



Davis + Henderson

INCOME FUND

Third Quarter Report
September 30, 2002



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Davis + Henderson Income Fund

Davis + Henderson Income Fund owns 100% of the business of Davis + Henderson, Limited Partnership. The Fund commenced operations effective December 20, 2001 when it acquired a 45.4% ownership interest in Davis + Henderson, Limited Partnership. On April 2, 2002, the Fund acquired the balance of the Davis + Henderson business.

Davis + Henderson is Canada's largest provider of cheque supply and related programs for Canada's financial institutions. Davis + Henderson and its predecessors have served Canadian financial institutions and their account holders since 1875.

The Fund intends to provide unitholders with monthly distributions based upon the distributable cash flow of Davis + Henderson. The Fund's units are listed on The Toronto Stock Exchange under the symbol "DHF.UN."

Report to Unitholders

Davis + Henderson Income Fund reported increases in sales, net income and distributable cash for the three months ended September 30, 2002 as our operating business continued to generate escalating value for Canada's financial institutions and their customers.

On third quarter sales of \$56.8 million and net income of \$11.6 million, the Fund generated distributable cash of \$0.3727 per unit and announced total distributions in the quarter of \$0.3351 per unit. For an analysis of the Fund's results, please see Management's Discussion & Analysis included with this report.

In July, the Fund announced an increase in its monthly cash distributions to \$0.1117 per unit, which is equivalent to \$1.34 per unit on an annualized basis. Distributions have now been declared at this rate, which is 3% higher than the Fund's initial cash distributions, for the months of July, August and September. For the year-to-date period (December 20, 2001 to September 30, 2002), total distributable cash was \$1.0945 and total cash distributions were \$1.0276 per unit.

The third quarter and, in fact, the year-to-date have unfolded as we expected. We continue to innovate and deliver new programs, which give value to our customers and contribute to growing cash flows. Specifically, we are pleased with the recent launch of two new initiatives: our Cheque Central and Cheque Advisor programs. These advances bring a new level of convenience and efficiency to the ordering process for both our financial institution clients and their customers, while allowing us to better display and advise consumers about the full range of personalization and accessory options.

The following operating financial data presents the results for the three-month period and the year-to-date period ended September 30, 2002:

	Three months ending Sept. 30, 2002	Period to date ending Sept. 30, 2002*
(\$000s except per unit amounts, unaudited)		
Operations		
Sales	\$ 56,770	\$ 173,350
Operating income	17,877	52,819
Net income	11,640	26,842
Net income per unit	0.3070	0.7984
Distributable Cash and Distributions		
Distributable cash	\$ 14,134	\$ 34,790
Distributions, paid or payable to public unitholders	12,708	31,923
Distributable cash per unit	0.3727	1.0945
Distributions per unit	0.3351	1.0276

* Period to date ended September 30, 2002 includes the results of the nine-month period ended September 30, 2002 combined with the 12-day period December 20, 2001 to December 31, 2001.

Davis + Henderson's ongoing financial objective is to provide stable and growing distributions. Our strategy to accomplish this objective involves leveraging our long-term customer relationships to extend the value of our core cheque program and to expand those services that we offer to Canadian financial institutions. In expanding our services, we have utilized and will continue to utilize the infrastructure and capabilities of our core business. We are also developing a product and service offering for the U.S. subsidiaries of our Canadian financial institution customers as they expand into the U.S. market. We continue to invest in technology to ensure that the business maintains its cost competitiveness and its capability to grow through providing new value-added services to our customers.

Overall, our third quarter was another successful quarter. Sales, net income and distributable cash for the third quarter all met our expectations. In closing, on behalf of the management team, we would like to thank all unitholders for their continued support and confidence in us.

October 28, 2002

DAVIS + HENDERSON INCOME FUND

C. Sanford McFarlane (SIGNED)
Chief Executive Officer
Davis + Henderson G.P. Inc.

Robert Cronin (SIGNED)
President and Chief Operating Officer
Davis + Henderson G.P. Inc.

Management's Discussion and Analysis

OWNERSHIP OF DAVIS + HENDERSON, LIMITED PARTNERSHIP

Davis + Henderson Income Fund (the "Fund") commenced operations on December 20, 2001, when it completed an initial public offering ("IPO") and acquired a 45.4% indirect interest in Davis + Henderson, Limited Partnership ("Davis + Henderson L.P." or the "Company"). On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in the Company. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. and now holds 100% of the Company.

