

**TIM HORTONS INC.**  
**Board of Directors**  
**Governance Guidelines**  
Adopted September 28, 2009  
(Most Recently Revised: February 2010)

The Board of Directors (the “Board”), as elected by the shareholders and, except for matters reserved to the shareholders by law or by the Corporation’s organizational documents, including the certificate of incorporation and by-laws, as the ultimate decision-making body of the Corporation, has adopted unanimously its *Principles of Governance – Philosophy, Role and Mission* (“Principles”). In order to give effect to those Principles, the Board also has adopted unanimously these Governance Guidelines (“Guidelines”) concerning its structure, membership, performance, operations, and management oversight. These Guidelines are general expressions of intent rather than a code of regulations; they are intended to be flexible and enabling rather than rigid and limiting. Although the Corporation is incorporated under and governed by the Canada Business Corporations Act, these Guidelines have also been prepared with consideration and effect given to the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission’s (“SEC”) regulations promulgated thereunder, the listing standards of the New York Stock Exchange and the Toronto Stock Exchange, and the rules and regulations of the Canadian securities regulatory authorities. Additionally, these Guidelines include certain other “best practice” provisions that reflect the dynamic and evolving process related to corporate governance matters.

The basic responsibility of each Director is to exercise his or her powers and discharge his or her duties honestly and in good faith with a view to the best interests of the Corporation. Directors are entitled to rely on the honesty and integrity of the Corporation’s executives and its outside advisors and auditors to the fullest extent permitted by law.

## **BOARD STRUCTURE**

Within the limitations set by shareholder vote and legislation, the number of Directors should allow for the inclusion of qualified candidates and for the requirements of Board committee staffing. As a general objective, subject to exceptions recommended by the Directors, it is the Board’s goal that a substantial majority of its members be independent Directors, that is, those who have no direct or indirect material relationship or business conflict with the Corporation and otherwise who meet: (a) the definition of an “independent” director under the listing standards of the New York Stock Exchange and the rules of the Canadian securities regulatory authorities, and (b) applicable definitions of law, regulation, rule, charter or other corporate documents, the Principles and these Guidelines (collectively, “Requirement[s]”), for Board or

particular committee service, in each case as affirmatively determined by the Board in its business judgment. The Board will consider all relevant facts and circumstances in making independence determinations.

The Chief Executive Officer of the Corporation, if not also Chair of the Board, is expected to be a Director. The Board selects the Corporation's Chief Executive Officer and the Chair of the Board in a manner that it determines to be in the best interests of the Corporation. The Board does not have a policy as to whether the role of the Chief Executive Officer and the Chair of the Board should be separate, and, if they are separate, whether the Chair of the Board should be selected from the independent Directors or be an employee of the Corporation. The Board does have a policy, described below, that if the Chair of the Board is not an independent Director, there will be a Lead Director appointed. The duties and responsibilities of the Lead Director are further described below. No senior manager other than the Chief Executive Officer is expected or entitled to be a Director solely by virtue of his or her present or past position as senior manager.

Absent exceptional circumstances persuasive to the Board, persons to be elected to the Board should be 75 years of age or younger at the time of their election or re-election. An independent Director whose principal position or responsibility at the time of election changes substantially is expected to tender his or her resignation for consideration by the Nominating and Corporate Governance Committee. Except with permission of the Board, a management Director who leaves the Corporation and who has no further employment relationship with the Corporation is expected to resign from the Board.

The committees of the Board are the Audit Committee, the Human Resource and Compensation Committee, the Nominating and Corporate Governance Committee, the Executive Committee, and such other committees as the Board may create and maintain from time to time. Committee membership assignments are determined by the Board, on recommendation of the Nominating and Corporate Governance Committee, taking account of Corporation needs, individual attributes, service rotation, and other relevant factors. Each Director serving on the Audit Committee, Human Resource and Compensation Committee, and Nominating and Corporate Governance Committee shall be an independent Director and otherwise satisfy the independence Requirements. Members of the Human Resource and Compensation Committee shall further be "non-employee" directors, as such term is defined under Rule 16b-3 of the Securities Exchange Act of 1934, and "outside directors," for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended. Members of the Audit Committee must also satisfy the heightened independence standards established by NYSE and the rules of the Canadian securities regulatory authorities for service on audit committees.

