

## Tim Hortons Inc. Announces Third-Quarter Results; Declares Second Quarterly Dividend

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*(All amounts in Canadian dollars)*

Tim Hortons Inc. (NYSE: THI) (TSX: THI) announced its results for the third quarter ended October 1, 2006.

Total revenues were \$413.6 million in the third quarter, up 7.1% compared to \$386.1 million in the third quarter of 2005. Rent and royalties revenues were up 10.5%, in-line with systemwide sales growth of 11.5%(1). Same-store sales growth momentum continued in the third quarter with Canada increasing by 5.9% and the U.S. increasing by 9.2%.

The same store sales growth was driven by a strong promotional calendar throughout the summer including a chunky chicken salad wrap, iced cappuccino with flavour shots of butter caramel, french vanilla, hazelnut or raspberry, a toasted chicken club sandwich, a 12 grain bagel and the breakfast sandwich in the U.S.

Offsetting the strong rent and royalties revenue was lower franchisee fee revenues associated with the timing of new store openings. Tim Hortons opened a total of 29 restaurants in the quarter compared to 48 restaurants in the third quarter last year. Year to date the company has opened 86 stores and expects to achieve its target of 180-200 stores by year-end 2006. The company presently anticipates increased franchise fee revenue in the fourth quarter from the scheduled opening of 100 new stores.

"We are very pleased with the strength in our same store sales growth in both Canada and the U.S.," said Chief Executive Officer and President Paul House. "Growth throughout the year has exceeded our long-term targets as we continue to benefit from our focus on providing customers with quality products at a reasonable price. In late September, we began the rollout of our hot breakfast sandwich in Canada. We expect that the breakfast sandwich will contribute to continued sales growth in the fourth quarter as early indications suggest that customers are enjoying our entry into the hot breakfast sandwich category."

Operating income in the third quarter was \$91.3 million compared to \$95.9 million for the same period in 2005. Operating margins were 22.1% compared to 24.8% in the third quarter last year. The decline in operating margin was primarily a result of 3 key items:

œ G&A increase of \$8.5 million or 36.4% over the same period last year primarily related to:

œ Compensation expense related to restricted stock units (RSUs) in the third quarter of 2006 was \$5.1 million higher than the third quarter of 2005 primarily as a result of the accelerated vesting and settlement by the Company of the remaining portion of the Wendy's 2005 grant, coupled with the immediate expensing of the portion of the Company's August 1, 2006 RSU grant to retirement eligible employees in accordance with SFAS No. 123R. Fourth quarter expense related to these RSUs is expected to be significantly lower than the 3rd quarter of 2006 (approximately \$0.8 million - \$1.0 million and flat to fourth quarter in 2005); and

œ A run-off director and officer insurance policy, representing a one-time payment of \$2.3 million, resulting from the separation from Wendy's.

œ Other income declined \$6.1 million due to foreign exchange gains in the third quarter last year. This non-operating gain mainly resulted from a one-time mark-to-market gain on cross border intercompany notes in the third quarter last year; and

œ Additional ramp-up costs related to the Guelph distribution facility reduced operating income by approximately \$3 million for the quarter (approximately \$8 million year-to-date). As a result of the delayed rollout, the company did not have the full benefit of incremental revenue. We expect to service more stores with frozen product from this facility in the fourth quarter.

œ Net income was \$51.8 million compared to \$66.3 million last year. The effective tax rate in the third quarter of 2006 was 41.0% compared to 29.3% in the same period last year. This increase is due primarily to a valuation allowance recorded on previously recognized tax benefits associated with foreign tax credits as a result of the spin-off from Wendy's completed in the quarter. The Company is currently estimating an effective tax rate of approximately 34% for the fourth quarter.

Reported diluted earnings per share (EPS) was \$0.27 compared to \$0.41 in the third quarter of 2005. EPS was impacted by a 21% year over year increase in the weighted average number of shares outstanding as a result of the Tim Hortons IPO in March, 2006. Diluted weighted average shares outstanding in the third quarter of 2006 were 193.5 million compared to 160.0 million in the same period last year.

"At the end of the third quarter the Company successfully completed its separation from Wendy's," said Cynthia Devine, Executive Vice President and Chief Financial Officer. "Although the Company experienced additional costs associated with the transition and certain other expenses and adjustments outlined above, we are now well positioned to operate as a stand-alone public company."

## Wendy's completes distribution of Tim Hortons shares

As announced on September 29, Wendy's International, Inc. completed the distribution of the 160.0 million shares of Tim Hortons that it previously owned. The shares represented the remaining 82.75% stake in Tim Hortons that Wendy's had owned subsequent to Tim Hortons initial public offering in March.

Wendy's recently received a favourable tax ruling from Canada Revenue Agency under section 86.1 of the Income Tax Act (Canada) in connection with the tax effect of the distribution of the Company's shares to Wendy's Canadian shareholders. Confirmation regarding this ruling is posted on Wendy's and the Company's websites. It is also the practice of Canada Revenue Agency to post details on their website at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca).

Investors with questions about Wendy's distribution of Tim Hortons shares can visit the investor websites of Wendy's ([www.wendys-invest.com](http://www.wendys-invest.com)) or Tim Hortons ([www.timhortons.com](http://www.timhortons.com)) where you will find a list of frequently asked questions. Alternatively, you can call Computershare Investor Services at 800-697-8078, or the Investor Relations department at either Wendy's (614-764-3138) or Tim Hortons (905-339-6186).

## Share repurchase program announced in the third quarter

In the third quarter, Tim Hortons announced a share repurchase program of \$200 million, not to exceed 5% of outstanding shares. The program is expected to be in place until September 28, 2007, but may terminate earlier if either the \$200 million maximum or the 5% of outstanding shares limit is reached. The Company intends to execute the repurchase program through the facilities of the New York Stock Exchange or the Toronto Stock Exchange, subject to compliance with regulatory requirements.

## Tim Hortons added to the S&P60

Tim Hortons was added to the S&P 60 index. The S&P 60 is an equity index featuring large public companies listed on the Toronto Stock Exchange.

## Board approves quarterly dividend

The Board of Directors has approved the Company's second consecutive quarterly dividend of \$0.07, payable on November 21, to shareholders of record as of November 7. The dividend is based on the annual payout ratio announced and described in the Company's press release of July 27, 2006. The Company currently anticipates that the payout ratio will be recalculated on an annual basis after year-end results are available. However, the declaration and payment of future dividends remains subject to the discretion of our Board of Directors.

Consistent with the first dividend, on the payment date, Tim Hortons will pay its dividend in Canadian dollars to all shareholders with Canadian resident addresses whose shares are registered with Computershare (the Company's transfer agent). For all other shareholders, including all shareholders who hold their shares indirectly (i.e. through their broker) and regardless of country of residence, the dividend will be converted to U.S. dollars on November 14 at the daily noon rate established by the Bank of Canada and paid in U.S. dollars on November 21.

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