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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 8, 2012

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**TIM HORTONS INC.**

(Exact name of registrant as specified in its charter)

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**Canada**  
(State or other jurisdiction  
of incorporation)

**001-32843**  
(Commission  
File Number)

**98-0641955**  
(IRS Employer  
Identification No.)

**874 Sinclair Road, Oakville, ON, Canada**  
(Address of principal executive offices)

**L6K 2Y1**  
(Zip Code)

**(905) 845-6511**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **Item 2.02 Results of Operations and Financial Condition.**

On August 9, 2012, Tim Hortons Inc. (the “Corporation”) issued a press release containing financial information regarding its second quarter 2012 financial results and certain other information. The press release is attached hereto as Exhibit 99.1.

## **Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

(b) Information regarding Mr. Moir’s employment arrangement, provided in Item 5.02(e) of this Form 8-K, is incorporated by reference into this Item 5.02(b).

(c) On August 8, 2012, the Board of Directors appointed Mr. David F. Clanachan, age 50, as the Chief Operating Officer of the Company. Mr. Clanachan will have executive accountability for all of the Company’s operating business, including Canada, the United States and International. Mr. Clanachan joined the Company in 1992 and held various positions in the Operations Department until he was promoted to the position of Vice President, Operations—Western Ontario in 1997. Prior to that time, he was a Director of Operations for an international food company, with approximately 12 years of experience in the industry. In August 2001, he was promoted to the position of Executive Vice President of Training, Operations Standards and Research & Development. In May 2008, Mr. Clanachan was appointed as Chief Operations Officer, United States and International and directly oversaw operations, restaurant development and growth strategy for the U.S. segment, as well as the international operations and growth strategy. Mr. Clanachan holds a Bachelor of Commerce degree from the University of Windsor. Mr. Clanachan serves on the School of Hospitality and Tourism, Management Policy Advisory Board for the University of Guelph and as a director of the Canadian Hospitality Foundation. The press release announcing Mr. Clanachan’s appointment is furnished hereto as Exhibit 99.1.

(e) On August 8, 2012, Tim Hortons Inc. (the “Company”) determined to enter into retention agreements (collectively, the “Retention Agreements”) with each of David F. Clanachan, Cynthia J. Devine, William A. Moir and Roland M. Walton (collectively, the “Named Executive Officers”) to provide for a lump-sum cash payment (the “Retention Award”) to each of them if such Named Executive Officer remains continuously and actively employed by the Company, on a full-time basis, through and including the date that is nine months following the date that an individual commences permanent employment as Chief Executive Officer of the Company, as successor to Mr. Paul D. House (the “Retention Payment Date”). With respect to Mr. Moir, he must remain continuously employed as the Chief Marketing and Brand Officer (“CMO”) through and including the Retention Payment Date in order to receive the Retention Award.

Under the terms of the Retention Agreements, if the employment of a Named Executive Officer is terminated, for any reason whatsoever, prior to the Retention Payment Date, then such Named Executive Officer shall not be entitled to the Retention Award.

The Company has determined to enter into the Retention Agreements with a view to providing stability to the Company, the Named Executive Officers, and certain other members of senior management during a period of transition with respect to the Chief Executive Officer position. If the terms of their Retention Agreements are satisfied, then the Named Executive Officers (and certain other identified officers) will be entitled to a payment on the Retention Payment Date that is equal to the respective Named Executive Officer’s annual base salary as of the date of the Retention Agreement.

The foregoing summary of the Retention Agreements does not purport to be complete and is qualified in its entirety by reference to the Retention Agreements, the form of which is attached hereto as Exhibit 10.1, and are incorporated herein by reference.

On August 8, 2012, the Company also entered into an employment agreement (the “Agreement”) with Mr. Moir, the Company’s CMO, effective August 8, 2012 and extending through August 31, 2014 (the “Retention Period”). Pursuant to the Agreement, Mr. Moir has agreed to continue to serve as CMO until a successor to the CMO role has been appointed, and he has also agreed to support the orderly transition of the CMO role by assisting in the search for, and working for a period of time with, his successor, at the election of the Company’s Chief Executive Officer. After the successor to the CMO role has been appointed, it is anticipated that Mr. Moir will continue to serve as the Company’s executive team leader for the Company’s sustainability and responsibility program, including the coffee partnership program, as well as the President of the Tim Horton Children’s Foundation, until the end of the Retention Period. He will also continue to contribute to various other strategic initiatives and programs involving the Tim Hortons brand during the Retention Period, at the request of the Company’s Chief Executive Officer.

Mr. Moir shall receive the same compensation during the Retention Period as he received immediately prior to the commencement of the Retention Period, subject to any increases approved by the Company’s Human Resource and Compensation Committee (“HRCC”). Furthermore, Mr. Moir’s participation in the Company’s short-term and long-term compensation plans and benefit plans during the Retention Period shall be the same as his participation immediately prior to the commencement of the Retention Period, subject to any modifications made by the Company’s HRCC, in its discretion, that apply to all named executive officers.

If Mr. Moir’s employment with the Company does not continue following the Retention Period, then Mr. Moir will be

considered to have retired from the Company for the purposes of all compensation, benefit and pension plans, programs and policies.

If Mr. Moir's employment is terminated by the Company (except for a termination for cause, or due to disability or death), prior to the end of the Retention Period, then all of the payments, grants and benefits that Mr. Moir would have been entitled to for the remainder of the Retention Period shall be paid (including the cash equivalent thereto for equity grants and other benefits), to Mr. Moir as full and final payment of all amounts owed as a result of such termination. If Mr. Moir terminates his employment prior to the end of the Retention Period (other than as a result of death), then the Company will pay Mr. Moir the value of the remainder of the payments and benefits that Mr. Moir would have been entitled to through the end of the Retention Period, except that any long-term incentive grants which had not been granted as of the termination date shall not be made. In this event, Mr. Moir will be deemed to have retired for purposes of unvested equity under the stock incentive plans.

In the event that Mr. Moir's employment is terminated following a change in control of the Company while Mr. Moir is serving as CMO, then the terms of his change in control agreement, as amended on February 24, 2010 (the "CIC Agreement"), shall apply, and he shall be entitled to severance equal to two times his base salary and short-term incentive awards, as well as the other payments and benefits described in the CIC Agreement. If a change in control occurs during the Retention Period while Mr. Moir is no longer serving as CMO, then the CIC Agreement shall terminate and be of no further force and effect, and Mr. Moir's termination shall be governed by the provisions of the Agreement as if the change in control had not occurred. The foregoing summary of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement, a copy of which is attached hereto as Exhibit 10.2 and is incorporated herein by reference.

Mr. Moir has also entered into an employment (and post-employment) covenants agreement with the Company on August 8, 2012 (the "Employment Covenants Agreement"), pursuant to which he has agreed to comply with certain covenants for the benefit of the Company, relating to non-competition, non-solicitation, confidentiality, non-disparagement and others. A copy of the Employment Covenants Agreement is attached hereto as Exhibit 10.3 and is incorporated herein by reference.

#### **Item 8.01 Other Events.**

On August 9, 2012, the Corporation also announced that its Board of Directors has approved a Cdn.\$0.21 per common share quarterly dividend. The dividend is payable on September 5, 2012 to shareholders of record at the close of business on August 20, 2012. The declaration of any future dividends is subject to the Board's discretion. The press release regarding this dividend is attached hereto as Exhibit 99.2.

#### **Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

Exhibit 10.1 Form of Retention Agreement by and between the Company and David F. Clanachan; Cynthia J. Devine; William A. Moir; and Roland M. Walton.

Exhibit 10.2 Letter Agreement dated as of August 8, 2012 by and between the Company and William A. Moir.

Exhibit 10.3 Employment (and Post-Employment) Covenants Agreement dated as of August 8, 2012 by and between the Company and William A. Moir.

Exhibit 99.1 Press release dated August 9, 2012 issued by the Corporation regarding the release of quarterly financial results and other information.

Exhibit 99.2 Press release dated August 9, 2012 issued by the Corporation announcing the declaration of Cdn.\$0.21 per common share quarterly dividend.

Exhibit 99.3 Safe Harbor Statement.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TIM HORTONS INC.

Date: August 9, 2012

By: /s/ JILL E. AEBKER  
Jill E. Aebker  
Executive Vice President, General Counsel and Secretary

[Note: Text in [ ] is only included in Form of Retention Agreement for William A. Moir]

**RETENTION AGREEMENT**

**B E T W E E N :**

**TIM HORTONS INC.,**

a corporation governed by the *Canada Business Corporations Act*

(hereinafter, the “**Corporation**”)

- and -

\_\_\_\_\_,  
an individual resident in \_\_\_\_\_

(hereinafter, the “**Executive**”)

**WHEREAS** the Corporation and its subsidiaries are engaged in the business of owning, operating and franchising Tim Hortons retail outlets and carrying on ancillary activities incidental thereto (the “**Business**”);

**WHEREAS** the Executive possesses unique skills, knowledge and experience relating to the Business;

**WHEREAS** with a view to providing stability to the Corporation and to certain members of senior management of the Corporation during a period of transition with respect to the Chief Executive Officer position, the Human Resource and Compensation Committee of the Board of Directors of the Corporation (the “**HRCC**”) has approved a retention program, on the terms and conditions set forth in this Agreement (the “**Retention Program**”);

**WHEREAS** pursuant to the Retention Program, subject to satisfaction of all of the conditions set forth in this Agreement, the Executive shall be entitled to a cash payment equal to \$\_\_\_\_, representing the Executive’s annual base salary as of the date of this Agreement (the “**Payment Amount**”), which shall be earned and become payable on the date that is nine (9) months following the date that an individual commences employment as Chief Executive Officer of the Corporation, as a permanent successor to Mr. Paul House (the “**Payment Date**”); and

**WHEREAS** the parties wish to enter into this Agreement to confirm the accuracy of the recitals and to acknowledge the terms and conditions of the Retention Program.

**NOW THEREFORE** this Agreement witnesses that in consideration of good and valuable consideration, including the mutual covenants and agreements contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. The parties confirm the accuracy of, and acknowledge and agree to the provisions set forth in, the recitals of this Agreement, and further acknowledge and agree that the Retention Program shall be governed by the terms and conditions set forth in this Agreement (including the recitals).
2. The Executive hereby acknowledges and agrees that:
  - a. the payment of the Payment Amount to the Executive is conditional upon the Executive being actively employed, on a full-time basis, by the Corporation on a continuous basis (except for standard vacation, personal and sick days taken in accordance with the Corporation's policies for each of the foregoing) [as Chief Brand and Marketing Officer,] from the date hereof through to the Payment Date;
  - b. if the Executive's employment [as Chief Brand and Marketing Officer] is terminated for any reason whatsoever prior to the Payment Date, whether due to retirement, resignation, termination without cause, termination for cause, for "good reason" by the Executive, death, disability or for any other reason whatsoever (including but not limited to as a result of a "change in control" of the Corporation, as defined under any applicable agreement between the Executive and the Corporation), then the Executive shall not be entitled to all or any portion of the Payment Amount or to any other amount, payment or entitlement under the Retention Program;
  - c. notwithstanding that the Payment Amount is not performance-based compensation, in the event that the Corporation has an outstanding claim, as of the Payment Date, for recoupment or reimbursement from the Executive:
    - i. under the Corporation's Recoupment Policy Relating to Performance-Based Compensation adopted by the Board of Directors, as amended from time to time, or
    - ii. in accordance with the terms of any separate agreement, understanding or arrangement between the Executive and the Corporation (or any affiliate thereof) including, but not limited to, any employment agreement, offer letter for initial employment, promotional letter setting forth the terms of the Executive's promotion, change in control agreement, severance agreement or arrangement, and/or post-employment covenant agreement,then up to the full Payment Amount is subject to forfeiture or offset in order to satisfy such claim;
  - d. the Retention Program shall be administered by the HRCC, which shall construe and interpret the Retention Program, and make such determinations and take such other action in connection with the Retention Program as it deems necessary and advisable, provided that the terms and conditions set forth in this Agreement shall not be amended without the prior consent of the Executive; and
  - e. for tax purposes, the Payment Amount shall be considered income and shall be subject to the withholding, deduction requirements and other requirements of

applicable laws, and, for greater certainty, the Payment Amount shall not be considered "earnings" for purposes of compensation and benefit plans and programs, including but not limited to the Corporation's Executive Annual Performance Plan, Defined Contribution Pension Plan or Personal Supplemental Executive Retirement Savings Plan.

3. The parties agree to execute such further documentation as from time to time necessary to reflect the intent of this Agreement.
4. This Agreement is binding on the parties hereto and their respective successors and permitted assigns.
5. This Agreement shall be interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable in that province.
6. This Agreement may be executed in more than one counterpart which when fully signed shall constitute one agreement.

Dated: August \_\_, 2012

**TIM HORTONS INC.**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXECUTIVE**

\_\_\_\_\_

Effective Date:  
August 8, 2012

Delivered by Hand

Mr. William A. Moir  
Tim Hortons Inc.  
874 Sinclair Road  
Oakville, Ontario  
L6K 2Y1

Dear Mr. Moir:

This letter (the "Letter Agreement") will confirm my discussions with you regarding your continued employment with Tim Hortons Inc. for a period extending through August of 2014. Subject to the approval of the Board of Directors, in its sole discretion, and the other conditions described in the last paragraph of this letter, Tim Hortons Inc., or the Company, is prepared to extend an employment and retention arrangement in recognition of the extraordinary contributions that you have made to Tim Hortons Inc. over your 20 years of service. The key terms of this arrangement are as follows:

- The "Employment Period" as defined below shall commence on the Effective Date hereof (the "Commencement Date"); and, the "Retention Termination Date" as defined below shall be no later than August 31, 2014. The Employment Period shall start for all purposes on the Commencement Date. The payments described herein for the Employment Period shall be based on the compensation and increases, if any, established for you as the Chief Brand and Marketing Officer ("CMO") by the Company's Human Resource and Compensation Committee ("HRCC") for so long as you occupy that role and shall be fixed at said level of compensation for the remainder of the Employment Period, including if you move to the new role, described below. In no event shall you be entitled to receive payments hereunder during the Employment Period based on target compensation in excess of the target compensation established by the HRCC and paid to you as CMO.

