

Tim Hortons[®]

2007

Letter to Shareholders





All financial results throughout this document are expressed in Canadian dollars unless specifically noted.

Overview

Tim Hortons Inc. is one of North America's largest quick service restaurant chains. Founded in 1964 as a coffee and donut shop, Tim Hortons has evolved to meet consumer tastes, with a menu that now includes premium coffee, flavoured cappuccinos, specialty teas, home-style soups, fresh sandwiches and fresh baked goods.

Years in Operation: **43**

First Restaurant: **1964**, Hamilton, Ontario

First Location in U.S.: **1984**, Tonawanda, New York

Total Restaurants Canada and U.S. 2006: **3,047**

Canada: **2,711**, Franchised: **99%**

U.S.: **336**, Franchised: **82%**

Ticker Symbol: **THI**
(New York Stock Exchange and Toronto Stock Exchange)

IPO: March 24, 2006
Price: **\$27.00 U.S. \$23.16**

2006 Trading Range
NYSE: **U.S. \$23.79 – \$33.00**
TSX: **\$26.67 – \$37.99**

2006 Total Volume Traded: **396,844,481**
NYSE/U.S.: **231,034,896**
TSX: **165,809,585**

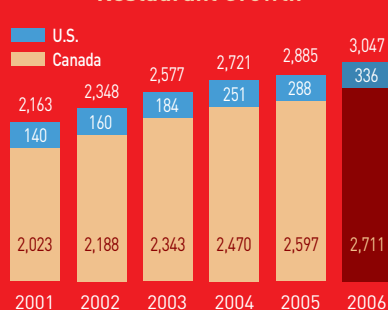
Shares Outstanding December 31, 2006:
191,372,733

Market Capitalization
December 31, 2006: **\$6.4 billion**
U.S. \$5.5 billion

Revenue (\$ millions)



Restaurant Growth



97% Franchised

Safe Harbour

All statements in this shareholder letter related to the Company's 2006 financial results and 2007 outlook are qualified in their entirety by the more detailed information provided in the Company's Annual Report on Form 10-K, which is included in the annual mailing to shareholders and also can be accessed at www.timhortons.com, www.sec.gov, or www.sedar.com. Certain information in this shareholder letter, particularly information regarding future economic performance and finances, plans, expectations, and objectives of management, is forward-looking. *The Annual Report on Form 10-K includes a description of risks that may affect the Company's future plans and financial performance. Readers are strongly recommended to read the risk factors outlined in the Form 10-K. These risks could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements set forth in this shareholder letter.* Readers are also cautioned not to place undue reliance on the forward-looking statements contained in this shareholder letter, which speak only as of the date hereof. Except as required by federal or provincial securities laws, the Company undertakes no obligation to publicly release any revisions to the forward-looking statements contained in this shareholder letter, or to update them to reflect events or circumstances occurring after the date of this letter, or to reflect the occurrence of unanticipated events, even if new information, future events, or other circumstances have made, or are likely to make, the statements made in this shareholder letter incorrect or misleading.

Dear shareholder,

In 1964, Tim Horton, a National Hockey League All-Star defenseman with the Toronto Maple Leafs, opened a single donut shop on Ottawa Street in Hamilton, Ontario. During the following year, Ron Joyce, a member of the Hamilton Police Force, acquired that first franchise location from Tim. By 1967, Ron and Tim managed to open up two more stores and became full business partners. From the outset, Ron and Tim founded their stores on the core principles of providing customers with great value and fresh coffee and donuts each and every day. Forty-three years after that original location was established, Tim Hortons has become a 3,000-strong restaurant chain in Canada and the U.S. with a dedicated and community-minded store owner base serving millions of customers.

Though the size and reach of our company has changed over the past four decades, our commitment to those founding principles has not wavered and Tim Hortons first year as a public company – after an initial public offering and the full spin-off from Wendy's International in 2006 – was a successful one.