It is expected that, before accepting a position on the board of directors of another company, a Director will consider whether that service will compromise

his or her ability to perform his or her present responsibilities to the Corporation. In addition, a Director shall consult with the Chair of the Nominating and Corporate Governance Committee in advance of accepting a position on the board of directors of another company to confirm that such new position would not create a conflict of interest with the Corporation or otherwise affect the independence of the Director. No independent Director may serve on more than five boards of public companies (including the Board of the Corporation), without the prior approval of the Nominating and Corporate Governance Committee. Neither the Chief Executive Officer nor the Executive Chairman will accept a position on the board of directors of another public company without first consulting with and receiving the approval of the Board. Finally, no member of the Audit Committee may serve on more than three Audit Committees (including the Corporation's Audit Committee), without prior approval from the Board, which may be granted upon the Board's determination that such simultaneous service would not impair the ability of such Director to serve effectively on the Corporation's Audit Committee.

Each committee of the Board is charged to meet the responsibilities set forth in the Requirements and otherwise such duties as determined by the Board. The Board has approved written charters for the Audit, Human Resource and Compensation, and Nominating and Corporate Governance Committees that describe each committee's respective duties and responsibilities. These charters are available on the Corporation's website under the "Investors" and then "Governance" tabs.

### **DIRECTOR SELECTION, ORIENTATION AND EVALUATION**

Director selection and nomination for re-election are a responsibility of the Board, acting on recommendation of the Nominating and Corporate Governance Committee, and giving attention to the following qualifications:

- High personal and professional ethics, integrity, practical wisdom and mature judgment;
- Board training and/or senior executive experience in business, government, education or technology;
- Expertise and skills that are useful to the Corporation and complementary to the background and experience of other Board members, as determined by the Board from time-to-time;
- Willingness to devote the required amount of time to carrying out the duties and responsibilities of Board membership;
- Commitment to serve on the Board over a period of several years to develop knowledge about the Corporation and its operations;

- Willingness to represent the best interests of the Corporation and objectively appraise management's performance; and
- Board diversity, regional representation (as appropriate), and other relevant factors as the Board may determine.

Selection of candidates is on the bases of, first, Corporation needs, and, second, identification of persons responsive to those needs. Directors may consider, giving such weight as they deem appropriate, ancillary attributes such as energy, terms served, change in employment status, and other directorships.

Upon the recommendation and under the supervision of the Nominating and Corporate Governance Committee, the Board establishes and maintains programs for the initial and periodic orientation of each Director in the obligations of directors generally and the business of the Corporation specifically, including operations, finance, franchise development and relations, real estate development and management, compliance and auditing, corporate business ethics, corporate organization, and other relevant matters. In addition, the Board supports and encourages the continuing education of its Directors in these areas as well. For Directors who have not previously served on the board of directors of a public corporation, such Directors must attend an external professional seminar relevant to public corporation board service within two years of their election or appointment to the Corporation's Board of Directors. Further, a Director who is appointed to the Audit Committee who has not previously served as a member of an audit committee of a publicly traded corporation or who has not otherwise had equivalent audit committee experience (e.g., such equivalent experience would include presenting at and/or regularly attending public corporation audit committee meetings in the capacity of CEO, CFO, General Counsel, or equivalent), shall within a reasonable period of time following his or her appointment, attend an educational session relevant to audit committee members from a reputable provider of board of director education.

The Directors expect that each of them will attend meetings of the Board and assigned committees and participate actively in the work of the Board. Except in compelling circumstances, any Director who during two consecutive full calendar years attended fewer than 75% of the total of (a) all Board meetings held during the period for which he or she has been a Director (including regularly scheduled, special and telephonic meetings) and (b) all meetings held by all committees on which he or she served (during the periods that he or she served) shall be asked to tender his or her resignation to the Board, and the Board shall consider relevant facts and circumstances and determine whether to accept or decline such tendered resignation. The Directors are invited and expected to attend the Annual Shareholders' Meeting.

The Directors expect that each independent Director will own shares in the Corporation and/or notional deferred share units tracking the value of the Corporation's common shares, with each independent Director's holdings valued at least three times his or her annual retainer (including the value of the equity portion of the retainer) received from the Corporation and in any event appropriate to his or her circumstances. Each independent Director will be expected to achieve these share ownership guidelines within five years of his or her initial election or appointment to the Board. "Achievement" of the share ownership guidelines shall occur when a Director holds the required level of common share or deferred share units as determined by the greater of (i) the acquisition price of the common share or the value of the deferred share units upon grant, and (ii) the current market price of the Corporation's common share (or the value of the deferred share units based on the current market price of the Corporation's common share). After the guideline is achieved and maintained for twenty (20) trading days, the guideline is deemed to be satisfied, as long as the number of deferred share units and/or shares constituting the minimum guideline level continues to be held by the Director, regardless of a subsequent drop in share price. However, if a Director sells shares, the Director must continue to meet the share ownership guidelines with his or her remaining shares and/or deferred share units, using the price of the shares (or equivalent value of deferred share units at such time based on the current share price) on the date the sale is made, again regardless of a subsequent decline in share price.

