

Franchise Services of North America Inc.

December 29, 2011

Management Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (“MD&A”) was prepared as of December 29, 2011 and should be read in conjunction with the audited Consolidated Financial Statements and related notes as at and for the years ended September 30, 2011 and 2010, 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, 2011.

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.

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 at and for the year ended September 30, 2011 have been prepared in accordance with Canadian GAAP. The Consolidated Balance Sheets include all the assets and liabilities of all the subsidiaries of the Company including Practicar and U-Save, as at September 30, 2011 and 2010. The Consolidated Statements of Operations and Accumulated Deficit, Consolidated Statements of Comprehensive Income (Loss) and Consolidated Statements of Cash Flows include operations

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

for the years ended September 30, 2011 and 2010. 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, 2011 audited US \$	12 Months ended September 30, 2010 audited US \$	12 Months ended September 30, 2009 audited US \$
Total revenues	\$ 15,888,701	\$ 16,212,522	\$ 14,743,616
Net income (loss) before discontinued operations	\$ (316,940)	\$ (732,595)	\$ (6,866,994)
per share - basic	\$ (0.01)	\$ (0.01)	\$ (0.11)
per share - diluted	\$ (0.01)	\$ (0.01)	\$ (0.11)
Net income (loss) after discontinued operations	\$ (316,940)	\$ (732,595)	\$ (6,866,994)
per share - basic	\$ (0.01)	\$ (0.01)	\$ (0.11)
per share - diluted	\$ (0.01)	\$ (0.01)	\$ (0.11)
Total assets	\$ 14,238,664	\$ 14,779,266	\$ 16,198,938
Total long-term financial liabilities	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Cash dividends declared per share	\$ nil	\$ nil	\$ nil

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.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

Segmented Information	Three Months ended September 30, 2011			Three Months ended September 30, 2010		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 3,796,924	\$ 482,636	\$ 4,279,560	\$ 4,119,488	\$ 338,314	\$ 4,457,802
Expenses	4,034,423	389,650	4,424,073	3,707,799	453,072	4,160,871
Income (loss) before income taxes	(237,499)	92,986	(144,513)	411,689	(114,758)	296,931
Income tax expense (benefit)	(5,048)	-	(5,048)	13,276	-	13,276
Net income (loss)	\$ (232,451)	\$ 92,986	\$ (139,465)	\$ 398,413	\$ (114,758)	\$ 283,655
Property, plant and equipment expenditures	\$ 24,310	\$ 8,120	\$ 32,430	\$ 16,606	\$ -	\$ 16,606

Segmented Information	Year ended September 30, 2011			Year ended September 30, 2010		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 14,593,820	\$ 1,294,881	\$ 15,888,701	\$ 15,144,145	\$ 1,068,377	\$ 16,212,522
Expenses	14,768,205	1,464,346	16,232,551	15,023,441	1,918,926	16,942,367
Income (loss) before income taxes	(174,385)	(169,465)	(343,850)	120,704	(850,549)	(729,845)
Income tax expense (benefit)	(26,910)	-	(26,910)	2,750	-	2,750
Net income (loss)	\$ (147,475)	\$ (169,465)	\$ (316,940)	\$ 117,954	\$ (850,549)	\$ (732,595)
Property, plant and equipment expenditures	\$ 59,003	\$ 8,693	\$ 67,696	\$ 52,373	\$ 1,646	\$ 54,019
Total assets	\$ 6,922,251	\$ 7,316,413	\$ 14,238,664	\$ 7,174,292	\$ 7,604,974	\$ 14,779,266
Total long-term financial liabilities	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 2,500,000	\$ -	\$ 2,500,000

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

Franchise Activity

The following provides a summary of the number of franchises granted, acquired and closed during the years ended September 30, 2011 and 2010:

Franchise Activity	Year Ended September 30, 2011	Year Ended September 30, 2010
Number of franchises - beginning of period	199	205
New franchises granted	14	14
Franchises closed	(19)	(20)
Number of franchises - end of period	194	199

Operations

For the three months ended September 30, 2011, the Company reported a net loss from operations of \$139,465 as compared to net income of \$283,655 for the quarter ended September 30, 2010. The decrease in net income is attributable to a 4% decrease in total revenue and a 6% increase in total expenses, as discussed below.

For the year ended September 30, 2011, the Company reported a net loss from operations of \$316,940 as compared to a net loss of \$732,595 for the year ended September 30, 2010. The decrease in net loss is attributable to a 4% decrease in total expenses, offset by a 2% decrease in total revenue, as discussed below.

