



Q1

Quarterly Report
Quarter Ended March 31, 2003



Davis + Henderson
Income Fund



Davis + Henderson Income Fund

Davis + Henderson Income Fund owns 100% of the business of Davis + Henderson, Limited Partnership.

Davis + Henderson and its predecessors have been serving Canadian financial institutions and their account holders since 1875. Through an integrated service offering, Davis + Henderson is the market leading company in Canada assisting financial institutions with the operation of their cheque supply programs.

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 continued to make solid progress during the opening quarter of 2003 as the benefits of our product launches last fall, coupled with ongoing consumer migration to more efficient and effective ordering solutions, allowed us to generate steady year-over-year growth for unitholders in the Fund.

For a full report on the three months ended March 31, 2003 and the comparative period of 2002, please see our MD&A. Highlights of the quarter include:

- Operating cash flow increased to \$16.8 million from \$15.4 million* in 2002.
- Net income per unit increased to \$0.3119 per unit from \$0.2396* per unit.
- Distributions increased 3% to \$0.3351 for the quarter compared with \$0.3249* per unit in 2002.

** Period ended March 31, 2002 excludes the twelve-day period December 20, 2001 to December 31, 2001.*

Since the Fund's initial public offering in December 2001, distributions per unit have moved from the annualized equivalent of \$1.30 to \$1.34 in July 2002 and to \$1.36 per unit in April 2003. These increases have been made possible by the very solid performance of the business.

Davis + Henderson grows by delivering valued products and services to its customers, Canada's financial institutions. We continue to modify our programs to improve the offering financial institutions provide to their customers. Examples include our deposit programs for small business and enhanced services helping individuals when they open new accounts. Importantly, we are also increasing our capability to support consumers ordering directly from us. This change improves the convenience for the consumer, saves costs for our customers and provides broader knowledge to the consumer about the range of products we offer. We will continue to invest in improving our ability to offer customer contact services as part of our extended services.

Overall, as we look ahead to the second quarter and remainder of 2003, we remain confident of the sustainability and stability of our business. We also look forward to delivering new programs to better serve our customers and unitholders – both inside and outside our core cheque supply programs.

April 30, 2003

Davis + Henderson Income Fund

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

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

The Management's Discussion and Analysis ("MD&A") for the first quarter of 2003 should be read in conjunction with the MD&A in the Fund's Annual Report for the year ended December 31, 2002 and the attached interim unaudited consolidated financial statements. External economic and industry factors remain substantially unchanged, unless otherwise stated.

OPERATING RESULTS

Quarter Ended March 31, 2003 Compared to Quarter Ended March 31, 2002

The first quarter results in 2002 included the twelve-day period from December 20, 2001 to December 31, 2001. For comparative purposes, the table and the discussion below have removed this twelve-day period.

(in thousands of Canadian dollars)	Three months and twelve days ended March 31, 2002	Twelve days ended December 31, 2001	Three months ended March 31, 2002	Three months ended March 31, 2003
Sales	\$ 59,891	\$ 4,029	\$ 55,862	\$ 62,067
Cost of goods sold	34,779	2,590	32,189	36,023
Gross profit	25,112	1,439	23,673	26,044
	41.9%	35.7%	42.4%	42.0%
Operating expenses	7,705	702	7,003	7,842
	12.9%	17.4%	12.5%	12.6%
Operating income	17,407	737	16,670	18,202
	29.1%	18.3%	29.8%	29.3%
Interest expense	1,118	124	994	1,151
Amortization	4,552	591	3,961	4,154
Income tax	689	17	672	1,069
Non-controlling interest	7,432	931	6,501	—
Net income for the period	\$ 3,616	\$ (926)	\$ 4,542	\$ 11,828
Net income per unit, basic and fully diluted	\$ 0.1859	\$ (0.0537)	\$ 0.2396	\$ 0.3119

For the three-month period ended March 31, 2003, the Company recorded sales of \$62.1 million, an increase of \$6.2 million, or 11.1%, over the prior year's first quarter sales of \$55.9 million. This increase was attributed to increases in the value of orders received. The growth in order values was primarily related to the launch of new products in the fall of 2002 and an increase in the number of orders received directly by the Company from consumers. The Company's experience indicates that when consumers order directly from the Company rather than through the branch of their financial institution, they are more aware of product choices and choose additional products and premium features. Also contributing to the increase in sales was a change in the structure of one of the Company's customer contracts which, for the first quarter of 2003, increased sales and cost of sales with minimal impact on gross profit.

