended June 30, 2007. The comparative decrease is mainly due to the Company's inability to sell domestic franchises in the third quarter due to the expiration of its offering circular as a result of the delay in filing its financial statements. Additionally, the Company incurred legal and accounting expenses of approximately \$100,000 to resolve the cease trade order that went into effect in the second quarter and was lifted in June 2008.

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For the nine months ended June 30, 2008, the Company reported net income from operations of \$258,071 compared with a net income of \$165,173 for the previous year's ten month period ended June 30, 2007. The improvement was the result of a reduction in insurance claims and underwriting expenses compared to the prior year. Total insurance-related expenses as a percentage of insurance-related revenue dropped from 77.5% in the first ten months of 2007 to 64.2% in the first nine months of 2008. The primary driver of this decrease was a decrease in overall claims experience. The Company also had a reduction in interest expense of approximately \$261,000 as a result of the retirement of debt obligations in the second quarter of fiscal 2007 made from the proceeds of the public offering mentioned elsewhere in this report.

Revenue

Total revenue for the three month period ended June 30, 2008 was \$3,745,377 compared to \$4,110,665 for the quarter ended June 30, 2007. The \$365,288 comparative decline or 8.9% is mainly due to the Company being unable to sell new franchises in the quarter, fewer cars being insured by the franchisees and associate members, and lower royalty income as a result of the competitive nature of the pricing and declining fleets which has occurred in the industry during the last six months.

Total revenue for the nine months ended June 30, 2008 was \$11,850,078 compared to \$14,508,585 for the ten months ended June 30, 2007. The decrease in revenue is a result of only nine months activity for U-Save for the period as compared to the ten month activity in the prior year. Additionally, revenue for the ten months ended June 30, 2007 included \$770,742 of other income as a result of the BCT and settlement of the subordinated debt, resulting in cancellation of warrants and the forgiveness of accrued interest. See Note 12 to the Consolidated Financial Statements for the Quarter for further explanation. The primary component of the Company's revenues are insurance premiums and related fees which was \$8,599,121 for the nine month period ending June 30, 2008, compared to \$10,018,648 for the ten month period ending June 30, 2007. Franchise sales decreased from the comparative period due to the expiration of its offering circular for the sale of a franchise as a result of the delay in filing its financial statements. However, the Company filed its registration statement subsequent to the satisfactory resolution of the cease trade order in June 2008 and is actively selling franchises again. Franchise sales do not track a particular pattern or seasonality and are a function of finding a qualified candidate for a given market. Accordingly, the results of any one period of franchise sales activity are not necessarily indicative of a trend or pattern of sales activity.

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Expenses

Total expenses for the three month period ended June 30, 2008 were \$3,749,841 compared to \$3,822,087 for the comparative period resulting in a marginal decline of 1.9%. The primary driver of this decrease was the continued improvement in claims experience and related underwriting expenses as explained in detail in Operations under Selected Financial Information above, offset by increases in legal and accounting expenses related to resolving the cease trade order discussed above and which are included in general and administration expenses. Franchise expenses increased \$118,000 or 11.1% due to an increase in related bad debts resulting from economic pressures on the franchisees. The increase in amortization expense of 25.2% is due to the addition of amortizable intangible assets as a result of the insurance agency acquisition. Interest expense decreased 6.1% from the prior year. This reduction is a result of the Company satisfying its subordinated debt obligation in February 2007.

Total expenses for the nine months ended June 30, 2008 were \$11,452,603 as compared to \$14,096,412 reported for the ten months ended June 30, 2007. Decreases in franchise operating expense of 4.7% is mainly the result of only nine months activity for U-Save for the period as compared to the ten months of activity in the prior year. General and administrative expenses are up slightly by 1.2% due to additional expenses incurred in the quarter for legal and accounting expenses related to resolving the cease trade order discussed above. Insurance operating expenses increased from the prior year primarily as a result of the insurance agency acquisition which was effective January 15, 2007. In addition, the increase in amortization expense of \$80,763 or 52.2% is due to the addition of amortizable intangible assets as a result of the insurance agency acquisition. Claims expense decreased approximately 53% (or \$2.0 million) from the prior year. The majority of this decrease was due to a reduction of approximately \$1,007,000 in liability insurance reserves in the current year based on reports received from the Company's insurance carriers. Additionally, there is only nine months activity for U-Save in the current year as compared to ten months activity in the prior year. Consistent with the decrease in reserves, claims expense for liability and physical damage decreased approximately \$904,000. Claims expense can be affected by a myriad of issues from driver experience to weather-related incidents. Any one period is not necessarily indicative of the results that can be anticipated for an entire year.