For the three months ended September 30, 2011, the Company's US Operations reported a net loss from operations of \$232,451 as compared to net income of \$398,413 for the quarter ended September 30, 2010. The increase in net loss is attributable to an 8% decrease in total revenue and a 9% increase in total expenses, as discussed below.

For the year ended September 30, 2011, the Company's US Operations reported a net loss from operations of \$147,475 as compared to net income of \$117,954 for the year ended September 30, 2010. The decrease in net income is attributable to a 2% decrease in total expenses offset by a 4% decrease in total revenue, as discussed below.

For the three months ended September 30, 2011, the Company's Canadian Operations reported net income from operations of \$92,986 as compared to a net loss of \$114,758 for the quarter ended September 30, 2010. The decrease in net loss is attributable to a 43% increase in total revenue and a 14% decrease in total expense, as discussed below.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

For the year ended September 30, 2011, the Company's Canadian Operations reported a net loss from operations of \$169,465 as compared to a net loss of \$850,549 for the year ended September 30, 2010. The decrease in net loss is attributable to a 24% decrease in total expenses and a 21% increase in total revenue, as discussed below.

Revenue

Total revenue for the three months ended September 30, 2011 was \$4,279,560 compared to \$4,457,802 for the three months ended September 30, 2010, a decrease of \$178,242 or 4%. This decrease is mainly due to lower insurance premiums and related fees and lower franchise sales activity.

Total revenue for the year ended September 30, 2011 was \$15,888,701 compared to \$16,212,522 for the year ended September 30, 2010, a decrease of \$323,821 or 2%. This decrease is mainly due to an increase in continuing franchisee and related fees offset by lower franchise sales activity and lower insurance premiums and related fees.

Total revenue for the Company's US Operations for the three months ended September 30, 2011 was \$3,796,924 compared to \$4,119,488 for the three months ended September 30, 2010, a decrease of \$322,564 or 8%. This decrease is mainly due to lower insurance premiums and related fees and lower franchise sales activity.

Total revenue for the Company's US Operations for the year ended September 30, 2011 was \$14,593,820 compared to \$15,144,145 for the year ended September 30, 2010, a decrease of \$550,325 or 4%. This decrease is mainly due to an increase in continuing franchisee and related fees offset by lower franchise sales activity and lower insurance premiums and related fees.

Total revenue for the Company's Canadian Operations for the three months ended September 30, 2011 was \$482,636 compared to \$338,314 for the three months ended September 30, 2010, an increase of \$144,322 or 43%. The increase is mainly due to higher insurance premium revenue during the period.

Total revenue for the Company's Canadian Operations for the year ended September 30, 2011 was \$1,294,881 compared to \$1,068,377 for the year ended September 30, 2010, an increase of \$226,504 or 21%. The increase is mainly due to higher insurance premium revenue during the period.

Expenses

Total expenses for the three months ended September 30, 2011 were \$4,424,073 compared to \$4,160,871 for the three months ended September 30, 2010, an increase of \$263,202 or 6%. Insurance operating costs decreased \$176,276 or 11%, claims expense increased \$321,096 or

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

53%, and insurance underwriting expenses decreased \$12,903 or 10%, reflecting an increase in the number of cars insured through first dollar rather than self insured fund programs. General and administration expenses increased \$146,890 or 28%. The current year period reflected an increase in professional fees and other administrative costs.

Total expenses for the year ended September 30, 2011 were \$16,232,551 compared to \$16,942,367 for the year ended September 30, 2010, a decrease of \$709,816 or 4%. Insurance operating costs increased \$213,707 or 4%, claims expense decreased \$907,738 or 24%, and insurance underwriting expenses decreased \$361,142 or 44%, reflecting an increase in the number of cars insured through first dollar rather than self insured fund programs. General and administration expenses increased \$372,323 or 19%, as the prior year period reflected a \$132,000 non-recurring recovery of previously expensed legal fees. The current year period reflected an increase in professional fees and other administrative costs.

Total expenses for the Company's US Operations for the three months ended September 30, 2011 were \$4,034,423 compared to \$3,707,799 for the three months ended September 30, 2010, an increase of \$326,624 or 9%. Insurance operating costs decreased \$176,276 or 141%; insurance underwriting expenses decreased \$12,903 or 10%; and claims expense increased \$360,821 or 80%, reflecting an increase in the number of cars insured through first dollar rather than self insured fund programs. General and administration expenses increased \$232,512 or 72%, as the prior year period reflected a \$132,000 non-recurring recovery of previously expensed legal fees. The current year period reflected an increase in professional fees and other administrative costs.