For the three-month period ended March 31, 2003, gross profit of \$26.0 million increased \$2.4 million, or 10.0%, from the prior year's first quarter and reflected the increase in sales described above. Gross profit margin of 42% for the quarter ended March 31, 2003 was consistent with the same quarter in the prior year.

Operating expenses of \$7.8 million for the three-month period ended March 31, 2003, increased from the prior year's first quarter by \$0.8 million, or 12.0%. Expenses in the first quarter of 2002 were less than the current level as the Company, through calendar 2002, increased spending in the area of information technology and incurred increased costs associated with being a public company. Increased information technology spend was primarily related to activities associated with its on-line web-based ordering platform called *ChequeCentral*.

Operating income of \$18.2 million during the three-month period ended March 31, 2003 increased \$1.5 million, or 9.2%, over the prior year's first quarter, due largely to the current year's increase in sales as mentioned above.

Amortization of \$4.2 million for the three-month period ended March 31, 2003, increased \$0.2 million, or 4.9%. The increase was a result of significant investments made through 2002 in digital printing technology, investment in the development of the *ChequeCentral* cheque ordering application.

Interest expense of \$1.2 million for the three-month period ended March 31, 2003, increased \$0.2 million from the previous year's period. This expense, which relates to the term loan facility, increased as a result of the Company implementing a hedging program during quarter one of last year fixing interest rates on 60% of its debt for periods ranging from 2 to 4 years.

Income tax expense of \$1.1 million increased \$0.4 million for the three-month period ended March 31, 2003 when compared to the prior year's quarter. The increase, which all relates to future income taxes, resulted from higher net income.

During the three months ended March 31, 2002, the Company expensed \$6.5 million of paid and accrued distributions to the former non-controlling interest in the business, which was reflected as a charge against income for the period. As a result of the Fund's purchase of the balance of the Davis + Henderson business from its former non-controlling interest on April 2, 2002, there were no further distributions of this nature and, therefore, there is no comparable charge to income in 2003.

Net income of \$11.8 million for the three months ended March 31, 2003, increased \$7.3 million over the comparable period in the prior year. Removing the impact of the charge for the non-controlling interest described above, net income increased 7.1% compared with the same quarter in 2002.

CASH FLOW & LIQUIDITY

Cash Flow from Operations During the three-month period ended March 31, 2003, the Company generated \$16.8 million in cash flow from operations, which was consistent with management's expectations and was \$0.8 million above that reported in the same period last year. The Company's non-cash working capital balances increased by \$2.1 million as a result of a reduction in certain payables balances and an increase in accounts receivable reflective of the higher sales for this quarter. The Company expects to reduce its investment in non-cash working capital in future quarters.

Cash Used for Investments For the three-month period ended March 31, 2003, the Company had capital disbursements of \$2.8 million, of which \$2.5 million is considered maintenance and \$0.3 million is considered non-maintenance. Included in maintenance expenditures were committed payments in respect of the Company's financial institution customer contracts of \$1.25 million. The balance of maintenance expenditures reflected the Company's continued investment in its key platforms in the form of systems development and expenditures to upgrade the Company's telephony infrastructure, which support its emphasis on promoting direct consumer ordering.

Non-maintenance capital expenditures of \$0.3 million, which are classified as non-maintenance on the basis that they are considered non-recurring, related to the purchase of digital printing technology. As at March 31, 2003, the Company had not drawn upon any of its \$18 million capital expenditure credit facility, which is available to fund certain historic and future non-maintenance capital items.

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, Limited Partnership ("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. There have been no public unit offerings during 2003.

Distributions The Fund declared and paid distributions of \$12.7 million during the three-month period ended March 31, 2003. During the first quarter of 2002, Davis + Henderson L.P. recorded distributions to its former non-controlling interest of \$7.4 million in respect of their 50.1% ownership of the Davis + Henderson business. \$5.3 million was paid up to March 31, 2002 and the balance was paid on April 30, 2002. In addition, for the first quarter of 2002 the Fund paid distributions to unitholders of \$4.8 million, in respect of their 49.9% interest in the business. After April 2, 2002 the Fund owned 100% of the Davis + Henderson business.

Cash Balances At March 31, 2003, cash and cash equivalents totaled \$11.3 million, compared to \$12.0 million at December 31, 2002. The decrease in cash and cash equivalents reflects the increased investment in non-cash working capital balances during the quarter as referred to earlier. The Company expects certain of this growth to reverse in subsequent quarters through the year. 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.