In direct relation to the decrease in claims expense, insurance underwriting expense decreased 29.1% from the prior year. Approximately 42% of this decrease, or \$264,000 was a result of only nine months activity for U-Save in the current year as compared to ten months activity in the prior year. The remainder of the decrease or \$351,000 is consistent with the reduction in claims expense and lower claims handling fees.

Interest expense decreased 51%, or approximately \$261,000 from the prior year. This

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reduction is a result of the Company satisfying its subordinated debt obligation in February 2007.

Quarterly Results

The following financial information is derived from the Company's unaudited quarterly consolidated financial statements for each of the nine most recently completed quarterly periods. The amounts for the quarters ending December 31, 2006, March 31, 2007, June 30, 2007 and September 30, 2007 reflect the accounting of the BCT as completed on November 30, 2006, thus the first quarter of the 2007 fiscal year, ending December 31, 2006 actually reflects four months of operations of U-Save and one month operations of Practicar. All subsequent quarterly periods of 2007 and the three quarters of the fiscal year 2008 reflect three months combined operations of the Company. The four quarters for the thirteen months ended September 30, 2007 have been updated and restated to reflect the accounting of the BCT in accordance with Canadian GAAP related to reverse take-over accounting. This restatement differs from the original reporting of the operations for the third quarter and the subsequent carry forward of year-to-date results. The four quarters from the fiscal year ended August 31, 2006 only relate to the unaudited quarterly results of U-Save Auto Rental of America, Inc. While reported results have been restated for the correction of an error for the quarter ended December 31, 2006, certain amounts have been reclassified to conform to current year presentation. The previously reported quarters of the Company when traded as RAW prior to the BCT information can be obtained on SEDAR (www.sedar.com) under the current Company's listing.

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Quarters Ending unaudited	Insurance Premiums and Related Fees US \$	Total Revenues US \$	Net Income (Loss)		
			US \$	Per Share	
				Basic US \$	Diluted US \$
Fiscal year ended September 2008					
Q3, June 30, 2008	2,781,880	3,745,377	(15,567)	0.00	0.00
Q2, March 31, 2008	2,755,519	3,889,927	(5,715)	0.00	0.00
Q1, December 31, 2007	3,061,722	4,214,774	279,353	0.00	0.00
13 Months ended September 2007					
Q4, September 30, 2007	3,170,131	4,442,959	324,565	0.01	0.00
Q3, June 30, 2007	3,023,279	4,110,665	235,011	0.00	0.00
Q2, March 31, 2007	2,882,050	4,322,575	88,181	0.00	0.00
Q1, December 31, 2006 (4 months)	4,113,319	5,304,603	(158,019)	0.00	0.00
Fiscal year ended August 2006					
Q4, August 31, 2006	3,767,538	4,753,796	457,697	0.01	0.01
Q3, May 31, 2006	3,563,203	4,571,903	650,593	0.01	0.01
Q2, February 28, 2006	3,515,006	4,348,243	190,045	0.00	0.00
Q1, November 30, 2005	3,517,264	4,353,439	185,363	0.00	0.00

Note: Q1, ending December 31, 2006 includes four months of U-Save operations and one month of Practicar.

Net loss for the quarter ended June 30, 2008 was \$15,567. This compares to net income reported in each of the Q3 periods in fiscal 2007 and 2006. The predominate reason for the reported loss in Q3 of fiscal 2008 was the inability of the Company to sell domestic franchises due to its offering circular expiring as a result of the delay in filing its financial statements. Furthermore, additional legal and accounting expenses of approximately \$100,000 were incurred to resolve the cease trade order that went into effect in the second quarter of fiscal 2008 and was lifted in June 2008.

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

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necessarily follow the same cycle patterns as tourism; for example, the vehicle replacement market is typically stronger during the winter months. However, these traditional patterns are less likely to be followed as the economy and overall travel patterns have softened under recessionary pressures.

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.

The total revenues in each quarter are impacted by the franchise fee 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 given quarter.

The total expense levels are generally uniform during the year. However, the Company's claims expense from its insurance programs is susceptible to significant change in any given quarter.

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.

Rental rates charged by franchisees affect the amount of royalty paid from a significant number of franchisees that incur fees based upon a percentage of rental revenue. As pricing fluctuates in the market for the rental fees charged by car rental operators, this can vary the amount of royalty earned by the Company. Competition, air fares, availability of cars, the cost of gasoline, as well as general economic conditions can all have an influence on both the price and demand for rental car activity. The Company aggressively develops its internet marketing strategy to drive reservations to the franchisees. As the number of distribution channels and the efficiency of channels of availability to the franchisees increase, consumers will have the opportunity to reserve vehicles from the underlying franchisees from a greater number of distribution points, which in turn increases the ability to gain new customers from which rental revenue will be derived. The growth in rental revenue of the franchisees will, in turn, generate higher royalty payments.

