



Q3

Quarterly Report

Quarter Ended September 30, 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 Income Fund continued to post solid results, with year-over-year increases in sales, net income, operating income and distributable cash for the third quarter and nine months ended September 30, 2003. Supported by this stable financial performance, the Fund announced distributions for the month of October of \$0.1150 per unit (annual equivalent \$1.38 per unit), an increase of 1.5% over the previous month. This is the third increase in distributions since the Fund's IPO and brings the annualized distributions to \$1.38 per unit.

The MD&A and consolidated financial statements provide full details, however, among the notable financial highlights are:

- On sales of \$63.4 million and net income of \$12.3 million, the Fund generated distributable cash of \$0.4088 per unit and made distributions of \$0.3399 per unit in the third quarter of 2003.
- Distributions per unit of \$1.0149 for the nine months ended September 30, 2003, were up 3.0% over the comparable period last year, excluding the twelve days from the time of the Fund's listing on December 20 to December 31, 2001.

Operationally, Davis + Henderson continues to benefit from several factors, including ongoing consumer migration to *ChequeAdvisor* and *ChequeCentral*, our call centre and web-based ordering systems. This migration improves convenience for consumers and reduces costs for our customers. Additionally, the Company's revenues are increased, as consumers frequently order higher value products as they become more aware of their product choices. For these important reasons, integration and enhancement of these order channels is a key focus for the organization.

Overall, the performance of Davis + Henderson reflects the value we derive from our long-term relationships with Canada's financial institutions and, on their behalf, Canadian consumers, and the value we are creating by enhancing our programs. We are pleased with results to date because they have allowed us to meet our financial objectives and fully support the above noted increase in distributions.

Conclusion

Davis + Henderson's ongoing financial objective is to provide stable and growing distributions by maintaining our operating margins and capital requirements at traditional levels and targeting annual sales growth of 3% to 5%. We will grow sales at this pace by enhancing the value of our core cheque program and by expanding the services we offer to Canadian financial institutions. Our performance to date indicates we are operating in accordance with our stated strategy.

As we look ahead to the remainder of 2003, we remain confident of the sustainability and stability of Davis + Henderson Income Fund and our ability to fulfill our objectives. Most of all, we look forward to delivering new and enhanced programs to better serve all of our stakeholders.

October 27, 2003

Davis + Henderson Income Fund

(SIGNED)

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

(SIGNED)

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

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") for the third 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

For the Three Months and Nine Months Ended September 30, 2003

(\$000s except per unit amounts, unaudited)	Three months ended		Nine months ended	
	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002 *
Sales	\$ 63,404	\$ 56,770	\$ 188,147	\$ 173,350
Cost of goods sold	36,564	31,408	108,950	97,816
Gross profit	26,840	25,362	79,197	75,534
	42.3%	44.7%	42.1%	43.6%
Operating expenses	8,108	7,485	23,895	22,715
	12.8%	13.2%	12.7%	13.1%
Operating income	18,732	17,877	55,302	52,819
	29.5%	31.5%	29.4%	30.5%
Interest expense	1,151	1,183	3,473	3,513
Amortization	4,106	4,186	12,448	12,785
Income tax	1,186	868	3,229	2,247
Non-controlling interest	—	—	—	7,432
Net income for the period	\$ 12,289	\$ 11,640	\$ 36,152	\$ 26,842
Net income per unit, basic and fully diluted	\$ 0.3241	\$ 0.3070	\$ 0.9534	\$ 0.7984

* Nine months ended September 30, 2002 includes the stub period from December 20, 2001 to December 31, 2001.

For the three-month period ended September 30, 2003, the Company recorded sales of \$63.4 million, an increase of \$6.6 million, or 11.7%, over the prior year's third quarter sales of \$56.8 million.

For the nine-month period ended September 30, 2003, sales were \$188.1 million, up \$14.8 million compared to previous year sales of \$173.3 million. Excluding \$4.0 million of sales attributable to the twelve-day 2001 period included in 2002, sales increased by \$18.8 million or 11.1% for the first nine months of 2003.