For the fiscal year ended December 31, 2006, total revenues were \$1.7 billion, up 12%, from 2005. Operating income was \$379.2 million, compared to \$290.0 million for the same period in 2005 and net income was \$259.6 million, compared to \$191.1 million last year. Reported diluted earnings per share (EPS)



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were \$1.40, compared to \$1.19 in 2005. The 2005 results reflect the impact of a writedown in goodwill and asset impairment. This writedown and impairment reduced 2005 operating income by \$53.1 million and net income by \$33.5 million (after-tax).

The revenue growth was driven by multiple factors, including the introduction of exciting new products in both lunch and breakfast and a strong promotional calendar throughout the year. New products included our hot breakfast sandwich, delicious wraps at lunch, and an expansion of our hot and cold coffee-based beverages. This innovation helped

Financial Highlights

(\$ millions except share information)

	2006	2005*
Revenue	\$1659.5	\$1482.0
Operating income	\$379.2	\$290.0
Net income	\$259.6	\$191.1
EPS	\$1.40	\$1.19
Shares outstanding** (millions)	185.4	160.0

* The 2005 results reflect the impact of a writedown in goodwill and asset impairment. This writedown and impairment reduced 2005 operating income by \$53.1 million and net income by \$33.5 million (after-tax).

** The increase in the weighted average fully diluted shares is primarily a result of the Company's IPO in March, 2006.



The most important objectives every day are to provide great service and continue to deliver innovative and great tasting food and beverages at reasonable prices to our customers.

drive strong same-store sales growth in both Canada and the U.S., with each region up 7.5% and 8.9%, respectively. We also grew the size of our chain with the addition of 197 new stores in 2006. Among these new stores was the opening of our 3,000th restaurant in Orchard Park, New York, after first entering the U.S. market in Western New York in 1984.

Operating income also improved in 2006. This was driven by strong same-store sales growth in Canada and the U.S., as well as a \$53.1 million goodwill and asset impairment charge taken in 2005 related to our 2004 New England acquisition. Year-over-year improvements in operating income also occurred despite the cost and complexity associated with Tim Hortons transitioning from a wholly-owned subsidiary of Wendy's into a separate public company. For a more detailed analysis and a comprehensive overview of the Company's financial results, we encourage you to review our Annual Report on Form 10-K, which has been mailed to all shareholders (included herein), and is also available at www.timhortons.com, www.sec.gov and www.sedar.com.



In conjunction with our strong results in 2006, we further enhanced shareholder value. This included a quarterly dividend of \$0.07 starting in just our second-quarter as a public company, and the initiation of a \$200 million stock repurchase program extending to September, 2007.

As we head into 2007, we have established growth and profitability targets that support our belief that Tim Hortons can continue to deliver steady, profitable growth into 2007, and can continue to build upon the financial success we had in our first year as a public company.

We are maintaining our long-term same-store sales growth targets of 4% to 5% in Canada and 6% to 7% in the U.S. We are targeting 120 to 140 new restaurants in Canada and 60 to 80 new restaurants in the U.S. In terms of profitability, we are targeting 10% operating income growth compared to 2006. We feel the company is well-positioned to meet these targets in 2007.

While these are important financial targets for the Company, Tim Hortons and its store owners believe their most important objectives every day are to provide great service and continue to provide our customers with innovative and great tasting food and beverages at a reasonable price. Though 2006 was our first year as a public company, our store owners and our employees have been part of their communities for over 43 years. I want to sincerely thank and congratulate all of our store owners and employees – past and present – for their contribution to building what has become an iconic brand in Canada and a growing operation



Executive Officers *(from left to right)*

Donald B. Schroeder
Executive Vice President of Administration

David F. Clanachan
Executive Vice President of Training, Operations Standards and Research & Development/Quality Assurance

Paul D. House
Chairman, President and Chief Executive Officer

William A. Moir
Executive Vice President of Marketing

Cynthia J. Devine
Executive Vice President and Chief Financial Officer

Roland M. Walton
Executive Vice President of Operations



in the U.S. I also want to thank the millions of customers who visit our restaurants each and every day. With many of them, we enjoy a loyalty that we believe is perhaps second to none in the restaurant industry. We are deeply appreciative of the loyalty they have to Tim Hortons and I want to assure you we will always strive to maintain their trust every day.