- If the CEO of the Company, as of the date hereof, Mr. Paul D. House, or the successor to Mr. House as CEO, desires to seek appointment of your successor to the CMO role, you agree to assist the CEO with the search for your successor, if requested by the CEO. After your successor has been appointed, your role will change to: President, Tim Horton Children's Foundation ("THCF"); Executive Sponsor for Sustainability and Responsibility, including responsibility for ongoing development of the coffee partnership program; and, Advisor on Strategic Planning (reporting to the CEO or to the Board, as shall be determined by the Board). You will also lead the development of our 50<sup>th</sup> anniversary book and other activities related to our 50<sup>th</sup> anniversary celebration in addition to the other accountabilities associated with your new role, just described. If applicable, the Company will determine when public disclosure of the role change should be made. You may provide input regarding the announcement, which will be accepted by the Company, if reasonable.
- As used herein, "Employment Period" means the period extending from the Effective Date hereof through August 31, 2014. Also as used herein, "Retention Termination Date" means the last day of the "Employment Period."
- During the Employment Period, you will remain on payroll at your current base salary and increases, if any, as established by the HRCC for you as CMO, regardless of whether you move to the new role described above during the Employment Period.
- You will continue to be eligible for your Executive Annual Performance Plan bonus ("EAPP") according to plan rules for the Employment Period. Your target compensation as of the Commencement Date and increases, if any, approved by the HRCC will remain for the duration of the Employment Period. Plan rules will fully apply until the "Retention Termination Date."<sup>1</sup>
- During the Employment Period and until the "Retention Termination Date" (but not after),<sup>1</sup> you will continue to receive vacation, defined contribution pension plan and executive retirement savings plan contributions equivalent in value to the level of such respective benefits you receive as of the Commencement Date.
- Subject to the satisfaction of performance objectives established by the HRCC, you will continue to receive your performance-based restricted stock units ("P+RSU") grants at the target level established for you by the HRCC as of the Commencement Date until the "Retention Termination Date" (but not after).<sup>1</sup> These P+RSUs will be granted and will vest in the normal course and according to the plan rules.
- You will continue to receive your tandem Option/stock appreciation right grants at the target level established for you by the HRCC as of the Commencement Date until your "Retention Termination Date" (but not after).<sup>1</sup> These options will be granted and will vest in the normal course and according to the plan rules.

- You will remain on the Company car program until the “Retention Termination Date” at which time, if your employment with the Company does not continue (see below), the Company will transfer ownership of the vehicle over to you for \$1.00. At that time, you will no longer remain on our insurance/gas or maintenance program.
- All of the benefits you currently enjoy shall continue until the Retention Termination Date, except for any modifications to any such benefits that are made by the HRCC that apply to all named executive officers of the Company. If your employment with the Company does not continue after the Retention Termination Date, as described below, your basic health, dental and life insurance benefits including an annual Medcan check-up, will remain in effect until one year past the “Retention Termination Date.” If you wish to convert to a private life insurance plan at the end of this period, you may contact Manulife directly.
- During the Employment Period, you will also receive reimbursement for proper business and travel expenses incurred in accordance with, and with supporting documentation required under, the Tim Hortons officer expense policies.
- You will be entitled to reimbursement for reasonable legal fees incurred by you in connection with a review of this letter and the underlying subject matter hereof, after submission to us of the invoice(s) describing said services and fees. And,
- In advance of or shortly after the “Retention Termination Date,” Sun Life of Canada will contact you by mail to arrange for the transfer of your pension fund, if your employment with the Company does not continue after the Retention Termination Date.

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In consideration for the payments described above, you will be required to agree to certain employment covenants relating to non-competition, non-solicitation, confidentiality, non-disparagement, and others in the form of agreement previously delivered to you and executed by you concurrently herewith (“Employment Covenants Agreement”).

At the end of the Employment Period, your employment with the Company will cease, unless the Company determines in its sole and absolute discretion to offer you continued employment, which terms will be subject to negotiation and which you may accept or decline at your option. If your employment with the Company does not continue, and if you are interested in remaining with the THCF beyond the “Retention Termination Date,” you and the THCF will renegotiate all the terms of your future employment with the THCF, subject to your and the THCF’s sole and absolute discretion.

You expressly acknowledge, understand, and agree that the Employment Period represents a fixed-term employment contract under all applicable employment standards laws and regulations, including but not limited to the Ontario Employment Standards Act, as may be

amended from time-to-time. In the event that your employment does not continue after the Retention Termination Date, the Company and you agree that you will be considered to have retired from the Company under all compensation, benefit and pension plans, programs and policies (including but not limited to the 2006 Stock Incentive Plan and the 2012 Stock Incentive Plan) and, in connection therewith, you will be in receipt of an actuarially unreduced pension benefit. As a result of the foregoing and the other consideration set forth in this Letter Agreement, you agree that you will not be entitled to severance payments of any nature or type (or notice in lieu of termination pay or severance), as a result of the expiry of your employment contract (or otherwise as a result of the termination of your employment) as of the Retention Termination Date.

Notwithstanding anything that may be construed hereunder to the contrary, in the event that the Company terminates your employment before the end of the Employment Period (except (i) for CAUSE; (ii) as a result of your DISABILITY in accordance with the requirements of the Ontario Human Rights Code; or (iii) as a result of your death); then, the payments, including grants and vesting of equity awards, and benefits due and payable for the remainder of the Employment Period under this Letter Agreement up to the Retention Termination Date (that would be payable or to which you would be entitled had you continued your employment hereunder until the Retention Termination Date), shall be provided to you and shall constitute full and final payment of all amounts owed as a result of the termination. In the event that your employment terminates during the Employment Period in accordance with the foregoing, and any payment or benefit (including but not limited to equity awards), to which you are entitled under this Letter Agreement during the Employment Period is not able to be continued or provided directly as contemplated hereunder for the remainder of the Employment Period contemplated hereunder because it is linked to or requires your continued employment with the Company, then the Company shall, at its option, either obtain a substantially equivalent replacement benefit on your behalf or pay you the reasonable cash-value equivalent (cost of replacement) of said benefit.

Notwithstanding anything that may be construed hereunder to the contrary, if at any time, for any reason (other than as a result of your death), you wish to terminate your employment prior to the Retention Termination Date, the Company will pay out the value of the remainder of this package in cash as of your identified resignation/retirement date. Any long-term incentive grants which have not yet been granted as of your identified resignation/retirement date will not be made, however. That is, after your resignation/retirement date, you will not be eligible for any equity awards, nor any prorated value associated with any such award for the year of resignation/retirement. All unvested long-term equity incentive awards as of such resignation/retirement date would vest in the normal course according to plan rules. All other compensation (EAPP/Executive Savings Plan), will be paid out according to rules of retirement from the Company under such plans.

For purposes of the Letter Agreement, "DISABILITY" and "CAUSE" shall have the meanings ascribed to such terms in the Change in Control Agreement.

As the current CMO of the Company, you are participating in the retention program, effective of even date with the effective date of this Letter Agreement, in connection with your active service as the Company's CMO. Notwithstanding anything that may be construed to the contrary in either that retention program or in this Letter Agreement, you will be entitled to the retention payment under that program only if you serve in the CMO role as of the date that the

payment is earned and becomes payable (because you have remained with the Company as CMO through the required date or dates outlined under the retention program) in accordance with the terms of that program. For greater clarity but not in limitation of the foregoing, if: (i) such payment is earned and payable after the end of the two-year Employment Period contemplated by this Letter Agreement; (ii) you are no longer employed by the Company at the time the payment is earned for any reason whatsoever, including, but not limited to, the effectuation of the terms of the immediately preceding two paragraphs; or, (iii) you continue to be employed by the Company and this Letter Agreement remains in effect as of the date the retention payment is earned and payable, but you have transitioned to your new role as contemplated by this Letter Agreement and are, therefore, no longer serving as the Company's CMO at the time the payment is earned; then, in any such case, you shall not be entitled to the retention payment granted under the retention program for your continued service as CMO, despite any provisions to the contrary under the retention program.

Notwithstanding anything set forth herein that may be construed to the contrary, Mr. House shall be entitled to exercise all of the rights and provisions, and have all of the power and authority hereunder extending or relating to, the "CEO," "new CEO" or "successor CEO" commencing on and extending for an unlimited time after the effective date of this fixed-term employment contract (August 8, 2012).

You are a party to a change in control (employment) agreement with the Company and The TDL Group Corp., as amended February 24, 2010 ("Change in Control Agreement"). Notwithstanding anything that may be construed hereunder or in the Change in Control Agreement to the contrary, in the event that a "Change in Control," as defined under the Change in Control Agreement, occurs:

- (i) while you continue to serve as CMO, then this Letter Agreement shall automatically terminate upon the Change in Control and be of no further force and effect, and all of the rights and obligations of you and Company respecting your employment (including the termination thereof) set forth herein shall lapse, and will instead be governed by the Change in Control Agreement; or
- (ii) on or after your transition to your new role as contemplated under this Letter Agreement, but prior to the Retention Termination Date, then the Change in Control Agreement shall terminate and be of no further force and effect as of such date, and the terms of this Letter Agreement shall continue in full force and effect until the expiry thereof in accordance with its terms, unchanged and unamended as if the Change in Control had never occurred.

For greater clarity and not in limitation of the foregoing, in the event (ii) above occurs, your employment under this Letter Agreement shall continue for only the remainder of the Employment Period that remains after the date of the Change in Control. Notwithstanding anything set forth herein, in the Change in Control Agreement, or in the Employment Covenants Agreement to the contrary, you understand, acknowledge and agree that your obligations set forth in the Employment Covenants Agreement shall continue to apply and be binding on you and shall survive the termination of either or both of the Letter Agreement and/or the Change in Control Agreement.

Unless otherwise stated, all dollar amounts in this Letter Agreement shall be in Canadian funds. Any payment required or permitted to be made or given to you pursuant to this Letter Agreement shall be subject to the withholding and other requirements of applicable laws, and to the deduction requirements of any compensation, benefit or incentive plan or program maintained by the Company in which you are a participant, and to all reporting, filing and other requirements in respect of such payments, all of the foregoing for which you are responsible. The Company shall comply with all reporting, filing and other requirements to which it is subject as a result of these payments.

\* \* \*

### **FINAL RELEASE AND INDEMNITY**

**IN CONSIDERATION** of the payments, benefits, rights and other matters as contemplated under this Letter Agreement, I, William A. Moir, on behalf of myself, my heirs, successors, administrators and assigns (hereinafter collectively referred to as the “**Releasor**”) hereby release, remise and forever discharge the Company, the Tim Horton Children’s Foundation (“**Foundation**”), and the Company’s and the Foundation’s successors, predecessors, former and present subsidiaries, affiliates, and related companies, and together with all their respective former and present officers, directors, partners, employees, servants, trustees, insurers and agents, and their successors and assigns (hereinafter collectively with the Company and the Foundation, referred to as the “**Releasee**”) from any and all actions, causes of actions, contracts and covenants, whether expressed or implied, claims, suits, and/or demands for damages, indemnity, and costs, interest, loss, or injury, including but not limited to severance, pay in lieu of notice, damages, loss of benefits and benefit coverage, all of the foregoing of every nature and kind whatsoever and howsoever arising whether in law, equity, or arising out of any applicable statute or regulation of Canada, any province or otherwise (collectively, the “**Claims**”), which the undersigned may heretofore have had, may now have or may hereafter have, in any way related to the hiring, the employment, and/or the cessation, termination or separation of his employment with any Releasee, provided that this release shall not apply to: (i) any Claim made by the undersigned against the Releasee for indemnification of a third-party claim in accordance with the undersigned’s indemnity agreement with the Company; or (ii) any Claim made by the undersigned against the Releasee for a breach by the Company of its obligations under the Letter Agreement.

For the purpose of this Final Release and Indemnity, for greater clarity and not by way of limitation of the foregoing, “Releasee” includes the Company and the Foundation and all of the Company’s and the Foundation’s respective subsidiaries, affiliates, successors, and assigns, including but not limited to The TDL Group Corp., and their affiliates, successors, and assigns.

**AND FOR THE SAID CONSIDERATION** it is further agreed that I shall not make any Claim (including any cross-claims, counter-claims, third party claims, actions, or applications) or take or continue any proceedings against: (i) any Releasee; or, (ii) any person or corporation who might claim contribution or indemnity against the Releasee under the provisions of any statute or otherwise; both of the foregoing arising out of or in relation to the matters hereinbefore remised, released or discharged. In the event that I commence such a Claim, I agree to fully indemnify the Releasee for all legal costs and disbursements incurred by the Releasee in defending such a Claim.

**AND FOR THE SAID CONSIDERATION** it is further agreed that I shall not join, assist, aid or act in concert in any manner whatsoever with any person, firm or corporation in the making of any Claim or demand or in the bringing of any proceeding or action in any manner whatsoever against the Releasee arising out of or in relation to the matters hereinbefore remised, released or discharged. In the event that I so join, assist, aid or act in concert in the making of such Claim or demand, I agree to fully indemnify the Releasee for all legal costs and disbursements incurred by the Releasee in defending such a Claim.

**IT IS UNDERSTOOD AND AGREED** that the aforementioned consideration is deemed to be no admission of liability on the part of the Releasee and, in fact, any such liability is expressly denied.

**IT IS FURTHER COVENANTED AND AGREED** that at no time from the date of the execution of this Final Release and Indemnity, will I directly or indirectly, either verbally or in writing, make any comments of a negative or disparaging nature about the Releasee, its officers, directors, employees, and agents or associated companies.

**I CONFIRM** that I have been afforded an opportunity to review and obtain independent legal advice with respect to the details of this Final Release and Indemnity. I also confirm that I am executing this Final Release and Indemnity voluntarily and without duress. I understand that this is a release of any Claims which I had, have or may have relating to all matters hereinbefore remised, released or discharged.

SIGNED, SEALED AND DELIVERED )  
in the presence of )

WITNESS SIGNATURE )

/s/ WILLIAM A. MOIR  
\_\_\_\_\_  
William A. Moir

/s/ JILL E. AEBKER  
\_\_\_\_\_  
Jill E. Aebker

\* \* \*

The matters outlined in this letter are subject to the approval of the Board, in its sole discretion. After Board approval has been obtained, appropriate announcements and disclosures outlining the subject matter of this Letter Agreement will be developed, distributed and/or filed.

Yours truly,

Tim Hortons Inc.

/s/ PAUL D. HOUSE

Paul D. House  
CEO and President

I hereby acknowledge and agree to be bound by the terms of this Letter Agreement:

/s/ WILLIAM A. MOIR

William A. Moir

<sup>1</sup> These plans and programs remain subject to change by the HRCC and may be replaced by alternate plans or programs during the Employment Period to which you would become subject; however, target values of short- and long-term compensation to be delivered to you will remain the same during the Employment Period as were in effect immediately prior thereto, notwithstanding any change in the underlying plans and/or programs.

**EMPLOYMENT (AND POST-EMPLOYMENT) COVENANTS AGREEMENT**

**THIS AGREEMENT (“Agreement”)** made as of the 8<sup>th</sup> day of August, 2012 (the “Effective Date”),

B E T W E E N:

**TIM HORTONS INC.**,  
a corporation governed by the Canada Business Corporations Act  
(hereinafter referred to as the “**Corporation**”),

- and -

**MR. WILLIAM A. MOIR**, (hereinafter referred to as the “**Executive**”),  
of the City of Oakville, in the Province of Ontario.

