

Franchise Services of North America Inc.

May 28, 2009

Management Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (“MD&A”) was prepared as of May 28, 2009 and should be read in conjunction with the unaudited Interim Consolidated Financial Statements and related notes as of and for the six months ended March 31, 2009 as well as the audited Consolidated Financial Statements and related notes as of and for the year ended September 30, 2008, 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.’

In November 2006, the Company 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. Under the terms of the Amended and Restated Share Exchange Agreement, the Company obtained shareholder approval at a special meeting of the shareholders held on November 30, 2006 to approve (i) the consolidation of its common shares, (ii) the acquisition by the Company (indirectly through the Company’s acquisition of U-Save Holdings, Inc. (“Holdings”) and directly through the Company’s acquisition of the remaining U-Save common shares not owned by Holdings) of all of the outstanding stock of U-Save in a “reverse take-over” (“RTO”) transaction, (iii) the name change of the Company from Rent-A-Wreck Capital Inc. (“RAWC”) to Franchise Services of North America Inc., (iv) the appointment of a new Board of Directors, (v) the amended and restated stock option plan and (vi) the extension of certain options of the Rent-A-Wreck option plan. Consistent with the accounting guidelines for reverse take-over business combinations, the transaction 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.

As a result of the Business Combination Transaction, 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

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("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 car rental and sales franchise system in Canada. This report describes the business and financial results of the Company as of and for the six month period ended March 31, 2009.

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 unaudited Interim Consolidated Financial Statements as of and for the six months ended March 31, 2009 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 of March 31, 2009 and September 30, 2008. The Consolidated Statements of Operations and Accumulated Deficit, Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows include operations for the three and six months ended March 31, 2009 and 2008. Additional information on the Company, including audited Consolidated Financial Statements as of and for the year ended September 30, 2008, can be obtained on SEDAR (www.sedar.com) under the Company's listing, Franchise Services of North America Inc.

Selected Financial Information

The following financial information is derived from the Company's audited Consolidated Financial Statements for each of the three most recently completed fiscal years, and the current unaudited quarter:

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Selected Annual Information	Six Months ended March 31, 2009 unaudited US \$	12 Months ended September 30, 2008 audited US \$	13 Months ended September 30, 2007 audited US \$	12 Months ended August 31, 2006 audited US \$
Total revenues	\$ 6,817,201	\$ 16,019,600	\$ 18,951,544	\$ 18,027,381
Net income (loss) before discontinued operations	\$ (288,644)	\$ 110,806	\$ 489,738	\$ 1,483,698
per share - basic	\$ -	\$ -	\$ 0.01	\$ 0.03
per share - diluted	\$ -	\$ -	\$ 0.01	\$ 0.03
Net income (loss) after discontinued operations	\$ (288,644)	\$ 110,806	\$ 489,738	\$ 1,483,698
per share - basic	\$ -	\$ -	\$ 0.01	\$ 0.03
per share - diluted	\$ -	\$ -	\$ 0.01	\$ 0.03
Total assets	\$ 22,741,074	\$ 23,327,266	\$ 24,247,897	\$ 19,350,537
Total long-term financial liabilities	\$ 3,485,117	\$ 3,490,926	\$ 3,709,377	\$ 3,518,184
Cash dividends declared per share	\$ nil	\$ nil	\$ nil	\$ nil

Note: The year ended September 30, 2008 reflects 12 months activity of the consolidated entity. The year ended September 30, 2007 reflects 13 months activity of U-Save and only 10 months of the Canadian operations as the BCT transaction was completed on November 30, 2006. Selected annual information for the 12 months ended August 31, 2006 reflect only that of U-Save Auto Rental of America, Inc., a private Mississippi Corporation prior to the BCT. Additional information concerning the transaction and subsequent information can be obtained on SEDAR (www.sedar.com) under the Company's listing, Franchise Services of North America Inc.

The following table reports the selected financial information of the Company by geographic jurisdictions. Management has determined that the Company operates in one dominant industry segment, the auto rental segment, in multiple jurisdictions, which involves (i) licensing to franchisees to operate 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.