PRESENTATION OF FINANCIAL INFORMATION

Prior to December 20, 2001, the Davis + Henderson business operated as a division of MDC Corporation Inc. ("MDC"). On December 20, 2001, the business was transferred to Davis + Henderson L.P. The accompanying financial statements of the Fund present the consolidated operations of the business for the three-month period ended September 30, 2002, the third quarter, and for the nine-month and 12-day period from December 20, 2001 to September 30, 2002. References to the period ended March 31, 2002 or to the first quarter are made to results which combine the three-month period ended March 31, 2002 together with the 12-day period December 20 to 31, 2001. There is no prior period comparative financial information of the Fund, as it commenced operations on December 20, 2001.

A financial measure used in this Quarterly Report, namely "Distributable Cash," is not an earnings measure recognized by Canadian generally accepted accounting principles. Distributable Cash is determined by the Fund as net income for the period, adjusted to remove non-cash expenses including amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are eligible for funding under the Company's committed term-credit facilities. Management believes that this earnings measure is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that Distributable Cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Income Fund's method of calculating Distributable Cash may not be comparable to similarly titled amounts reported by other issuers.

OPERATING RESULTS

	Three months ended June 30, 2002	Three months ended Sept. 30, 2002	Period to date ended Sept. 30, 2002*
(\$000s except per unit amounts, unaudited)			
Operations			
Sales	\$ 56,689	\$ 56,770	\$ 173,350
Operating income	17,535	17,877	52,819
Net income	11,586	11,640	26,842
Net income per unit	0.3055	0.3070	0.7984
Distributable Cash and Distributions			
Distributable cash	\$ 13,855	\$ 14,134	\$ 34,790
Distributions, paid or payable to public unitholders	12,321	12,708	31,923
Distributable cash per unit	0.3654	0.3727	1.0945
Distributions per unit	0.3249	0.3351	1.0276

* Period to date ended September 30, 2002 includes the results of the nine-month period ended September 30, 2002 combined with the 12-day period December 20, 2001 to December 31, 2001.

Management's Discussion and Analysis

For the three-month period ended September 30, 2002, Davis + Henderson recorded sales of \$56.8 million compared to \$56.7 million for the three-month period ended June 30, 2002. In each instance, sales levels were consistent with management's expectations. Gross profit of \$25.4 million (44.7% as a percentage of sales) improved slightly over the \$25.1 million (44.2%) recorded in the second quarter as a result of improved efficiencies and product mix changes. Operating expenses in the third quarter of \$7.5 million, representing 13.2% of sales, decreased slightly as a result of specific project related expenses occurring in the second quarter and not recurring in the third quarter. Operating income for the third quarter of \$17.9 million, or 31.5% of sales, compared to \$17.5 million, or 30.9%, for the three months ended June 30, 2002. The increase in sales and gross profit as well as the decrease in operating expenses for the third quarter contributed to the net growth in operating income in the third quarter.

For the nine months ended September 30, 2002, including the 12-day period ended December 31, 2001, sales were \$173.4 million, gross profits were \$75.5 million and operating expenses were \$22.7 million for a year-to-date operating income of \$52.8 million. There is no prior period comparative financial information of the Fund, as it commenced operations on December 20, 2001.

Interest expense of \$1.2 million, recorded during the three-month period ended September 30, 2002, related entirely to the term loan of \$80 million and is consistent with that recorded in the second quarter. Year-to-date, including the 12-day period ended December 31, 2001, interest expense was \$3.5 million. During the first quarter of 2002, the Company implemented a hedging strategy, which fixed the interest rate on \$48 million of the Company's borrowings for periods ranging from two years to four years. The balance of the borrowings incur interest on a short-term, floating-rate basis.

Amortization expense in the three-month period ended September 30, 2002 of \$4.2 million was \$0.2 million higher than the second quarter. This is consistent with management's expectations as the Company continues to invest in technology to expand its revenues, capabilities and to reduce its costs. The company's year-to-date amortization expense was \$12.8 million

For the third quarter, the Company recorded \$0.3 million of current tax expense related entirely to large corporation tax. An expense for future taxes of \$0.6 million was recorded for the third quarter period and arose from the recognition of timing differences between accounting amortization and deductible claims for tax purposes. Current taxes for the third quarter were comparable with that reported in the first and second quarters. Future taxes in the third quarter increased by \$0.2 million over that recorded in the second quarter due to changes in estimates related to the timing of deductions. For the period to date ended September 30, 2002, including the 12-day period ended December 31, 2001, current and future income taxes totalled \$2.25 million

Net income for the three-month period ended September 30, 2002 was \$11.64 million as compared to \$11.59 million recorded in the second quarter. For the nine-month period ended September 30, 2002, including the 12-day period ended December 31, 2001, net income after taxes and non-controlling interest amounted to \$26.8 million (See the Supplemental Financial Information provided below for pro forma information related to the Fund's increase in its ownership of the Company).