One of two main factors contributing to the increase in sales, for both the quarter and first nine months, was a change in the structure of one of the Company's customer contracts, which increased sales and cost of sales with minimal impact on gross profit. Excluding the impact of the changes in structure of this contract, the year-over-year increases in sales for the three months and nine months ended September 30, 2003, would have been 5.1% and 4.4% respectively. The primary factor, which drove the year-over-year increases, was growth in the value of the orders received. This increase was attributable to product launches in late 2002, including higher revenues from the sale of deposit bags to small business customers, under an ongoing deposit bag program, as well as increased order values associated with customer migration to the Company's *ChequeAdvisor* and *ChequeCentral* programs. 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.

For the three-month and nine-month periods ended September 30, 2003, gross profit increased \$1.5 million and \$3.7 million (including the twelve-day period December 20 to 31, 2001), respectively, an increase of 5.8% and 4.9%, from the prior comparable periods. These increases were primarily attributed to growth in sales. Gross profit margin of 42.3% for the third quarter was consistent with that recorded in the previous quarters of 2003, but was below the third quarter and nine-month period last year solely as a result of the customer contract change previously described.

Operating expenses of \$8.1 million for the three-month period ended September 30, 2003, increased from the prior year's third quarter by \$0.6 million, or 8.3%. For the first nine months of 2003, operating expenses were \$23.9 million compared to \$22.7 million for the prior year's comparable period including the twelve days of December 2001. Excluding those twelve days, operating expenses increased year-over-year by 8.5% as a result of increased spending on customer service and information technology as well as higher public company costs. Higher spending in the area of customer service primarily relates to activities associated with the Company's *ChequeAdvisor* program, and the Company's call centre ordering process. Our expenditures are focused on ensuring the company maintains well trained, capable staff who have good tools and the right customer and product information to perform their roles efficiently and effectively. Increased spending on information technology supported previously discussed initiatives to grow revenue and enhance efficiencies as well as maintenance of *ChequeCentral*; the Company's on-line, web-based ordering system.

Operating income of \$18.7 million for the third quarter of 2003 increased \$0.9 million, or 4.8%, over the prior year's third quarter, primarily due to the current year's increase in sales as described above. For the first nine months of 2003, operating income was \$55.3 million compared to \$52.8 million for the prior year's nine-month (and twelve-day) period ended September 30, 2002, an increase of 4.7%. Excluding the twelve-day stub, the increase was 6.2%. As in the third quarter, this growth in operating income for the nine months was primarily sales driven. Operating income as a percentage of sales was unchanged year-over-year, excluding the impact of the customer contract change previously discussed.

Amortization of \$4.1 million for the three-month period ended September 30, 2003, decreased \$0.1 million, or 1.9%, when compared with the same quarter last year. For the nine-month period ended September 30, 2003, including the twelve-day period in December 2001, amortization expense decreased year-over-year by \$0.3 million. Increases in amortization related to significant investments made throughout 2002 in digital printing technology and in development of the *ChequeCentral* cheque ordering application were more than offset by the impact of reduced amortization of deferred expenses which became fully amortized over the past twelve months.

Interest expense of \$1.2 million, and \$3.5 million, respectively, for the three-month and nine-month periods ended September 30, 2003, were consistent with amounts recorded in the previous year. In the first quarter of 2002, higher interest expense – due to the inclusion of the twelve days of 2001 – was offset by lower interest expense as the Company funded its debt on a floating rate basis in the early part of 2002. Late in the first quarter of 2002, the Company implemented a hedging program, fixing interest rates on 60% of its debt. At the beginning of the third quarter of 2003, the Company paid down \$8 million of the outstanding debt, thereby reducing interest expense. This reduction was offset by an increase in interest expense as a result of entering into two additional interest-rate swaps. This is more fully described in the "Financing" section under "Cash Flow and Liquidity." With these transactions completed, the Company has effectively fixed interest rates on all of its currently outstanding debt for terms ending between March 15, 2004 and June 30, 2008.