Total expenses for the Company's US Operations for the year ended September 30, 2011 were \$14,768,205 compared to \$15,023,441 for the year ended September 30, 2010, a decrease of \$255,236 or 2%. Insurance operating costs increased \$213,707 or 4%, claims expense decreased \$540,395 or 18%, and insurance underwriting expenses decreased \$361,142 or 44%, reflecting an increase in the number of cars insured through first dollar rather than self insured fund programs. General and administration expenses increased \$522,166 or 41%, as the prior year period reflected a \$132,000 non-recurring recovery of previously expensed legal fees. The current year period reflected an increase in professional fees and other administrative costs.

Total expenses for the Company's Canadian Operations for the three months ended September 30, 2011 were \$389,650 compared to \$453,072 for the three months ended September 30, 2010, a decrease of \$63,422 or 14%. The decrease was due to a decrease of \$39,725 or 25% in claims expense from the Company's Canadian insurance program and a decrease of \$60,121 or 31% in general and administration expense.

Total expenses for the Company's Canadian Operations for the year ended September 30, 2011 were \$1,464,346 compared to \$1,918,926 for the year ended September 30, 2010, a decrease of \$454,580 or 24%. The decrease was due primarily to a decrease of \$367,343 or 48% in claims expense from the Company's Canadian insurance program, as the Company

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

reached its stop loss limit under a portion of this program during the quarter ended September 30, 2010. General and administration expense decreased \$124,342 or 18% due to a decrease in professional fees during the period.

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.

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 2011					
Q4, September 30, 2011	3,125,345	4,279,560	(139,465)	-	-
Q3, June 30, 2011	2,851,874	3,858,095	(22,775)	-	-
Q2, March 31, 2011	2,774,999	3,782,161	(8,751)	-	-
Q1, December 31, 2010	2,900,676	3,968,885	(145,949)	-	-
Fiscal Year Ended September 2010					
Q4, September 30, 2010	3,277,856	4,457,802	283,655	-	-
Q3, June 30, 2010	3,075,105	4,025,639	(191,839)	-	-
Q2, March 31, 2010	2,899,727	3,938,903	(180,768)	-	-
Q1, December 31, 2009	2,671,957	3,790,178	(643,643)	(0.01)	(0.01)

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.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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.

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.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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.

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, 2010 to September 30, 2011

	Inc (Dec) (000s)	Explanation of change
Cash and cash equivalents	421	Refer to Consolidated Statements of Cash Flow
Restricted cash and cash equivalents	(946)	Payment of claims & reduction in reserves
Accounts receivable	112	Increase in normal course
Related party accounts receivable (current and long term)	121	Increase in normal course
Other notes receivable (current and long term)	44	Increase in normal course
Goodwill & other intangibles, net	(128)	Amortization of intangibles
Prepaid expenses	29	Increase in normal course
Accounts payable and accrued liabilities	644	Timing of operational payments
Insurance loss reserves	(912)	Payment of claims and shift to first dollar programs
Shareholders' equity	(264)	Consistent with current period comprehensive loss

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

Statement of Cash Flows

Year ended September 30 (000s)	2011	2010	Explanation of change
Cash and cash equivalents, beginning of period	\$ 2,165	\$ 2,633	Refer to Consolidated Statements of Cash Flow.
Provided by (used in):			
Operating Activities	(693)	(329)	In 2011, cash outflows resulted from cash loss of \$24 and a decrease in non-cash working capital. In 2010, cash outflows resulted from cash loss of \$334 and an increase in non-cash working capital.
Investing Activities	1,112	(87)	In 2011, cash inflows were attributable to the change in restricted cash balances of \$942 and collections on notes offset by capital expenditures. In 2010, cash outflows were attributable to the change in restricted cash balances of \$63 and capital expenditures offset by collections on notes.
Financing Activities	-	(62)	In 2010, cash outflows were attributable to the repayment of notes payable.
Effect of exchange rate on cash	2	10	
Cash and cash equivalents, end of period	\$ 2,586	\$ 2,165	

Liquidity and Capital Resources

The Company's working capital increased \$45,405 or 3% to \$1,381,289 at September 30, 2011 from \$1,335,884 at September 30, 2010 primarily due to an increase in cash and a decrease in restricted cash offset by a decrease in insurance loss reserves and an increase in accounts payable and accrued expenses.

The Company does not anticipate significant cash requirements for capital asset acquisitions during fiscal year 2012 and expects that these requirements will be met through operating cash flow and working capital. In December 2010, the Company renewed its existing \$2.5 million working capital facility into a new \$2.5 million facility that matures in December 2012. 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 Officer with a balance of \$896,434 at February 1, 2010, into a new note payable to the Company

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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 realized the first principal payments on these notes in the amount of \$160,000 in February 2011.

