

Franchise Services of North America Inc.

December 29, 2010

Management Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (“MD&A”) was prepared as of December 29, 2010 and should be read in conjunction with the audited Consolidated Financial Statements and related notes as at and for the years ended September 30, 2010 and 2009, all available on SEDAR, at www.sedar.com.

Business of the Company

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 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 and Practicar car rental and sales franchise system in Canada. This report describes the business and financial results of the Company as at and for the year ended September 30, 2010.

In November 2006, the Company (formerly known as Rent-A-Wreck Capital Inc. (“RAWC”)) completed a business combination (the “Business Combination Transaction or BCT”) with U-Save Auto Rental of America, Inc. (“U-Save”), a privately held company based in Jackson, Mississippi. Consistent with the accounting guidelines for reverse take-over business combinations, the transaction was accounted for as an acquisition of the net assets of the Company by U-Save, which was deemed the acquirer for accounting purposes.

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

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.

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Currency

All amounts in this MD&A are expressed in U. S. dollars unless specified otherwise.

Financial Statements and Basis of Presentation

The Company's audited Consolidated Financial Statements as of and for the year ended September 30, 2010 have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Consolidated Balance Sheets include all the assets and liabilities of all the subsidiaries of the Company including Practicar and U-Save, as of September 30, 2010 and 2009. The Consolidated Statements of Operations and Accumulated Deficit, Consolidated Statements of Comprehensive Income (Loss) and Consolidated Statements of Cash Flows include operations for the years ended September 30, 2010 and 2009. Additional information on the Company 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:

Selected Annual Information	12 Months ended September 30, 2010 audited US \$	12 Months ended September 30, 2009 audited US \$	12 Months ended September 30, 2008 audited US \$ (Restated)
Total revenues	\$ 16,212,522	\$ 14,743,616	\$ 16,019,600
Net income (loss) before discontinued operations	\$ (732,595)	\$ (6,866,994)	\$ 110,806
per share - basic	\$ (0.01)	\$ (0.11)	\$ -
per share - diluted	\$ (0.01)	\$ (0.11)	\$ -
Net income (loss) after discontinued operations	\$ (732,595)	\$ (6,866,994)	\$ 110,806
per share - basic	\$ (0.01)	\$ (0.11)	\$ -
per share - diluted	\$ (0.01)	\$ (0.11)	\$ -
Total assets	\$ 14,779,226	\$ 16,198,938	\$ 23,586,139
Total long-term financial liabilities	\$ 2,500,000	\$ 2,500,000	\$ 3,457,908
Cash dividends declared per share	\$ nil	\$ nil	\$ nil

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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 an 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.

Segmented Information	Three Months ended September 30, 2010			Three Months ended September 30, 2009		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 4,119,488	\$ 338,314	\$ 4,457,802	\$ 3,856,227	\$ 402,278	\$ 4,258,505
Expenses	3,707,799	453,072	4,160,871	8,013,392	1,121,993	9,135,385
Income (loss) before income taxes	411,689	(114,758)	296,931	(4,157,165)	(719,715)	(4,876,880)
Income tax expense (benefit)	13,276	-	13,276	1,980,569	(305,067)	1,675,502
Net income (loss)	\$ 398,413	\$ (114,758)	\$ 283,655	\$ (6,137,734)	\$ (414,648)	\$ (6,552,382)
Property, plant and equipment expenditures	\$ 16,606	\$ -	\$ 16,606	\$ 8,815	\$ -	\$ 8,815

Segmented Information	Year ended September 30, 2010			Year ended September 30, 2009		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 15,144,145	\$ 1,068,377	\$ 16,212,522	\$ 13,947,154	\$ 796,462	\$ 14,743,616
Expenses	15,023,441	1,918,926	16,942,367	18,312,025	1,760,358	20,072,383
Income (loss) before income taxes	120,704	(850,549)	(729,845)	(4,364,871)	(963,896)	(5,328,767)
Income tax expense (benefit)	2,750	-	2,750	1,927,833	(389,606)	1,538,227
Net loss	\$ 117,954	\$ (850,549)	\$ (732,595)	\$ (6,292,704)	\$ (574,290)	\$ (6,866,994)
Property, plant and equipment expenditures	\$ 52,373	\$ 1,646	\$ 54,019	\$ 44,456	\$ -	\$ 44,456
Total assets	\$ 7,174,292	\$ 7,604,934	\$ 14,779,226	\$ 8,114,091	\$ 8,084,847	\$ 16,198,938
Total long-term financial liabilities	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 2,500,000	\$ -	\$ 2,500,000