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Segmented Information	Three Months ended March 31, 2009			Three Months ended March 31, 2008		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 3,310,646	\$ 106,813	\$ 3,417,459	\$ 3,673,241	\$ 216,686	\$ 3,889,927
Expenses	3,485,352	240,163	3,725,515	3,707,163	263,681	3,970,844
Income (loss) before income taxes	(174,706)	(133,350)	(308,056)	(33,922)	(46,995)	(80,917)
Income tax expense (recovery)	(53,855)	(41,300)	(95,155)	(13,730)	(61,472)	(75,202)
Net income (loss)	\$ (120,851)	\$ (92,050)	\$ (212,901)	\$ (20,192)	\$ 14,477	\$ (5,715)
Capital asset expenditures	\$ 22,260	\$ -	\$ 22,260	\$ 17,322	\$ -	\$ 17,322

Segmented Information	Six Months ended March 31, 2009			Six Months ended March 31, 2008		
	unaudited			unaudited		
	USA US \$	Canada US \$	Total US \$	USA US \$	Canada US \$	Total US \$
Total revenues	\$ 6,592,893	\$ 224,308	\$ 6,817,201	\$ 7,703,207	\$ 401,494	\$ 8,104,701
Expenses	6,676,203	429,642	7,105,845	7,113,153	589,609	7,702,762
Income (loss) before income taxes	(83,310)	(205,334)	(288,644)	590,054	(188,115)	401,939
Income tax expense (recovery)	(19,316)	(65,100)	(84,416)	239,633	(111,332)	128,301
Net income (loss)	\$ (63,994)	\$ (140,234)	\$ (204,228)	\$ 350,421	\$ (76,783)	\$ 273,638
Capital asset expenditures	\$ 34,063	\$ -	\$ 34,063	\$ 52,999	\$ -	\$ 52,999
Total assets	\$ 14,406,718	\$ 8,334,356	\$ 22,741,074	\$ 14,635,157	\$ 10,258,458	\$ 24,893,615
Total long-term financial liabilities	\$ 3,470,557	\$ 14,560	\$ 3,485,117	\$ 1,210,211	\$ -	\$ 1,210,211

Operations

For the three months ended March 31, 2009, the Company reported a net loss from operations of \$212,901 as compared to a net loss of \$5,715 for the quarter ended March 31, 2008. The decrease is attributable to a 12.1% decline in total revenue offset somewhat by an overall 6.2% decrease in total expenses, as discussed below.

For the six months ended March 31, 2009, the Company reported a net loss from operations of \$204,228 as compared to net income of \$273,638 for the six months ended March 31, 2008. The decrease is attributable to a 15.9% decline in total revenue offset somewhat by an overall 7.7% decrease in total expenses, as discussed below.

Revenue

Total revenue for the three months ended March 31, 2009 was \$3,417,459 compared to \$3,889,927 for the three months ended March 31, 2008, a decrease of \$472,468 or 12.1%. This decrease is mainly due to a reduction in franchise sales activity, fewer cars being insured by the franchisees and associate members and lower royalty income as a result of the competitive nature of the pricing and declining fleets which has occurred in the industry during

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the last nine months as a result of the overall economic slowdown being experienced in North America and the corresponding tightening of the credit markets.

Total revenue for the six months ended March 31, 2009 was \$6,817,201 compared to \$8,104,701 for the six months ended March 31, 2008, a decrease of \$1,287,500 or 15.9%. This decrease is mainly due to reduced franchise sales, fewer cars being insured by the franchisees and associate members and lower royalty income as a result of the competitive nature of the pricing and declining fleets which has occurred in the industry during the last nine months as a result of the overall economic slowdown being experienced in North America. Additionally, the prior year reporting period included the sale of an international master franchise of approximately \$200,000.

Expenses

Total expenses for the three months ended March 31, 2009 were \$3,725,515 compared to \$3,970,844 for the three months ended March 31, 2008, a decrease of \$245,329 or 6.2%. Insurance operating costs decreased \$248,941 or 34.6% and insurance underwriting costs decreased \$75,649 or 15.0% due to an overall decrease in the number of cars insured.

Total expenses for the six months ended March 31, 2009 were \$7,105,845 compared to \$7,702,762 for the six months ended March 31, 2008, a decrease of \$596,917 or 7.7%. Insurance operating costs decreased \$353,220 or 23.8% and insurance underwriting costs decreased \$221,412 or 21.4% due to an overall decrease in the number of cars insured.

