

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

(Unaudited)

	Third Quarter Ended		\$ Change	% Change
	October 2, 2011	October 3, 2010		
REVENUES				
Sales	\$511,488	\$468,000	\$43,488	9.3%
Franchise revenues:				
Rents and royalties	188,956	176,964	11,992	6.8%
Franchise fees	26,486	25,556	930	3.6%
	<u>215,442</u>	<u>202,520</u>	<u>12,922</u>	<u>6.4%</u>
TOTAL REVENUES	<u>726,930</u>	<u>670,520</u>	<u>56,410</u>	<u>8.4%</u>
COSTS AND EXPENSES				
Cost of sales	452,996	398,957	54,039	13.5%
Operating expenses	65,348	61,690	3,658	5.9%
Franchise fee costs	26,117	24,908	1,209	4.9%
General and administrative expenses	34,744	35,790	(1,046)	(2.9%)
Equity (income)	(3,855)	(4,015)	160	(4.0%)
Asset impairment and related closure costs, net	372	20,888	(20,516)	n/m
Other (income), net	(1,598)	(708)	(890)	n/m
TOTAL COSTS AND EXPENSES, NET	<u>574,124</u>	<u>537,510</u>	<u>36,614</u>	<u>6.8%</u>
OPERATING INCOME	152,806	133,010	19,796	14.9%
Interest (expense)	(7,443)	(6,472)	(971)	15.0%
Interest income	738	432	306	70.8%
INCOME BEFORE INCOME TAXES	146,101	126,970	19,131	15.1%
INCOME TAXES	42,302	45,268	(2,966)	(6.6%)
Net Income	103,799	81,702	22,097	27.0%
Net income attributable to noncontrolling interests	168	7,874	(7,706)	n/m
NET INCOME ATTRIBUTABLE TO TIM HORTONS INC.	<u>\$103,631</u>	<u>\$73,828</u>	<u>\$29,803</u>	<u>40.4%</u>
Basic earnings per common share attributable to Tim Hortons Inc.	<u>\$0.65</u>	<u>\$0.43</u>	<u>\$0.22</u>	<u>52.6%</u>
Diluted earnings per common share attributable to Tim Hortons Inc.	<u>\$0.65</u>	<u>\$0.42</u>	<u>\$0.22</u>	<u>52.4%</u>
Weighted average number of common shares outstanding - Basic (in thousands)	<u>159,584</u>	<u>173,482</u>	<u>(13,898)</u>	<u>(8.0%)</u>
Weighted average number of common shares outstanding - Diluted (in thousands)	<u>160,063</u>	<u>173,743</u>	<u>(13,680)</u>	<u>(7.9%)</u>
Dividend per common share	<u>\$0.17</u>	<u>\$0.13</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 share and per share data)

(Unaudited)