Franchise Activity

The following provides a summary of the number of franchises granted, acquired and closed during the years ended September 30, 2010 and 2009:

Franchise Activity	September 30, 2010	September 30, 2009
Number of franchises - beginning of period	205	208
New franchises granted	14	17
Franchises closed	(20)	(20)
Number of franchises - end of period	199	205

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Operations

For the three months ended September 30, 2010, the Company reported net income from operations of \$283,655 as compared to a net loss of \$6,552,382 for the quarter ended September 30, 2009. The decrease in net loss is attributable to a 5% increase in total revenue, a 54% decrease in total expenses and a 99% decrease in income tax expense, as discussed below. The Company recorded impairment charges on notes receivable, goodwill and other intangible assets totalling \$4,711,027 during the 2009 period with no comparable charges during the 2010 period.

For the year ended September 30, 2010, the Company reported a net loss from operations of \$732,595 as compared to a net loss of \$6,866,994 for the year ended September 30, 2009. The decrease in net loss is attributable to 10% increase in total revenue, a 16% decrease in total expense and a 100% decrease in income tax expense, as discussed below. The Company recorded impairment charges on notes receivable, goodwill and other intangible assets totalling \$4,711,027 during the 2009 period with no comparable charges during the 2010 period.

For the three months ended September 30, 2010, the Company's US Operations reported net income from operations of \$398,413 as compared to a net loss of \$6,137,734 for the quarter ended September 30, 2009. The increase in net income is attributable to a 7% increase in total revenue, 54% decrease in total expenses and 99% decrease in income tax expense, as discussed below. The Company's US Operations recorded impairment charges on notes receivable, goodwill and other intangible assets totalling \$4,082,836 during the 2009 period with no comparable charges during the 2010 period.

For the three months ended September 30, 2010, the Company's Canadian Operations reported a net loss from operations of \$114,758 as compared to a net loss of \$414,648 for the quarter ended September 30, 2009. The decrease in net loss is attributable to a 60% increase in total expenses and a 100% decrease in income tax recovery offset by a 16% decrease in total revenue, as discussed below. The Company's Canadian Operations recorded impairment charges on other intangible assets totalling \$628,191 during the 2009 period with no comparable charges during the 2010 period.

For the year ended September 30, 2010, the Company's US Operations reported net income from operations of \$117,954 as compared to a net loss of \$6,292,704 for the year ended September 30, 2009. The increase in net income is attributable to a 9% increase in total revenue, an 18% decrease in total expenses and a 100% reduction in income tax expense, as discussed below. The Company's US Operations recorded impairment charges on notes receivable, goodwill and other intangible assets totalling \$4,082,836 during the 2009 period with no comparable charges during the 2010 period.

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For the year ended September 30, 2010, the Company's Canadian Operations reported a net loss from operations of \$850,549 as compared to a net loss of \$574,290 for the year ended September 30, 2009. The increase in net loss is attributable to a 9% increase in total expenses and a 100% decrease in income tax benefit, offset by an 34% increase in total revenue, as discussed below. The Company's Canadian Operations recorded impairment charges on other intangible assets totalling \$628,191 during the 2009 period with no comparable charges during the 2010 period.

Revenue

Total revenue for the three months ended September 30, 2010 was \$4,457,802 compared to \$4,258,505 for the three months ended September 30, 2009, an increase of \$199,297 or 5%. This increase is mainly due to an increase in franchise sales activity and an increase in the number of cars being insured by the franchisees and associate members. The Company also recognized other income of \$188,812 resulting from the settlement of accrued liabilities from an inactive subsidiary of the Company during the 2009 period.

Total revenue for the year ended September 30, 2010 was \$16,212,522 compared to \$14,743,616 for the year ended September 30, 2009, an increase of \$1,468,906 or 10%. This increase is mainly due to an increase in franchise sales activity and an increase in the number of cars being insured by the franchisees and associate members. The Company also recognized other income of \$188,812 resulting from the settlement of accrued liabilities from an inactive subsidiary of the Company during the 2009 period.

Total revenue for the Company's US Operations for the three months ended September 30, 2010 was \$4,119,488 compared to \$3,856,227 for the three months ended September 30, 2009, an increase of \$263,261 or 7%. This increase is mainly due to an increase in franchise sales activity and an increase in the number of cars being insured by the franchisees and associate members. The Company's US Operations also recognized other income of \$188,812 resulting from the settlement of accrued liabilities from an inactive subsidiary of the Company during the 2009 period.