The Company does not have any off balance sheet arrangements.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

Related Party Notes Receivable

	September 30, 2011	September 30, 2010
<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>	\$ 104,000	\$ 114,000
<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	255,298
<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>	1,632,355	1,782,335
Subtotal	\$ 1,991,653	\$ 2,151,653

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

Related Party Notes Receivable, Continued

	September 30, 2011	September 30, 2010
Balance brought forward	\$ 1,991,653	\$ 2,151,653
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.	938,149	964,269
Note receivable from an executive officer of the Company. This note originated in May 2000, is non-interest bearing and is unsecured. The note matured in May 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
Allowance for notes deemed uncollectible:	(1,273,447)	(1,299,566)
Current portion of related party notes payable	(160,000)	(172,500)
Total	\$ 1,576,355	\$ 1,736,356

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

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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.

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.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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, 2011	Year ended September 30, 2010
Continuing franchise and related fees	\$ 238,625	\$ 245,825
Insurance premiums and related fees	178,189	176,822
Interest income, included in continuing franchise and related fees	117,641	66,100
Interest expense	-	17,644
Vehicle leases, included in franchise operating expenses	44,280	46,510

At September 30, 2011 and 2010, related party accounts receivable totaled \$242,240 and \$120,890, respectively. Interest receivable on related party notes totaled \$15,237 and \$16,730 at September 30, 2011 and 2010, respectively.

Financial Instruments

The Company's financial instruments included in the Consolidated Balance Sheets at September 30, 2011 and 2010 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.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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 at and for the year ended September 30, 2011 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.

Changes in Accounting Policies

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 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

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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 to the Company's Unaudited Interim Consolidated Financial Statements.

Future Accounting Changes

The CICA converged 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 ended December 31, 2011 and the year ended September 30, 2012. This requires the restatement for comparative purposes of amounts reported by the Company for the interim and annual financial statements in 2011.

As a result of the adoption of IFRS, future accounting changes relating to Canadian GAAP are not applicable in these consolidated financial statements as they will never be applied by the Company.

International Financial Reporting Standards

During the past year the Company has been planning for the transition to International Financial Reporting Standards (IFRS). As discussed above, the Company will issue its first interim financial statements under IFRS for the three month period ended December 31, 2011, and a complete set of financial statements under IFRS for the year ending September 30, 2012.

The Company has identified differences between Canadian GAAP and IFRS relevant to the Company, and a detailed assessment was made of the impact of required changes to the existing accounting systems, business processes and requirements for personnel training and development. Based on this detailed assessment, the Company does not believe there is a material impact on the Company's existing accounting systems or processes. The Company has identified one required change to its accounting policies for recognition of initial franchise fee revenue, though the change will not be material to the Company's overall financial statements. The Company has not identified any other material changes to accounting policies or adjustments to previously reported results which will be required as a result of the transition to IFRS. The

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

Company believes its existing financial reporting systems and staff will be adequate as the transition to IFRS is completed during the year ended September 30, 2012.

Auditor

Since the Company's last audit, the Company's auditors, RSM Richter LLP, Chartered Accountants, have entered into a transaction with Ernst & Young LLP under which the audit practice of RSM Richter combined with Ernst & Young. As a result, Ernst & Young will appear as the Company's auditor of record on a going-forward basis.

Outstanding Share Data

Authorized

Unlimited common shares, without par value

Unlimited preferred shares, without par value

Issued

September 30, 2011 62,820,426 common shares

December 29, 2011 62,820,426 common shares

Stock options

Stock options outstanding:

	Options	Exercise Price Range CDN \$
September 30, 2011	9,330,556	\$0.10 to \$0.85
December 29, 2011	9,305,994	\$0.10 to \$0.85

During the three months ended September 30, 2011, no options expired and 7,500 options were forfeited. No options or shares were issued by the Company between September 30, 2011 and the date of this filing. Between September 30, 2011 and the date of this filing, 24,562 options were forfeited and no options expired.

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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 8
- (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 8);
- (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 8);
- (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 9); and
- (v) The Company is not anticipating significant cash requirements for capital asset acquisitions during fiscal year 2012 and expects that these requirements will be met through operating cash flow and working capital. The Company continues to explore alternative sources for working capital (as set out in “Liquidity and Capital Resources,” page 10).

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

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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.

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 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

Franchise Services of North America Inc.

Management Discussion and Analysis

September 30, 2011

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 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