In the quarter ended March 31, 2009, our insurance reserves were increased by \$157,000 at the request of the insurance carriers, based upon a review of the existing claims outstanding and the trending on incidents occurred, but not yet recorded and resolved. By comparison, in the quarter ended March 31, 2008, our reserves decreased by \$385,000 during the period based upon the same review by the carriers. The results of any one period are not necessarily indicative of any results to be expected in future periods, due to the unpredictable nature of such claims.

Adjustment to Reported Fiscal 2007 Results

As previously announced on February 22, 2008, interim quarterly consolidated financial statements issued for the quarters ended December 31, 2006, March 31, 2007 and June 30, 2007 should not be relied upon due to the determination that the reverse take-over ("RTO") transaction was not recorded in accordance with Canadian Generally Accepted Accounting Principals ("Canadian GAAP"). During the annual audit for the issuance of the consolidated financial statements as of and for the thirteen month period ended September 30, 2007, management determined that the original accounting for the RTO transaction was incorrect and was based on the legal acquirer Rent-A-Wreck Capital Inc. ("RAWC") continuing as the reporting entity. In accordance with Canadian GAAP, the accounting acquirer (U-Save) is deemed to be

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the continuing entity for reporting purposes. The adjustments were already taken into account in the audited consolidated financial statements issued as of and for the thirteen month period ended September 30, 2007. The correction of error impact on net income for quarters ended March 31, 2007 and June 30, 2007 and the seven and ten months there ending respectively is disclosed in the interim consolidated financial statements as filed for the quarters ended March 31, 2008 and June 30, 2008.

Quarterly Results

The following financial information is derived from the Company's unaudited quarterly consolidated financial statements for each of the nine most recently completed quarterly periods. The amounts for the quarters ending December 31, 2006, March 31, 2007, June 30, 2007 and September 30, 2007 reflect the accounting of the BCT as completed on November 30, 2006, and thus the first quarter of the 2007 fiscal year, ended December 31, 2006, actually reflects four months of operations of U-Save and one month of operations of Practicar. All subsequent quarterly periods of 2007, fiscal 2008 and the first and second quarter of fiscal 2009 reflect three months combined operations of the Company. The four quarters for the thirteen months ended September 30, 2007 have been updated and restated to reflect the accounting of the BCT in accordance with Canadian GAAP related to reverse take-over accounting. Certain amounts have been reclassified to conform to current year presentation. The previously reported quarters of the Company when traded as RAW prior to the BCT information can be obtained on SEDAR (www.sedar.com) under the current Company's listing.

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Quarters Ending unaudited	Insurance Premiums and Related Fees US \$	Total Revenues US \$	Net Income (Loss)		
			US \$	Per Share	
				Basic US \$	Diluted US \$
Fiscal Year Ended September 2009					
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
Fiscal Year Ended September 2008					
Q4, September 30, 2008	2,977,767	4,169,522	(147,265)	0.00	0.00
Q3, June 30, 2008	2,781,880	3,745,377	(15,567)	0.00	0.00
Q2, March 31, 2008	2,755,519	3,889,927	(5,715)	0.00	0.00
Q1, December 31, 2007	3,061,722	4,214,774	279,353	0.00	0.00
Fiscal Year Ended September 2007					
Q4, September 30, 2007	3,170,131	4,442,959	324,565	0.01	0.00
Q3, June 30, 2007	3,023,279	4,110,665	235,011	0.00	0.00
Q2, March 31, 2007	2,882,050	4,322,575	88,181	0.00	0.00
Q1, December 31, 2006 (4 months)	4,113,319	5,304,603	(158,019)	0.00	0.00

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

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.

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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.

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

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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. Any additional consideration paid will be reflected in goodwill.