OUTLOOK

Based on Davis + Henderson L.P.'s targeted objectives of 3% to 5% annual sales growth and the maintenance of operating margins and capital spending for maintenance capital at current levels, the Fund's objective is to modestly grow distributions to unitholders. On April 17, 2003, the Fund announced that its distributions would be increased from \$0.1117 per unit (equivalent to \$1.34 per annum) to \$0.1133 per unit (equivalent to \$1.36 per annum) effective for unitholders of record on April 30, 2003, to be paid on May 30, 2003.

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 most recently filed Annual Information Form.

Consolidated Balance Sheet

(in thousands of Canadian dollars, unaudited)

As at	March 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,255	\$ 12,046
Accounts receivable	8,806	7,943
Inventory	6,800	6,866
Prepaid expenses	925	1,333
	27,786	28,188
Future income taxes (note 3)	34,479	35,298
Capital assets (note 4)	25,901	26,413
Other assets (note 5)	11,704	13,201
Intangible assets (note 6)	13,337	13,920
Goodwill (note 2)	359,385	359,385
	\$ 472,592	\$ 476,405
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 22,330	\$ 24,047
Current portion of disbursement obligations on customer contracts (note 7)	3,745	4,495
Distributions payable to unitholders	4,236	4,236
	30,311	32,778
Disbursement obligations on customer contracts (note 7)	3,000	3,500
Obligations relating to employee future benefits (note 8)	1,323	1,289
Long-term indebtedness (note 9)	80,000	80,000
	114,634	117,567
Unitholders' equity	357,958	358,838
	\$ 472,592	\$ 476,405

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	January 1, 2003 to March 31, 2003	December 20, 2001 to March 31, 2002
Sales	\$ 62,067	\$ 59,891
Cost of goods sold	36,023	34,779
Gross profit	26,044	25,112
Operating expenses	7,842	7,705
Operating income	18,202	17,407
Interest expense	1,151	1,118
Amortization expense	4,154	4,552
Income before income taxes and non-controlling interest	12,897	11,737
Income taxes (note 3):		
Current	250	268
Future	819	421
	1,069	689
Income before non-controlling interest	11,828	11,048
Non-controlling interest (note 1)	—	7,432
Net income for the period	11,828	3,616
Unitholders' equity, beginning of period	358,838	—
Net proceeds from issuance of trust units (note 10)	—	176,651
Distributions paid and accrued to unitholders (note 12)	(12,708)	(6,894)
Unitholders' equity, end of period	\$ 357,958	\$ 173,373
Net income per trust unit, basic and fully diluted	\$ 0.3119	\$ 0.1859

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	January 1, 2003 to March 31, 2003	December 20, 2001 to March 31, 2002
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income	\$ 11,828	\$ 3,616
Add:		
Amortization expense	4,154	4,552
Non-controlling interest	—	7,432
Future income taxes	819	421
Cash flow from operations	16,801	16,021
Changes in non-cash working capital items	(2,072)	4,815
	14,729	20,836
FINANCING ACTIVITIES		
Gross proceeds from issuance of trust units	—	189,550
Issuance costs	—	(12,899)
Proceeds from long-term indebtedness	—	80,000
Distributions paid to public unitholders	(12,708)	(4,841)
Distributions paid to non-controlling interest	—	(5,265)
	(12,708)	246,545
INVESTING ACTIVITIES		
Expenditures on capital and other assets	(2,812)	(2,662)
Acquisition of business <i>(note 2)</i>	—	(256,290)
	(2,812)	(258,952)
Increase (decrease) in cash and cash equivalents for the period	(791)	8,429
Cash and cash equivalents, beginning of period	12,046	—
Cash and cash equivalents, end of period	\$ 11,255	\$ 8,429
Supplementary information:		
Cash paid for interest	\$ 1,088	\$ 1,704
Cash paid for income taxes	\$ 252	\$ 122

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.").

Davis + Henderson L.P. is engaged primarily in the cheque supply outsourcing business for financial institutions in Canada. Davis + Henderson L.P. commenced operations on December 20, 2001, when it acquired the Davis + Henderson business (the "Business" or the "Company"). 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 Davis + Henderson L.P. 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. They do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Fund for the period ended December 31, 2002.

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 inter-company 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. The Fund does not enter into financial instruments for trading or speculative purposes.

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.

Notes to Consolidated Financial Statements

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

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.