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Total revenue for the Company's Canadian Operations for the three months ended September 30, 2010 was \$338,314 compared to \$402,278 for the three months ended September 30, 2009, a decrease of \$63,964 or 16%. This decrease is mainly due to a decrease in insurance revenue in the quarter.

Total revenue for the Company's US Operations for the year ended September 30, 2010 was \$15,144,145 compared to \$13,947,154 for the year ended September 30, 2009, an increase of \$1,196,991 or 9%. This increase is mainly due to an increase in franchise sales activity and an increase in the number of cars being insured by the franchisees and associate members. The Company's US Operations also recognized other income of \$188,812 resulting from the settlement of accrued liabilities from an inactive subsidiary of the Company during the 2009 period.

Total revenue for the Company's Canadian Operations for the year ended September 30, 2010 was \$1,068,377 compared to \$796,462 for the year ended September 30, 2009, an increase of \$271,915 or 34%. This increase is mainly due to an increase in franchise sales activity and royalty income.

Expenses

Total expenses for the three months ended September 30, 2010 were \$4,160,871 compared to \$9,135,385 for the three months ended September 30, 2009, a decrease of \$4,974,514 or 54%. Franchise operating costs decreased \$312,558 or 21%. Insurance operating costs increased \$910,792 or 136% and insurance underwriting expenses decreased \$325,789 or 71% due to an increase in the number of cars insured through first dollar rather than self insured fund programs. Claims expense increased \$660,513 or 52%. General and administration expenses increased \$145,196 or 39%. The Company recorded impairment charges on notes receivable, goodwill and other intangible assets totaling \$4,711,027 during the 2009 period with no comparable charge during the 2010 period.

Total expenses for the year ended September 30, 2010 were \$16,942,367 compared to \$20,072,383 for the year ended September 30, 2009, a decrease of \$3,130,016 or 16%. Franchise operating costs decreased \$536,182 or 11%. Insurance operating costs increased \$2,826,953 or 114% and insurance underwriting expenses decreased \$882,508 or 52% due to an increase in the number of cars insured through first dollar rather than self insured fund programs. Claims expense increased \$378,273 or 11%. General and administration expenses decreased \$94,378 or 5%. The Company recorded impairment charges on notes receivable, goodwill and other intangible assets totaling \$4,711,027 during the 2009 period with no comparable charge during the 2010 period.

Total expenses for the Company's US Operations for the three months ended September 30, 2010 were \$3,707,799 compared to \$8,013,392 for the three months ended September 30,

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2009 an increase of \$4,305,593 or 54%. Franchise operating costs decreased \$344,761 or 24%. Insurance operating costs increased \$910,792 or 136% and insurance underwriting expenses decreased \$325,789 or 71% due to an increase in the number of cars insured through first dollar rather than self-insured fund programs. Claims expense decreased \$555,206 or 55%. General and administration expenses increased \$105,162 or 48%. The Company's US Operations recorded impairment charges on notes receivable, goodwill and other intangible assets totaling \$4,082,836 during the 2009 period with no comparable charge for the 2010 period.

Total expenses for the Company's Canadian Operations for the three months ended September 30, 2010 were \$453,072 compared to \$1,121,993 for the three months ended September 30, 2009, a decrease of \$668,921 or 60%. Claims expense decreased \$105,307 or 40%. The Company's Canadian Operations recorded impairment charges on other intangible assets totaling \$628,191 during the 2009 period with no comparable charge for the 2010 period.

Total expenses for the Company's US Operations for the year ended September 30, 2010 were \$15,023,441 compared to \$18,312,025 for the year ended September 30, 2009, a decrease of \$3,288,584 or 18%. Franchise operating costs decreased \$731,011 or 15%. Insurance operating costs increased \$2,826,953 or 114% and insurance underwriting expenses decreased \$882,508 or 52% due to an increase in the number of cars insured through first dollar rather than self-insured fund programs. Claims expense decreased \$121,500 or 4%. General and administrative expenses decreased \$197,883 or 13%. The Company's US Operations recorded impairment charges on notes receivable, goodwill and other intangible assets totaling \$4,082,836 during the 2009 period with no comparable charge during the 2010 period.