As an alternative to term limits, prior to recommending to the Board that one or more current directors be submitted to the shareholders for re-election, the Nominating and Corporate Governance Committee will review the performance of each person potentially standing for election or re-election and make appropriate recommendations to the Board concerning that person's candidacy. Not less than annually, the Nominating and Corporate Governance Committee will prepare a report to the Board concerning director orientation and evaluation. Additionally, the Board, with the assistance of the Nominating and Corporate Governance Committee, will conduct an annual performance self-evaluation to ensure that the Board and its committees are functioning effectively.

## **BOARD OPERATIONS**

Independent Director compensation, both form(s) and amount(s), are determined by the Board, upon recommendation of the Human Resource and Compensation Committee, taking into account general and specific demands of Board and committee service, Corporation performance, comparisons with other firms of similar size and complexity, competitive factors, other forms of compensation received by Directors, if any, and other factors which it deems relevant, all with the intent of aligning Directors' interests with the long-term interests of the Corporation's shareholders. Independent Director compensation arrangements should be simple, transparent and easy for the Corporation's shareholders to understand. A management director receives no additional compensation for his

or her service as a Director. For purposes of the foregoing sentence, where a Director serves as Executive Chairman, and in that capacity is also considered an officer or employee of the Corporation, he or she shall be entitled to such levels of compensation as shall be approved by the Board. The Human Resource and Compensation Committee will report to the Board not less than annually on independent Director compensation matters.

The independent Directors schedule regular executive sessions attendant to each Board meeting. The independent Directors consider and provide feedback on the annual evaluation of the Chief Executive Officer's, and, if applicable, the Executive Chairman's performance conducted by the Human Resource and Compensation Committee. The Human Resource and Compensation Committee reviews and approves the performance goals and other criteria on which the Chief Executive Officer and Executive Chairman are compensated, with the financial objectives aligned with the Board's expectations. The independent members of the Board establish, upon recommendation from the Human Resource and Compensation Committee, the level or amount of compensation for the Chief Executive Officer and the Executive Chairman.

If the Chair of the Board is not an independent Director, the Chair of the Nominating and Corporate Governance Committee shall serve as Lead Director. The Lead Director shall also serve as a member of the Executive Committee. The Lead Director provides independent leadership to the Board and fosters an independent, cohesive Board culture committed to the maintenance and enhancement of the Corporation's corporate governance practices. As Chair of the Nominating and Corporate Governance Committee, the Lead Director works collaboratively with the Chair of the Board to facilitate the proper functioning and effectiveness of the Board and shall continue to also discharge independently all duties required as Chair of the Nominating and Corporate Governance Committee. In discharging the responsibilities of Lead Director, the Lead Director shall:

- Preside at executive sessions of the independent Directors, except where the principal matters to be considered are within the scope of authority of one of the other committee chairs;
- Provide leadership to the Board if circumstances arise in which the role of the Chair of the Board may be, or may be perceived to be, in conflict, and otherwise act as chair of Board meetings when the Chair of the Board is not in attendance;
- Serve as a communication channel between the Board and the Chair of the Board by consulting with the independent Directors, from time-to-time, at the request of either party, and recommend, where necessary, to the other independent Directors that a special meeting of the Board be called;

- With the other members of the Nominating and Corporate Governance Committee, lead the Board and its committees with respect to compliance with corporate governance requirements, including but not limited to the review of independence and conflict issues;
- Review with the Chair of the Board and the Corporate Secretary or Assistant Secretary the agenda matters and other items of importance for consideration by the Board at its regular and, if necessary, special meetings; and, work with the Chair of the Board and the Corporate Secretary of the Corporation with respect to agendas and Board Committee schedules so that the Board meetings provide adequate time for discussion of appropriate issues and so that appropriate information (Board meeting and other materials) is made available to directors on a timely basis, including information regarding the strategies, plans, and performance of management;
- Coordinate with the Chair of the Board with respect to director orientation and education for Board members and act as a mentor to new Board members;
- Facilitate the process of conducting the annual Board self-evaluation, including a general assessment of the Board's performance of its core functions described elsewhere in these Guidelines;
- Recommend to the Chairman the retention of outside advisors and consultants who report directly to the Board on board-wide issues;
- Be available for consultation and communication with significant shareholders, as requested by the Executive Chairman or the Chief Executive Officer;
- Interview all Board candidates and make recommendations to the Board regarding such candidates; and
- Participate with the Human Resource and Compensation Committee in that Committee's evaluation of the Chief Executive Officer's performance and discussion of the Chief Executive Officer's performance with him or her.