WHEREAS the Executive is currently the Chief Brand and Marketing Officer of the Corporation;

AND WHEREAS the parties wish to set forth terms and conditions upon which the Corporation will continue to employ the Executive after the Effective Date hereof;

NOW THEREFORE, in consideration of the premises and the covenants and agreements contained herein, and for other good and valuable consideration, including the consideration described in Section 3.1 hereof (the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto), the parties hereby agree that the foregoing recitals are incorporated herein by reference and as follows:

**ARTICLE 1**  
**INTERPRETATION**

**1.1 Defined Terms**

For the purposes of this Agreement, the following terms shall have the respective meanings set out below and grammatical variations of such terms shall have corresponding meanings:

“**Affiliate**” means any person under control of the Corporation; any person that controls the Corporation; any person under control of the Corporation jointly (or severally) with any other person; and, any person under common control with the Corporation under the control of another person; in each foregoing case, “control” shall mean the power to direct the voting, management, and/or material determinations of such person, whether by ownership interest, management agreement, voting agreement, or any other means by which control of the person (by commercial standards) is exercised; “**Affiliate**,” for purposes of this Agreement, shall include the Tim Horton Children’s Foundation (“**Foundation**”);

“**Change in Control**” shall have the meaning attributed to such concept under the change in control (employment) agreement to which the Executive is a party with the Corporation, as amended February 24, 2010 (“**Change in Control Agreement**”);

“**Date of Termination**” means the effective date of any notice of termination of the Executive’s employment with the Corporation for any reason whatsoever, whether voluntary or involuntary and whether with or without cause or good reason, and whether or not associated with a Change in Control;

“**Non-Disclosure Period**” has the meaning set out in Section 2.1;

“**person**” includes, without limitation, an individual, corporation, partnership, joint venture, association, trust, firm, unincorporated organization or other legal or business entity;

“**Prescribed Competitor**” means the list of competitors set forth on Exhibit A, attached hereto and incorporated herein by reference, as may be updated from time-to-time hereafter upon the agreement of both the Corporation and the Executive;

“**Prohibited Activities**” means to directly or indirectly operate, manage, control, participate in, carry on, be employed by, be engaged in, perform services in respect of, be concerned with, advise or consult with, be a director of, be financially interested in, financially assist, or permit one’s name to be used in connection with, a Prescribed Competitor, except as otherwise expressly permitted herein;

“**Prohibited Area**” means any province, territory or state in Canada or the United States and any other country in which the Corporation or any of its Affiliates conducts business, or to the knowledge of the Executive is reasonably likely to conduct business during the Executive’s employment with the Corporation and for the one-year period thereafter, except for any Prohibited Areas that may be limited in scope with respect to certain Prescribed Competitors, if applicable, as set forth on Exhibit A;

“**Restricted Period**” means, for the covenants set forth in Sections 2.3, 2.4, 2.5, and 2.6, the period beginning on the Date of Termination and ending on the second anniversary of the Date of Termination; for the covenants set forth in Section 2.2, the period beginning on the Date of Termination and ending on the first anniversary of the Date of Termination; and, for the covenants set forth in Sections 2.1 and 2.7, during the period of the Executive’s employment extending through the Date of Termination and for an unlimited/indefinite time thereafter. Each of the foregoing Restricted Periods shall be extended by any time during which the Executive is in breach of any applicable covenant in Article 2, as provided in Section 2.8.

**ARTICLE 2**  
**EXECUTIVE'S COVENANTS**

**2.1 Non-Disclosure; Confidentiality**

The Executive acknowledges and agrees that:

- (a) in the course of performing his/her duties and responsibilities for the Corporation, and/or any Affiliate, he or she will have access to and will be entrusted with detailed confidential information and trade secrets concerning past, present, future and contemplated plans; products; new product introduction programs, plans, or strategies; services; operations processes or results; technology; intellectual property; financial (including sales) and budgetary information; methodologies, operational procedures and manuals; site development plans or new store development strategies and number of new stores under consideration; models, engineering, architectural plans and designs; analyses; compilations; forecasts; studies and other records relating to the business; know-how; accounting methods and procedures; negotiations; contracts; designs; customers; franchisees; computer records and test data; building and site plans; strategic plans and initiatives; recipes (including but not limited to the coffee blend, roasting time, and other input factors for coffee products) and proprietary business processes and procedures of the Corporation or its Affiliates, whether in written, printed, pictorial, diagrammatic, electronic or any other form or medium, including, without limitation, information relating to names, addresses, contact persons, preferences, needs and requirements of past, present and prospective clients, customers, franchisees, suppliers, goods and service providers, and employees of the Corporation and its Affiliates (collectively, “**Confidential Information**”), the disclosure of any of which to competitors of the Corporation or of any of its Affiliates, to the general public, or the use of any of which by the Executive (outside of his/her duties and responsibilities to the Corporation), or by any competitor of the Corporation or of any of its Affiliates, would be highly detrimental to the interests of the Corporation and its Affiliates; and
- (b) the right to maintain the confidentiality of the Confidential Information, the right to preserve the goodwill of the Corporation and its Affiliates and the right to the benefit of the contacts and connections developed by the Executive with clients, customers, suppliers, goods and service providers, franchisees and others, and any relationships that will be developed between the Executive and the customers, clients, suppliers, goods and service providers and franchisees of the Corporation and its Affiliates by virtue of the Executive’s employment with the Corporation or an Affiliate, constitute proprietary rights of the Corporation and/or its Affiliates, which the Corporation and its Affiliates are entitled to protect.

In accordance with the matters acknowledged and agreed to by the Executive above, the Executive hereby covenants and agrees with the Corporation that he or she will not, except with the specific prior written consent of the Chief Executive Officer of the Corporation and the Chairman of the Board, either during the term of his or her employment or at any time thereafter

for an unlimited period (the “**Non-Disclosure Period**”), directly or indirectly, disclose to any person or in any way make use of (other than for the benefit of the Corporation or its Affiliates), in any manner, any of the Confidential Information; provided, however, that such Confidential Information shall be deemed not to include information which is or becomes generally available to the public other than as a result of disclosure by the Executive.

## **2.2 Non-Competition**

The Executive further acknowledges and agrees that:

- (a) the Executive has acquired skills and experience, and gained special knowledge, during the course of his or her employment with the Corporation or an Affiliate, which, if utilized by the Executive in the performance of Prohibited Activities, would be extremely harmful to the Corporation’s or an Affiliate’s competitive positioning and, further, there would be a high probability of inevitable disclosure of Confidential Information, notwithstanding any intention that may exist on the part of the Executive to abide by the provisions of Section 2.1; and
- (b) the provisions of Sections 2.1, 2.3, 2.4, 2.5, 2.6, and 2.7 are insufficient to protect the Corporation’s and its Affiliate’s proprietary interest in the Confidential Information in the event that the Executive engages in Prohibited Activities.

In accordance with the matters acknowledged and agreed to by the Executive above and in consideration of the payments and other benefits to be received by the Executive as further described in Section 3.1 hereof, the Executive hereby agrees that he or she shall not (without the prior written consent of the Board of Directors of the Corporation), during the Restricted Period, within the Prohibited Area whether on his or her own account or in conjunction with or on behalf of any other person, and whether as an employee, director, officer, shareholder, partner, principal, agent, franchisee, consultant or in any other capacity whatsoever, engage in Prohibited Activities; provided, however, that the Executive may accept employment with a Prescribed Competitor that is a diversified company, so long as such employment pertains solely to that part of the Prescribed Competitor’s business which is not in competition with any business of the Corporation or one of its Affiliates.

The provisions of this Section 2.2 shall apply only in respect of those aspects of the business of the Corporation or one of its Affiliates (i) with or for which the Executive had oversight responsibility, contributed to strategic plans, or otherwise had special knowledge or other significant interaction or interface while employed by the Corporation or one of its Affiliates, or (ii) in respect of which the Executive had access to any Confidential Information belonging to the Corporation or any of its Affiliates during the term of his or her employment.

Notwithstanding the foregoing restrictions, the Executive may acquire securities (i) of a class or series that is traded on any stock exchange or over the counter if such securities represent not more than 2% of the issued and outstanding securities of such class or series, (ii) of a mutual fund or other investment entity that invests in a portfolio the selection and management of which is not within the control of the investor, or (iii) held in a fully managed account where the Executive does not direct or influence in any manner the selection of any investment in such securities.

### 2.3 Fiduciary

Notwithstanding any other provisions of this Agreement, the Executive acknowledges and agrees that:

- (a) the Executive is a fiduciary of the Corporation and its Affiliates and is bound by fiduciary duties to the Corporation and its Affiliates, including to act in the best interests of the Corporation and its Affiliates, and all other such duties as arise at law; and
- (b) the fiduciary duties owing by the Executive to the Corporation and its Affiliates shall survive termination of his or her employment, howsoever occurring.

### 2.4 Non-Solicitation of Franchisees and other Business Associates

The Executive hereby agrees that he or she shall not during the Restricted Period, whether on his or her own behalf or in conjunction with or on behalf of any other person, directly or indirectly, solicit, or assist in soliciting, offer, or entice, consult, provide advice to, or otherwise be involved with:

#### Solicitation of Franchisees Regarding Competitive Activities

- (i) a franchisee of (or operator under operating/license agreement with) the Corporation or one of its Affiliates as of the Date of Termination to: (a) engage in any act or activity that (whether independently or jointly with other persons), would be a breach of the franchise or operating/license agreement in place with the Corporation or one of its Affiliates if undertaken by the franchisee/operator during the term of the franchise or operating/license agreement; or (b) during the entire term of the franchise/license agreement, become a franchisee or licensee, or business partner of, or otherwise be associated in a business venture or arrangement, after the expiration or termination (for any reason) of the franchisee/licensee's agreement with the Corporation or one of its Affiliates, that (A) offers, purchases, sells, manufactures, processes or promotes products or services that are the same or substantially similar to, the principal products and/or services offered by the Corporation or one of its Affiliates as of the Date of Termination or that the Executive knows or should reasonably know, as of the Date of Termination, are expected to be principal products or services offered or provided by the Corporation or one of its Affiliates during the Restricted Period (collectively, the "**competitive products and/or services**"); or (B) would result in a breach of the franchise license or operating agreement if undertaken while such agreement were still in effect.

A "principal product" or "principal service" means any product or service comprising greater than 2% of average gross sales for U.S., Canadian, or International restaurants, considered respectively.

### Solicitation of Business Contacts Re: Competitive Activities

- (ii) any joint venture, affiliate, business partner, or other person, entity or association who has an agreement with the Corporation or one of its Affiliates as of the Date of Termination to: (a) offer, purchase, sell, manufacture, process or promote, directly or indirectly, any “**competitive products and/or services;**” or (b) enter into a joint venture, strategic alliance, or other business venture or arrangement including, but not limited to, new restaurant development activities (all of the foregoing, a “venture”), that would result, directly or indirectly, in such venture offering, purchasing, selling, manufacturing, processing, or promoting, directly or indirectly, any “**competitive products and/or services.**”

### General Solicitation Activities

- (iii) a franchisee of (or operator under operating/license agreement with) the Corporation or one of its Affiliates to engage in any act or activity, whether individually or collectively with other franchisees, operators, or persons, that is adverse or contrary to the direct or indirect interests of the Corporation or its Affiliates’ business, financial or general relationship with such franchisees and/or operators.
- (iv) the organization or facilitation of, or provision of management services to, an association or organization of franchisees (or operators under operating/license agreement) with respect to the business or any other relationship that such franchisees (or operators under operating/license agreement) have with the Corporation or one of its Affiliates.

For greater clarity, such prohibited activities include but are not limited to the organization or facilitation of, or provision of management services to, an association or organization of franchisees (or operators under operating/license agreement) with respect to the business or any other relationship that such franchisees (or operators under operating/license agreement) have with the Corporation or one or more of its Affiliates, including but not limited to any such organization or association that would act as an additional layer of required negotiations between the Corporation and/or one or more of its Affiliates and its (or their) franchisees (or operators under operating/license agreement).

## **2.5 Non-Solicitation of Employees**

The Executive hereby agrees that he or she will not, during the Restricted Period, either on his or her own behalf or in conjunction with or on behalf of any other person, directly or indirectly, except with the prior written consent of the Corporation, induce, solicit, entice or procure, any person who is employed by, or is under contract as a permanent, full-time agent of, the Corporation and/or any of its Affiliates, to leave such employment if:

- (i) the Executive had personal contact, involvement, or dealings with such employee or agent in performing his or her duties;

- (ii) the employee or agent reported to the Executive;
- (iii) the Executive gained knowledge of the quality of work performance or abilities of the employee or agent during his or her tenure with the Corporation or one or more of the Corporation's Affiliates; or
- (iv) the employee or agent has participated in strategic business plans, projects, or activities for the Corporation or one or more of the Corporation's Affiliates that would be detrimental to the Corporation's interest (or the interest of one or more of the Corporation's Affiliates) if disclosed to a competitor of the Corporation (or one or more of the Corporation's Affiliates).

## **2.6 Non-interference with Suppliers**

The Executive hereby agrees that he or she will not, during the Restricted Period, either on his or her own behalf or in conjunction with or on behalf of any other person, directly or indirectly, interfere, seek to interfere, induce and/or incite another person to interfere, or take steps to interfere with the continuance of supplies (or the terms relating to such supplies) from any suppliers who have been supplying products, materials or services to the Corporation or any of its Affiliates, franchisees, joint ventures, or other person with whom the Corporation or any of its Affiliates have engaged in a business relationship at any time during the term of the Executive's employment.

## **2.7 Non-Disparagement**

During the Restricted Period, and thereafter, the Executive agrees not to make any statements, comments, or remarks, whether oral, in writing or electronically transmitted, that are, or would reasonably be considered to be derogatory or defamatory, or that criticize, malign, harm, prejudice, result in loss or injury to, ridicule, disparage or which are otherwise derogatory of, the Corporation or any of its Affiliates, agents, executives, employees, officers, directors, or shareholders. The Executive further will not take any action or authorize any pattern of conduct which could reasonably be expected to adversely affect the personal or professional reputation of the Corporation or any of its Affiliates, agents, executives, employees, officers, directors, or shareholders.

## **2.8 Suspension of Time Periods During Breach**

If the Executive is in breach of any of the terms of this Article 2, the running of the Non-Disclosure Period or respective Restricted Period, as applicable, shall be stayed and shall recommence upon the date the Executive ceases to be in breach thereof, whether voluntarily or by injunction, with the time period not reduced by the duration of the "stay."

## **2.9 Disclosure**

During the Non-Disclosure Period and the Restricted Period, the Executive shall inform, and consents to the Corporation in its sole discretion informing, any prospective employer or actual employer of the existence of this Agreement and the obligations which it imposes upon the Executive under all sections of this Article 2.

## **2.10 Return of Materials**

All files, forms, brochures, books, materials, written correspondence, memoranda, documents, manuals, computer disks, software products and lists (including financial and other information and lists of customers, suppliers, products and prices) pertaining to the Corporation or to any of its Affiliates which may come into the possession or control of the Executive shall at all times remain the property of the Corporation or such Affiliate, as the case may be. Upon termination of the Executive's employment hereunder for any reason, the Executive agrees to immediately return all such property of the Corporation or of any of its Affiliates in the possession of the Executive or directly or indirectly under the control of the Executive. The Executive agrees not to make, for his or her personal or business use or that of any other person, reproductions or copies of any such property or other property of the Corporation or of any of its Affiliates.