Total expenses for the Company's Canadian Operations for the year ended September 30, 2010 were \$1,918,926 compared to \$1,760,358 for the year ended September 30, 2009, an increase of \$158,568 or 9%. Franchise operating costs increased \$194,829 or 85%. General and administrative costs increased \$103,505 or 18%. Claims expense increased \$499,773 or 190%. While the Company's Canadian insurance program has experienced increased claims and reserves during the current fiscal year, the Company has satisfied its deductible under the stop-loss policy for the Canadian insurance program. The Company's Canadian Operations recorded impairment charges on other intangible assets totaling \$628,191 during the 2009 period with no comparable charge during the 2010 period.

During the three month period ended September 30, 2009, the Company recorded a full valuation allowance of \$2,490,804 against the net potential future income assets associated with all the loss carryforwards and other deductible temporary differences as their utilization was not considered more likely than not at that time.

During the three month period ended September, 30, 2009, the Company recorded a provision for losses on impaired notes receivable of \$1,297,848. Of this amount, \$255,298 is attributable

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to outstanding notes due from a Co-Chief Executive Officer of the Company, \$980,050 is attributable to a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a financial interest, and \$62,500 is attributable to forgiveness of notes due from certain Executive Officers of the Company as required under their employment agreements with the Company. See further discussion in Related Party Notes Receivable below.

During the three month period ended September 30, 2009, the Company recorded impairment charges on goodwill and other assets of \$3,413,179. These impairment charges were recorded in connection with the Company's annual review of its intangible assets.

Non-Comparable Items

Non-comparable items are non-recurring and/or non-operational items incurred by the Company during the applicable period.

The Company recognized other income of \$188,812 resulting from the settlement of accrued liabilities from an inactive subsidiary of the Company during the quarter ended September 30, 2009.

The Company recorded a provision for losses on related party notes receivable of \$1,297,848 during the quarter ended September 30, 2009. Of this amount, \$255,298 is attributable to outstanding notes due from a Co-Chief Executive Officer of the Company, \$980,050 is attributable to a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest, and \$62,500 is attributable to forgiveness of notes due from certain Executive Officers of the Company as required under their employment agreements with the Company.

The Company recorded an impairment charge on goodwill and other intangible assets of \$3,413,179 during the quarter ended September 30, 2009.

The Company recorded a full valuation allowance of \$2,490,804 against the net future income tax assets associated with all the loss carryforwards and other deductible temporary differences during the quarter ended September 30, 2009.

Quarterly Results

The following financial information is derived from the Company's unaudited quarterly consolidated financial statements for each of the eight most recently completed quarterly periods. Certain amounts have been reclassified to conform to current year presentation. The previously reported quarters of the Company 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 2010					
Q4, September 30, 2010	3,277,856	4,457,802	283,655	0.00	0.00
Q3, June 30, 2010	3,075,105	4,025,639	(191,839)	0.00	0.00
Q2, March 31, 2010	2,899,727	3,938,903	(180,768)	0.00	0.00
Q1, December 31, 2009	2,671,957	3,790,178	(643,643)	(0.01)	(0.01)
Fiscal Year Ended September 2009					
Q4, September 30, 2009	2,965,687	4,258,505	(6,552,382)	(0.11)	(0.11)
Q3, June 30, 2009	2,646,352	3,667,910	(110,384)	0.00	0.00
Q2, March 31, 2009	2,352,080	3,417,459	(212,901)	0.00	0.00
Q1, December 31, 2008	2,542,358	3,399,742	8,673	0.00	0.00

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. 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 location with vehicle liability insurance for its fleet, the overall car count of insured vehicles will increase thereby having a positive effect on this revenue stream.

The total revenue in each quarter is 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.

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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 made available to the franchisees increases, 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.

Franchise sales can vary significantly from period to period. The results of one reporting period are not necessarily indicative of results to be expected in subsequent periods.

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 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 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, the continued 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.

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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.

In January 2007, the Company, through its wholly owned subsidiary, U-Save Financial Services, Inc., acquired certain assets of DRSN Holdings, LLC, an Arizona-based limited liability company. The initial purchase price, which totaled \$1,191,214, was paid with cash funded by a major shareholder. In addition, the agreement called for two subsequent contingent payments of \$188,150 payable on or about January 15, 2008 and 2009, which can be adjusted based on the amount of revenue retained in relation to specified baseline revenue. Subsequent to September 30, 2010, the uncertainty related to the contingent payments was resolved with no resulting adjustment to the purchase price as previously recorded.