Income earned by the Fund that is distributed annually to unitholders is not subject to taxation in the Fund but is taxed at the individual unitholder level. The Fund's subsidiary is subject to taxation on its

income at the statutory rates. Income tax expense of \$1.2 million increased \$0.3 million for the three-month period ended September 30, 2003, when compared to the prior year's third quarter. Income tax expense for the nine-month period of 2003 was \$3.2 million, an increase of \$1.0 million over the prior year's comparable period. The increases in each period, which related to future income taxes, resulted from the Company earning more net income.

During the nine months ended September 30, 2002, the Company expensed \$7.4 million of paid and accrued distributions to its previous owner, MDC Corporation Inc. This 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 MDC Corporation Inc. on April 2, 2002, there were no further distributions of this nature and, therefore, there was no comparable charge to income in 2003.

Net income of \$12.3 million for the three months ended September 30, 2003, increased \$0.7 million or 5.6% over the comparable period in the prior year. For the nine months ended September 30, 2003, net income totalled \$36.2 million and was \$9.3 million higher than the same period last year. Excluding the non-controlling interest, the nine-month growth in income was \$1.9 million, or 5.5%.

CASH FLOW & LIQUIDITY

Cash Flow from Operations During the three-month period ended September 30, 2003, the Company generated \$17.3 million in cash flow from operations, a \$0.9 million increase above the same period last year. The Company's non-cash working capital balances decreased during the third quarter by \$0.2 million as a result of an increase in payable balances, which exceeded an increase in receivable balances. Cash flow from operations for the nine months ended September 30, 2003, was \$51.1 million, a 5.2% increase over the reported period last year. Cash flow from changes in non-cash working capital balances decreased \$0.2 million for the first nine months of 2003 as compared with the same period last year when changes in these balances contributed \$7.3 million. In 2002, the Company generated increased cash from growth in payables and improved receivable balances, improvements that are not expected to recur in future periods.

Cash Used for Investments For the three-month period ended September 30, 2003, the Company had capital disbursements of \$3.0 million, of which \$1.8 million were considered maintenance and \$1.2 million were non-maintenance (on the basis that they are non-recurring). Included in maintenance expenditures were committed payments of \$0.6 million under the Company's financial institution customer contracts. The balance of maintenance expenditures was allocated to support the Company's ongoing investment in its key platforms in the form of systems development and hardware, and expenditures to upgrade the Company's production facilities.

Non-maintenance capital expenditures during the third quarter of \$1.2 million related primarily to the purchase of two digital printing presses, which are intended to improve the Company's cost effectiveness and allow for customized messaging.

For the nine-month period ended September 30, 2003, the Company made capital disbursements of \$8.6 million, of which \$6.2 million were considered maintenance expenditures. Approximately \$2.5 million of the expenditures were in respect of recurring customer contract payments and \$3.7 million were made to support ongoing operations. Non-maintenance expenditures were \$2.4 million for the nine months ended September 30, 2003, \$0.6 million in respect of customer contract obligations, and the balance to investments in digital printers and in support of the Company's U.S. expansion initiative.

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 an \$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. There have been no public unit offerings during 2003.

Financing As at September 30, 2003, the Company had \$98 million of term credit facilities, due June 30, 2006, which consisted of a \$60 million non-revolving term loan and a \$38 million revolving credit facility. The Company has drawn down \$12 million of revolving facility, leaving a balance of \$26 million available for general corporate purposes. At September 30, 2003, the Company had drawn a total of \$72 million under these term credit facilities, reflecting the repayment of \$8 million at the beginning of the third quarter of 2003. Also during the third quarter, the Company entered into two additional interest-rate swaps and, as a result, has effectively fixed interest rates on all of its outstanding debt at rates of between 5.89% and 7.33% for terms ending between March 15, 2004 and June 30, 2008. From time to time, the Company expects to apply certain of its cash balances to reduce its revolving credit facility in order to more effectively manage its capital. The Company may also draw on its revolving facility to fund major capital expenditures or for other corporate purposes.