Insurance premiums are affected based upon the number of cars the underlying franchisees operate in their fleet on a monthly basis. In addition to the seasonality aspect of the business mentioned above, competition, pricing, the change in the mix of repurchase vehicles available from the car manufacturers, and the number of risk vehicles the franchisee buys and general economic conditions all affect the franchisee's decision as to the proper number of vehicles to

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maintain in his fleet on a monthly basis. Premiums are paid on a per car basis, and the premiums paid by the franchisees and the underlying margin are a function of fleet size.

Whereas the car rental industry has shown steady growth over the last several years, an economic downturn could impact overall car rental demand, which in turn could impact both the rates charged in the car rental industry and the overall number of cars available for rent.

Contingent Liabilities

The Company is periodically involved in legal actions and automobile accident claims that arise as a result of events occurring in the normal course of operations. In the regular course of business, the Company evaluates estimated losses or costs related to litigation and provision is made for anticipated losses whenever the Company believes that such losses are probable and can be reasonably estimated.

Financial Position

The following outlines significant changes in the consolidated balance sheet from September 30, 2007 to June 30, 2008

	Inc (Dec) (000's)	Explanation of change
Cash and cash equivalents	(294)	Refer to Consolidated Statements of Cash Flow
Accounts receivable	114	Seasonal increase
Related party receivables	489	Related to insurance, reservation and royalties
Related party notes receivable (current and long term)	(14)	Reduction in normal course
Other notes receivable (current and long term)	142	Related to insurance, reservations and royalties
Future income taxes assets (current and long term)	(196)	Related to reduction in insurance reserves
Goodwill	188	Contingent payment related to insurance acquisition
Accounts payable and accrued liabilities	531	Timing of operational payments
Insurance loss reserves (current and long term)	(1,007)	Lower reserves based on carrier reports
Notes payable (current and long term)	(12)	Reduction in normal course
Shareholder's equity	287	Consistent with current year net income

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Statement of Cash Flows

3 months ended June 30 (000's)	2008	2007	Explanation of change
Cash and cash equivalents, beginning of period	\$ 954	\$ 1,970	Refer to Consolidated Statements of Cash Flow.
Provided by (used in)			
Operating Activities	(797)	(259)	In 2008, cash outflows resulted from cash earnings of \$90 and offset by growth in non-cash working capital. In 2007, cash outflows were primarily due to positive impact on cash earnings of a \$235 offset mainly by increase in working capital from paydown of accounts payable and accrued liabilities of \$428.
Investing Activities	591	(479)	In 2008, cash inflows were primarily due to a decrease in cash restricted for the payment of insurance claims. This decrease is consistent with the decrease in insurance loss reserves under operating activities. In 2007, cash outflows were primarily due to restricted cash increases consistent with loss reserve and claims expense activity.
Financing Activities	(25)	(38)	In 2008, cash outflows were primarily due to repayment of short-term debt of \$15 and payments on capital lease obligations of \$10. In 2007, cash outflows were due mainly to payment of share issuance costs.
Effect of exchange rate on cash	5	33	
Cash and cash equivalents, end of period	\$ 728	\$ 1,227	

Liquidity and Capital Resources

The Company's working capital decreased to \$1,766,587 at June 30, 2008 from \$5,257,382 at September 30, 2007 primarily due to notes payable in the amount of \$2,500,000 presented as short-term liabilities in the current period compared to long-term liabilities at September 30, 2007. In February 2008, the Company also made the final installment of the note payable as it related to the acquisition of Xpress Rent A Car. Additionally, management has reassessed the ultimate realization of future tax assets based on expected taxable income in the periods when future tax assets are deductible. Based on this, approximately \$700,000 of future tax assets was reclassified from current to long-term in the second quarter.

The Company does not anticipate significant cash requirements for capital asset acquisitions during the fiscal year 2008 and expects that these requirements will be met through operating cash flow and working capital. Additionally, the Company intends to negotiate with the holder of its working capital notes due December 31, 2008 to extend the maturities of those notes, as well as explore other alternative sources for working capital.