Financial Position

The following outlines significant changes in the consolidated balance sheet from September 30, 2009 to September 30, 2010

	Inc (Dec) (000s)	Explanation of change
Cash and cash equivalents	(468)	Refer to Consolidated Statements of Cash Flow
Restricted cash and cash equivalents	86	Increase in normal course
Accounts receivable	(62)	Decrease in normal course
Related party notes receivable (current and long term)	(920)	Offset of related party note payable against note receivable
Other notes receivable (current and long term)	(24)	Decrease in normal course
Goodwill & other intangibles, net	(118)	Amortization of intangibles
Prepaid expenses	71	Increase in normal course
Accounts payable and accrued liabilities	81	Timing of operational payments
Insurance loss reserves	123	Higher reserves based on experience
Related party notes payable (current and long term)	(958)	Offset of related party note payable against note receivable
Shareholders' equity	(672)	Consistent with current period comprehensive loss

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Statement of Cash Flows

Year ended September 30 (000s)	2010	2009	Explanation of change
Cash and cash equivalents, beginning of period	\$ 2,633	\$ 1,152	Refer to Consolidated Statements of Cash Flow.
Provided by (used in):			
Operating Activities	(329)	(398)	In 2010, cash outflows resulted from cash loss of \$333 and an increase in non-cash working capital. In 2009, cash outflows resulted from cash loss of \$353 and decrease in non-cash working capital.
Investing Activities	(87)	2,066	In 2010, cash outflows were attributable to the change in restricted cash balances of \$63 and capital expenditures offset by collections on notes. In 2009, cash inflows were primarily attributable to the change in restricted cash balances of \$2,012 and collections on notes of \$83.
Financing Activities	(62)	(177)	In 2010 and 2009, cash outflows were primarily attributable to repayment of notes payable.
Effect of exchange rate on cash	10	(10)	
Cash and cash equivalents, end of period	\$ 2,165	\$ 2,633	

Liquidity and Capital Resources

The Company's working capital increased to \$1,335,884 at September 30, 2010 from \$764,229 at September 30, 2009 primarily due a \$958,191 decrease in notes payable offset by an increase in insurance loss reserves of \$123,282 during the period.

The Company does not anticipate significant cash requirements for capital asset acquisitions during fiscal year 2011 and expects that these requirements will be met through operating cash flow and working capital. In December 2008, the Company renewed its existing \$1.5 million and \$1.0 million working capital facilities into a new \$2.5 million facility that matured in December 2010. Subsequent to September 30, 2010, the Company renewed this \$2.5 million facility into a new note with a maturity date of December 2012. All other terms of the note remain the same. The Company continues to explore alternative sources of working capital.

Effective February 1, 2010, the Co-Chief Executive Officers of the Company agreed to restructure certain notes payable to and receivable from the Company. One Co-Chief Executive Officer, with a note payable to the Company of \$114,000, signed a new note payable to the Company with a 10 year term, annual principal payments of \$10,000, interest payable quarterly at prime plus 2% (currently 5.25%), with the balance due at maturity. The other Co-Chief Executive Officer agreed to combine two notes payable to the Company with a combined balance of \$2,678,789 and offset a note payable by the Company to the Co-Chief Executive

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Officer with a balance of \$896,434 at February 1, 2010, into a new note payable to the Company of \$1,782,355 with a 10 year term, annual principal payments of \$150,000, interest payable quarterly at prime plus 2% (currently 5.25%), with the balance due at maturity. These transactions will positively impact the Company's cash flow in future periods through the elimination of monthly debt service on approximately \$900,000 of notes payable and through the realization of quarterly interest payments and annual principal payments on the restructured notes receivable.

The Company does not have any off balance sheet arrangements.

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Related Party Notes Receivable

	September 30, 2010	September 30, 2009
<p>This balance originated from certain accounts receivable (insurance, royalties, reservation fees) of a former franchisee of which a Co-Chief Executive Officer of the Company was formerly a co-owner. This note was restructured, effective February 1, 2010. The new note is unsecured, bears interest at prime+2% (currently 5.25%) payable quarterly, with annual principal payments of \$10,000. The note matures in 2020.</p>	\$ 114,000	\$ 125,375
<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 Co-Chief Executive 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. This note was restructured, effective February 1, 2010, into a new note with a face amount of \$1,782,355 – see below.</p>	-	2,423,823
<p>This balance originated from interest payments paid or payable by U-Save on behalf of the Co-Chief Executive Officers 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. This balance is non-interest bearing and is unsecured, and has been classified as non-current based on management's estimate of when the balance will be collected. A portion of the balance attributable to one of the Company's Co-Chief Executive Officers (\$255,298) was fully reserved in September 2009 after consideration of the financial strength of the borrower and the unsecured nature of the note. Effective February 1, 2010, the portion of this balance that had not been previously reserved was restructured into a new note with a face amount of \$1,782,355 – see below.</p>	255,298	510,264
<p>This note originated February 1, 2010, as a restructuring of certain amounts due from and payable to a Co-Chief Executive Officer of the Company. The note is unsecured, bears interest at prime+2% (currently 5.25%) payable quarterly, with annual principal payments of \$150,000. The note matures in 2020.</p>	1,782,355	-
Subtotal	\$ <u>2,151,653</u>	\$ <u>3,059,462</u>