Derivative Financial Instruments Derivative financial instruments are utilized to reduce interest-rate risk on the Company's debt. The Company's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Company believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the debt instrument being hedged.

Interest-rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest-rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based and are recorded as an adjustment of interest expenses on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

In the event of a termination of an interest-rate swap agreement, gains and losses would be deferred under other current, or non-current, assets or liabilities on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishments of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of income at the time of extinguishment.

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 and its subsidiaries maintain cash balances 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 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 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 Interest

For the period December 20, 2001 to March 31, 2002, the Fund owned less than 100% of the partnership units and the remaining interest was recorded in the accompanying financial statements as a non-controlling interest, and amounts equal to its distribution entitlement were expensed.

Net Income Per 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.

Distribution Per Unit

Distributions per unit are monthly cash distributions declared by the Fund for each outstanding trust unit. Per unit balances presented for the period represent the cash distributions entitlement of a single unit that was outstanding throughout the 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.

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.

Notes to Consolidated Financial Statements

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

Employee Future Benefits

The Company provides certain post-retirement benefits for certain employees, which are not funded. These benefits include health care, life insurance and dental benefits. Obligations under the post-retirement benefit plan are actuarially determined and are accrued by the Company.

For the Company's defined contribution pension plan, annual pension expense is based on the Company's contribution to the plan.

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 Davis + Henderson L.P. was acquired by the Fund. Total consideration given for the 49.9% interest was \$256,290. On April 2, 2002, the Fund acquired the remaining 50.1% 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:

Assets acquired, at fair value:

Assets, gross	\$ 81,730
Liabilities, gross	33,284
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Net assets acquired, at fair value	48,446
Future income tax assets acquired	37,603
Goodwill	359,385
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Total	\$ 445,434

Consideration:

Net proceeds from issuance of trust units	\$ 365,385
Proceeds from term loan	80,000
Other acquisition related adjustments	49
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Total	\$ 445,434

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 35.15%. The differences are as follows:

For the period	January 1, 2003 to March 31, 2003
Income before income taxes	\$ 12,897
Income of the Fund subject to tax in the hands of recipient	10,051
Income of subsidiary company	2,846
Canadian statutory rate	35.15%
Income taxes at statutory rate	1,001
Increase (decrease) resulting from:	
Manufacturing and processing tax credit	(44)
Large corporation tax	250
Net tax effect of expenses that are deductible for income tax purposes	(138)
Income tax expense, current and future	\$ 1,069

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

	March 31, 2003
Future income tax assets:	
Goodwill	\$ 31,662
Capital assets	1,441
Loss carryforward	1,269
Other	107
	\$ 34,479

4. CAPITAL ASSETS

			March 31, 2003	December 31, 2002
	Cost	Accumulated amortization	Net	Net
Computer, furniture and fixtures	\$ 20,659	\$ 7,360	\$ 13,299	\$ 13,778
Machinery and equipment	11,583	1,591	9,992	9,822
Leasehold improvements	3,648	1,038	2,610	2,813
	\$ 35,890	\$ 9,989	\$ 25,901	\$ 26,413

Notes to Consolidated Financial Statements

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

5. OTHER ASSETS

			March 31, 2003	December 31, 2002
	Cost	Accumulated amortization	Net	Net
Long-term supply contracts	\$ 15,996	\$ 5,251	\$ 10,745	\$ 11,978
Deferred charges and other	2,270	1,311	959	1,223
	\$ 18,266	\$ 6,562	\$ 11,704	\$ 13,201

6. INTANGIBLE ASSETS

			March 31, 2003	December 31, 2002
	Cost	Accumulated amortization	Net	Net
Intangible assets	\$ 16,328	\$ 2,991	\$ 13,337	\$ 13,920

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	March 31, 2003	December 31, 2002
Current portion	\$ 3,745	\$ 4,495
Long-term portion	3,000	3,500
Total disbursement obligations on customer contracts	\$ 6,745	\$ 7,995

Davis + Henderson L.P. has customer contract disbursement obligations payable as of March 31, 2003 as follows, for the year ended:

December 31, 2003	\$ 3,245
December 31, 2004	2,375
December 31, 2005	1,125
	\$ 6,745

8. EMPLOYEE FUTURE BENEFITS

The Company's principal pension plan is the "Defined Contribution Pension Plan for the Employees of Davis + Henderson," a defined contribution pension plan that provides pensions to substantially all employees with greater than two years of service. Total expense for the Company's defined contribution pension plan for the quarter ended March 31, 2003 was \$0.3 million.