CASH FLOW & LIQUIDITY

INITIAL PUBLIC OFFERING

The Fund completed an IPO on December 20, 2001, and sold 17.2 million units to the public for net proceeds of \$160.4 million. These proceeds, together with the \$80 million term loan provided under the Company's credit facilities, were used to purchase a 45.4% limited partnership interest in Davis + Henderson L.P. On January 10, 2002, the Fund issued an additional 1.7 million units to the public, upon the exercise of the underwriters' over-allotment option, for net proceeds to the Fund of \$16.2 million. These proceeds were used to acquire an additional limited partnership interest of 4.5% in Davis + Henderson L.P. On April 2, 2002, the Fund used net proceeds from the sale of units to the public of \$188.7 million to acquire the remaining partnership interest in Davis + Henderson L.P.

CASH FLOW FROM OPERATIONS

During the three-month period ended September 30, 2002, Davis + Henderson generated \$16.4 million in cash flow from operations, which was consistent with the previous quarter and management's expectations. Reducing the cash generated from operations was a net increase in non-cash working capital items of \$0.4 million. For the nine-month period ended September 30, 2002, including the 12-day period from December 20 to December 31, 2001, the Fund has generated \$48.5 million in cash flow from operations and a further \$7.3 million as a result of decreases in non-cash working capital items.

The Company had capital disbursements during the three-month period ended September 30, 2002 of \$2.7 million, including committed contract payments of \$0.9 million (of which \$0.6 million were recurring maintenance expenditures), \$0.1 million of disbursements related to the purchase of new printing technology and \$1.7 million related to ongoing maintenance capital, including computer hardware and software. For the nine-month period ended September 30, 2002, including the 12-day period ended December 31, 2001, the Company had capital disbursements of \$8.8 million, of which \$6.3 million is considered maintenance and \$2.5 million is considered non-maintenance. As at September 30, 2002, the Company had not drawn upon its \$18 million capital expenditure credit facility. This facility remains available to fund the historic and future non-maintenance capital items.

For the three-month period ended September 30, 2002, Davis + Henderson Income Fund recorded declared distributions of \$12.7 million. Actual cash distribution payments during the third quarter were \$12.6 million. Consolidated cash and cash equivalents as at September 30, 2002 increased \$0.7 million from the second quarter ended June 30, 2002 to \$11.9 million.

Cash flow from operations together with cash balances on hand and unutilized term credit facilities are expected to be sufficient to fund the Company's operating requirements, capital expenditures and anticipated distributions.

Management's Discussion and Analysis

SUPPLEMENTARY FINANCIAL INFORMATION

The following information has been prepared on a pro forma basis as if the Davis + Henderson business was 100% owned by Davis + Henderson Income Fund since December 20, 2001 (as compared to 45.4% and 49.9% ownership for the period ended December 31, 2001, and March 31, 2002, respectively). The pro forma balances presented for the 12-day period ended December 31, 2001 and for the three-month period ended March 31, 2002 are based on the actual statements of the Fund adjusted to remove the expense related to distributions paid to the non-controlling owner and to increase the number of units outstanding to 37,920,792 as at December 20, 2001 (versus the 17,235,000 units outstanding from December 20, 2001 to January 9, 2002, 18,955,000 units outstanding from January 10, 2002 to April 1, 2002, and 37,920,792 units outstanding since April 2, 2002).

(\$000s except per unit amounts, unaudited)	Three months ended Sept. 30, 2002 (reported)	Dec. 20, 2001 to Sept. 30, 2002 (pro forma)
Sales	\$ 56,770	\$ 173,350
Operating income	17,877	52,819
Net income	11,640	34,274
Add: Non-cash items	4,802	14,259
Less: Maintenance capital expenditures	2,308	6,311
Distributable cash	\$ 14,134	\$ 42,222
Distributable cash per unit	\$ 0.3727	\$ 1.1134
Distributions per unit	\$ 0.3351	\$ 1.0276
Net income per unit, basic and fully diluted	\$ 0.3070	\$ 0.9038

OUTLOOK

Based on Davis + Henderson L.P.'s targeted objectives of 3% to 5% sales growth and maintenance of current operating margins, the Fund's objective is to modestly grow distributions to unitholders. On July 22, 2002, the Fund announced that its distributions would be increased from \$0.1083 per month (equivalent to \$1.30 per annum) to \$0.1117 per month (equivalent to \$1.34 per annum). The Fund continued to declare monthly distributions at the annualized rate of \$1.34 for the months of August and September.