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Related Party Notes Receivable, Continued

	September 30, 2010	September 30, 2009
Balance brought forward	\$ 2,151,653	\$ 3,059,462
Note receivable from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest. Note originated in December 2008 reconstituting certain outstanding accounts receivable of \$723,404 and existing notes receivable of \$284,419, totalling \$1,007,823. The note required a \$37,500 down payment that was received in January 2009. The note bears interest at 6%, requires interest only payments in the first year and graduated principal and interest payments thereafter, with a final maturity in 2014. The Company has fully reserved this note after consideration of the financial strength of the borrower and the value of the underlying collateral pledged as security for the note.	964,269	980,050
Note receivable from an executive officer of the Company. This note originated in May 2000, is non-interest bearing and is unsecured. The note matures in 2010 and allows \$30,000 of the note to be forgiven if the balance is paid in full. During the year ended September 30, 2009, the Company fully reserved this note after considering the likelihood that the note will ultimately be repaid.	80,000	80,000
Note receivable from an executive officer of the Company. This note originated at \$50,000 in 2007, bears interest at 6% and is unsecured. The note matures in 2012 and \$12,500 of the note is forgiven on an annual basis so long as the executive officer remains an employee of the Company.	12,500	25,000
Allowance for notes deemed uncollectible:	(1,299,566)	(1,315,348)
Current portion of related party notes receivable	(172,500)	(-)
Total	\$ 1,736,356	\$ 2,829,164

Effective December 31, 2008, the Company entered into an arrangement with a franchisee of which a major shareholder and officer of the Company is a co-owner. The Company issued a secured note to the franchisee reconstituting certain outstanding accounts receivable of \$723,404 and notes receivable of \$284,419, totaling \$1,007,823. After consideration of a \$37,500 down payment received in January 2009, the Company issued a five year note in the amount of \$970,323 bearing an interest rate of 6%. The note calls for interest only payments the first year, followed by graduated principal and interest payments of \$7,500, \$9,000, \$10,500 and \$12,000 in years 2-5 respectively, with a balloon payment of \$723,754 at the end of the term. The executed note agreement and a separate security agreement were both signed on behalf of the franchise and individually by the independent co-owner of the franchise. The note matures

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January 1, 2014. The previous separate notes that were combined as part of the new note were cancelled contemporaneously with the execution of this note.

Prior to entering this arrangement, the Company considered a number of factors including, but not limited to, the strength of the related party relationship, the strategic nature and importance of the franchisee operating in one of the North America's largest leisure markets, the value of the franchise to the system and cross leveraging across the system, the experience of management and operations personnel, the uniqueness of the franchise in its market area with a new state of the art facility and parking garage opening in March 2009, and the efficiencies achieved by the franchise in the last year to position itself to take better advantage in the market relative to its competition. The Company also reviewed the financial statements of the franchisee, its financial plan and projections for the coming year and its business plan. Credit risk as described in Note 17 to the audited Consolidated Financial Statements is one of the principal risk exposures of the Company. The Company assesses each account for impairment on a case by case basis considering these and other factors at the end of each reporting period. The Company has fully reserved this note after consideration of the financial strength of the borrower and the value of the underlying collateral pledged as security for the note.

During the year ended September 30, 2010, the Company recorded a net recovery of losses on impaired notes receivable of \$3,282, which included a recovery of \$15,782 on a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a non-controlling financial interest, offset by a \$12,500 loss attributable to forgiveness of a note due from an Executive Officer of the Company as required under his employment agreement with the Company, with the loss recorded as a write-off of the related note.