	Year-to-date Period Ended		\$ Change	% Change
	October 2, 2011	October 3, 2010		
REVENUES				
Sales	\$1,464,023	\$1,318,292	\$145,731	11.1%
Franchise revenues:				
Rents and royalties	542,175	512,803	29,372	5.7%
Franchise fees	66,979	61,899	5,080	8.2%
	<u>609,154</u>	<u>574,702</u>	<u>34,452</u>	<u>6.0%</u>
TOTAL REVENUES	<u>2,073,177</u>	<u>1,892,994</u>	<u>180,183</u>	<u>9.5%</u>
COSTS AND EXPENSES				
Cost of sales	1,289,379	1,121,351	168,028	15.0%
Operating expenses	192,604	181,975	10,629	5.8%
Franchise fee costs	67,853	63,113	4,740	7.5%
General and administrative expenses	118,709	107,207	11,502	10.7%
Equity (income)	(10,788)	(11,032)	244	(2.2%)
Asset impairment and related closure costs, net	372	20,888	(20,516)	n/m
Other (income), net	(1,579)	(1,105)	(474)	42.9%
TOTAL COSTS AND EXPENSES, NET	<u>1,656,550</u>	<u>1,482,397</u>	<u>174,153</u>	<u>11.7%</u>
OPERATING INCOME	416,627	410,597	6,030	1.5%
Interest (expense)	(22,246)	(18,797)	(3,449)	18.3%
Interest income	3,265	892	2,373	n/m
INCOME BEFORE INCOME TAXES	397,646	392,692	4,954	1.3%
INCOME TAXES	115,993	125,492	(9,499)	(7.6%)
Net Income	281,653	267,200	14,453	5.4%
Net income attributable to noncontrolling interests	1,794	20,362	(18,568)	n/m
NET INCOME ATTRIBUTABLE TO TIM HORTONS INC.	<u>\$279,859</u>	<u>\$246,838</u>	<u>\$33,021</u>	<u>13.4%</u>
Basic earnings per common share attributable to Tim Hortons Inc.	<u>\$1.71</u>	<u>\$1.41</u>	<u>\$0.30</u>	<u>21.1%</u>
Diluted earnings per common share attributable to Tim Hortons Inc.	<u>\$1.71</u>	<u>\$1.41</u>	<u>\$0.30</u>	<u>21.0%</u>
Weighted average number of common shares outstanding - Basic (in thousands)	<u>163,535</u>	<u>174,744</u>	<u>(11,210)</u>	<u>(6.4%)</u>
Weighted average number of common shares outstanding - Diluted (in thousands)	<u>164,026</u>	<u>175,002</u>	<u>(10,976)</u>	<u>(6.3%)</u>
Dividend per common share	<u>\$0.51</u>	<u>\$0.39</u>	<u>\$0.12</u>	

n/m - not meaningful
(all numbers rounded)

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

	As at	
	October 2, 2011	January 2, 2011
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$91,118	\$574,354
Restricted cash and cash equivalents	69,395	67,110
Restricted investments	0	37,970
Accounts receivable, net	172,344	182,005
Notes receivable, net	11,200	12,543
Deferred income taxes	2,521	7,025
Inventories and other, net	159,325	100,712
Advertising fund restricted assets	29,062	27,402
Total current assets	534,965	1,009,121
Property and equipment, net	1,422,418	1,373,670
Notes receivable, net	3,499	3,811
Deferred income taxes	12,291	13,730
Intangible assets, net	4,681	5,270
Equity investments	44,098	44,767
Other assets	54,634	31,147
Total assets	\$2,076,586	\$2,481,516

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

	As at	
	October 2, 2011	January 2, 2011
	(Unaudited)	
 LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$160,988	\$142,444
Accrued liabilities:		
Salaries and wages	21,495	20,567
Taxes	23,985	65,654
Other	116,328	209,663
Deferred income taxes	940	2,205
Advertising fund restricted liabilities	40,709	41,026
Current portion of long-term obligations	9,646	9,937
Total current liabilities	374,091	491,496
 Long-term obligations		
Long-term debt	350,314	344,726
Advertising fund restricted debt	475	468
Capital leases	87,230	82,217
Deferred income taxes	5,653	8,237
Other long-term liabilities	116,737	111,930
Total long-term obligations	560,409	547,578
 Equity		
Equity of Tim Hortons Inc.		
Common shares		
\$2.84 stated value per share, Authorized: unlimited shares, Issued: 158,656,910 and 170,664,295 shares, respectively	449,949	484,050
Contributed surplus	6,149	0
Common shares held in trust, at cost: 314,653 and 278,082 shares, respectively	(11,506)	(9,542)
Retained earnings	803,754	1,105,882
Accumulated other comprehensive loss	(107,392)	(143,589)
Total equity of Tim Hortons Inc.	1,140,954	1,436,801
Noncontrolling interests	1,132	5,641
Total equity	1,142,086	1,442,442
Total liabilities and equity	\$2,076,586	\$2,481,516