## **2.11 Trading Pre-clearance**

The Executive shall be required to pre-clear with the senior attorney in the Corporation's securities practice group (the "Senior Attorney"), or his/her designee, any trades in the securities of the Corporation of which the Executive is the legal or beneficial owner, or any securities of any successor of the Corporation for a period of 12 months following the Date of Termination. The Executive may not effectuate trades where the Senior Attorney or his/her designee has not provided a permissive trading recommendation. It is the Executive's obligation and responsibility to comply with all applicable securities laws, including but not limited to insider reporting requirements, for so long as, and to the extent, applicable.

## **2.12 Intellectual Property**

- (a) All worldwide rights, title and interest in any and all advances, computer programs, concepts, compositions, data, database technologies, designs, discoveries, domain names, drawings, formulae, ideas, improvements, integrated circuit typographies, inventions, know-how, mask works, sketches, software, practices, processes, research materials, trade secrets, work methods, patents, trade-marks, copyright works and any other intellectual property (whether registrable or not) produced, made, composed, written, performed, or designed by the Executive, either alone or jointly with others, in the course of the Executive's employment with the Corporation and in any way relating to the business of the Corporation and/or its Affiliates (the "Intellectual Property"), are and shall vest in and be the exclusive property of the Corporation.
- (b) Both during the term of this Agreement and following termination of employment with the Corporation, the Executive will fully and promptly disclose to the Corporation, complete details of any Intellectual Property right arising in connection with the Executive's employment, with the intention that the Corporation shall have full knowledge and ownership of the working and practical applications of such right.

- (c) At the expense of the Corporation, the Executive will co-operate in executing all necessary deeds and documents and shall co-operate in all other such acts and things as the Corporation may reasonably require in order to vest such Intellectual Property rights in the name of the Corporation.
- (d) The Executive hereby waives any and all author's moral and proprietary rights that the Executive may now or in the future have in any Intellectual Property developed in the course of the Executive's employment with the Corporation.
- (e) The Corporation shall have the sole and exclusive ownership of and right of control over any and all business, customers, and goodwill created or developed by the Executive in the course of the Executive's employment with the Corporation, including all information, records, and documents concerning business and customer accounts and all other instruments, documents, records, data, and information concerning or relating to the Corporation's and/or its Affiliates' business activities, interests and pursuits.

### **ARTICLE 3** **CONSIDERATION**

#### **3.1 Consideration**

The Executive acknowledges and agrees that the consideration supporting the Executive's covenants and obligations set forth herein, particularly including but not limited to those set forth in Article 2 hereof, consists of the fixed-term employment agreement entered into by the Corporation and the Executive of even date herewith ("**Letter Agreement**"). In the event that any such consideration is a payment that would be made or is due and payable after a Date of Termination, such payment is subject to forfeiture if the Executive is in breach of this Agreement at such time as the payment is otherwise due, as further described in Section 4.4 hereof.

### **ARTICLE 4** **GENERAL**

#### **4.1 Reasonableness of Restrictions and Covenants**

The Executive hereby confirms and agrees that the covenants and restrictions pertaining to the Executive contained in this Agreement, including, without limitation, those contained in Article 2, are reasonable and valid and hereby further acknowledges and agrees that the Corporation and its Affiliates would suffer irreparable injury in the event of any breach by the Executive of his or her obligations under any such covenant or restriction. Accordingly, the Executive hereby acknowledges and agrees that damages would be an inadequate remedy at law in connection with any such breach and that the Corporation and its Affiliates shall therefore be entitled, in addition to any other right or remedy which they may have at law, in equity or otherwise, to temporary and permanent injunctive relief enjoining and restraining the Executive from any such breach.

#### **4.2 Representations and Acknowledgements**

The Executive represents and acknowledges that:

- (a) the Executive has had sufficient time to review and consider this Agreement thoroughly;
- (b) the Executive has read and understands the terms of this Agreement and the Executive's obligations hereunder, including his or her obligations under Article 2;
- (c) the Executive has been given the opportunity to consult, and has in fact consulted independent legal counsel regarding his or her rights and obligations under this Agreement, as well as its interpretation and effect, and has been given an opportunity to obtain such other advice as the Executive may desire in connection with entering into this Agreement;
- (d) this Agreement is entered into voluntarily and without any pressure; and
- (e) a court of competent jurisdiction may, to the extent allowable under applicable law, modify, revise, or change the covenants set forth in Article 2 hereof to the extent required to render any or all (or any part) of such covenants binding on, and legally enforceable against, the Executive, as further described in Section 4.3 hereof.

#### **4.3 Severability**

If any provision of this Agreement, including the breadth or scope of the provisions contained in Article 2 (whether as to the Non-Disclosure Period, the Prohibited Activities, the respective Restricted Period, the Prohibited Area, or otherwise), shall be held by any court of competent jurisdiction to be invalid or unenforceable, in whole or in part, such invalidity or unenforceability shall not affect the validity or enforceability of the remaining provisions, or part thereof, of this Agreement and such remaining provisions, or part thereof, shall remain enforceable and binding. In addition, should a court determine that any provision or portion of any provision of this Agreement is not reasonable or valid, the parties hereto agree that such provision should be interpreted and enforced to the maximum extent which the court deems reasonable or valid and the parties agree to request that the court apply notional severance to give effect to the restrictions in this Agreement to the fullest extent deemed reasonable or valid by the court. In particular, if such court determines that the duration of the Non-Disclosure Period and/or the respective Restricted Period and/or the scope of the Prohibited Area is unreasonable, the parties agree to reduce such duration and/or scope to such extent as may be necessary to ensure that the covenants in this Agreement are reasonable in the circumstances, as determined by the court.

#### **4.4 Entire Agreement; Forfeiture and Set-Off Remedies; Survival**

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and

discussions, whether written or oral, except for the Change in Control Agreement and Letter Agreement, the terms of which also apply. There are no conditions, covenants, agreements, representations, warranties or other provisions, express or implied, collateral, statutory or otherwise, relating to the subject matter hereof, except as may be provided herein, in the Change in Control Agreement, or in the Letter Agreement. The terms of this Agreement shall survive the termination of either or both of the Letter Agreement and the Change in Control Agreement.

Notwithstanding anything set forth in the Change in Control Agreement, or the Letter Agreement, or in any other offer or promotional letter agreement(s); benefit plans, programs or otherwise, including but not limited to any equity incentive plan, bonus or short-term incentive plan; or, any other employment or change in control agreement under which the Executive either participates or is a party (collectively, the “**other agreement(s)**”), all payments (whether in equity or cash) under such **other agreement(s)** that are to be paid to the Executive after the Date of Termination, shall be forfeited by the Executive in the event that the Executive is in breach of any of the terms of this Agreement, in other than an insignificant manner, at the time payment is due and owing under such **other agreement(s)**. The foregoing remedy in favour of the Corporation and its Affiliates shall operate notwithstanding any contrary term or provision of any **other agreement(s)**, and is not an exclusive remedy to the Corporation and its Affiliates. Rather, it is in addition to any other remedy available to the Corporation and its Affiliates at law or in equity as a result of the Executive’s breach of this Agreement.

#### **4.5 Governing Law**

(a) This Agreement shall be interpreted and enforced in accordance with, and the respective rights and obligations of the parties shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable in that province.

(b) Each of the parties irrevocably and unconditionally (i) submits to the non-exclusive jurisdiction of the courts of the Province of Ontario over any action or proceeding arising out of or relating to this Agreement, (ii) waives any objection that it might otherwise be entitled to assert to the jurisdiction of such courts, and (iii) agrees not to assert that such courts are not a convenient forum for the determination of any such action or proceeding.

#### **4.6 Amendments and Waivers**

No amendment or waiver of any provision of this Agreement shall be binding on any party unless consented to in writing by such party. No waiver of any provision of this Agreement shall constitute a waiver of any other provision, nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

#### **4.7 Successors and Assigns**

The Executive acknowledges that the services to be rendered pursuant to this Agreement are unique and personal. Accordingly, the Executive may not assign any of the Executive’s rights or delegate any of the Executive’s duties or responsibilities under this Agreement. The Executive hereby consents to the Corporation assigning its rights, duties and obligations under this Agreement to an Affiliate or to a purchaser or transferee of the Corporation upon a Change in Control. This Agreement shall inure to the benefit of and shall be binding on and enforceable by and against the heirs, executors, administrators and legal personal representatives of the Executive and the successors and assigns of the Corporation.

#### **4.8 Counterparts**

This Agreement and all documents contemplated by or delivered under or in connection with this Agreement may be executed and delivered in any number of counterparts, with the same effect as if all parties had signed and delivered the same document, and all counterparts shall be construed together to be an original and will constitute one and the same agreement.

#### **4.9 Language**

This Agreement originally will be written in the English language, and all questions of interpretation of this Agreement shall be resolved by reference to the same as written in English. All communications between the parties arising out of or in connection with this Agreement shall be in English. Les parties aux présentes conviennent expressément que le Contrat De Concession qu'ils concluront entre eux, ainsi que tous les pièces à conviction, documents et révélations précontractuels connexes ou qui s'y rattachent, soient entièrement rédigés, signés et distribués en Anglais seulement.

#### **4.10 Cooperation**

The Executive agrees to provide the Corporation with such assistance as it may reasonably require, following the Date of Termination, to transfer all existing mandates, and/or job duties, responsibilities and accountabilities, to his/her successor, without additional compensation. The Executive further agrees that he shall cooperate with the Corporation (or, for all purposes of this paragraph, any Affiliate) and the Corporation's (or Affiliate's) designated agents and counsel in connection with any litigation or arbitration, or any potential litigation or arbitration, and/or in connection with any investigation, inquiry or other proceeding, including, but not limited to, regulatory or law enforcement investigations, inquiries or proceedings concerning or relating to matters in which he was involved as an employee. This cooperation shall include, but is not limited to, providing the Corporation, or the Corporation's designated agents and counsel, with all requested information or documents; meetings with the Corporation's designated agents or counsel, government representatives, or other third parties at the Corporation's request at mutually agreed times and locations; and testifying. The Corporation agrees to reimburse the Executive for any travel or other expenses reasonably incurred by him in connection with his cooperation in accordance with the Corporation's then-applicable officer expense reimbursement policy. The Executive will not be entitled to any fees, payments, or compensation in connection with providing cooperation in connection with litigation or other matters described in this section.

#### **4.11 Headings**

The headings and section references in this Agreement are for convenience only and will not affect the interpretation of this Agreement.

IN WITNESS WHEREOF this Agreement has been executed by the parties as of the date first above written.

**TIM HORTONS INC.**

by /s/ PAUL D. HOUSE  
Name: Paul D. House  
Title: CEO and President

SIGNED in the presence of:

**EXECUTIVE**

by /s/ WILLIAM A. MOIR  
William A. Moir

/s/ JILL E. AEBKER  
Witness

**Exhibit A**

**Prescribed Competitors**

1. Bruegger's
2. Cara Operations Ltd.
3. Coffee Culture
4. Coffee Time
5. Country Style
6. Dunkin Brands
7. Green Mountain Coffee Roasters
8. McDonald's
9. Panera
10. Peet's Coffee and Tea
11. The Second Cup Ltd.
12. SIR Corp.
13. Starbucks
14. Subway
15. Timothy's Coffee
16. The Wendy's Company
17. Yum! Brands

\*\*\*\*\*

**Limitations on "Prohibited Area" Apply to the Following:**

NONE

**TIM HORTONS INC.**

by /S/ PAUL D. HOUSE  
Name: Paul D. House  
Title: CEO and President

SIGNED in the presence of:

**EXECUTIVE**

/S/ JILL E. AEBKER  
Witness

by /S/ WILLIAM A. MOIR  
William A. Moir

FOR IMMEDIATE RELEASE

(Unaudited. All amounts in Canadian dollars and presented in accordance with U.S. GAAP.)



**Tim Hortons Inc. announces 2012 second quarter results**  
**Strong EPS growth during quarter; new strategic initiatives announced**

**Financial & Sales Highlights**

| <u>Performance</u>                                     | <u>Q2 2012</u> | <u>Q2 2011</u> | <u>%<br/>Year-over-Year<br/>Change</u> |
|--|----------------|----------------|--|
| Total revenues   | \$785.6        | \$702.8        | 11.8%                                  |
| Operating income                                       | \$158.8        | \$143.2        | 10.9%                                  |
| Effective tax rate                                     | 27.6%          | 29.4%          |  |
| Net income attributable to THI                         | \$108.1        | \$ 95.5        | 13.1%                                  |
| Diluted earnings per share attributable to THI ("EPS") | \$ 0.69        | \$ 0.58        | 18.9%                                  |
| Fully diluted shares                                   | 156.0          | 164.0          | (4.9)%                                 |

(All numbers in millions, except EPS and effective tax rate. All numbers rounded.)

| <u>Same-Store Sales<sup>(1)</sup></u> | <u>Q2 2012</u> | <u>Q2 2011</u> |
|---------------------------------------|----------------|----------------|
| Canada                                | 1.8%           | 3.8%           |
| U.S.                                  | 4.9%           | 6.6%           |

(1) Includes average same-store sales at Franchised and Company-operated locations open for 13 months or more. Substantially all of our restaurants are franchised.

**Highlights**

- Same-store sales growth in Canada driven by average cheque gains with minimal pricing in a challenging macro-economic environment
- Continued strong same-store sales performance in U.S. segment driven by combination of average cheque growth from pricing and product mix and slight transaction growth
- Cold drink category experienced strong growth, supported by new product introductions and an unseasonably warm spring in several markets
- Strong EPS growth benefited from positive net income increase, the positive impact of our share repurchase program, and the absence of a charge recorded in second quarter of 2011
- Company announces entry into single-serve coffee market and launch of Panini sandwiches in Canadian market
- New organizational structure and executive appointments made to support continued growth of all operating markets and to facilitate strategic execution

**OAKVILLE, ON, Aug. 9, 2012** – Tim Hortons Inc. (TSX: THI, NYSE: THI) today announced results for the second quarter ended July 1<sup>st</sup>, 2012.

“We experienced strong earnings growth in the second quarter although same-store sales growth in Canada reflected a challenging macro-economic environment and minimal pricing in the system. We are confident about the strategic initiatives designed to grow our business and support our long-term objectives,” said Paul House, executive chairman, president and CEO.

## Consolidated Results

All percentage increases and decreases represent year-over-year changes for the second quarter of 2012 compared to the second quarter of 2011, unless otherwise noted.

Systemwide sales<sup>(2)</sup> increased 6.0% on a constant currency basis in the second quarter of 2012. This growth resulted from new restaurant development in Canada and the U.S., and from continued same-store sales growth of 1.8% in Canada, and 4.9% in the U.S.

Our total revenues increased 11.8% to \$785.6 million this quarter, compared to \$702.8 million last year. Rents and royalties increased 7.3% compared to the second quarter last year, supported by systemwide sales growth. Our total revenues outpaced systemwide sales growth for the quarter, driven primarily by higher distribution sales and an increase in the number of restaurants consolidated as variable interest entities ("VIEs").

Distribution sales grew 11.6% year-over-year, due to a higher number of system restaurants, continued same-store sales growth, and new products managed through our supply chain. Pricing and favourable product mix also contributed to our distribution sales growth, mostly due to higher underlying prices for coffee and other commodities. VIE sales were higher in the second quarter this year compared to 2011 due primarily to an increase in the number of non-owned restaurants in both Canada and the U.S. that were consolidated under accounting rules, and from same-store sales growth at existing consolidated restaurants.