During the year ended September 30, 2009, the Company recorded a provision for losses on impaired notes receivable of \$1,297,848. Of this amount, \$255,298 is attributable to outstanding notes due from a Co-Chief Executive Officer of the Company, \$980,050 is attributable to a note due from a franchisee in which one of the Company's Co-Chief Executive Officers has a financial interest, and \$62,500 is attributable to forgiveness of notes due from certain Executive Officers of the Company as required under their employment agreements with the Company.

Effective February 1, 2010, the Company's Co-Chief Executive Officers agreed to restructure certain notes payable to and receivable from the Company. The restructuring of these notes and the related terms and conditions were approved at the Company's Annual General Meeting on March 31, 2010. The notes require annual principal payments and quarterly interest payments. One of the Company's Co-Chief Executive Officers agreed to combine a non-interest bearing note with a principal balance of \$2,423,823, an other non-interest bearing receivable of \$254,966, and offset a note payable due to that Co-Chief Executive Officer with a principal balance of \$896,434 resulting in a new note with a net principal balance due from the Co-Chief Executive Officer of \$1,782,355.

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Related Party Notes Payable

	September 30, 2010	September 30, 2009
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. Effective February 1, 2010, this note was restructured. See "Liquidity and Capital Resources" above.	\$ -	\$ 958,191

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 and recorded at the exchange amount. The Company also leases vehicles for two officers of the Company from a franchisee in which one of the officers (who is also a significant shareholder and member of the Company's Board of Directors) has a non-controlling financial interest.

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

	Year ended September 30, 2010	Year ended September 30, 2009
Continuing franchise and related fees	\$ 245,825	\$ 304,361
Insurance premiums and related fees	176,822	230,882
Interest income	66,100	-
Interest expense	17,644	61,317
Vehicle leases	46,510	34,170

At September 30, 2010 and 2009, related party accounts receivable totaled \$120,890 and \$73,456, respectively.

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Financial Instruments

The Company's financial instruments included in the Consolidated Balance Sheets at September 30, 2010 and 2009 consist of all cash and cash equivalents, accounts and notes receivable, accounts payable and accrued liabilities and notes payable.

The fair value of all short-term financial instruments approximates their carrying amounts. The fair value of notes payable and capital lease obligations approximates their carrying values. The Company's notes receivable and notes payable are discussed in greater detail under the captions of *Related Party Notes Receivables*; *Related Party Notes Payable*; and *Other Related Party Transactions* of this document.

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 4 to Company's audited Consolidated Financial Statements as of and for the year ended September 30, 2010 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 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 17 of the Company's audited Consolidated Financial Statements in regards to the Company's principal financial risk of Credit Risk.

Impaired Loans

Effective October 1, 2009, the Company has adopted the amendments to the Canadian Institute of Chartered Accountants' Handbook Section 3025, Impaired Loans, which has been changed to conform the definition of a loan to that in amended Section 3855, Financial Instruments – Recognition and Measurement, and to include held-to-maturity investments within the scope of this Section. The Company has determined that these amendments have no material effect on its financial statements.

Goodwill and Intangible Assets

Effective October 1, 2009, the Company has adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be

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recognized in the financial statements under certain circumstances. As a result of adopting this new standard, the Company has determined that these changes had no material effect on its financial statements.

Financial Instruments – Recognition and Measurement

Effective October 1, 2009, the Company has adopted the amendments to the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement which has been amended to change the categories into which a debt instrument is required or permitted to be classified, change the impairment model for held-to-maturity financial assets to the incurred credit loss model in Section 3025, Impaired Loans, and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. The Company has determined that these amendments have no material effect on its financial statements.

Also, effective October 1, 2009, the Company has adopted the amendment to CICA Handbook Section 3855, concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Company has determined that this amendment has no material effect on its financial statements.

Financial Instruments – Disclosures

Effective October 1, 2009, the Company has adopted the amendments to the CICA Handbook Section 3862, Financial Instruments – Disclosures, which has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The Company has determined that these amendments have no material effect on its financial statements. The disclosures required by these changes are in Note 17.

Future Accounting Changes

Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, has been amended as a result of issuing Sections 1582, 1601 and 1602. The amendments are effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

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Equity

CICA Handbook Section 3251, Equity, has been amended as a result of issuing Section 1602 to require disclosure of non-controlling interests in equity. This amendment is effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Financial Instruments – Recognition and Measurement

CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

Business Combinations

CICA Handbook Section 1582, Business Combinations, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. This standard is effective for the Company for interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of this change on its Consolidated Financial Statements.