Distributable Cash

(\$000s, except per unit amounts, unaudited)	Three months ended		Nine months ended	
	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002 *
Net income	\$ 12,289	\$ 11,640	\$ 36,152	\$ 26,842
Add:				
Amortization	4,106	4,186	12,448	12,785
Non-controlling interest	—	—	—	7,432
Future income taxes	933	616	2,469	1,474
Operating cash flow	17,328	16,442	51,069	48,533
Less:				
Distributions to non-controlling interest	—	—	—	7,432
Maintenance capital expenditures:				
Capital and other assets	1,202	1,683	3,734	3,811
Contract payments	625	625	2,500	2,500
Distributable cash	\$ 15,501	\$ 14,134	\$ 44,835	\$ 34,790
Distributions, paid or payable	\$ 12,888	\$ 12,708	\$ 38,484	\$ 31,923
Distributable cash per unit	\$ 0.4088	\$ 0.3727	\$ 1.1823	\$ 1.0945
Distributions per unit	\$ 0.3399	\$ 0.3351	\$ 1.0149	\$ 1.0276

* Nine months ended September 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

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 since these expenditures are considered non-recurring and are intended to generate future growth in distributable cash and distributions.

Management believes that distributable cash 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.

Distributable cash of \$15.5 million for the three-month period ended September 30, 2003, increased 9.7%, when compared with the same period last year. Both increased earnings and a decrease in maintenance capital expenditures in this quarter contributed to the significant increase in distributable cash. Distributable cash will vary from quarter to quarter with the timing of maintenance capital expenditures.

At \$44.8 million, distributable cash for the nine-month period ended September 30, 2003, increased 6.2% over the comparable period last year, excluding the non-controlling interest deducted from net income in the first quarter of 2002.

The Company expects to incur total maintenance capital expenditures for the year slightly in excess of the amount for fiscal 2002.

Distributions On October 20, 2003, the Fund announced that its monthly distributions would increase from \$0.1133 per unit (equivalent to \$1.36 per annum) to \$0.1150 per unit (equivalent to \$1.38 per annum) effective for unitholders of record on October 31, 2003, to be paid on November 28, 2003. This increase in the October distribution is an increase of 1.5% over the previous month's distribution.

Cash Balances At September 30, 2003, cash and cash equivalents totalled \$8.3 million, compared to \$14.6 million at June 30, 2003. The decrease in cash and cash equivalents reflected the fact that \$8.0 million of available cash was used to reduce the Company's long-term indebtedness. The Company expects, from time to time, to apply portions of its cash balances going forward to reduce the revolving portion of its credit facility in order to more effectively manage its capital. The Fund retains its ability to draw on the full amount of the revolving facility to fund capital or other expenditures.

Cash flow from operations, together with cash balances on hand and unutilized term credit facilities, is 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.