To facilitate the role of the Lead Director and the performance of the foregoing duties, the Lead Director is entitled to request materials and receive notice of and attend all meetings of the Board committees. In attending committee meetings where the Lead Director is not also a member of the committee, the Lead Director may attend as an *ex officio* member. In such capacity, the Lead Director shall not be entitled to committee attendance fees or to vote with respect to any matter decided by such committee.

Where the Chair of the Board is an independent Director, he or she shall also serve as Chair of the Nominating and Corporate Governance Committee and as a member of the Executive Committee. In recognizing the roles of Chair of the Board and Lead Director, the Board emphasizes that it is not intending to limit individual Board member responsibility or access and communication to management or to limit management access to individual Board member advice and counsel.

If the Chair of the Board is not an independent Director and has been appointed by the Board as Executive Chairman, he or she shall have the following main areas of focus:

- Strategic development and related activities, including working with the CEO and key members of management to review, revise and monitor the Corporation's strategic plan, and assisting in developing, analyzing, and executing key strategic initiatives;
- Board leadership, including fulfilling Chair of Board duties as are described herein or as otherwise expected in connection with that role, including presiding at regular and special meetings of the Board and fostering a strong working relationship between the CEO and the Board;
- Acting as a Corporation liaison with key stakeholders, including franchisees, investors, industry, and the community; and
- Such other duties as are assigned by the Board.

Each committee meets, as determined by its Chair with the concurrence of the Board, a sufficient number of times and for such durations as necessary to satisfy the Requirements and its responsibilities. Each committee comprised entirely of independent Directors schedules regular executive sessions attendant to each Board meeting. Where the Chair of the Board is an independent Director and is not serving as an appointed member of any committee of the Board, he or she shall be an *ex officio* member of each such committee and be afforded the opportunity to participate in meetings of such committees, although he or she shall not be entitled to committee attendance fees or to vote with respect to any matter decided by a committee to which he or she is not an appointed member.

The Board, acting on its own initiative or on the recommendation of one or more of its committees or the officers of the Corporation, may engage experts or consultants where it deems the engagement to be necessary or appropriate to the fulfillment of its responsibilities.

Except as otherwise specified in the Requirements, it is the policy of the Corporation that all major decisions be considered by the Board acting as a

whole and references herein to the Board generally are to its actions in that capacity. Except where a Requirement dictates to the contrary or as delegated to a committee in a written charter approved by the Board or otherwise by prior Board action, all decisions of any committee are subject to control and direction of the Board.

Subject to the Requirements and the approval of the Board and each committee Chair in matters within the purview of his or her committee, the Chair (and Lead Director, if applicable) and Chief Executive Officer set the agendas for meetings of the Board. The committee Chairs, with the assistance of management, set the agendas for meetings of their committees. Upon the recommendation of the Chief Executive Officer, presentations on matters considered by the Board are made by officers or managers responsible for the operations or matters under consideration.

The Board, after consulting with counsel if necessary, determines on a case-by-case basis whether conflicts of interest or other matters exist that may affect a Director's independence, with the objective, among others, that the independent Directors maintain their independence and, when voting on an issue, are not conflicted with respect to that issue. The Board expects that each independent Director will disclose to the Chair of the Nominating and Corporate Governance Committee, actual or potential conflicts, or other matters that may affect his or her independence, to further these objectives. In addition, not less than annually, each Director affirms the existence or absence of actual or potential conflicts, and other matters that may affect a Director's independence, and that affirmation is reported to the Nominating and Corporate Governance Committee.

## **MANAGEMENT OVERSIGHT**

The Board considers its functions to include taking an active role in the oversight of strategic and business planning, reviewing management's performance against plans, and aligning compensation programs to match corporate performance, as well as advising and counseling senior management. In fulfilling these functions, Directors expect to communicate primarily with senior management but have direct access to all officers and employees of the Corporation.