Certain information included in this report is forward looking and based upon assumptions and anticipated results that are subject to risks and uncertainties associated with Davis + Henderson L.P.'s business and the economic environment in which the business operates. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. Risks and uncertainties are discussed in detail in the Fund's Annual Information Form dated April 15, 2002.

Consolidated Balance Sheet

(in thousands of Canadian dollars, unaudited)

As at Sept. 30, 2002

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 11,876
Accounts receivable	8,231
Inventory	6,953
Prepaid expenses	591
	27,651
Future income taxes (note 3)	19,315
Capital assets (note 4)	26,329
Other assets (note 5)	14,867
Intangible assets (note 6)	14,504
Goodwill	377,861
	\$ 480,527
LIABILITIES AND UNITHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable and accrued liabilities	\$ 26,395
Current portion of disbursement obligations on customer contracts	5,438
Distributions payable to unitholders	4,236
	36,069
Disbursement obligations on customer contracts (note 7)	4,154
Long-term indebtedness (note 8)	80,000
	120,223
Unitholders' equity	360,304
	\$ 480,527

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Income and Unitholders' Equity

(in thousands of Canadian dollars except per unit amounts, unaudited)

For the period	Three months ended Sept. 30, 2002	Dec. 20, 2001 to Sept. 30, 2002
Sales	\$ 56,770	\$ 173,350
Cost of goods sold	31,408	97,816
Gross profit	25,362	75,534
Operating expenses	7,485	22,715
Operating income	17,877	52,819
Interest expense	1,183	3,513
Amortization expense	4,186	12,785
Income before income taxes and non-controlling interests	12,508	36,521
Income taxes (note 3):		
Current	252	773
Future	616	1,474
	868	2,247
Income before non-controlling interests	11,640	34,274
Non-controlling interests (note 1)	—	7,432
Net income for the period	11,640	26,842
Unitholders' equity, beginning of period	361,372	—
Net proceeds from issuance of trust units (note 9)	—	365,385
Distributions paid and accrued to unitholders (notes 10 & 11)	(12,708)	(31,923)
Unitholders' equity, end of year	\$ 360,304	\$ 360,304
Net income per trust unit, Basic and fully diluted	\$ 0.3070	\$ 0.7984
Distributions per trust unit, Basic and fully diluted	\$ 0.3351	\$ 1.0276

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(in thousands of Canadian dollars, unaudited)

For the period	Three months ended Sept. 30, 2002	Dec. 20, 2001 to Sept. 30, 2002
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income	\$ 11,640	\$ 26,842
Add:		
Amortization expense	4,186	12,785
Non-controlling interests	—	7,432
Future income taxes	616	1,474
Cash flow from operations	16,442	48,533
Changes in non-cash working capital items	(447)	7,332
	15,995	55,865
FINANCING ACTIVITIES		
Gross proceeds from issuance of trust units	—	388,691
Issuance costs	—	(23,306)
Proceeds from long-term indebtedness	—	80,000
Distributions paid to public unitholders	(12,579)	(27,687)
Distributions paid to non-controlling interests	—	(7,432)
	(12,579)	410,266
INVESTING ACTIVITIES		
Expenditures on capital and other assets	(2,743)	(8,821)
Acquisition of business (note 2)	—	(445,434)
	(2,743)	(454,255)
Increase in cash and cash equivalents for the period	673	11,876
Cash and cash equivalents, beginning of period	11,203	—
Cash and cash equivalents, end of period	\$ 11,876	\$ 11,876
Supplemental information:		
Cash paid for interest	\$ 827	\$ 3,657
Cash paid for income taxes	\$ 250	\$ 622

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

NATURE OF BUSINESS

Davis + Henderson Income Fund (the "Fund") is a limited purpose trust, formed under the laws of the Province of Ontario by declaration of trust dated November 6, 2001. The Fund was formed to indirectly acquire the partnership units of Davis + Henderson, Limited Partnership ("Davis + Henderson L.P." or the "Company").