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

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Financial Position

The following outlines significant changes in the consolidated balance sheet from September 30, 2008 to March 31, 2009

	Inc (Dec)	
	(000s)	Explanation of change
Cash and cash equivalents	(20)	Refer to Consolidated Statements of Cash Flow
Restricted cash and cash equivalents	(704)	Consistent with lower insurance reserves
Accounts receivable	(47)	Decrease in normal course
Related party accounts receivable (current and long term)	(577)	Receivables converted to note receivable during period
Related party notes receivable (current and long term)	696	Receivables converted to note receivable during period
Other notes receivable (current and long term)	(32)	Reduction in normal course
Future income tax assets (current and long term)	67	Related to increase in NOLs
Goodwill & other intangibles, net	(103)	Amortization of intangibles
Prepaid expenses	154	Increase in normal course
Accounts payable and accrued liabilities	(388)	Timing of operational payments
Insurance loss reserves (current and long term)	(341)	Lower reserves based on experience
Notes payable (current and long term)	498	Draws under secured letter of credit
Related party notes payable (current and long term)	(87)	Decrease in normal course
Shareholders' equity	(252)	Consistent with current period comprehensive loss

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Statement of Cash Flows

Three months ended March 31 (000s)	2009	2008	Explanation of change
Cash and cash equivalents, beginning of period	\$ 1,097	\$ 1,247	Refer to Consolidated Statements of Cash Flow.
Provided by (used in):			
Operating Activities	(383)	317	In 2009, cash outflows resulted from cash loss of \$167 and decrease in non-cash working capital. In 2008, cash inflows were primarily due to cash earnings of \$31 and an increase in non-cash working capital.
Investing Activities	(22)	(543)	In 2009, cash outflows were primarily attributable to the increase in restricted cash balances of \$52 offset by collections on notes of \$45. In 2008, cash outflows were primarily attributable to the increase in restricted cash balances of \$353 and payments for intangibles of \$188.
Financing Activities	447	(50)	In 2009, cash inflows were primarily due to draws under secured letters of credit of \$497. In 2008, cash outflows were primarily attributable to repayments of notes payable of \$52.
Effect of exchange rate on cash	(7)	(17)	
Cash and cash equivalents, end of period	\$ 1,132	954	

Liquidity and Capital Resources

The Company's working capital decreased to \$2,606,320 at March 31, 2009 from \$3,120,394 at September 30, 2008 primarily due a \$703,632 reduction in restricted cash and \$182,000 reduction in future income tax assets offset by a related \$286,359 reduction in insurance reserves. The Company also experienced an increase in current notes payable of \$497,666 during the period.

The Company does not anticipate significant cash requirements for capital asset acquisitions during fiscal year 2009 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 matures in December 2010. The Company continues to explore alternative sources of working capital.

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Related Party Notes Receivable and Other Notes Receivable

	<u>March 31, 2009</u>	<u>September 30, 2008</u>
<p>Prior to the BCT with RAWC, this balance existed on the books of Holdings as indebtedness to U-Save. This balance arose from the original acquisition of U-Save by a major shareholder and officer of the Company. The balance is comprised of payments made by U-Save on behalf of the shareholder/Holdings in respect of loans incurred by Holdings to acquire U-Save. On consolidation, the receivable owing from Holdings to U-Save was eliminated. As a result, what remains is a receivable from the shareholder to FSNA. The note is non-interest bearing, unsecured and payable on demand. The note has been classified as non-current based on management's estimate of when the note receivable will be collected.</p>	\$ 2,423,823	\$ 2,423,823
<p>This balance originated from certain accounts receivable (insurance, royalties, reservation fees) of a former franchisee of which a major shareholder and officer of the Company was formerly a co-owner. The note is unsecured and bears an interest rate of 6%. Annual payments of \$71,694 consisting of principal and accrued interest are due beginning August 2007. The note matures in August 2011. Currently, no payments have been made on this note, however, all amounts outstanding under this note are deemed ultimately collectible.</p>	302,000	302,000
<p>This balance originated from interest payments paid or payable by U-Save on behalf of major shareholders on related loans incurred to acquire common shares of U-Save through ownership in Holdings. Holdings is required to reimburse U-Save for payments made in this regard. The note is non-interest bearing and is unsecured. The note has been classified as non-current based on management's estimate of when the note will be collected.</p>	510,264	510,264
Subtotal	\$ <u>3,236,087</u>	\$ <u>3,236,087</u>

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Related Party Notes Receivable and Other Notes Receivable, Continued