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

	Year-to-date Period Ended	
	October 2, 2011	October 3, 2010
	<i>(Unaudited)</i>	
CASH FLOWS PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$281,653	\$267,200
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	85,675	88,368
Asset impairment and related closure costs, net	372	20,888
Stock-based compensation expense	14,481	9,500
Amortization of Maidstone Bakeries' supply contract	(6,190)	0
Deferred income taxes	(4,062)	2,351
Changes in operating assets and liabilities		
Restricted cash and cash equivalents	(2,084)	46,443
Accounts receivable	6,356	37,141
Inventories and other	(41,163)	(35,068)
Accounts payable and accrued liabilities	(87,553)	5,172
Taxes	(41,670)	2,054
Other, net	12,954	(7,189)
Net cash provided from operating activities	218,769	436,860
CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(106,031)	(78,988)
Proceeds from sale of restricted investments	38,000	20,240
Purchase of restricted investments	0	(37,832)
Other investing activities	(10,106)	1,076
Net cash used in investing activities	(78,137)	(95,504)
CASH FLOWS PROVIDED FROM (USED IN) FINANCING ACTIVITIES		
Purchase of common shares	(530,139)	(136,036)
Dividend payments to common shareholders	(83,318)	(68,004)
Proceeds from issuance of debt (net of issuance cost)	2,578	200,518
Principal payments on other long-term debt obligations	(6,126)	(204,760)
Purchase of common shares held in trust	(2,797)	(3,252)
Purchase of common shares for settlement of restricted stock units	(262)	(377)
Other financing activities	(6,303)	(16,331)
Net cash used in financing activities	(626,367)	(228,242)
Effect of exchange rate changes on cash	2,499	(1,308)
(Decrease) increase in cash and cash equivalents	(483,236)	111,806
Cash and cash equivalents at beginning of period	574,354	121,653
Less: Cash and cash equivalents included in assets held for sale	0	(37,757)
Cash and cash equivalents at end of period	\$91,118	\$195,702

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

(Unaudited)

	Third Quarter Ended			
	October 2, 2011	% of Total	October 3, 2010 ⁽⁶⁾	% of Total
REVENUES				
Canada	\$617,937	85.0%	\$562,057	83.8%
U.S.	36,835	5.1%	33,573	5.0%
Total reportable segments	654,772	90.1%	595,630	88.8%
Variable interest entities ⁽¹⁾	72,158	9.9%	74,890	11.2%
Total	<u>\$726,930</u>	<u>100.0%</u>	<u>\$670,520</u>	<u>100.0%</u>
SEGMENT OPERATING INCOME				
Canada ⁽¹⁾	\$160,386	98.2%	\$153,544	112.8%
U.S. ⁽²⁾⁽³⁾	2,873	1.8%	(17,483)	(12.8)%
Reportable segment operating income	163,259	100.0%	136,061	100.0%
Variable interest entities ⁽¹⁾⁽⁴⁾	366		9,032	
Corporate charges ⁽⁵⁾	(10,819)		(12,083)	
Consolidated operating income	152,806		133,010	
Interest expense, net	(6,705)		(6,040)	
Income taxes	(42,302)		(45,268)	
Net income	103,799		81,702	
Net income attributable to noncontrolling interests	(168)		(7,874)	
Net income attributable to Tim Hortons Inc.	<u>\$103,631</u>		<u>\$73,828</u>	

	Third Quarter Ended			
	October 2, 2011	October 3, 2010	\$ Change	% Change
<i>Sales is comprised of:</i>				
Distribution sales	\$432,923	\$387,030	\$45,893	11.9%
Company-operated restaurant sales	6,407	6,080	327	5.4%
Sales from variable interest entities	72,158	74,890	(2,732)	(3.6)%
	<u>\$511,488</u>	<u>\$468,000</u>	<u>\$43,488</u>	<u>9.3%</u>