The Company is currently in the process of merging two defined benefit pension plans, acquired prior to the purchase of the Business, with its defined contribution pension plan. The purpose of the proposed merger is to consolidate the pension entitlements for the employees of Davis + Henderson under one pension plan. Another defined benefit pension plan acquired during the purchase is in the process of being wound up. Employees under all three defined benefit pension plans ceased to accrue benefits prior to the acquisition of the Business and all became members of the Company's defined contribution

pension plan. The assets of these three defined benefit pension plans are currently sufficient to cover the actuarial liabilities of the plans.

In addition to the Company's pension plans, the Company also provides certain health care, life insurance and dental benefits to certain employees under a non-pension post-retirement benefit plan.

9. LONG-TERM INDEBTEDNESS

The Company has a \$98 million non-amortizing term facility due December 20, 2004. As at March 31, 2003, the Company had drawn \$80 million of the term facility. 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 March 31, 2003, 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 March 31, 2003, the fair value of outstanding interest-rate swaps was approximately \$0.7 million, which the Company would be required to pay if it were to close out the contracts.

10. 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 from inception of the Fund 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

11. DISTRIBUTABLE CASH

The Fund distributes its 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 quarter ended March 31, 2003 and period ended March 31, 2002 were calculated as follows:

Notes to Consolidated Financial Statements

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

For the period	January 1, 2003 to March 31, 2003	December 20, 2001 to March 31, 2002
Net income	\$ 11,828	\$ 3,616
Add:		
Amortization	4,154	4,552
Non-controlling interest	—	7,432
Future income taxes	819	421
Operating cash flow	16,801	16,021
Less:		
Distributions to non-controlling interest	—	7,432
Maintenance capital expenditures:		
Capital and other assets	1,220	538
Contract payments	1,250	1,250
Distributable cash	\$ 14,331	\$ 6,801
Distributions, paid or payable	\$ 12,708	\$ 6,894
Distributable cash per unit	\$ 0.3779	\$ 0.3564
Distributions per unit	\$ 0.3351	\$ 0.3676

12. DISTRIBUTIONS TO UNITHOLDERS

The Fund announced distributions during the quarter ended March 31, 2003 as follows:

Unitholder record date	Total	Per unit	Paid or payable
January 31, 2003	\$ 4,236	\$ 0.1117	Feb. 28, 2003
February 28, 2003	4,236	0.1117	Mar. 31, 2003
March 31, 2003	4,236	0.1117	Apr. 30, 2003
Total distributions for the period	\$ 12,708	\$ 0.3351	

The distributions declared have been estimated as follows for income tax purposes. The actual tax allocations for the year ended December 31, 2003 may differ from the amounts shown:

For the period	January 1, 2003 to March 31, 2003
Dividend income	19.5%
Interest income	69.4%
Return of capital	11.1%
Total distributions for the period	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.

13. COMMITMENTS

As of March 31, 2003, the Company has annual lease obligations with respect to real estate, vehicles and equipment as follows for the year ending:

December 31, 2003	\$ 2,390
December 31, 2004	2,885
December 31, 2005	2,321
December 31, 2006	1,165
December 31, 2007	521
Thereafter	1,094
	\$ 10,376

14. 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 six largest customers accounted for approximately 69% of its 2002 sales.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

Supplementary Pro Forma Financial Information – Distributable Cash by Period

(see notes below)

(\$000s except per unit amounts, unaudited)	Twelve days ended December 31, 2001 (pro forma)	Three months ended March 31, 2002 (pro forma)	Three months ended June 30, 2002 (reported)	Three months ended September 30, 2002 (reported)	Three months ended December 31, 2002 (reported)	Three months ended March 31, 2003 (reported)
Sales	\$ 4,029	\$ 55,862	\$ 56,689	\$ 56,770	\$ 58,938	\$ 62,067
Cost of goods sold	2,590	32,189	31,629	31,408	33,020	36,023
Operating expenses	702	7,003	7,525	7,485	8,028	7,842
Operating income	737	16,670	17,535	17,877	17,890	18,202
Interest expense	124	994	1,212	1,183	1,138	1,151
Amortization and income taxes	608	4,633	4,737	5,054	5,510	5,223
Net income for the period	5	11,043	11,586	11,640	11,242	11,828
Add:						
Amortization	591	3,961	4,047	4,186	4,426	4,154
Future income taxes	—	421	437	616	831	819
Cash flow from operations	596	15,425	16,070	16,442	16,499	16,801
Less:						
Maintenance capital expenditures:						
Capital and other assets	50	488	1,590	1,683	1,245	1,220
Contract payments	—	1,250	625	625	645	1,250
Distributable cash (note 2)	\$ 546	\$ 13,687	\$ 13,855	\$ 14,134	\$ 14,609	\$ 14,331
Distributable cash per unit	\$ 0.0144	\$ 0.3609	\$ 0.3654	\$ 0.3727	\$ 0.3853	\$ 0.3779
Distributions per unit	\$ 0.0427	\$ 0.3249	\$ 0.3249	\$ 0.3351	\$ 0.3351	\$ 0.3351
Net income per unit, basic and fully diluted	\$ 0.0001	\$ 0.2912	\$ 0.3055	\$ 0.3070	\$ 0.2964	\$ 0.3119