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	Sept. 30, 2003	Dec. 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,269	\$ 12,046
Accounts receivable	9,506	7,943
Inventory	6,037	6,866
Prepaid expenses	1,644	1,333
	25,456	28,188
Future income taxes (note 3)	32,829	35,298
Capital assets (note 4)	25,612	26,413
Other assets (note 5)	11,304	13,201
Intangible assets (note 6)	12,171	13,920
Goodwill (note 2)	359,385	359,385
	\$ 466,757	\$ 476,405
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 25,211	\$ 24,047
Current portion of disbursement obligations on customer contracts (note 7)	3,145	4,495
Distributions payable to unitholders	4,296	4,236
	32,652	32,778
Disbursement obligations on customer contracts (note 7)	4,250	3,500
Obligations relating to employee future benefits (note 8)	1,349	1,289
Long-term indebtedness (note 9)	72,000	80,000
	110,251	117,567
Unitholders' equity	356,506	358,838
	\$ 466,757	\$ 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	Sept. 30, 2003	Three months ended Sept. 30, 2002	Sept. 30, 2003	Nine months ended Sept. 30, 2002 *
Sales	\$ 63,404	\$ 56,770	\$ 188,147	\$ 173,350
Cost of goods sold	36,564	31,408	108,950	97,816
Gross profit	26,840	25,362	79,197	75,534
Operating expenses	8,108	7,485	23,895	22,715
Operating income	18,732	17,877	55,302	52,819
Interest expense	1,151	1,183	3,473	3,513
Amortization expense	4,106	4,186	12,448	12,785
Income before income taxes and non-controlling interest	13,475	12,508	39,381	36,521
Income taxes (note 3):				
Current	253	252	760	773
Future	933	616	2,469	1,474
	1,186	868	3,229	2,247
Income before non-controlling interest	12,289	11,640	36,152	34,274
Non-controlling interest (note 1)	—	—	—	7,432
Net income for the period	12,289	11,640	36,152	26,842
Unitholders' equity, beginning of period	357,105	361,372	358,838	—
Net proceeds from issuance of trust units (note 10)	—	—	—	365,385
Distributions paid and accrued to unitholders (note 11)	(12,888)	(12,708)	(38,484)	(31,923)
Unitholders' equity, end of period	\$ 356,506	\$ 360,304	\$ 356,506	\$ 360,304
Net income per trust unit, basic and fully diluted	\$ 0.3241	\$ 0.3070	\$ 0.9534	\$ 0.7984

* Nine months ended September 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

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

Consolidated Statement of Cash Flows

(in thousands of Canadian dollars, unaudited)

For the	Sept. 30, 2003	Three months ended Sept. 30, 2002	Sept. 30, 2003	Nine months ended Sept. 30, 2002 *
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	\$ 12,289	\$ 11,640	\$ 36,152	\$ 26,842
Add:				
Amortization expense	4,106	4,186	12,448	12,785
Non-controlling interest	—	—	—	7,432
Future income taxes	933	616	2,469	1,474
Cash flow from operations	17,328	16,442	51,069	48,533
Changes in non-cash working capital items	246	(447)	179	7,332
	17,574	15,995	51,248	55,865
FINANCING ACTIVITIES				
Gross proceeds from issuance of trust units	—	—	—	388,691
Issuance costs	—	—	—	(23,306)
Proceeds from (repayment of)				
long-term indebtedness	(8,000)	—	(8,000)	80,000
Distributions paid to public unitholders	(12,888)	(12,579)	(38,424)	(27,687)
Distributions paid to non-controlling interest	—	—	—	(7,432)
	(20,888)	(12,579)	(46,424)	410,266
INVESTING ACTIVITIES				
Expenditures on capital and other assets	(2,990)	(2,743)	(8,601)	(8,821)
Acquisition of business (note 2)	—	—	—	(445,434)
	(2,990)	(2,743)	(8,601)	(454,255)
Increase (decrease) in cash and cash equivalents for the period	(6,304)	673	(3,777)	11,876
Cash and cash equivalents, beginning of period	14,573	11,203	12,046	—
Cash and cash equivalents, end of period	\$ 8,269	\$ 11,876	\$ 8,269	\$ 11,876
Supplementary information:				
Cash paid for interest	\$ 1,518	\$ 827	\$ 4,439	\$ 3,657
Cash paid for income taxes	\$ 245	\$ 250	\$ 750	\$ 622

* Nine months ended September 30, 2002 includes the results of the twelve-day period December 20, 2001 to December 31, 2001.

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 and its wholly owned subsidiaries, consisting of 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, distributions payable to unitholders, 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.

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 current portion of the disbursement obligations on customer contracts approximates fair value due to their short-term maturities.

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 outstanding 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 swap 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

Notes to Consolidated Financial Statements

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

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 whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Revenue Recognition

The Company is the principal on all sales transactions and has presented sales based on the gross amount billed to the customers. Sales are recognized when the services are completed and/or the products are shipped.