Franchise fees grew 18.2% in the second quarter, mainly due to the combination of higher International restaurant openings and equipment sales, an increased number of U.S. sales, and a higher number of renovations during the quarter. These factors were partially offset by the recognition in 2011 of up-front fees associated with the Master License Agreement related to our international expansion.

Costs and expenses grew 12.0% during the quarter, with most of the growth due to an increase in cost of sales of 13.7%. This increase was driven mainly by higher distribution cost of sales and higher VIE cost of sales. The higher distribution cost of sales resulted from positive systemwide sales growth from existing and new products managed through our supply chain, and from higher underlying commodity costs and product mix.

We had a 12.2% increase in operating expenses during the second quarter compared to last year. The year-over-year increase was due primarily to additional properties in the system and higher percentage rent expense on certain properties. We experienced higher depreciation due to growth in the total number of properties in our system along with the depreciation impact of the expanded menu board program. Operating expenses also increased as a result of higher project-related and renovation expenses.

Franchise fee costs in the second quarter of 2012 were up 21.4%, due mainly to the combination of International openings and equipment sales, a higher number of U.S. sales, a higher number of renovations and higher support costs.

General and administrative expenses declined by 8.1% in the second quarter. This reduction was primarily due to a \$6.3 million charge related to the Separation Agreement with our former CEO that was incurred in the second quarter of 2011, which also affected operating income and EPS. Higher salaries and benefits required to support the growth of the business, and the timing of professional fees, partially offset this decrease.

In the second quarter we had operating income of \$158.8 million, an increase of 10.9% compared \$143.2 million in the same period last year. Positive systemwide sales growth in both Canada and the U.S. contributed to higher rents and royalties and distribution income. Comparable results from 2011 also included a favourable temporary impact from the timing of coffee pricing and underlying costs in our supply chain.

Net income attributable to Tim Hortons Inc. in the second quarter was \$108.1 million, growing 13.1% compared to \$95.5 million last year. Higher operating income and a lower effective tax rate drove most of this increase, partially offset by higher net interest expense.

EPS rose 18.9% to \$0.69, compared to \$0.58 in the second quarter last year. Higher net income attributable to THI and the positive, cumulative impact of our share repurchase programs continued to contribute to our EPS performance. We had 4.9% fewer average fully diluted common shares outstanding in the second quarter compared to the same period last year.

## **Segmented Performance Commentary**

### Canada

Second quarter same-store sales increased 1.8% in the Canadian segment. Continued progress in increasing average cheque, due mainly to favourable product mix, drove our same-store sales growth, which had limited levels of previous pricing in the system. Our product mix continued to benefit from hot espresso and latte beverages, and new hot beverage cup sizing including the 24-ounce cup. Strength in our breakfast day part also contributed to our favourable product mix. Collectively, these factors more than offset the slight decline in same-store sales transactions. Systemwide transactions continued to increase as we added more restaurants to our system. Our cold beverage category benefited from an unseasonably warm spring in many markets, and from new product introductions and promotions.

Operating income in our Canadian segment was \$164.6 million, an increase of 5.2% compared to \$156.4 million in the second quarter last year. Systemwide growth led to higher rents and royalties and distribution income. We also experienced favourable product mix in distribution. These factors were partially offset by the temporary positive impact in the 2011 comparable quarter from the timing of coffee pricing and underlying costs in our supply chain.

During the quarter we opened 19 restaurants in Canada.

### United States

Gains in average cheque from pricing and favourable product mix, and a slight increase in same-store transactions, helped our U.S. segment continue its momentum with strong same-store sales growth of 4.9% during the second quarter. Our hot Panini sandwiches, in addition to specialty bagels and espresso-based beverages, contributed to an increase in average cheque. Our cold beverage platform also performed well.

In the U.S. segment we had operating income of \$5.6 million, up from \$4.0 million last year. The improvement resulted primarily from higher rents and royalties and distribution income. Results include a \$0.7 million benefit associated primarily with the reversal of previously accrued closure costs following the conclusion of closure activities related to the New England markets. In addition, we had higher franchise fee income due to a higher number of restaurant sales. Higher relief relating primarily to restaurants open for less than 13 months, and higher general and administrative costs, partially offset operating income growth for the quarter.

This past quarter we opened 15 restaurants in the U.S., including 9 self-serve kiosks.

The economic environment in both Canada and the U.S. remained volatile, and continued uncertainty appears to be impacting consumer confidence. This theme was echoed by many in the restaurant sector last quarter and into July, and likely had a moderating effect on rates of same-store sales growth in the industry. We noticed some of that impact of moderating sales in the second quarter which carried through into July.

### **Significant Developments & Initiatives**

#### New organizational structure implemented and executive management appointments made to support continued growth of all operating markets and to facilitate strategic execution

Tim Hortons has announced a new organizational structure to position the Company for future growth as part of strategic planning work initiated in the fourth quarter of 2011.

Since the Initial Public Offering in 2006, the Company has added more than 1,000 restaurants and grown annualized total revenues by approximately \$900 million, while we have also entered new markets. We expect the new structure to further enable strategic execution as we continue to grow our business across all of our markets, to streamline decision-making, and to improve efficiencies.

The new structure includes a strong Corporate Centre and new Business Unit design. New executive appointments and accountabilities have been implemented as part of this change. The following changes are effective immediately.

A Business Unit organizational structure has been established with accountability for all of our operating businesses. The Canadian business has developed significant scale, and we have important strategic initiatives in place designed to support future growth in this market. At the same time, our U.S. business, which is a key future growth engine for the Company, has become more established and has also grown in scale. We are also seeding growth internationally. The new structure facilitates strategy execution and decision-making across our operating businesses.

David Clanachan has been appointed Chief Operating Officer of Tim Hortons Inc., with executive accountability for all of our operating businesses, including Canada, the U.S. and International.

Roland Walton has been appointed President, Tim Hortons Canada, with accountability for the Canadian business.

Mike Meilleur has been appointed Executive Vice-President, Tim Hortons U.S., with accountability for the U.S. business. Mr. Meilleur has also been appointed as an executive officer of the Company.

Stephen Johnston, Senior-Vice-President, Development, will report to David Clanachan in the new structure.

Broader functional accountabilities will be embedded within the business units designed to align resources and accountabilities to drive success.

In the new organizational structure, a strong Corporate Centre has also been established to provide centres of excellence, central accountability and governance over key enterprise and control activities.

Cynthia Devine, in addition to her role as Chief Financial Officer and head of Manufacturing, has been appointed with executive accountability for the Supply Chain strategy and operations. John Hemeon, Executive Vice-President, Supply Chain, will report directly to Cynthia.

Bill Moir will remain Chief Brand and Marketing Officer. Mr. Moir has dedicated more than two decades of service to the Company in building the brand. Mr. Moir has entered into a two-year employment agreement in which he will remain Chief Brand and Marketing Officer, until a new successor has been identified over time and accountabilities transitioned.

Brigid Pelino, Executive Vice-President, Human Resources, and Jill Aebker, Executive Vice-President, General Counsel, and Corporate Secretary, will continue to lead their respective functions as part of the executive group.

The Company plans to conduct an alignment review of our organizational structure design following the announcement of our new executive-level structure. We anticipate that a restructuring charge will be taken following the completion of this review and expect that future efficiencies will result. It is not known at this time the extent or magnitude of this potential charge or potential efficiencies until the review is completed, which is expected to be during the second half of 2012.

“We have experienced tremendous growth as an organization and I have great confidence in our future. Our new organizational structure is designed to help us keep pace with the growth we have experienced while I believe also positioning us for future success,” said Paul House, executive chairman, president and CEO.

The Board has announced it is also continuing with an external search for the position of president and CEO to lead the entire team under the new organizational structure.

#### Tim Hortons enters single-serve, on-demand North American coffee market

Tim Hortons has reached a North American-wide agreement with Kraft Foods to enter the single-serve, on-demand coffee market, leveraging Tim Hortons premium coffee and Kraft’s TASSIMO® system. Under the terms of the agreement, Tim Hortons premium-blend coffee, decaf coffee, and lattes, in a single-serve format, will be sold in Tim Hortons restaurants in Canada and the U.S., and online, using the TASSIMO T DISC on-demand beverage platform.

The single-serve coffee market is still relatively small compared to the overall coffee and hot beverage category, but is experiencing triple-digit growth in North America. According to the Coffee Association of Canada, in 2011 close to 75% of coffee cups in Canada were consumed at home. According to Kraft, there are approximately 950,000 TASSIMO on-demand beverage systems installed in Canada, and TASSIMO operates in 20 countries. Tim Hortons and Kraft are planning to launch the new Tim Hortons single-serve T DISCs in time for the 2012 holiday season.

### Operational initiatives focused on growth

Our *'More than a Great Brand'* strategic plan is designed to drive growth over the life of the plan through a range of strategies and initiatives. We have installed free Wi-Fi internet access at approximately 1,100 of our Canadian restaurants, and completed implementation of our digital menu board program inside approximately 60% of our restaurants. When our Wi-Fi installation is completed, Tim Hortons will offer the largest free Internet network in Canada. We have also broadened our roll-out of a grilling platform to our Canadian restaurants in preparation for a national launch of Panini sandwiches. The Panini platform is expected to be in place nationally by the end of 2012. We also continue to implement the first stages of drive-thru double order stations as part of our capacity-building efforts.

### Board declares dividend payment of \$0.21 per common share

A quarterly dividend of \$0.21 per common share has been declared by the Board of Directors, payable on September 5<sup>th</sup>, 2012 to shareholders of record as of August 20<sup>th</sup>, 2012. Dividends are declared and paid in Canadian dollars to all shareholders with Canadian resident addresses. For U.S. resident shareholders, dividends paid will be converted to U.S. dollars based on prevailing exchange rates at the time of conversion by Tim Hortons for registered shareholders and by Clearing and Depository Services Inc. for beneficial shareholders.

### **Tim Hortons conference call today at 2:30 p.m. (EDT) Thursday, August 9<sup>th</sup>, 2012**

Tim Hortons will host a conference call today to discuss the first quarter results, scheduled to begin at 2:30 p.m. (EDT). The dial-in number is (416) 641-6712 or (800) 785-6502. No access code is required. A simultaneous web cast of the call, including presentation material, will be available at [www.timhortons-invest.com](http://www.timhortons-invest.com). A replay of the call will be available until August 2013 and can be accessed at (416) 626-4100 or (800) 558-5253. The call replay reservation number is 21600475. The call and presentation material will also be archived for a period of one year in the Events and Presentations section.

## Safe Harbor Statement

Certain information in this news release, particularly information regarding future economic performance, finances, and plans, expectations and objectives of management, and other information, constitutes forward-looking information within the meaning of Canadian securities laws and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We refer to all of these as forward-looking statements. Various factors including competition in the quick service segment of the food service industry, general economic conditions and others described as "risk factors" in the Company's 2011 Annual Report on Form 10-K filed February 28<sup>th</sup>, 2012, and our Quarterly Report on Form 10-Q expected to be filed today with the U.S. Securities and Exchange Commission and Canadian Securities Administrators, could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. As such, readers are cautioned not to place undue reliance on forward-looking statements contained in this news release, which speak only as to management's expectations as of the date hereof. Forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: the absence of an adverse event or condition that damages our strong brand position and reputation; the absence of a material increase in competition within the quick service restaurant segment of the food service industry; cost and availability of commodities; continuing positive working relationships with the majority of the Company's restaurant owners; the absence of any material adverse effects arising as a result of litigation; there being no significant change in the Company's ability to comply with current or future regulatory requirements; and general worldwide economic conditions.

We are presenting this information for the purpose of informing you of management's current expectations regarding these matters, and this information may not be appropriate for any other purpose. We assume no obligation to update or alter any forward-looking statements after they are made, whether as a result of new information, future events, or otherwise, except as required by applicable law. Please review the Company's Safe Harbor Statement at [www.timhortons.com/en/about/safeharbor.html](http://www.timhortons.com/en/about/safeharbor.html).

<sup>(2)</sup> Total systemwide sales growth includes restaurant level sales at both Company and Franchised restaurants. Approximately 99.5% of our consolidated system is franchised as at July 1<sup>st</sup>, 2012. Systemwide sales growth is determined using a constant exchange rate where noted, to exclude the effects of foreign currency translation. U.S. dollar sales are converted to Canadian dollar amounts using the average exchange rate of the base year for the period covered. For the second quarter of 2012, systemwide sales on a constant currency basis increased 6.0% compared to the second quarter of 2011. Systemwide sales are important to understanding our business performance as they impact our franchise royalties and rental income, as well as our distribution income. Changes in systemwide sales are driven by changes in average same-store sales and changes in the number of systemwide restaurants, and are ultimately driven by consumer demand.

We believe systemwide sales and same-store sales growth provide meaningful information to investors regarding the size of our system, the overall health and financial performance of the system, and the strength of our brand and restaurant owner base, which ultimately impacts our consolidated and segmented financial performance. Franchised restaurant sales are not generally included in our Condensed Consolidated Financial Statements (except for certain non-owned restaurants consolidated in accordance with applicable accounting rules). The amount of systemwide sales impacts our rental and royalties revenues, as well as distribution revenues.

**Tim Hortons Inc. Overview**

Tim Hortons is one of the largest publicly-traded restaurant chains in North America based on market capitalization, and the largest in Canada. Operating in the quick service segment of the restaurant industry, Tim Hortons appeals to a broad range of consumer tastes, with a menu that includes premium coffee, espresso-based hot and cold specialty drinks including lattes, cappuccinos and espresso shots, specialty teas, fruit smoothies, home-style soups, fresh Panini and classic sandwiches, wraps, hot breakfast sandwiches and fresh baked goods, including our trademark donuts. As of July 1st, 2012, Tim Hortons had 4,071 systemwide restaurants, including 3,326 in Canada, 734 in the United States and 11 in the Gulf Cooperation Council. More information about the Company is available at [www.timhortons.com](http://www.timhortons.com).