Not less than annually, the Executive Chairman, to the extent applicable based on the duties assigned, and the Chief Executive Officer report to the Board (excluding, to the extent appropriate, any affected officer of the Corporation who is a Director) on strategic plans, objectives and planning processes (including potential risk exposures in connection with such strategic plans and objectives), long term and emergency senior management succession plans, performance of senior management, including an assessment of their potential to succeed him or her, relations with mission critical trading partners, business ethics, compliance with laws, and other matters as the Board may direct. The Corporation's

succession planning process includes a review of the qualifications required for the Chief Executive Officer role, and a review of potential successors, with the input of the Chief Executive Officer, as measured against the desired qualifications. The Human Resource and Compensation Committee is responsible for reviewing management succession plans and overseeing the succession process; provided that, implementation of succession planning with respect to the Chief Executive Officer is the responsibility of the full Board and, with respect to the other executive officers, is the responsibility of the Chief Executive Officer, subject to Board approval of an executive officer appointment.

The Chief Executive Officer reports to the Board not less than quarterly on operations, earnings and profits, material and significant events, progress toward meeting periodic performance or other goals, material transactions not in the ordinary course of business, and other matters as the Board may direct.

In advance of scheduled meetings of the Board and its committees, senior management selects, organizes and, to the extent possible, distributes, material related to agenda items to allow the Directors to be prepared for discussion of those items. Directors are expected to review any materials provided by management and advisors in advance of meetings and to be prepared to discuss all scheduled items of business. In addition, minutes of each Board and Committee meeting, to the extent practicable, shall be prepared by the Secretary and distributed to Directors for review within approximately 30 days of the meeting to which they relate.

The Directors and senior management communicate between scheduled meetings upon the occurrence of events considered by either to be significant or noteworthy.

It is the general policy of the Corporation that management speaks for the Corporation. Communications with shareholders, potential investors, customers, communities, trading partners, creditors, governments, and the public concerning corporate events and affairs are the responsibility of the Chief Executive Officer and/or the Executive Chair and their respective designees, giving due regard to the general oversight of the Board, the requirements of law, and the interests of the Corporation. The policy is not preclusive of director communications with shareholders, but it is recommended that Directors generally not discuss the Corporation's business with outsiders unless specifically requested to do so by the Executive Chairman, Chief Executive Officer or the Board, and that management participate in any such communications, as appropriate. Shareholders and other interested parties may communicate with the Board or one or more Directors by sending a writing addressed to the Board or to any one or more Directors in care of Secretary, Tim Hortons Inc., 874 Sinclair Road, Oakville, Ontario, Canada, L6K 2Y1, in an envelope clearly marked "Shareholder and/or Other Interested Party Communication – Direct to Board of Directors" or by indicating instead the name of the specific Director. The Secretary's office will

forward all such correspondence unopened to the Chair of the Board, if he or she is an independent Director, to the Lead Director if the Chair is not an independent Director, to the independent Directors as a group, or to the Director specifically named on the outside of the envelope, if applicable.

## GENERAL

The Board approves the Corporation's *Standards of Business Practices* applicable to employees and officers of the Corporation. The Audit Committee monitors that its provisions are being met. The Board also approves the *Code of Business Conduct and Ethics* applicable to Directors of the Corporation. A waiver, if any, of any provision of the *Standards of Business Practices* for an executive officer, or of any provision of the *Code of Business Conduct and Ethics* for a Director, will be approved and disclosed in compliance with the listing standards of the New York Stock Exchange, the rules of the Canadian securities regulatory authorities or other Requirements.

As stated in the Board's *Code of Business Conduct and Ethics*, Directors must maintain the confidentiality of information entrusted to them by the Corporation, except when disclosure is authorized by the Board or legally mandated. Confidential information is described in the *Standards of Business Practices* and includes all (a) non-public financial information or other material information about the Corporation, including business opportunities or other matters that are or could be beneficial to the Corporation; (b) proprietary competitive information that might be of use to competitors or may be harmful to the Corporation or its customers, if disclosed; (c) information about employees; or (d) other material, such as licensed software, that the Corporation is prohibited by law or contract from copying or disseminating.

Each of the Directors is committed to the principle that the effectiveness of the Board is dependent upon open, full, and free discussion of issues in an atmosphere of mutual respect and collegiality.

Each Director has a fiduciary obligation to conduct himself or herself in the best interest of the Corporation and to exercise his or her business judgment accordingly.

These Guidelines are intended to be consistent with and are subject to applicable requirements of law and regulation, exchange rules, and formal actions of the shareholders and Directors of the Corporation.

It is the responsibility of the Chief Executive Officer to educate management of the Corporation on the role of the Board, the Principles and these Guidelines.

These Guidelines are reviewed by the Nominating and Corporate Governance Committee and Board periodically and, as appropriate, revised by the Board from time-to-time.

These Guidelines are, and any amendments thereto will be, displayed on the Corporation's website and a printed copy will be made available to any shareholder of the Corporation who requests such.