Non-Controlling Interest

For the period December 20, 2001 to March 31, 2002, the Fund owned less than 100% of Davis + Henderson L.P., 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.

Distributions 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.

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. 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
<hr/>	
Net assets acquired, at fair value	48,446
Future income tax assets acquired	37,603
Goodwill	359,385
<hr/>	
Total	\$ 445,434

Consideration:

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

Notes to Consolidated Financial Statements

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

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	Three months ended Sept. 30, 2003	Nine months ended Sept. 30, 2003
Income before income taxes	\$ 13,475	\$ 39,381
Income of the Fund subject to tax in the hands of recipient	10,591	31,119
Income of subsidiary company	2,884	8,262
Canadian statutory rate	35.15%	35.15%
Income taxes at statutory rate	1,014	2,904
Increase (decrease) resulting from:		
Manufacturing and processing tax credit	(45)	(127)
Large corporation tax	253	760
Net tax effect of expenses that are deductible for income tax purposes	(36)	(308)
Income tax expense, current and future	\$ 1,186	\$ 3,229

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:

	Sept. 30, 2003
Future income tax assets:	
Goodwill	\$ 29,576
Capital assets	(685)
Loss carryforward	3,710
Other	228
	\$ 32,829

4. CAPITAL ASSETS

	September 30, 2003		December 31, 2002	
	Cost	Accumulated amortization	Net	Net
Computer, furniture and fixtures	\$ 22,943	\$ 10,416	\$ 12,527	\$ 13,778
Machinery and equipment	13,166	2,291	10,875	9,822
Leasehold improvements	3,655	1,445	2,210	2,813
	\$ 39,764	\$ 14,152	\$ 25,612	\$ 26,413

5. OTHER ASSETS

	September 30, 2003		December 31, 2002	
	Cost	Accumulated amortization	Net	Net
Long-term supply contracts	\$ 18,495	\$ 7,758	\$ 10,737	\$ 11,978
Deferred charges and other	2,336	1,769	567	1,223
	\$ 20,831	\$ 9,527	\$ 11,304	\$ 13,201

6. INTANGIBLE ASSETS

	September 30, 2003		December 31, 2002	
	Cost	Accumulated amortization	Net	Net
Intangible assets	\$ 16,328	\$ 4,157	\$ 12,171	\$ 13,920

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	September 30, 2003		December 31, 2002	
Current portion		\$ 3,145	\$ 4,495	
Long-term portion		4,250	3,500	
Total disbursement obligations on customer contracts		\$ 7,395	\$ 7,995	

Davis + Henderson L.P. has customer contract disbursement obligations payable as of September 30, 2003 as follows, for the year ended:

December 31, 2003	\$ 1,395
December 31, 2004	2,375
December 31, 2005	2,375
December 31, 2006	1,250
	\$ 7,395

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

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 September 30, 2003 was \$0.2 million and for the nine months was \$0.7 million.

The Company is currently in the process of merging two defined benefit pension plans, acquired with 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. Total expense for the nine months was \$0.1 million.

9. LONG-TERM INDEBTEDNESS

The Company has \$98 million of term credit facilities due June 30, 2006, consisting of a \$60 million non-revolving term loan and a \$38 million revolving credit facility. As at September 30, 2003, the Company had drawn \$72 million under these term credit facilities. The facilities bear interest at rates that depend on certain financial ratios of the Company and vary in accordance with borrowing rates in Canada and the United States. The credit facilities, including any hedge contracts with the lenders, are 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, 2003, the Company has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on all of its outstanding term indebtedness is effectively fixed at interest rates of between 5.89% and 7.33% per annum for terms ending between March 15, 2004 and June 30, 2008. As of September 30, 2003, the fair value of outstanding interest-rate swaps was approximately \$1.5 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, December 20, 2001	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. DISTRIBUTIONS TO UNITHOLDERS