Davis + Henderson L.P. is engaged primarily in the cheque supply outsourcing business for financial institutions in Canada. The Company commenced operations on December 20, 2001, when it acquired the Davis + Henderson business. Simultaneously on December 20, 2001, the Fund completed an initial public offering and acquired a 45.4% interest in Davis + Henderson L.P. On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in the Company. On April 2, 2002, the Fund acquired the remaining 50.1% of Davis + Henderson L.P. and now holds 100% of the business.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared following accounting policies generally accepted in Canada. The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and sales and expenses during the reporting period. Actual results could differ from these estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries, D + H Holdings Corp. ("D + H Holdings"), Davis + Henderson G.P. Inc., and Davis + Henderson L.P. All intercompany transactions and accounts have been eliminated upon consolidation.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, disbursement obligations on customer contracts, interest-rate swaps and long-term indebtedness.

CREDIT RISK The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, accounts receivable and interest-rate swaps. The Fund, in its normal course of business, is exposed to credit risk from the customers of the Company. The Company is exposed to credit loss in the event of non-performance by counterparties to the interest-rate swaps but does not anticipate non-performance by these counterparties. Concentrations of credit risk with respect to accounts receivable are limited due to the credit rating of customers serviced by the Company and the generally short payment terms.

FAIR VALUE The fair value of indebtedness that bears interest at fixed rates is based on discounted future cash flows using rates currently available for debt of similar terms and maturities. The carrying value of other financial instruments, cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and disbursement obligations on customer contracts approximates fair value due to their short-term maturities. Unrealized gains or losses on hedging instruments are not recognized in the statement of operations until completion of the hedged transaction.

CASH AND CASH EQUIVALENTS

All temporary cash investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

The Fund maintains its cash in bank deposit accounts or investments in amounts that exceed federally insured limits. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

INVENTORY

Inventory is stated at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is provided annually at rates calculated to write off the assets over their estimated useful lives as follows:

Computer, furniture, and fixtures	10% to 30% declining balance
Machinery and equipment	10% to 20% declining balance
Leasehold improvements	straight-line over term of the lease

DEFERRED CHARGES

The Company capitalizes direct costs related to the development of new products and services until the commencement of commercial operation, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

Payments associated with certain major customer contracts are amortized over the term of the related long-term supply contracts.

GOODWILL

Goodwill reflects the price paid for the Davis + Henderson business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the recommendations of the CICA Handbook Section 3062, goodwill is not amortized but will be tested for impairment annually.

INTANGIBLE ASSETS

Intangible assets represent the fair market value of rights related to the cheque supply outsourcing contracts obtained by the Fund upon the acquisition of the Davis + Henderson business. Intangible assets are amortized over seven years. The carrying value of the intangible assets will be tested for impairment annually.

REVENUE RECOGNITION

Revenue is recognized when the service is completed and/or the product is shipped.

NON-CONTROLLING INTERESTS

MDC Corporation Inc.'s interest during the first quarter in Davis + Henderson L.P. has been recorded in the accompanying financial statements as a non-controlling interest, and amounts equal to its distribution entitlement have been expensed.

NET INCOME PER TRUST UNIT

Consistent with the manner in which distributions are paid, net income per trust unit is calculated monthly based on the number of trust units outstanding on each record date. Net income per trust unit presented is the sum of the monthly earnings per trust unit for the reporting period.

FOREIGN CURRENCY TRANSLATION

Foreign currency assets and liabilities carried at current prices are translated into Canadian dollars using the rate of exchange in effect at the period end. Other foreign currency assets and liabilities are translated using the rates of exchange in effect at the dates of the transaction. Revenue and expense items are translated at the average monthly rate of exchange for the period, except for amortization of capital and other assets, which are translated at the historical rates of the related assets.

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

FUTURE INCOME TAXES

Future income taxes of the Fund's subsidiary are determined using the liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

2. ACQUISITION

Effective December 20, 2001, the Fund acquired a 45.4% interest in Davis + Henderson L.P. An over-allotment option was exercised by the Fund's underwriters effective January 10, 2002, and an additional 4.5% interest in the Company was acquired by the Fund. On April 2, 2002, the Fund issued an additional 18,965,792 trust units for net proceeds of \$188.7 million after deducting expenses and underwriters' fees in the amount of \$10.4 million. The Fund, with the net proceeds, acquired indirectly the balance of the partnership units of Davis + Henderson L.P. As a result of these transactions, effective April 2, 2002, the Fund owned indirectly 100% of the outstanding partnership units of Davis + Henderson L.P. The acquisitions of partnership units were accounted for by the purchase method of accounting, and the results of the partnership were consolidated from the date of the initial acquisition of December 20, 2001. The assets acquired and consideration given were as follows:

For the period	Dec. 20, 2001 to Sept. 30, 2002
Assets acquired, at fair value:	
Assets, gross	\$ 81,730
Liabilities, gross	114,995
Net assets acquired, at fair value	(33,265)
Future income tax assets acquired	20,789
Goodwill	377,861
Total	\$ 365,385
Consideration:	
Cash	\$ 365,385

3. INCOME TAXES

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for the Fund's subsidiary, D + H Holdings, as this subsidiary is subject to tax, including large corporation taxes.