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Related Party Receivables and Other Notes Receivable

	June 30, 2008	September 30, 2007
<p>Prior to the Business Combination Transaction with RAWC, 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 June 30, 2008 and September 30, 2007, various unsecured notes receivable, primarily from franchisees, were outstanding. The notes bear interest at rates ranging from 0% to 12.0%. At June 30, 2008 and September 30, 2007 an allowance of \$162,500 and \$65,000, respectively, was established for notes deemed uncollectible. Of these notes receivable, approximately \$284,000 and \$286,000 as of June 30, 2008 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> of the Company's restated unaudited interim consolidated financial statements for further discussion).	\$	696,980	470,895
Allowance for notes deemed uncollectible:		(162,500)	(65,000)
Total	\$	3,791,339	3,662,754

Related Party Notes Payable

	June 30, 2008	September 30, 2007
In January 2007, the Company, through a wholly owned subsidiary, acquired an insurance agency. The initial purchase price of \$1,191,214 was funded by a major shareholder and officer of the Company. In this regard, the Company entered into an unsecured note payable to the major shareholder with monthly interest-only payments of 8.25% per annum. In May 2008, the note was amended to an interest rate of 7% per annum with monthly principal and interest payments of \$19,850. The note matures May 2010.	\$ 1,177,225	1,191,214

Other Related Party Transactions

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.

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

	Three months ended June 30, 2008	Three months ended June 30, 2007
Continuing franchise and related fees	\$ 186,566	\$ 176,825
Insurance premiums and related fees	\$ 125,273	\$ 165,096
Interest expense	\$ 14,410	\$ 13,979

At June 30, 2008 and September 30, 2007, related party accounts receivable totaled \$1,269,039 and \$778,454, respectively.

Financial Instruments

The Company's financial instruments included in the consolidated balance sheet at June 30, 2008 and September 30, 2007 consist of cash and cash equivalents, accounts and notes receivable, accounts payable, accrued liabilities and long-term debt.

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 Company's notes receivable and payable are discussed in greater detail under the captions of *Related Party Receivables and Other Notes Receivables*; *Related Party Notes Payable*; and *Other Related Party Transactions*.

The Company deposits funds with its insurance carriers, in a restricted account, to pay claims and other expenses within its deductible programs. Reference is hereby made to Note 2 and Note 5 to Company's unaudited interim consolidated financial statements as of and for the period ending June 30, 2008 for a more detailed explanation of the insurance programs and related restricted cash and cash equivalents.

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. Reference is hereby made to Note 18 of the Company's

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unaudited interim consolidated financial statements in regards the Company's principal financial risk of Credit Risk.

Reference is hereby made to Note 3 of the Company's unaudited interim consolidated financial statements, "Changes in Accounting Policies" relative to 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 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.

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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 in the Company's unaudited interim consolidated financial statements 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 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.

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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 fiscal 2008 year. Reference is hereby made to Note 17 in the Company's restated unaudited interim consolidated financial statements for further details.

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 its consolidated financial statements.

Going Concern

The CICA amended Section 1400, "General Standards of Financial Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect any effect on its financial statements.

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Outstanding Share Data

Authorized

Unlimited common shares, without par value

Unlimited preferred shares, without par value

Issued:

June 30, 2008 62,820,426 common shares

August 28, 2008 62,820,426 common shares

Stock options

Stock options outstanding:

	Options	Exercise Price Range CDN \$
June 30, 2008	10,301,315	\$0.10 to \$1.04
August 28, 2008	10,301,315	\$0.10 to \$1.04

During the quarter ended June 30, 2008, there were no options that expired or were forfeited and no additional options or securities were issued by the Company during the period or between the end of the reporting period and the date of this filing.

Disclosure Controls and Procedures

The Company has conducted a review of the design of its internal controls over financial reporting, with the conclusion that as at June 30, 2008, the Company's system of internal controls over financial reporting as defined under MI 52-109 is sufficiently designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

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financial statements for external purposes in accordance with the Canadian GAAP. The Co-Chief Executive Officers and the Chief Financial 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 Financial 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.

During the audit of the 2007 Consolidated Financial Statements, it was determined that the methodology utilized by the Company in reporting the BCT in its unaudited quarters was not in full compliance with Canadian GAAP. Previously, the Company had reported that the Canadian public company (Rent-A-Wreck Capital Inc., which was renamed Franchise Services of North America Inc. as part of the BCT), was the acquiring entity. While this remains true in the legal sense, in accordance with Canadian GAAP, U-Save is the acquiring entity for accounting purposes with the result that prior comparable periods should be those of U-Save and not Rent-A-Wreck.

The Company's accounting staff has a fair and reasonable knowledge of the rules related to Canadian GAAP and its application but the BCT was previously recorded incorrectly.

The Company employed a Chief Financial Officer in the third quarter of the fiscal year ended September 30, 2007 to complement the Company's accounting staff and assist in addressing complex operations and reporting of the Company. The Company also continues to consult with its third party advisors as needed in connection with the recording and reporting of complex and non-routine transactions.

Additional Information

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

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www.fsna-inc.com