Consolidated Financial Statements and Non-Controlling Interests

CICA Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-controlling Interests replace CICA Handbook Section 1600, Consolidated Financial Statements. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. CICA Handbook Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Company for interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Consolidated Financial Statements.

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Multiple Deliverable Revenue Arrangements

EIC 175, Multiple Deliverable Revenue Arrangements, has been issued to address some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EIC 175 provides guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. Also, there are new disclosure requirements. These changes are effective for the Company for its annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) effective January 1, 2011. The Company will transition to IFRS on October 1, 2010, and will begin reporting under IFRS for the quarter ending December 31, 2011. The Company is assessing the impact on accounting policies, data systems, internal controls over financial reporting, and business activities during the period leading up to the transition date. As the review of accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS requirements. The Company anticipates using a combination of in-house resources and external advisors to assist with the transition to IFRS. The Company will also ensure that its key stakeholders are informed about the anticipated effect of the IFRS transition.

While the Company has begun assessing the adoption of IFRS for its fiscal year ended September 30, 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company, in conjunction with its outside consultants, will conduct a detailed review of the accounting policies expected to be impacted by IFRS during Fiscal 2011. To prepare for the conversion to IFRS, the Company will develop a plan as follows:

Scope and Plan: The Company will provide training for appropriate personnel on the IFRS standards and will complete an initial assessment on the impact of IFRS. The Company will review its accounting policy choices under IFRS and will review and update the IFRS conversion plan as it unfolds and as required. IFRS standards may change effective upon the Company's adoption of IFRS and this may change the initial assessment.

Design and Build: Pursuant to a detailed review of IFRS standards, the Company will choose accounting policies and procedures, quantify the impact on key line items and disclosures, and prepare draft financial statements under IFRS.

Implement and Review: The Company will implement new accounting policies under IFRS and

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prepare and report financial statements under IFRS.

The Company will continue to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Outstanding Share Data

Authorized

Unlimited common shares, without par value

Unlimited preferred shares, without par value

Issued

September 30, 2010 62,820,426 common shares

December 29, 2010 62,820,426 common shares

Stock options

Stock options outstanding:

	Options	Exercise Price Range CDN \$
September 30, 2010	9,444,942	\$0.10 to \$0.85
December 29, 2010	9,444,942	\$0.10 to \$0.85

During the three months ended September 30, 2010, no options expired and 5,000 options were forfeited. No options or shares were issued by the Company between September 30, 2010 and the date of this filing. Between September 30, 2010 and the date of this filing, no options were forfeited and no options expired.

Forward Looking Information

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 9)

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- (ii) Forecasted increased 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 9);
- (iii) The growth in rental revenue that will generate higher royalty payments as distribution channels are made available and the efficiency of such channels, provide more reservation opportunities (as set out in “Quarterly Results,” page 10);
- (iv) Historical steady growth could be impacted by continued economic downturn, impacting rental demand, rates and car availability (as set out in “Quarterly Results,” page 10); and
- (v) The Company is not anticipating significant cash requirements for capital asset acquisitions during fiscal year 2011 and expects that these requirements will be met through operating cash flow and working capital. Additionally, maturities of the Company’s working capital notes due December 2010 were extended to December 2012. The Company continues to explore alternative sources for working capital (as set out in “Liquidity and Capital Resources,” page 12).

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, 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, the financial uncertainty surrounding the U.S. car manufacturers and the availability of credit for our franchisees to acquire vehicles and ultimately for the Company to insure these vehicles, 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.

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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 based on the fact that the economy will likely be moderately stronger in 2011 than it was in 2009 and 2010 and the economy continues to be under recessionary pressures.
- (ii) The availability and pricing of vehicles for acquisition and disposal by our franchisees could be impaired based upon the financial uncertainty surrounding the U.S. auto manufacturers. This could impact our franchisees' operations and ultimately the number of vehicles insured by the Company.
- (iii) The availability or limitation of credit facilities to acquire rental fleets by our franchisees could also impact the number of vehicles insured by the Company.
- (iv) 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.
- (v) The anticipated growth in rental revenue that will generate higher royalty payments as more distribution channels are made available and the efficiency of such 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.
- (vi) The possible impact on historical steady growth from continued 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.
- (vii) The meeting of cash requirements for capital asset acquisitions during fiscal year 2011 through operating cash flow and working capital is based upon the anticipation that the

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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 cash flow requirements and annual need for capital expenditures. In addition, the Company has 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 period's Management 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.

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).



www.fsna-inc.com