The provision for income taxes in the consolidated statement of income and unitholders' equity represents an effective rate different from the Canadian statutory rate of 38.10%. The differences are as follows:

For the period	Dec. 20, 2001 to Sept. 30, 2002
Net income before income taxes and non-controlling interests	\$ 36,521
Net income of the Fund subject to tax in the hands of recipient	31,170
Net income of subsidiary company	5,351
Canadian statutory rate	38.10%
Income taxes at statutory rate	2,039
Increase (decrease) resulting from:	
Manufacturing and processing tax credit	(155)
Large corporation tax	774
Net tax effect of expenses that are deductible for income tax purposes	(411)
Income tax expense, current and future	\$ 2,247

The tax effect of temporary differences of the Fund's subsidiaries that give rise to significant portions of the future income tax assets as at September 30, 2002 are presented below:

	Sept. 30, 2002
Future income tax assets:	
Future income tax assets from acquisition of business	\$ 16,602
Capital assets	2,713
	\$ 19,315

4. CAPITAL ASSETS

	Sept. 30, 2002		
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	\$ 18,067	\$ 4,055	\$ 14,012
Machinery and equipment	10,298	984	9,314
Leasehold improvements	3,635	632	3,003
	\$ 32,000	\$ 5,671	\$ 26,329

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

5. OTHER ASSETS

	Sept. 30, 2002		
	Cost	Accumulated amortization	Net
Long-term supply contracts	\$ 17,272	\$ 3,982	\$ 13,290
Deferred charges and other	2,946	1,369	1,577
	\$ 20,218	\$ 5,351	\$ 14,867

6. INTANGIBLE ASSETS

	Sept. 30, 2002		
	Cost	Accumulated amortization	Net
Intangible assets	\$ 16,328	\$ 1,824	\$ 14,504

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	Sept. 30, 2002	
Current portion	\$	5,438
Long-term portion		4,154
Total disbursement obligations on customer contracts	\$	9,592

Davis + Henderson L.P. has customer contract disbursement obligations payable as of September 30, 2002 as follows, for the year ended:

December 31, 2002	\$	2,729
December 31, 2003		3,354
December 31, 2004		2,384
December 31, 2005		1,125
	\$	9,592

8. LONG-TERM INDEBTEDNESS

The Company has a \$108 million credit facility of which \$98 million is a non-amortizing term facility due December 20, 2004 and the balance of \$10 million is a revolving facility maturing December 19, 2002. As at September 30, 2002, the Company had drawn \$80 million of the term facility and \$nil under the revolver. The facility bears interest at rates which depend on certain financial ratios of the Company and vary in accordance with borrowing rates in Canada and the United States. The credit facility, including any hedge contracts with the lenders, is secured in first priority by a pledge of substantially all of the Company's assets and by a pledge of the Fund's indirect ownership interests in the Company.

As of September 30, 2002, the Company has entered into interest-rate swap hedge contracts with one of its lenders, such that the borrowing rates on \$48 million of its term indebtedness are effectively fixed at interest rates of between 6.12% and 7.33% per annum for terms ending between March 15, 2004 and March 27, 2006. On December 15, 2004, either party has the option to terminate any swaps outstanding as at that date. The balance of the term indebtedness is subject to interest on a floating-rate basis. As of September 30, 2002, the fair value of outstanding interest rate swaps was approximately \$1.3 million that the Company would be required to pay if it were to close out the contracts.

9. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Trust unit transactions during the period were as follows:

	Number of units	Gross proceeds	Issuance costs	Net proceeds
Initial issuance of trust units	17,235,000	\$ 172,350	\$ 11,910	\$ 160,440
Units issued January 10, 2002	1,720,000	17,200	989	16,211
Units issued April 2, 2002	18,965,792	199,141	10,407	188,734
	37,920,792	\$ 388,691	\$ 23,306	\$ 365,385

10. DISTRIBUTABLE CASH

The Fund distributes all of its distributable cash each month excluding any reserve deemed prudent by the trustees of the Fund and by the Board of Directors of Davis + Henderson G.P. Inc. Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period, adjusted to remove non-cash expenses including amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are eligible for funding under the Company's committed term-credit facilities. Distributable cash for the period ended September 30, 2002 was calculated as follows:

	Three months ended Sept. 30, 2002	Dec. 20, 2001 to Sept. 30, 2002
For the period		
Net income	\$ 11,640	\$ 26,842
Add:		
Amortization	4,186	12,785
Non-controlling interests	—	7,432
Future income taxes	616	1,474
	16,442	48,533
Less:		
Distributions to non-controlling interests	—	7,432
Maintenance capital expenditures:		
Capital and other assets	1,683	3,811
Contract payments	625	2,500
Distributable cash	\$ 14,134	\$ 34,790
Distributions, paid or payable	\$ 12,708	\$ 31,923
Distributable cash per unit	\$ 0.3727	\$ 1.0945
Distributions per unit	\$ 0.3351	\$ 1.0276

Notes to Consolidated Financial Statements

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

11. DISTRIBUTIONS TO UNITHOLDERS

The Fund announced distributions during the period December 20, 2001 to September 30, 2002 as follows:

Unitholder record date	Total	Per unit	Paid or payable
December 31, 2001 (12 days)	\$ 735	\$ 0.0427	Jan. 31, 2002
January 31, 2002	2,053	0.1083	Feb. 28, 2002
February 28, 2002	2,053	0.1083	Mar. 28, 2002
March 28, 2002	2,053	0.1083	Apr. 30, 2002
April 30, 2002	4,107	0.1083	May 31, 2002
May 31, 2002	4,107	0.1083	June 28, 2002
June 28, 2002	4,107	0.1083	July 31, 2002
July 31, 2002	4,236	0.1117	Aug. 30, 2002
August 30, 2002	4,236	0.1117	Sept. 30, 2002
September 30, 2002	4,236	0.1117	Oct. 31, 2002
Total distributions for the period	\$ 31,923	\$ 1.0276	

The distributions declared have been estimated as follows for income tax purposes for the period December 20, 2001 to September 30, 2002. The actual tax allocations may differ from the amounts shown:

	Amount	Amount per unit	Percent
Dividend income	\$ 6,416	\$ 0.2061	20.1%
Interest income	22,123	0.7121	69.3%
Return of capital	3,384	0.1094	10.6%
Total distributions for the period	\$ 31,923	\$ 1.0276	100.0%

Return of capital represents issuance costs incurred by the Fund, which are deductible for tax purposes on a straight-line basis over five years.

12. COMMITMENTS

As of September 30, 2002, the Company has lease obligations with respect to real estate, vehicles and equipment as follows for the year ended:

December 31, 2002	\$	802
December 31, 2003		3,088
December 31, 2004		2,857
December 31, 2005		2,307
December 31, 2006		1,161
Thereafter		1,614
	\$	11,829

13. SIGNIFICANT CUSTOMERS

Distributions by the Fund are dependent upon receipt of cash flow distributed from the operating entity, Davis + Henderson L.P. In turn, Davis + Henderson L.P.'s cash flow is dependent upon, among other things, providing services to financial institutions and their account holders. Services and products provided by the Davis + Henderson business to its five largest customers accounted for approximately 66% of its 2001 sales.

Supplementary Information

(in thousands of Canadian dollars except unit and per unit amounts, unaudited)

PRO FORMA FINANCIAL INFORMATION – DISTRIBUTABLE CASH BY PERIOD

(see note 1 below)

	Twelve days ended Dec. 31, 2001 (pro forma)	Three months ended March 31, 2002 (pro forma)	Three months ended June 30, 2002 (reported)	Three months ended Sept. 30, 2002 (reported)	Dec. 20 2001 to Sept. 30, 2002 (pro forma)
Sales	\$ 4,029	\$ 55,862	\$ 56,689	\$ 56,770	\$ 173,350
Cost of goods sold	2,590	32,189	31,629	31,408	97,816
Operating expenses	702	7,003	7,525	7,485	22,715
Operating income	737	16,670	17,535	17,877	52,819
Interest expense	124	994	1,212	1,183	3,513
Amortization and income taxes	608	4,633	4,737	5,054	15,032
Net income for the period	5	11,043	11,586	11,640	34,274
Add:					
Amortization	591	3,961	4,047	4,186	12,785
Future income taxes	—	421	437	616	1,474
	596	15,425	16,070	16,442	48,533
Less:					
Maintenance capital expenditures:					
Capital and other assets	50	488	1,590	1,683	3,811
Contract payments	—	1,250	625	625	2,500
Distributable cash (note 2)	\$ 546	\$ 13,687	\$ 13,855	\$ 14,134	\$ 42,222
Distributable cash per unit	\$ 0.0144	\$ 0.3609	\$ 0.3654	\$ 0.3727	\$ 1.1134
Distributions per unit	\$ 0.0427	\$ 0.3249	\$ 0.3249	\$ 0.3351	\$ 1.0276
Earnings per unit, basic and fully diluted	\$ 0.0001	\$ 0.2912	\$ 0.3055	\$ 0.3070	\$ 0.9038