**For Further information:**

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**TIM HORTONS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands of Canadian dollars, except per share data)

|  | <i>(Unaudited)</i>   |                  | \$ Change       | % Change     |
|--|----------------------|------------------|-----------------|--------------|
|  | Second quarter ended |                  |                 |              |
|  | July 1, 2012         | July 3, 2011     |                 |              |
| <b>REVENUES</b>  |                      |                  |                 |              |
| Sales  | \$563,772            | \$498,058        | \$65,714        | 13.2%        |
| Franchise revenues   |                      |                  |                 |              |
| Rents and royalties  | 198,973              | 185,389          | 13,584          | 7.3%         |
| Franchise fees   | 22,836               | 19,313           | 3,523           | 18.2%        |
|  | <u>221,809</u>       | <u>204,702</u>   | <u>17,107</u>   | <u>8.4%</u>  |
| <b>TOTAL REVENUES</b>  | <u>785,581</u>       | <u>702,760</u>   | <u>82,821</u>   | <u>11.8%</u> |
| <b>COSTS AND EXPENSES</b>  |                      |                  |                 |              |
| Cost of sales  | 493,300              | 434,051          | 59,249          | 13.7%        |
| Operating expenses   | 73,068               | 65,102           | 7,966           | 12.2%        |
| Franchise fee costs  | 24,794               | 20,419           | 4,375           | 21.4%        |
| General and administrative expenses                                  | 40,395               | 43,969           | (3,574)         | (8.1%)       |
| Equity (income)  | (3,859)              | (3,820)          | (39)            | 1.0%         |
| Other (income) expense, net  | (956)                | (179)            | (777)           | n/m          |
| <b>TOTAL COSTS AND EXPENSES, NET</b>                                 | <u>626,742</u>       | <u>559,542</u>   | <u>67,200</u>   | <u>12.0%</u> |
| <b>OPERATING INCOME</b>  | 158,839              | 143,218          | 15,621          | 10.9%        |
| Interest (expense)   | (8,650)              | (7,427)          | (1,223)         | 16.5%        |
| Interest income  | 723                  | 851              | (128)           | (15.0%)      |
| <b>INCOME BEFORE INCOME TAXES</b>                                    | 150,912              | 136,642          | 14,270          | 10.4%        |
| Income taxes   | 41,675               | 40,202           | 1,473           | 3.7%         |
| <b>Net Income</b>  | 109,237              | 96,440           | 12,797          | 13.3%        |
| Net income attributable to noncontrolling interests                  | 1,170                | 891              | 279             | 31.3%        |
| <b>NET INCOME ATTRIBUTABLE TO TIM HORTONS INC.</b>                   | <u>\$108,067</u>     | <u>\$ 95,549</u> | <u>\$12,518</u> | <u>13.1%</u> |
| Basic earnings per common share attributable to Tim Hortons Inc.     | <u>\$ 0.70</u>       | <u>\$ 0.58</u>   | <u>\$ 0.12</u>  | <u>19.0%</u> |
| Diluted earnings per common share attributable to Tim Hortons Inc.   | <u>\$ 0.69</u>       | <u>\$ 0.58</u>   | <u>\$ 0.11</u>  | <u>18.9%</u> |
| Weighted average number of common shares outstanding (in thousands)— |                      |                  |                 |              |
| Basic  | 155,351              | 163,448          | (8,097)         | (5.0%)       |
| Weighted average number of common shares outstanding (in thousands)— |                      |                  |                 |              |
| Diluted  | 155,995              | 163,961          | (7,966)         | (4.9%)       |
| Dividends per common share   | <u>\$ 0.21</u>       | <u>\$ 0.17</u>   | <u>\$ 0.04</u>  |              |

n/m — not meaningful

(all numbers rounded)

**TIM HORTONS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(In thousands of Canadian dollars, except per share data)

(Unaudited)

|   | Year-to-date period ended |                   | \$ Change        | % Change      |
|---|---------------------------|-------------------|------------------|---------------|
|   | July 1, 2012              | July 3, 2011      |                  |               |
| <b>REVENUES</b>   |                           |                   |                  |               |
| Sales   | \$1,087,074               | \$ 952,535        | \$134,539        | 14.1%         |
| Franchise revenues  |                           |                   |                  |               |
| Rents and royalties   | 379,159                   | 353,219           | 25,940           | 7.3%          |
| Franchise fees  | 40,632                    | 40,493            | 139              | 0.3%          |
|   | <u>419,791</u>            | <u>393,712</u>    | <u>26,079</u>    | <u>6.6%</u>   |
| <b>TOTAL REVENUES</b>   | <u>1,506,865</u>          | <u>1,346,247</u>  | <u>160,618</u>   | <u>11.9%</u>  |
| <b>COSTS AND EXPENSES</b>   |                           |                   |                  |               |
| Cost of sales   | 958,725                   | 836,383           | 122,342          | 14.6%         |
| Operating expenses  | 139,784                   | 127,256           | 12,528           | 9.8%          |
| Franchise fee costs   | 45,076                    | 41,736            | 3,340            | 8.0%          |
| General and administrative expenses   | 80,522                    | 83,965            | (3,443)          | (4.1%)        |
| Equity (income)   | (7,105)                   | (6,933)           | (172)            | 2.5%          |
| Other (income) expense, net   | (599)                     | 19                | (618)            | n/m           |
| <b>TOTAL COSTS AND EXPENSES, NET</b>  | <u>1,216,403</u>          | <u>1,082,426</u>  | <u>133,977</u>   | <u>12.4%</u>  |
| <b>OPERATING INCOME</b>   | 290,462                   | 263,821           | 26,641           | 10.1%         |
| Interest (expense)  | (16,548)                  | (14,803)          | (1,745)          | 11.8%         |
| Interest income   | 1,434                     | 2,527             | (1,093)          | (43.3%)       |
| <b>INCOME BEFORE INCOME TAXES</b>   | 275,348                   | 251,545           | 23,803           | 9.5%          |
| Income taxes  | 76,132                    | 73,691            | 2,441            | 3.3%          |
| Net Income  | 199,216                   | 177,854           | 21,362           | 12.0%         |
| Net income attributable to noncontrolling interests                         | 2,370                     | 1,626             | 744              | 45.8%         |
| <b>NET INCOME ATTRIBUTABLE TO TIM HORTONS INC.</b>                          | <u>\$ 196,846</u>         | <u>\$ 176,228</u> | <u>\$ 20,618</u> | <u>11.7%</u>  |
| Basic earnings per common share attributable to Tim Hortons Inc.            | <u>\$ 1.27</u>            | <u>\$ 1.06</u>    | <u>\$ 0.21</u>   | <u>18.9%</u>  |
| Diluted earnings per common share attributable to Tim Hortons Inc.          | <u>\$ 1.26</u>            | <u>\$ 1.06</u>    | <u>\$ 0.20</u>   | <u>18.7%</u>  |
| Weighted average number of common shares outstanding (in thousands)—Basic   | <u>155,589</u>            | <u>165,555</u>    | <u>(9,966)</u>   | <u>(6.0%)</u> |
| Weighted average number of common shares outstanding (in thousands)—Diluted | <u>156,207</u>            | <u>166,014</u>    | <u>(9,807)</u>   | <u>(5.9%)</u> |
| Dividends per common share  | <u>\$ 0.42</u>            | <u>\$ 0.34</u>    | <u>\$ 0.08</u>   |               |

n/m — not meaningful

(all numbers rounded)

**TIM HORTONS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(in thousands of Canadian dollars)

|                                      | As at              |                    |
|--------------------------------------|--------------------|--------------------|
|                                      | July 1,<br>2012    | January 1,<br>2012 |
|                                      | (Unaudited)        |                    |
| <b>ASSETS</b>                        |                    |                    |
| <b>Current assets</b>                |                    |                    |
| Cash and cash equivalents            | \$ 57,733          | \$ 126,497         |
| Restricted cash and cash equivalents | 87,292             | 130,613            |
| Accounts receivable, net             | 200,665            | 173,667            |
| Notes receivable, net                | 7,990              | 10,144             |
| Deferred income taxes                | 8,142              | 5,281              |
| Inventories and other, net           | 130,550            | 136,999            |
| Advertising fund restricted assets   | 29,325             | 37,765             |
| <b>Total current assets</b>          | 521,697            | 620,966            |
| <b>Property and equipment, net</b>   | 1,480,954          | 1,463,765          |
| <b>Intangible assets, net</b>        | 4,060              | 4,544              |
| <b>Notes receivable, net</b>         | 2,162              | 3,157              |
| <b>Deferred income taxes</b>         | 12,820             | 12,197             |
| <b>Equity investments</b>            | 42,765             | 43,014             |
| <b>Other assets</b>                  | 70,607             | 56,307             |
| <b>Total assets</b>                  | <b>\$2,135,065</b> | <b>\$2,203,950</b> |

**TIM HORTONS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(in thousands of Canadian dollars, except share and per share data)

|  | As at              |                    |
|--|--------------------|--------------------|
|  | July 1,<br>2012    | January 1,<br>2012 |
|  | (Unaudited)        |                    |
| <b>LIABILITIES AND EQUITY</b>  |                    |                    |
| <b>Current liabilities</b>   |                    |                    |
| Accounts payable   | \$ 151,919         | \$ 177,918         |
| Accrued liabilities  |                    |                    |
| Salaries and wages   | 14,599             | 23,531             |
| Taxes  | 17,787             | 26,465             |
| Other  | 137,311            | 179,315            |
| Advertising fund liabilities   | 78,103             | 59,420             |
| Current portion of long-term obligations   | <u>10,572</u>      | <u>10,001</u>      |
| <b>Total current liabilities</b>   | <u>410,291</u>     | <u>476,650</u>     |
| <b>Long-term obligations</b>   |                    |                    |
| Long-term debt   | 354,559            | 352,426            |
| Capital leases   | 97,538             | 94,863             |
| Deferred income taxes  | 4,738              | 4,608              |
| Other long-term liabilities  | <u>120,796</u>     | <u>120,970</u>     |
| <b>Total long-term obligations</b>   | <u>577,631</u>     | <u>572,867</u>     |
| <b>Equity</b>  |                    |                    |
| <b>Equity of Tim Hortons Inc.</b>  |                    |                    |
| Common shares  |                    |                    |
| \$2.84 stated value per share, Authorized: unlimited shares,<br>Issued: 155,188,401 and 157,814,980 shares, respectively | 440,099            | 447,558            |
| Common shares held in trust, at cost: 370,650 and 277,189 shares, respectively   | (15,605)           | (10,136)           |
| Contributed surplus  | 11,147             | 6,375              |
| Retained earnings  | 839,103            | 836,968            |
| Accumulated other comprehensive loss   | <u>(130,097)</u>   | <u>(128,217)</u>   |
| <b>Total equity of Tim Hortons Inc.</b>  | 1,144,647          | 1,152,548          |
| <b>Noncontrolling interests</b>  | <u>2,496</u>       | <u>1,885</u>       |
| <b>Total equity</b>  | <u>1,147,143</u>   | <u>1,154,433</u>   |
| <b>Total liabilities and equity</b>  | <u>\$2,135,065</u> | <u>\$2,203,950</u> |

**TIM HORTONS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands of Canadian dollars)

|  | Year-to-date Period Ended |                     |
|--|---------------------------|---------------------|
|  | <u>July 1, 2012</u>       | <u>July 3, 2011</u> |
|  | <i>(Unaudited)</i>        |                     |
| <b>CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES</b>                             |                           |                     |
| Net income   | \$ 199,216                | \$ 177,854          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities |                           |                     |
| Depreciation and amortization  | 61,637                    | 56,564              |
| Stock-based compensation expense   | 11,869                    | 11,162              |
| Deferred income taxes  | (2,081)                   | (2,695)             |
| Changes in operating assets and liabilities  |                           |                     |
| Restricted cash and cash equivalents   | 43,290                    | (5,886)             |
| Accounts receivable  | (32,425)                  | (77,506)            |
| Inventories and other  | 7,285                     | (37,996)            |
| Accounts payable and accrued liabilities   | (64,156)                  | (64,038)            |
| Taxes  | (8,674)                   | (32,902)            |
| Other, net   | 390                       | 1,711               |
| <b>Net cash provided from operating activities</b>   | <u>216,351</u>            | <u>26,268</u>       |
| <b>CASH FLOWS (USED IN) PROVIDED FROM INVESTING ACTIVITIES</b>                             |                           |                     |
| Capital expenditures (including Advertising Fund)  | (97,458)                  | (63,414)            |
| Proceeds from sale of restricted investments   | 0                         | 38,000              |
| Other investing activities   | (8,710)                   | (13,467)            |
| <b>Net cash (used in) investing activities</b>   | <u>(106,168)</u>          | <u>(38,881)</u>     |
| <b>CASH FLOWS (USED IN) PROVIDED FROM FINANCING ACTIVITIES</b>                             |                           |                     |
| Repurchase of common shares  | (136,509)                 | (401,917)           |
| Dividend payments to common shareholders   | (65,661)                  | (56,122)            |
| Other financing activities (including Advertising Fund)                                    | 23,445                    | (5,951)             |
| <b>Net cash (used in) financing activities</b>   | <u>(178,725)</u>          | <u>(463,990)</u>    |
| <b>Effect of exchange rate changes on cash</b>   | <u>(222)</u>              | <u>(1,574)</u>      |
| <b>(Decrease) in cash and cash equivalents</b>   | <u>(68,764)</u>           | <u>(478,177)</u>    |
| <b>Cash and cash equivalents at beginning of period</b>                                    | <u>126,497</u>            | <u>574,354</u>      |
| <b>Cash and cash equivalents at end of period</b>  | <u>\$ 57,733</u>          | <u>\$ 96,177</u>    |

**TIM HORTONS INC. AND SUBSIDIARIES**  
**SEGMENT REPORTING**  
(in thousands of Canadian dollars)

|                                      | Second quarter ended |                  |
|--------------------------------------|----------------------|------------------|
|                                      | July 1, 2012         | July 3, 2011     |
| <i>(Unaudited)</i>                   |                      |                  |
| <b>REVENUES <sup>(1)</sup></b>       |                      |                  |
| Canada                               | \$655,849            | \$598,858        |
| U.S.                                 | 43,217               | 36,072           |
| Total reportable segments            | 699,066              | 634,930          |
| Variable Interest Entities           | 86,515               | 67,830           |
| Total                                | <u>\$785,581</u>     | <u>\$702,760</u> |
| <b>OPERATING INCOME</b>              |                      |                  |
| Canada                               | \$164,563            | \$156,428        |
| U.S.                                 | 5,617                | 4,008            |
| Total reportable segments            | 170,180              | 160,436          |
| Variable Interest Entities           | 1,772                | 1,149            |
| Corporate charges <sup>(2)</sup>     | (13,113)             | (18,367)         |
| <b>Consolidated operating income</b> | 158,839              | 143,218          |
| <b>Interest, net</b>                 | (7,927)              | (6,576)          |
| <b>Income before income taxes</b>    | <u>\$150,912</u>     | <u>\$136,642</u> |

- (1) There are no inter-segment revenues included in the table above
- (2) Corporate charges include certain overhead costs which are not allocated to individual business segments, the impact of certain foreign currency exchange gains and losses, and the net operating results from the Company's Gulf Corporation Council, Republic of Ireland and United Kingdom international operations, which continue to be managed corporately.

|                                       | Second quarter ended |                  |                 |              |
|---------------------------------------|----------------------|------------------|-----------------|--------------|
|                                       | July 1, 2012         | July 3, 2011     | \$ Change       | % Change     |
| <i>(Unaudited)</i>                    |                      |                  |                 |              |
| <i>Sales is comprised of:</i>         |                      |                  |                 |              |
| Distribution sales                    | \$471,274            | \$422,471        | \$48,803        | 11.6%        |
| Company-operated restaurant sales     | 7,039                | 7,915            | (876)           | (11.1)%      |
| Sales from Variable Interest Entities | 85,459               | 67,672           | 17,787          | 26.3%        |
| Total Sales                           | <u>\$563,772</u>     | <u>\$498,058</u> | <u>\$65,714</u> | <u>13.2%</u> |

|   | Second quarter ended |                  |                 |              |
|---|----------------------|------------------|-----------------|--------------|
|   | July 1, 2012         | July 3, 2011     | \$ Change       | % Change     |
| <i>(Unaudited)</i>                            |                      |                  |                 |              |
| <i>Cost of sales is comprised of:</i>         |                      |                  |                 |              |
| Distribution cost of sales                    | \$410,624            | \$367,577        | \$43,047        | 11.7%        |
| Company-operated restaurant cost of sales     | 7,697                | 7,544            | 153             | 2.0%         |
| Cost of sales from Variable Interest Entities | 74,979               | 58,930           | 16,049          | 27.2%        |
| Total Cost of sales                           | <u>\$493,300</u>     | <u>\$434,051</u> | <u>\$59,249</u> | <u>13.7%</u> |