Respectfully,

A handwritten signature in black ink, which appears to read "Paul D. House".

Paul House *Chairman, President and Chief Executive Officer*

1964

The very **first Tim Hortons store opens** on Ottawa Street in Hamilton, Ontario in May.



1967

Ron Joyce, franchisee of Store #1, **becomes a full partner with Tim Horton**, a legend in the National Hockey League.



1975

Ron Joyce opens the first **Tim Horton Children's Foundation Camp** in Parry Sound, Ontario in Tim's honour. The Foundation provides an all expense paid camping adventure for children from economically disadvantaged homes.



1991

Store #500 opens in Aylmer, Quebec.



1995

Tim Hortons is purchased by Wendy's International Inc., and operates as a separate subsidiary.



1997

Store #1500 opens in Pickerington, Ohio.



1998

Tim's Own sandwiches are introduced.

2004

Tim Hortons celebrates its **40th anniversary**.





1974

In February, **Tim Horton** dies in a tragic car accident.



1976

The popular **Timbit**, a bite-sized treat, is introduced.



1984

The first **U.S. store** opens in Tonawanda, New York.



1995

Store #1000 opens in Ancaster, Ontario.



1996

Bagels are introduced.



2000

Store #2000 opens in downtown Toronto, Ontario.



2002

Tim Horton Onondaga Farms opens in June. This is the Foundation's sixth camp.

2006

In March, Tim Hortons completes an initial public offering, and is fully spun off as a separate company as of September 29. **Tim Hortons** trades on the NYSE and TSX under the symbol **THI**.



2006

Store #3000 opens in Orchard Park, New York.



a major part of your community

Tim Hortons commitment has always been to children and giving back to the communities where we operate.

Together, Making Good Things Happen

Whether it's within one community, right across the chain, or even abroad, Tim Hortons commitment has always been to children and giving back to the communities where we operate.

The **Timbits Minor Sports Program** started small back in 1990. Today, over 140,000 children – aged 4 to 8 – play hockey, soccer, and more in Timbits leagues across Canada and in the U.S. The program's first goal is having fun.

Family time is important too. Tim Hortons store owners sponsor **Free Holiday Skating** and **Free Summer Swims** in hundreds of communities every year.

As a unique way to give back to local charities, many Tim Hortons stores participate in the **Smile Cookie** program. Customers can purchase a special smiling cookie for a limited time, with all funds donated to a designated community charity. Smile Cookie sales raised over \$1.1 million in 2006.

In an effort to keep our communities clean, Tim Hortons sponsors **Community Clean-Ups** across Canada. Also, through the Tim Hortons' **Earn-a-Bike** program, 10 to 14 year-olds team up with community partners to help clean up their local streets, parks and schools. Each participant is rewarded with their very own mountain bike.



Tim Hortons is proud to support local initiatives that make a difference.

On a systemwide basis, every year on **Camp Day**, all coffee sales of our franchised and corporate stores are donated to the Tim Horton Children's Foundation. In 2006, \$7.2 million was raised to help send even more children on a camping adventure of a lifetime.

In 2005, Tim Hortons initiated a **Sustainable Coffee Program** that now extends to 1,800 farmers and their families in Central and South America. This program provides small coffee farmers with the support and training they need to be successful, works to improve social conditions and emphasizes the need to respect and protect the environment for future generations.





a brighter future

The Tim Horton Children's Foundation is dedicated to fostering within our children the quest for a brighter future.