- (1) The Company's chief decision maker viewed and evaluated the performance of the Canadian segment with Maidstone Bakeries accounted for on an equity accounting basis, which reflects 50% of Maidstone Bakeries' operating income. As a result, the net revenues and the remaining 50% of operating income of Maidstone Bakeries up to October 29, 2010, the date of disposition, were included in the Variable interest entities line above (\$8.3 million and \$22.0 million for the third quarter and year-to-date periods of 2010, respectively), along with revenues and operating income or loss from our non-owned consolidated restaurants.
- (2) The third quarter and year-to-date periods of 2011 include asset impairment charges of \$1.0 million which primarily reflects current real estate values in the Company's Portland market. In addition, approximately \$1.5 million of accrued closure costs were reversed upon the substantial conclusion of closure activities related to the Company's New England markets. Both of these items are included in Asset impairment and related closure costs, net on the Condensed Consolidated Statement of Operations.
- (3) The third quarter and year-to-date periods of 2010 include an asset impairment charge of \$20.9 million related to the Company's Portland, Providence and Hartford markets, which were determined to be impaired.
- (4) The third quarter and year-to-date periods of 2011 include an asset impairment charge of \$0.9 million related to VIEs in the Portland market.
- (5) Corporate charges include certain overhead costs which are not allocated to individual business segments, the impact of certain foreign currency exchange gains and losses, the net costs associated with executing the Company's International expansion plans, and the operating income from the Company's wholly-owned Irish subsidiary, which continues to be managed corporately. In addition, the year-to-date period of 2011 includes \$6.3 million of severance charges, advisory fees, and related costs and expenses related to the separation agreement with the Company's former President and Chief Executive Officer.

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

(Unaudited)

	Year-to-date Period Ended			
	October 2, 2011	% of Total	October 3, 2010 ⁽⁶⁾	% of Total
REVENUES				
Canada	\$1,764,511	85.1%	\$1,568,950	82.9%
U.S.	108,366	5.2%	91,421	4.8%
Total reportable segments	1,872,877	90.3%	1,660,371	87.7%
Variable interest entities ⁽¹⁾	200,300	9.7%	232,623	12.3%
Total	<u>\$2,073,177</u>	<u>100.0%</u>	<u>\$1,892,994</u>	<u>100.0%</u>
SEGMENT OPERATING INCOME				
Canada ⁽¹⁾	\$448,343	97.9%	\$438,883	103.3%
U.S. ⁽²⁾⁽³⁾	9,492	2.1%	(14,149)	(3.3)%
Reportable segment operating income	457,835	100.0%	424,734	100.0%
Variable interest entities ⁽¹⁾⁽⁴⁾	2,383		23,255	
Corporate charges ⁽⁵⁾	(43,591)		(37,392)	
Consolidated operating income	416,627		410,597	
Interest expense, net	(18,981)		(17,905)	
Income taxes	(115,993)		(125,492)	
Net income	281,653		267,200	
Net income attributable to noncontrolling interests	(1,794)		(20,362)	
Net income attributable to Tim Hortons Inc.	<u>\$279,859</u>		<u>\$246,838</u>	

	Year-to-date Period Ended			
	October 2, 2011	October 3, 2010 (6)	\$ Change	% Change
<i>Sales is comprised of:</i>				
Distribution sales	\$1,245,227	\$1,069,144	\$176,083	16.5%
Company-operated restaurant sales	18,496	16,525	1,971	11.9%
Sales from variable interest entities	200,300	232,623	(32,323)	(13.9)%
	<u>\$1,464,023</u>	<u>\$1,318,292</u>	<u>\$145,731</u>	<u>11.1%</u>