	March 31, 2009	September 30, 2008
Balance brought forward	\$ 3,236,087	\$ 3,236,087
Note receivable from a franchisee in which one of the Company's Co-Chief Executive Officers has a financial interest. Note originated in December 2008 reconstituting certain outstanding accounts receivable of \$723,404 and existing notes receivable of \$284,419, totaling \$1,007,823. The note required a \$37,500 down payment that was received in January 2009. The note bears interest a 6%, requires interest only payments in the first year and graduated principal and interest payments thereafter, with a final maturity in 2014. See further discussion below.	980,050	-
At December 31, 2008 and September 30, 2008, various unsecured notes receivable, primarily from franchisees, were outstanding. The notes bear interest at rates ranging from 0% to 12%. Of these notes receivable, approximately \$284,419 at September 30, 2008 was from franchisees in which one of the Company's Co-Chief Executive Officers has a financial interest (see Note 16 of the Company's unaudited Interim Consolidated Financial Statements).	164,485	480,662
Allowance for notes deemed uncollectible:	(30,000)	(30,000)
Total	\$ 4,350,622	\$ 3,686,749

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 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.

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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 16 to the unaudited Interim Consolidated Financial Statements is one of the principal risk exposures of the Company. The Company will assess an account for impairment on a case by case basis considering these and other factors. The Company believes the interest rate on the note is a reasonable market rate of interest and the stated value of the secured note is a reasonable value of amounts to be received. Accordingly, no reserve has been established on the note. The Company will continue to monitor the collectibility of the note and reassess such as events and circumstances change or warrant on an ongoing basis.

Related Party Notes Payable

	March 31, 2009	September 30, 2008
In January 2007, the Company, through a wholly owned subsidiary, acquired an insurance agency. The initial purchase price of \$1,191,214 was funded by a major shareholder and officer of the Company. In this regard, the Company entered into an unsecured note payable to the major shareholder with monthly interest-only payments of 8.25% per annum. In May 2008, the note was amended to an interest rate of 7% per annum with monthly principal and interest payments of \$19,850. The note matures May 2010.	\$ 1,047,952	\$ 1,135,080

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.

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

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	Three months ended March 31, 2009	Three months ended March 31, 2008
Continuing franchise and related fees	\$ 131,378	\$ 183,219
Insurance premiums and related fees	\$ 63,222	\$ 130,965
Interest expense	\$ 16,229	\$ 16,111

At March 31, 2009 and September 30, 2008, related party accounts receivable totaled \$69,574 and \$646,244, respectively. Related party accounts receivable declined during the six months ended March 31, 2009 as related party accounts receivable of \$723,404 were converted into a note receivable, as discussed in *Related Party Notes Receivable and Other Notes Receivable*, above.

Financial Instruments

The Company's financial instruments included in the Consolidated Balance Sheets at March 31, 2009 and September 30, 2008 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 and Other 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 unaudited Interim Consolidated Financial Statements as of and for the three and six months ending March 31, 2009 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 16 of the Company's audited Consolidated Financial Statements in regards to the Company's principal financial risk of Credit Risk.

Reference is hereby made to Note 3 of the Company's unaudited Interim Consolidated Financial Statements, "Changes in Accounting Policies" relative to Financial Instruments.

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Effective October 1, 2006, the Company adopted Section 3855 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook ("HB"), "Financial Instruments – Recognition and Measurement," HB Section 1530, "Comprehensive Income," HB Section 3861, "Financial Instruments-Disclosure and Presentation," and HB Section 3865, "Hedges." The Company has adopted these standards retrospectively without restatement. The adoption of these standards had no effect on opening retained earnings.

a) Financial instruments – recognition and measurement

The new standard prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including any derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments, and other financial liabilities which are measured at amortized cost determined using the effective interest rate method. For all financial instruments, at initial recognition, cost of the instrument is fair value, adjusted for any transaction costs. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in the fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized at which time the amounts would be recorded in net income.

Following adoption of these standards, the Company has classified all cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts and notes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, notes payable and capital lease obligations are classified as other financial liabilities which are measured at amortized cost. Due to the short-term nature of the accounts receivable, notes receivable, accounts payable and accrued liabilities, carrying amount approximates fair value.

b) Derivatives

The Company does not have any derivative instruments or hedging activities.

c) Other comprehensive income

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income.

d) Transaction costs

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Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument on an effective yield method. There has been no impact on the Company's Consolidated Financial Statements related to transaction costs.