Note 1: The above information has been prepared on a pro forma basis as if the Davis + Henderson business was 100% owned by Davis + Henderson Income Fund since December 20, 2001 (as compared to 45.4% and 49.9% ownership for the period ending December 31, 2001, and March 31, 2002, respectively). The pro forma balances presented for the 12-day period ending December 31, 2001 and for the three-month period ending March 31, 2002 are based on the actual statements of the Fund adjusted to remove the expense related to distributions paid to the non-controlling owner and to increase the number of units outstanding to 37,920,792 as at December 20, 2001 (versus the 17,235,000 units outstanding from December 20, 2001 to January 9, 2002, 18,955,000 units outstanding from January 10, 2002 to April 1, 2002, and 37,920,792 units outstanding from April 2, 2002 to September 30, 2002).

Note 2: Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as net income for the period adjusted to remove non-cash expenses including amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are eligible for funding under the Company's committed term-credit facilities.

CONDENSED BALANCE SHEET

	Dec. 31, 2001	March 31, 2002	June 30, 2002	Sept. 30, 2002
Cash and cash equivalents	\$ 8,730	\$ 8,429	\$ 11,203	\$ 11,876
Other current assets	15,972	17,256	14,749	15,775
Future income taxes	20,789	20,368	19,931	19,315
Capital and other assets	45,175	43,853	42,981	41,196
Goodwill and other intangible assets	188,124	204,387	392,948	392,365
	\$ 278,790	\$ 294,293	\$ 481,812	\$ 480,527
Distributions payable and other current liabilities	\$ 28,142	\$ 29,578	\$ 29,923	\$ 30,631
Disbursement obligations on customer contracts	11,867	11,342	10,517	9,592
Long-term indebtedness	80,000	80,000	80,000	80,000
Unitholders' equity	158,781	173,373	361,372	360,304
	\$ 278,790	\$ 294,293	\$ 481,812	\$ 480,527

OTHER STATISTICS

	Twelve days ended Dec. 31, 2001	Three months ended March 31, 2002	Three months ended June 30, 2002	Three months ended Sept. 30, 2002
Closing price of units (TSX: "DHF.UN")	\$ 10.64	\$ 10.51	\$ 10.95	\$ 12.10
Average daily volume (000s)	266	149	176	165
Number of units outstanding at period end (000s)	17,235	18,955	37,921	37,921
Market capitalization at period end	\$ 183,380	\$ 199,217	\$ 415,233	\$ 458,842

Davis + Henderson Income Fund

DIRECTORS, TRUSTEES AND OFFICERS:

Paul Damp ⁽¹⁾⁽²⁾

Chairman, Director and Trustee
Managing Partner, Kestrel Capital

Allan Gottlieb ⁽²⁾

Director and Trustee
Chairman, Sotheby's Canada

Brad Nullmeyer ⁽¹⁾

Director and Trustee
President and CEO, A&A Capital

Helen K. Sinclair ⁽²⁾

Director
CEO, BankWorks Trading Inc.

Gordon J. Feeney ⁽¹⁾

Director
Corporate Director

C. Sanford McFarlane

Director and Officer
*Chief Executive Officer,
Davis + Henderson, Limited Partnership*

Robert Cronin

Director and Officer
*President and Chief Operating Officer,
Davis + Henderson, Limited Partnership*

Catherine Martin

Officer
*Chief Financial Officer,
Davis + Henderson, Limited Partnership*

AUDITORS:

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TRANSFER AGENT:

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(1) Member, Audit Committee (Chairperson is Gordon J. Feeney)

(2) Member, Compensation and Corporate Governance Committee (Chairperson is Helen K. Sinclair)



Davis + Henderson

INCOME FUND

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