**TIM HORTONS INC. AND SUBSIDIARIES**  
**SEGMENT REPORTING**  
(in thousands of Canadian dollars)

|                                      | Year-to-date period ended |                    |
|--------------------------------------|---------------------------|--------------------|
|                                      | July 1, 2012              | July 3, 2011       |
| <i>(Unaudited)</i>                   |                           |                    |
| <b>REVENUES <sup>(1)</sup></b>       |                           |                    |
| Canada                               | \$1,260,103               | \$1,146,231        |
| U.S.                                 | 81,746                    | 71,531             |
| Total reportable segments            | 1,341,849                 | 1,217,762          |
| Variable Interest Entities           | 165,016                   | 128,485            |
| Total                                | <u>\$1,506,865</u>        | <u>\$1,346,247</u> |
| <b>OPERATING INCOME</b>              |                           |                    |
| Canada                               | \$ 305,050                | \$ 287,957         |
| U.S.                                 | 8,827                     | 6,619              |
| Total reportable segments            | 313,877                   | 294,576            |
| Variable Interest Entities           | 3,300                     | 2,039              |
| Corporate charges <sup>(2)</sup>     | (26,715)                  | (32,794)           |
| <b>Consolidated operating income</b> | 290,462                   | 263,821            |
| <b>Interest, net</b>                 | (15,114)                  | (12,276)           |
| <b>Income before income taxes</b>    | <u>\$ 275,348</u>         | <u>\$ 251,545</u>  |

<sup>(1)</sup> There are no inter-segment revenues included in the table above

<sup>(2)</sup> Corporate charges include certain overhead costs which are not allocated to individual business segments, the impact of certain foreign currency exchange gains and losses, and the net operating results from the Company's Gulf Corporation Council, Republic of Ireland and United Kingdom international operations, which continue to be managed corporately.

|                                       | Year-to-date period ended |                  |                  |              |
|---------------------------------------|---------------------------|------------------|------------------|--------------|
|                                       | July 1, 2012              | July 3, 2011     | \$ Change        | % Change     |
| <i>(Unaudited)</i>                    |                           |                  |                  |              |
| <i>Sales is comprised of:</i>         |                           |                  |                  |              |
| Distribution sales                    | \$ 911,002                | \$812,304        | \$ 98,698        | 12.2%        |
| Company-operated restaurant sales     | 12,599                    | 12,089           | 510              | 4.2%         |
| Sales from Variable Interest Entities | 163,473                   | 128,142          | 35,331           | 27.6%        |
| Total Sales                           | <u>\$1,087,074</u>        | <u>\$952,535</u> | <u>\$134,539</u> | <u>14.1%</u> |

|   | Year-to-date period ended |                  |                  |              |
|---|---------------------------|------------------|------------------|--------------|
|   | July 1, 2012              | July 3, 2011     | \$ Change        | % Change     |
| <i>(Unaudited)</i>                            |                           |                  |                  |              |
| <i>Cost of sales is comprised of:</i>         |                           |                  |                  |              |
| Distribution cost of sales                    | \$ 801,077                | \$711,897        | \$ 89,180        | 12.5%        |
| Company-operated restaurant cost of sales     | 13,777                    | 12,033           | 1,744            | 14.5%        |
| Cost of sales from Variable Interest Entities | 143,871                   | 112,453          | 31,418           | 27.9%        |
| Total Cost of sales                           | <u>\$ 958,725</u>         | <u>\$836,383</u> | <u>\$122,342</u> | <u>14.6%</u> |

**TIM HORTONS INC. AND SUBSIDIARIES**  
**SYSTEMWIDE RESTAURANT COUNT**

|                                      | As at<br>July 1, 2012 | As at<br>January 1, 2012 | Increase<br>(Decrease)<br>From Year End | As at<br>July 3, 2011 | Increase/<br>(Decrease)<br>From Prior Year |
|--------------------------------------|-----------------------|--------------------------|---|-----------------------|--|
| Canada                               |                       |                          |   |                       |  |
| Company-operated                     | 11                    | 10                       | 1                                       | 16                    | (5)  |
| Franchised—standard and non-standard | 3,200                 | 3,166                    | 34                                      | 3,059                 | 141  |
| Franchised—self-serve kiosks         | 115                   | 119                      | (4)                                     | 114                   | 1  |
| Total                                | 3,326                 | 3,295                    | 31                                      | 3,189                 | 137  |
| <i>% Franchised</i>                  | 99.7 %                | 99.7 %                   |   | 99.5 %                |  |
| U.S.                                 |                       |                          |   |                       |  |
| Company-operated                     | 10                    | 8                        | 2                                       | 6                     | 4  |
| Franchised—standard and non-standard | 551                   | 542                      | 9                                       | 486                   | 65   |
| Franchised—self-serve kiosks         | 173                   | 164                      | 9                                       | 130                   | 43   |
| Total                                | 734                   | 714                      | 20                                      | 622                   | 112  |
| <i>% Franchised</i>                  | 98.6 %                | 98.9 %                   |   | 99.0 %                |  |
| International                        |                       |                          |   |                       |  |
| Franchised—standard and non-standard | 11                    | 5                        | 6                                       | 0                     | 11   |
| Total                                | 11                    | 5                        | 6                                       | 0                     | 11   |
| <i>% Franchised</i>                  | 100.0 %               | 100.0 %                  |   | n/a                   |  |
| Total system                         |                       |                          |   |                       |  |
| Company-operated                     | 21                    | 18                       | 3                                       | 22                    | (1)  |
| Franchised—standard and non-standard | 3,762                 | 3,713                    | 49                                      | 3,545                 | 217  |
| Franchised—self-serve kiosks         | 288                   | 283                      | 5                                       | 244                   | 44   |
| Total                                | 4,071                 | 4,014                    | 57                                      | 3,811                 | 260  |
| <i>% Franchised</i>                  | 99.5 %                | 99.6 %                   |   | 99.4 %                |  |

## **TIM HORTONS INC. AND SUBSIDIARIES**

### **Income Statement Definitions**

|                                    |   |
|------------------------------------|---|
| <b>Sales</b>                       | Primarily includes sales of products, supplies and restaurant equipment (except for initial equipment packages sold to restaurant owners as part of the establishment of their restaurant's business—see "Franchise Fees") that are shipped directly from our warehouses or by third party distributors to the restaurants or retailers for which we manage the supply chain logistics, which we include in distribution sales. Sales also include sales from Company-operated restaurants and sales from certain non-owned restaurants that are consolidated as Variable Interest Entities ("VIEs"). |
| <b>Rents and royalties</b>         | Includes royalties and rental revenues paid to us by restaurant owners, net of relief, and certain advertising levies associated with our Canadian Advertising Fund.  |
| <b>Franchise fees</b>              | Includes the revenue from initial equipment packages, as well as fees for various costs and expenses related to establishing a restaurant owner's business. Franchisee fees for U.S. restaurant owners that had participated in our franchise incentive program ("FIP") are subject to certain revenue recognition criteria. Also included are revenues related to master license agreements.   |
| <b>Cost of sales</b>               | Includes costs associated with our distribution business, including cost of goods sold, direct labour and depreciation, as well as the cost of goods delivered by third-party distributors to the restaurants for which we manage the supply chain logistics, and for canned coffee sold through grocery stores. Cost of sales also includes food, paper and labour costs for Company-operated restaurants and certain non-owned restaurants that we consolidate as VIEs.   |
| <b>Operating Expenses</b>          | Includes rent expense related to properties leased to restaurant owners and other property-related costs (including depreciation). Also included are certain operating expenses related to our distribution business such as order entry system connectivity costs and utilities.   |
| <b>Franchise fee costs</b>         | Includes cost of equipment sold to restaurant owners as part of the commencement of their restaurant business, as well as training and other costs necessary to facilitate a successful restaurant opening. Franchisee fee costs for U.S. restaurant owners that had participated in our FIP are subject to certain revenue recognition criteria.   |
| <b>General and administrative</b>  | Includes costs that cannot be directly related to generating revenue, including expenses associated with our corporate and administrative functions, and depreciation of head office buildings and office equipment, and the majority of our information technology systems.  |
| <b>Equity (income)</b>             | Includes income from equity investments in partnerships and joint ventures and other minority investments over which we exercise significant influence, excluding joint ventures that we are required to consolidate. Equity income from these investments is considered to be an integrated part of our business operations and is, therefore, included in operating income. Income amounts are shown as reductions to total costs and expenses.   |
| <b>Other (Income) expense, net</b> | Includes expenses (income) that are not directly derived from the Company's primary businesses. Items include foreign currency adjustments, gains and losses on asset sales, and other asset write-offs.  |
| <b>Noncontrolling interests</b>    | Relates to the consolidation of certain non-owned restaurants that are consolidated as VIEs.  |

**FOR IMMEDIATE RELEASE**  
(All amounts in Canadian dollars)



**Tim Hortons Inc. declares quarterly dividend  
of \$0.21 per common share**

**OAKVILLE, ON**, Aug. 9, 2012 – Tim Hortons Inc. (TSX: THI) (NYSE: THI) today announced the Board of Directors has declared a dividend of \$0.21 per common share payable to shareholders of record as of August 20<sup>th</sup>, 2012. The dividend is payable on September 5<sup>th</sup>, 2012.

Dividends are declared and paid in Canadian dollars to all shareholders with Canadian resident addresses. For U.S. shareholders, dividends paid will be converted to U.S. dollars based on prevailing exchange rates at the time of conversion by Tim Hortons for registered shareholders and by Clearing and Depository Services Inc. for beneficial shareholders. The declaration and payment of all future dividends remain subject to the discretion of the Company's Board of Directors.

**Tim Hortons Inc. Overview**

Tim Hortons is one of the largest publicly-traded restaurant chains in North America based on market capitalization, and the largest in Canada. Operating in the quick service segment of the restaurant industry, Tim Hortons appeals to a broad range of consumer tastes, with a menu that includes premium coffee, espresso-based hot and cold specialty drinks including lattes, cappuccinos and espresso shots, specialty teas, fruit smoothies, home-style soups, fresh Panini and classic sandwiches, wraps, hot breakfast sandwiches and fresh baked goods, including our trademark donuts. As of July 1<sup>st</sup>, 2012, Tim Hortons had 4,071 systemwide restaurants, including 3,326 in Canada, 734 in the United States and 11 in the Gulf Cooperation Council. More information about the Company is available at [www.timhortons.com](http://www.timhortons.com).

**CONTACTS:**

INVESTORS: Scott Bonikowsky: (905) 339-6186 or [investor\\_relations@timhortons.com](mailto:investor_relations@timhortons.com)

**TIM HORTONS INC.****Safe Harbor Under the Private Securities Litigation Reform Act of 1995 and Canadian Securities Laws**

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those disclosed in the statement. Canadian securities laws have corresponding safe harbor provisions, subject to certain additional requirements including the requirement to state the assumptions used to make the forecasts set out in forward-looking statements. Tim Hortons Inc. (the “Company”) desires to take advantage of these “safe harbor” provisions.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “seeks,” “outlook,” “forecast” or words of similar meaning, or future or conditional verbs, such as “will,” “should,” “could” or “may.” Examples of forward-looking statements that may be contained in our public disclosure from time to time include, but are not limited to, statements concerning management’s expectations relating to possible or assumed future results, our strategic goals and our priorities, and the economic and business outlook for us, for each of our business segments and for the economy generally. Many of the factors that could determine our future performance are beyond our ability to control or predict. The following factors, in addition to other factors set forth in our Form 10-K filed on February 28, 2012 (“Form 10-K”), as updated in the Quarterly Report on Form 10-Q filed May 9, 2012, with the U.S. Securities and Exchange Commission (“SEC”) and the Canadian Securities Administrators (“CSA”), and in other press releases, communications, or filings made with the SEC or the CSA, could cause our actual results to differ materially from the expectation(s) included in forward-looking statements and, if significant, could materially affect the Company’s business, sales revenue, share price, financial condition, and/or future results, including causing the Company to (i) close restaurants, (ii) fail to realize same-store sales growth targets, which are critical to achieving our financial targets, (iii) fail to meet the expectations of our securities analysts or investors, or otherwise fail to perform as expected, (iv) have insufficient cash to engage in or fund expansion activities, dividends, or share repurchase programs, or (v) increase costs, corporately or at restaurant level, which may result in increased restaurant-level pricing, which in turn may result in decreased guest demand for our products resulting in lower sales, revenue, and earnings. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also materially adversely affect our business, financial condition, and/or operating results. We assume no obligation to update or alter any forward-looking statements after they are made, whether as a result of new information, future events, or otherwise, except as required by applicable law.

Forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: the absence of an adverse event or condition that damages our strong brand position and reputation; the absence of a material increase in competition within the quick service restaurant segment of the food service industry; cost and availability of commodities; continuing positive working relationships with the majority of the Company’s restaurant owners; the absence of any material adverse effects arising as a result of litigation; there being no significant change in the Company’s ability to comply with current or future regulatory requirements; and general worldwide economic conditions. We are presenting this information for the purpose of informing you of management’s current expectations regarding these matters, and this information may not be appropriate for any other purposes.

Factors Affecting Growth and Other Important Strategic Initiatives. There can be no assurance that the Company will be able to achieve new restaurant or same-store sales growth objectives, that new restaurants will be profitable or that strategic initiatives will be successfully implemented. Early in the development of new markets, the opening of new restaurants may have a negative effect on the same-store sales of existing restaurants in the market. The Company may also enter markets where its brand is not well known and where it has little or no operating experience and as a result, may not achieve the level of penetration needed in order to drive brand recognition, convenience, increased leverage to marketing dollars, and other benefits the Company believes penetration yields. When the Company enters new markets, it may be necessary to increase restaurant owner relief and support costs, which lowers its earnings. There can be no assurance that the Company will be able to successfully adapt its brand, development efforts, and restaurants to these differing market conditions. The Company’s failure to successfully implement growth and various other strategies and initiatives related to international development may have a negative impact on the overall operation of its business and may result in increased costs or inefficiencies that it cannot currently anticipate. The Company may also continue to selectively close restaurants

that are not achieving acceptable levels of profitability or change its growth strategies over time, where appropriate. Such closures may be accompanied by impairment charges that may have a negative impact on the Company's earnings. The success of any restaurant depends in substantial part on its location. There can be no assurance that current locations will continue to be attractive as demographic patterns or economic conditions change. If we cannot obtain desirable locations for restaurants at reasonable prices, the Company's ability to affect its growth strategy will be adversely affected. The Company also intends to evaluate potential mergers, acquisitions, joint venture investments, alliances, vertical integration opportunities and divestitures, which are subject to many of the same risks that also affect new store development as well as various other risks. In addition, there can be no assurance that the Company will be able to complete the desirable transactions, for reasons including restrictive covenants in debt instruments or other agreements with third parties. The Company may continue to pursue strategic alliances (including co-branding) with third parties for different types of development models and products and there can be no assurance that: significant value will be recognized through such strategic alliances; the Company will be able to maintain its strategic alliances; or, the Company will be able to enter into new strategic relationships in the future. Entry into such relationships as well as the expansion of the Company's current business through such initiatives may expose it to additional risks that may adversely affect the Company's brand and business. The Company's financial outlook and long-range targets are based on the successful implementation, execution and guest acceptance of the Company's strategic plans and initiatives; accordingly, the failure of any of these criteria could cause the Company to fall short of achievement of its financial objectives and long-range aspirational goals.