Further to this, the CICA has issued new HB Sections 3862, "Financial Instruments-Disclosures," and HB Section 3863, "Financial Instruments-Presentation" effective for fiscal years beginning on or after October 1, 2007, replacing HB 3861. HB 3863 carries forward unchanged the related presentation of HB 3861, while HB 3862 requires additional financial disclosures related to the nature and extent of risk arising from financial instruments and how the entity manages those risks. The Company has adopted these new standards for its 2008 fiscal year. See Note 16 in the Company's unaudited Interim Consolidated Financial Statements for further discussion of risks associated with financial instruments.

Accounting Changes

In July 2006, the CICA issued the new HB Section 1506, "Accounting Changes," effective for annual and interim periods relating to fiscal years beginning on or after January 1, 2007. This section establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company of any new primary source of GAAP that has been issued but is not yet effective. This new standard is not expected to have a material effect on our financial position or results of operations. This standard applies to the Company's interim and annual financial statements beginning October 1, 2007. The Company adopted this new standard in its 2008 fiscal year.

Capital Disclosures

In November 2006, the CICA issued the new HB Section 1535, "Capital Disclosures," effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. This new standard will have no effect on our financial position or results of operations as it is a disclosure standard only. This standard applies to the Company's interim and annual financial statements beginning October 1, 2007. The Company adopted this new standard for its 2008 fiscal year. Reference is hereby made to Note 15 in the Company's unaudited Interim Consolidated Financial Statements for further details.

Goodwill and Intangible Assets

In February 2008, the CICA issued the new HB Section 3064, "Goodwill and Intangible Assets" effective for annual and interim periods relating to fiscal years beginning on or after October 1, 2008, and the Company adopted this standard effective October 1, 2008. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible

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assets. The adoption of this standard had no impact on the Company's Consolidated Financial Statements.

Going Concern

The CICA amended HB Section 1400, "General Standards of Financial Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and the Company adopted this standard effective October 1, 2008. The adoption of this standard had no impact on the Company's Consolidated Financial Statements.

Future Accounting Changes

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, 2011 and is currently evaluating the impact of IFRS on its Consolidated Financial Statements.

Business Combinations

CICA HB Section 1582, Business Combinations, which replaces HB 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 HB Section 1601, Consolidated Financial Statements and HB Section 1602, Non-controlling Interests replace CICA HB Section 1600, Consolidated Financial Statements. HB Section 1601 establishes standards for the preparation of consolidated financial statements. HB Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. HB 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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Outstanding Share Data

Authorized

Unlimited common shares, without par value

Unlimited preferred shares, without par value

Issued

March 31, 2009 62,820,426 common shares

May 28, 2009 62,820,426 common shares

Stock options

Stock options outstanding:

	Options	Exercise Price Range CDN \$
March 31, 2009	8,497,485	\$0.10 to \$1.04
May 28, 2009	8,397,485	\$0.10 to \$1.04

During the three months ended March 31, 2009, 658,854 options expired and 243,488 were forfeited. No additional options or securities were issued by the Company during the three months ended March 31, 2009 or between that date and the date of this filing. Between March 31, 2009 and the date of this filing, 100,000 options were forfeited.

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 7);
- (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 7);
- (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

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reservation opportunities (as set out in “Quarterly Results,” page 7);

- (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 8);and
- (v) The Company is not anticipating significant cash requirements for capital asset acquisitions during fiscal year 2009 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 31, 2008 were extended to December 2010. 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 statements include the overall economy, the cost of gasoline and its effect on tourism, the ability of our franchisees to grow their fleets and successfully rent their vehicles, and other risks detailed from time-to-time in the publicly filed disclosure documents of FSNA. FSNA’s forward-looking statements are expressly qualified in their entirety by this cautionary statement. In addition, the forward-looking statements are made only as of the date of this discussion, and except as required by applicable law, or as discussed below, FSNA undertakes no obligation to publicly update these forward-looking statements to reflect new information, subsequent events or otherwise.

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 is softer

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in 2009 than it was in 2008 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 2009 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.

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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