Tim Horton Children's Foundation

Established in 1974, the Tim Horton Children's Foundation provides enriched and memorable camp experiences for children from economically-disadvantaged homes. Since then, thousands of deserving children have been invited to attend a camping adventure, designed to provide them with confidence in their abilities, pride in their accomplishments, and a positive view of their true potential for the future.

Children living in economically-disadvantaged circumstances are prone to ever-increasing negative influences on a daily basis, and often have little opportunity to access experiences that can enhance their positive self-image and outlook. Camp can be the start of something big in the life of a deserving child, creating a ripple effect on their home communities as they return from camp with new-found strengths and the confidence that if they try, they can succeed.

Tim Hortons store owners and employees, donors and volunteers come together every year to raise funds and assist with the selection of deserving campers from the local communities where each Tim Hortons store is located. In 2006, the Foundation surpassed a new milestone

of serving over 11,000 deserving children through a wide variety of camp programs – each designed to instill in young people the motivation and confidence to strive for a brighter future.



The Children's Foundation

is a non-profit, charitable organization committed to providing a fun-filled camp environment for children from economically-disadvantaged homes.

Contact Info

Corporate Office (Canada)

874 Sinclair Road, Oakville, ON L6K 2Y1
Tel: 905.845.6511 Fax: 905.845.0265
timhortons.com



U.S. Office

4150 Tuller Road, Unit 236, Dublin, Ohio 43017
Tel: 614.791.4200 Fax: 614.791.4235

Customer Service

Email: customer_service@timhortons.com
Customer Service toll-free: 1.888.601.1616

Franchisee Opportunities

Canada:

timhortons.com/en/join/franchise_ca_contact.html

U.S.: timhortons.com/en/join/franchise_us.html

Nutritional Information

timhortons.com/en/menu/menu_info.html

Tim Horton Children's Foundation

RR#2, 264 Glen Morris Road E.
St. George, ON Canada N0E 1N0
Tel: 519.448.1248 Fax: 519.448.1415
timhortonchildrensfoundation.com

Investor Relations 905.845.6511

Media Relations 905.845.6511

Media Kit: timhortons.com/en/news/media_kit.html

Annual Meeting

May 4, 2007, 10:00 a.m. Eastern Time

Theatre Aquarius

190 King William Street, Hamilton, Ontario, Canada
Live webcast at timhortons.com

Transfer Agent

Computershare Investor Services, LLC
250 Royall St., Canton, MA 02021
Within U.S., Canada, Puerto Rico: 1.800.697.8078
Outside U.S. and Canada: 312.360.5497

Auditors

PricewaterhouseCoopers LLP

2007 Board of Directors

Paul D. House
Chairman, President and CEO *Tim Hortons Inc.*

The Honourable Frank Iacobucci
Lead Director *Torys LLP*

M. Shan Atkins
Managing Director *Chetrum Capital LLC*

Michael J. Endres
Partner *Stonehenge Financial Holdings*

David P. Lauer
Past President and COO *Bank One NA*

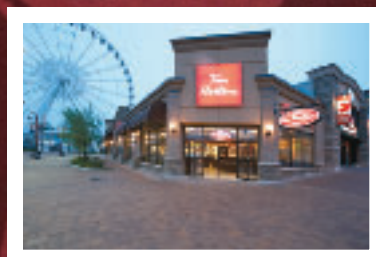
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Former President *Loblaws Companies Ltd.*

David H. Lees
President *Cardinal Health in Canada*

Craig S. Miller
Chairman, President and CEO *Ruth's Chris Steak House*

Wayne C. Sales
Vice Chairman *Canadian Tire Corporation*

Detailed biographical information on the Board of Directors is available in the Company's Proxy Statement, which has been mailed to all shareholders and is also available at www.timhortons.com, www.sec.gov, or www.sedar.com.



La Lettre aux actionnaires est disponible en français au www.timhortons.com/fr dans la section Relations avec les investisseurs.

Printed in Canada