The Importance of Canadian Segment Performance and Brand Reputation. The Company's financial performance is highly dependent upon its Canadian operating segment, which accounted for approximately 93.9% of our reportable segment revenues, and 97.6% of our reportable segment operating income in 2011. Any substantial or sustained decline in the Company's Canadian business would materially and adversely affect its financial performance. The Company's success is also dependent on its ability to maintain and enhance the value of its brand, its guests' connection to and perception of its brand, and a positive relationship with its restaurant owners. Brand value can be severely damaged, even by isolated incidents, including those that may be beyond the Company's control such as: actions taken or not taken by its restaurant owners relating to health, safety, environmental, welfare, labour, public policy or social issues; contaminated food; litigation and claims (including litigation by, other disputes with, or negative relationship with restaurant owners); failure of security breaches or other fraudulent activities associated with its networks and systems; illegal activity targeted at the Company; and negative incidents occurring at or affecting its strategic business partners (including in connection with co-branding initiatives, international licensing arrangements and its self-serve kiosk model), affiliates, and corporate social responsibility programs. The Company's brand could also be damaged by falsified claims or the quality of products from its vertically integrated manufacturing plants, and potentially negative publicity from various sources, including social media sites on a variety of topics and issues, whether true or not, which are beyond its control.

Competition. The quick service restaurant industry is intensely competitive with respect to price, service, location, personnel, qualified restaurant owners, real estate sites and type and quality of food. The Company and its restaurant owners compete with international, regional and local organizations, primarily through the quality, variety, and value perception of food products offered. The number and location of units, quality and speed of service, attractiveness of facilities, effectiveness of advertising/marketing, promotional and operational programs, discounting activities, price, changing demographic patterns and trends, changing consumer preferences and spending patterns, including weaker consumer spending in difficult economic times, or a desire for a more diversified menu, changing health or dietary preferences and perceptions, and new product development by the Company and its competitors are also important factors. Certain of the Company's competitors, most notably in the U.S., have greater financial and other resources than it does, including substantially larger marketing budgets and greater leverage from their marketing spend. In addition, the Company's major competitors continue to engage in discounting, free sampling and other promotional activities.

Product Innovation and Extensions. Achievement of the Company's same-store sales strategy is dependent, among other things, on its ability to extend the product offerings of its existing brands and introduce innovative new products. Although it devotes significant focus to the development of new products, the Company may not be successful in developing innovative new products or its new products may not be commercially successful. The Company's financial results and its ability to maintain or improve its competitive position will depend on its ability to effectively gauge the direction of the market and consumer trends and initiatives and successfully identify, develop, manufacture, market and sell new or improved products in response to such trends.

Commodities. The Company is exposed to price volatility in connection with certain key commodities that it purchases in the ordinary course of business such as coffee, wheat, edible oil and sugar, which can impact revenues, costs and margins. Although the Company monitors its exposure to commodity prices and its forward hedging program partially mitigates the negative impact of any costs increases, price volatility for commodities it purchases has increased due to conditions beyond its control, including recent economic and political conditions, currency fluctuations, availability of supply, weather conditions, pest damage and consumer demand and consumption patterns. Increases and decreases in commodity costs are largely passed through to restaurant owners and the Company and its restaurant owners have some ability to increase product pricing to offset a rise in commodity prices, subject to restaurant owner and guest acceptance, respectively. A number of commodities have recently experienced elevated prices relative to

historic prices. Although the Company generally secures commitments for most of its key commodities that generally extend over a six-month period, these may be at higher prices than its previous commitments. In addition, if escalation in prices continues, the Company may be forced to purchase commodities at higher prices at the end of the respective terms of its current commitments. If the supply of commodities, including coffee, fails to meet demand, the Company's restaurant owners may experience reduced sales which in turn, would reduce our rents and royalty income as well as distribution income. Such a reduction in the Company's income may adversely impact the Company's business and financial results.

Food Safety and Health Concerns. Incidents or reports, whether true or not, of food-borne illness and injuries caused by or claims of food tampering, employee hygiene and cleanliness failures or impropriety at Tim Hortons, and the potential health impacts of consuming certain of the Company's products or other quick service restaurants unrelated to Tim Hortons, could result in negative publicity, damage the Company's brand value and potentially lead to product liability or other claims. Any decrease in guest traffic or temporary closure of any of the Company's restaurants as a result of such incidents or negative publicity may have a material adverse effect on its business and results of operations.

Distribution Operations and Supply Chain. The occurrence of any of the following factors is likely to result in increased operating costs and decreased profitability of the Company's distribution operations and supply chain and may also injure its brand, negatively affect its results of operations and its ability to generate expected earnings and/or increase costs, and/or negatively impact the Company's relationship with its restaurant owners: higher transportation or shipping costs; inclement weather; increased food and other supply costs; having a single source of supply for certain of its food products; shortages or interruptions in the availability or supply of perishable food products and/or their ingredients; potential negative impacts on our relationship with our restaurant owners associated with an increase of required purchases, or prices, of products purchased from the Company's distribution business; and political, physical, environmental or technological disruptions in the Company's or its suppliers' manufacturing and/or warehouse plants, facilities or equipment.

Importance of Restaurant Owners. A substantial portion of the Company's earnings come from royalties and other amounts paid by restaurant owners, who operated 99.6% of the Tim Hortons restaurants as of January 1, 2012. The Company's revenues and profits would decline and its brand reputation could also be harmed if a significant number of restaurant owners were to experience, among other things, operational or financial difficulties or labour shortages or significant increases in labour costs. Although the Company generally enjoys a positive working relationship with the vast majority of its restaurant owners, active and/or potential disputes with restaurant owners could damage its reputation and/or its relationships with the broader restaurant owner group. The Company's restaurant owners are independent contractors and, as a result, the quality of their operations may be diminished by factors beyond the Company's control. Any operational shortcoming of a franchise restaurant is likely to be attributed by consumers to the Company's entire system, thus damaging its brand reputation and potentially affecting revenues and profitability. There can be no assurance that the Company will be able to continue to attract, retain and motivate higher performing restaurant owners.

Litigation. The Company is or may be subject to claims incidental to the business, including: obesity litigation; health and safety risks or conditions of the Company's restaurants associated with design, construction, site location and development, indoor or airborne contaminants and/or certain equipment utilized in operations; employee claims for employment or labour matters, including potentially, class action suits regarding wages, discrimination, unfair or unequal treatment, harassment, wrongful termination, or overtime compensation claims; claims from restaurant owners and/or operators regarding profitability or wrongful termination of their franchise or operating (license) agreement(s); taxation authorities regarding certain tax disputes; and falsified claims. The Company's current exposure with respect to pending legal matters could change if determinations by judges and other finders of fact are not in accordance with management's evaluation of these claims and the Company's exposure could exceed expectations and have a material adverse effect on its financial condition and results of operations.

Government Regulation. The Company and its restaurant owners are subject to various international, federal, state, provincial, and local ("governmental") laws and regulations. The development and operation of restaurants depend to a significant extent on the selection, acquisition, and development of suitable sites, which are subject to laws and regulations regarding zoning, land use, environmental matters (including limitation of vehicle emissions in drive-thrus; anti-idling bylaws; regulation of litter, packaging and recycling requirements; regulation relating to discharge, storage, handling, release and/or disposal of hazardous or toxic substances; and other governmental laws and regulations), traffic, franchise, design and other matters. Additional governmental laws and regulations affecting the Company and its restaurant owners include: business licensing; franchise laws and regulations; health, food preparation, sanitation and safety; privacy; immigration, employment and labour (including applicable minimum wage requirements, benefits, overtime, working and safety conditions, family leave and other employment matters, and citizenship requirements); advertising and marketing; product safety and regulations regarding nutritional content, including menu labeling; existing, new or

future regulations, laws, treaties or the interpretation or enforcement thereof relating to tax matters that may affect the Company's ongoing tax disputes, realization of the Company's tax assets, disclosure of tax-related matters, and expansion of the Company's business into new territories through its strategic initiatives, joint ventures, or other types of programs, projects or activities; tax laws affecting restaurant owners' business; accounting and reporting requirements and regulations; and anti-corruption. Compliance with these laws and regulations and planning initiatives undertaken in connection therewith could increase the cost of doing business and, depending upon the nature of the Company's and its restaurant owners' responsive actions thereto, could damage the Company's reputation. Changes in these laws and regulations, or the implementation of additional regulatory requirements, particularly increases in applicable minimum wages, tax law, planning or other matters may, among other things, adversely affect the Company's financial results; anticipated effective tax rate, tax liabilities, and/or tax reserves; business planning within its corporate structure; its strategic initiatives and/or the types of projects it may undertake in furtherance of its business; or franchise requirements.

In addition, a taxation authority may disagree with certain views of the Company with respect to the interpretation of tax treaties, laws and regulations and take the position that material income tax liabilities, interests, penalties or amounts are payable by the Company, including in connection with certain of its public or internal company reorganizations. Contesting such disagreements or assessments may be lengthy and costly and, if the Company were unsuccessful in disputing the same, the implications could be materially adverse to it and affect its anticipated effective tax rate, projected results, future operations and financial condition, where applicable.

International Operations. The Company's international operations are and will continue to be subject to various factors of uncertainty, and there is no assurance that international operations will achieve or maintain profitability or meet planned growth rates. The implementation of the Company's international strategic plan may require considerable management time as well as start-up expenses for market development before any significant revenues and earnings are generated. Expansion into new international markets carries risks similar to those risks described above and more fully in the Form 10-K relative to expansion into new markets in the U.S.; however, some or all of these factors may be more pronounced in markets outside Canada and the U.S. due to cultural, political, legal, economic, regulatory and other conditions and differences. Additionally, the Company may also have difficulty exporting its proprietary products into international markets or finding suppliers and distributors to provide it with adequate supplies of ingredients meeting its standards in a cost-effective manner.

Economic, Market and Other Conditions. The quick service restaurant industry is affected by changes in international, national, regional, and local economic and political conditions, consumer preferences and perceptions (including food safety, health or dietary preferences and perceptions), discretionary spending patterns, consumer confidence, demographic trends, seasonality, weather events and other calamities, traffic patterns, the type, number and location of competing restaurants, enhanced governmental regulation, changes in capital market conditions that affect valuations of restaurant companies in general or the value of the Company's stock in particular, and litigation relating to food quality, handling or nutritional content. Factors such as inflation, higher energy and/or fuel costs, food costs, the cost and/or availability of a qualified workforce and other labour issues, benefit costs, legal claims, legal and regulatory compliance (including environmental regulations), new or additional sales tax on the Company's products, disruptions in its supply chain or changes in the price, availability and shipping costs of supplies, and utility and other operating costs, also affect restaurant operations and expenses and impact same-store sales and growth opportunities. The ability of the Company and its restaurant owners to finance new restaurant development, improvements and additions to existing restaurants, acquire and sell restaurants, and pursue other strategic initiatives (such as acquisitions and joint ventures), are affected by economic conditions, including interest rates and other government policies impacting land and construction costs and the cost and availability of borrowed funds. In addition, unforeseen catastrophic or widespread events affecting the health and/or welfare of large numbers of people in the markets in which the Company's restaurants are located and/or which otherwise cause a catastrophic loss or interruption in the Company's ability to conduct its business, would affect its ability to maintain and/or increase sales and build new restaurants. Unforeseen events, including war, armed conflict, terrorism and other international, regional or local instability or conflicts (including labour issues), embargos, trade barriers, public health issues (including tainted food, food-borne illness, food tampering and water supply or widespread/pandemic illness such as the avian or H1N1 flu), and natural disasters such as flooding, earthquakes, hurricanes, or other adverse weather and climate conditions could disrupt the Company's operations, disrupt the operations of its restaurant owners, suppliers, or guests, or result in political or economic instability.

Reliance on Systems. If the network and information systems and other technology systems that are integral to retail operations at system restaurants and at the Company's manufacturing facilities, and at its office locations are damaged or interrupted from power outages, computer and telecommunications failures, computer worms, viruses and other destructive or disruptive software, security breaches, catastrophic events and improper or personal usage by employees, such an event could have an adverse impact on the

Company and its guests, restaurant owners and employees, including a disruption of its operations, guest dissatisfaction or a loss of guests or revenues. The Company relies on third-party vendors to retain data, process transactions and provide certain services. In the event of failure in such third party vendors' systems and processes, the Company could experience business interruptions or privacy and/or security breaches surrounding its data. The Company continues to enhance its integrated enterprise resource planning system through the implementation of new modules. There may be risks associated with adjusting to and supporting the new modules which may impact the Company's relations with its restaurant owners, vendors and suppliers and the conduct of its business generally. If the Company fails to comply with new and/or increasingly demanding laws and regulations regarding the protection of guest, supplier, vendor, restaurant owner, employee and/or business data, or if the Company (or a third party with which it has entered into a strategic alliance) experiences a significant breach of guest, supplier, vendor, restaurant owner, employee or Company data, the Company's reputation could be damaged and result in lost sales, fines, lawsuits and diversion of management attention. The use of electronic payment systems and the Company's reloadable cash card makes it more susceptible to a risk of loss in connection with these issues, particularly with respect to an external security breach of guest information that the Company, or third parties under arrangement(s) with it, control.

Other Significant Risk Factors. The following factors could also cause the Company's actual results to differ from its expectations: fluctuations in the U.S. and Canadian dollar exchange rates; an inability to adequately protect the Company's intellectual property and trade secrets from infringement actions or unauthorized use by others (including in certain international markets that have uncertain or inconsistent laws and/or application with respect to intellectual property and contract rights); liabilities and losses associated with owning and leasing significant amounts of real estate; changes in its debt levels and a downgrade on its credit ratings; the failure to retain executive officers and other key personnel or attract additional qualified management personnel to meet business needs; and certain anti-takeover provisions that may have the effect of delaying or preventing a change in control.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date and time made. Except as required by federal or provincial securities laws, the Company undertakes no obligation to publicly release any revisions to forward-looking statements, or to update them to reflect events or circumstances occurring after the date forward-looking statements are made, or to reflect the occurrence of unanticipated events.