- (1) The Company's chief decision maker viewed and evaluated the performance of the Canadian segment with Maidstone Bakeries accounted for on an equity accounting basis, which reflects 50% of Maidstone Bakeries' operating income. As a result, the net revenues and the remaining 50% of operating income of Maidstone Bakeries up to October 29, 2010, the date of disposition, were included in the Variable interest entities line above (\$8.3 million and \$22.0 million for the third quarter and year-to-date periods of 2010, respectively), along with revenues and operating income or loss from our non-owned consolidated restaurants.
- (2) The third quarter and year-to-date periods of 2011 include asset impairment charges of \$1.0 million which primarily reflects current real estate values in the Company's Portland market. In addition, approximately \$1.5 million of accrued closure costs were reversed upon the substantial conclusion of closure activities related to the Company's New England markets. Both of these items are included in Asset impairment and related closure costs, net on the Condensed Consolidated Statement of Operations.
- (3) The third quarter and year-to-date periods of 2010 include an asset impairment charge of \$20.9 million related to the Company's Portland, Providence and Hartford markets, which were determined to be impaired.
- (4) The third quarter and year-to-date periods of 2011 include an asset impairment charge of \$0.9 million related to VIEs in the Portland market.
- (5) Corporate charges include certain overhead costs which are not allocated to individual business segments, the impact of certain foreign currency exchange gains and losses, the net costs associated with executing the Company's International expansion plans, and the operating income from the Company's wholly-owned Irish subsidiary, which continues to be managed corporately. In addition, the year-to-date period of 2011 includes \$6.3 million of severance charges, advisory fees, and related costs and expenses related to the separation agreement with the Company's former President and Chief Executive Officer.
- (6) Beginning in 2011, we have modified certain allocation methods resulting in changes in the classification of certain costs, with the main change being corporate information technology infrastructure costs now being included in Corporate charges rather than in the Canadian operating segment. This change has been consistently applied for all comparative periods.

TIM HORTONS INC. AND SUBSIDIARIES
SYSTEMWIDE RESTAURANT COUNT

	As at October 2, 2011	As at January 2, 2011	Increase/ (Decrease) From Year End	As at October 3, 2010	Increase/ (Decrease) From Prior Year
Canada					
Company-operated	11	16	(5)	19	(8)
Franchised - self-serve kiosks	115	112	3	98	17
Franchised - standard and non-standard	3,099	3,020	79	2,965	134
Total	3,225	3,148	77	3,082	143
<i>% Franchised</i>	<i>99.7%</i>	<i>99.5%</i>		<i>99.4%</i>	
U.S.					
Company-operated	10	4	6	2	8
Franchised - self-serve kiosks	141	123	18	127	14
Franchised - standard and non-standard	494	475	19	492	2
Total	645	602	43	621	24
<i>% Franchised</i>	<i>98.4%</i>	<i>99.3%</i>		<i>99.7%</i>	
International					
Franchised - standard	1	0	1	0	1
Total	1	0	1	0	1
<i>% Franchised</i>	<i>100.0%</i>	<i>n/a</i>		<i>n/a</i>	
Total system					
Company-operated	21	20	1	21	0
Franchised - self-serve kiosks	256	235	21	225	31
Franchised - standard and non-standard	3,594	3,495	99	3,457	136
Total	3,871	3,750	121	3,703	167
<i>% Franchised</i>	<i>99.5%</i>	<i>99.5%</i>		<i>99.4%</i>	

TIM HORTONS INC. AND SUBSIDIARIES

Income Statement Definitions

Sales	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 for which we manage the supply chain logistics, which we include in distribution sales. Sales include canned coffee sales through the grocery channel. Sales also include sales from Company-operated restaurants, sales from certain non-owned restaurants that are consolidated in accordance with ASC 810 and sales from our previously-held bakery joint venture which we were also required to consolidate under ASC 810 prior to the sale of our interest.
Rents and royalties	Includes royalties and rental revenues paid to us by restaurant owners.
Franchise fees	Includes the revenue from initial equipment packages, as well as fees for various costs and expenses related to establishing a restaurant owner's business.
Cost of sales	Includes costs associated with our distribution business, including cost of goods, 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 are consolidated in accordance with ASC 810 as well as cost of sales from our previously-held bakery joint venture which we were also required to consolidate under ASC 810 prior to the sale of our interest.
Operating Expenses	Includes rent expense related to properties leased to restaurant owners and other property-related costs (including depreciation).
Franchise fee costs	Includes costs of equipment sold to restaurant owners as part of the commencement of their restaurant business, as well as training and other costs necessary to ensure a successful restaurant opening.
General and administrative	Includes costs that cannot be directly related to generating revenue, including expenses associated with our corporate and administrative functions, and depreciation of office equipment, the majority of our information technology systems, and head office real estate.
Equity (income)	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.
Other (Income), net	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.
Noncontrolling interests	Relates to the consolidation of our previously-held bakery joint venture and certain non-owned restaurants that the Company is required to consolidate under ASC 810.