Note 1: The above information sets forth unaudited quarterly information and 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 periods ending December 31, 2001, and March 31, 2002, respectively). The pro forma balances presented for the twelve-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 December 31, 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 as these expenditures are eligible for funding under the Company's committed term-credit facilities. Management believes that this earning 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 Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

Supplementary Information

Condensed Balance Sheet

(\$000s, unaudited)	December 31, 2001	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003
Cash and cash equivalents	\$ 8,730	\$ 8,429	\$ 11,203	\$ 11,876	\$ 12,046	\$ 11,255
Other current assets	15,972	17,256	14,749	15,775	16,142	16,531
Future income taxes	37,603	37,182	36,745	36,129	35,298	34,479
Capital and other assets	45,175	43,853	42,981	41,196	39,614	37,605
Goodwill and other intangible assets	169,648	185,911	374,472	373,889	373,305	372,722
	\$ 277,128	\$ 292,631	\$ 480,150	\$ 478,865	\$ 476,405	\$ 472,592
Payables and other current liabilities	\$ 31,684	\$ 33,845	\$ 33,374	\$ 34,407	\$ 32,778	\$ 30,311
Other long-term liabilities	6,663	5,413	5,404	4,154	4,789	4,323
Long-term indebtedness	80,000	80,000	80,000	80,000	80,000	80,000
Unitholders' equity	158,781	173,373	361,372	360,304	358,838	357,958
	\$ 277,128	\$ 292,631	\$ 480,150	\$ 478,865	\$ 476,405	\$ 472,592

Other Statistics

(000s except per unit amounts)	Twelve days ended December 31, 2001	Three months ended March 31, 2002	Three months ended June 30, 2002	Three months ended September 30, 2002	Three months ended December 31, 2002	Three months ended March 31, 2003
Trading price range of units (TSX: "DHF.UN")						
High	\$ 10.64	\$ 11.20	\$ 11.25	\$ 12.13	\$ 13.25	\$ 13.69
Low	\$ 9.90	\$ 10.11	\$ 10.00	\$ 10.45	\$ 11.22	\$ 12.48
Close	\$ 10.64	\$ 10.51	\$ 10.95	\$ 12.10	\$ 12.86	\$ 12.94
Average daily volume	266	149	176	165	139	92
Number of units outstanding at period end	17,235	18,955	37,921	37,921	37,921	37,921
Market capitalization at period end	\$ 183,380	\$ 199,217	\$ 415,233	\$ 458,842	\$ 487,661	\$ 490,695

Directors, Trustees and Officers:

Paul Damp ⁽¹⁾ ⁽²⁾

Chairman, Director and Trustee
Managing Partner, Kestrel Capital

Allan Gotlieb ⁽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 and Corporate Secretary
*Chief Financial Officer,
Davis + Henderson, Limited Partnership*

Auditors:

BDO Dunwoody LLP

Transfer Agent:

CIBC Mellon Trust Company

Corporate Counsel:

Torys LLP

Investor Relations:

Catherine Martin 416-696-7700
Email: catherine.martin@dhld.com

Corporate Office:

Suite 201, 939 Eglinton Avenue East,
Toronto, Ontario M4G 4H7

Telephone: 416-696-7700


Facsimile: 416-696-9720

Website: www.dhif.com

TSX Symbol: DHF.UN

⁽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
Suite 201, 939 Eglinton Avenue East,
Toronto, Ontario M4G 4H7

Toronto Stock Exchange: "DHF.UN"
Website: www.dhif.com



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Income Fund