The Fund announced distributions during the period January 1, 2003 to September 30, 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	March 31, 2003
March 31, 2003	4,236	0.1117	April 30, 2003
April 30, 2003	4,296	0.1133	May 30, 2003
May 30, 2003	4,296	0.1133	June 30, 2003
June 30, 2003	4,296	0.1133	July 31, 2003
July 31, 2003	4,296	0.1133	August 29, 2003
August 29, 2003	4,296	0.1133	Sept. 30, 2003
September 30, 2003	4,296	0.1133	Oct. 31, 2003
Total distributions for the period	\$ 38,484	\$ 1.0149	

Notes to Consolidated Financial Statements

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

12. COMMITMENTS

As of September 30, 2003, the Company has annual lease obligations with respect to real estate, vehicles and equipment as follows for the year ending:

December 31, 2003	\$ 801
December 31, 2004	3,008
December 31, 2005	2,531
December 31, 2006	1,293
December 31, 2007	637
December 31, 2008	481
Thereafter	1,484
	<hr/>
	\$ 10,235

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

Supplementary Pro Forma Financial Information – Distributable Cash by Period



(see notes below)

(\$000s except per unit amounts, unaudited)	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)	Three months ended Dec. 31, 2002 (reported)	Three months ended March 31, 2003 (reported)	Three months ended June 30, 2003 (reported)	Three months ended Sept. 30, 2003 (reported)
Sales	\$ 4,029	\$ 55,862	\$ 56,689	\$ 56,770	\$ 58,938	\$ 62,067	\$ 62,676	\$ 63,404
Cost of goods sold	2,590	32,189	31,629	31,408	33,020	36,023	36,363	36,564
Operating expenses	702	7,003	7,525	7,485	8,028	7,842	7,945	8,108
Operating income	737	16,670	17,535	17,877	17,890	18,202	18,368	18,732
Interest expense	124	994	1,212	1,183	1,138	1,151	1,171	1,151
Amortization and income taxes	608	4,633	4,737	5,054	5,510	5,223	5,162	5,292
Net income for the period	5	11,043	11,586	11,640	11,242	11,828	12,035	12,289
Add:								
Amortization	591	3,961	4,047	4,186	4,426	4,154	4,188	4,106
Future income taxes	—	421	437	616	831	819	717	933
Cash flow from operations	596	15,425	16,070	16,442	16,499	16,801	16,940	17,328
Less:								
Maintenance capital expenditures:								
Capital and other assets	50	488	1,590	1,683	1,245	1,220	1,312	1,202
Contract payments	—	1,250	625	625	645	1,250	625	625
Distributable cash (note 2)	\$ 546	\$ 13,687	\$ 13,855	\$ 14,134	\$ 14,609	\$ 14,331	\$ 15,003	\$ 15,501
Cash flow from operations per unit	\$ 0.0157	\$ 0.4068	\$ 0.4238	\$ 0.4336	\$ 0.4351	\$ 0.4431	\$ 0.4467	\$ 0.4570
Distributable cash per unit	\$ 0.0144	\$ 0.3609	\$ 0.3654	\$ 0.3727	\$ 0.3853	\$ 0.3779	\$ 0.3956	\$ 0.4088
Distributions per unit	\$ 0.0427	\$ 0.3249	\$ 0.3249	\$ 0.3351	\$ 0.3351	\$ 0.3351	\$ 0.3399	\$ 0.3399
Net income per unit, basic and fully diluted	\$ 0.0001	\$ 0.2912	\$ 0.3055	\$ 0.3070	\$ 0.2964	\$ 0.3119	\$ 0.3174	\$ 0.3241

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 subsequent to April 1, 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 considered non-recurring expenditures which are intended to generate future growth in distributable cash and distributions. 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.

Condensed Balance Sheet

(\$000s, unaudited)	Dec. 31, 2001	March 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002	March 31, 2003	June 30, 2003	Sept. 30, 2003
Cash and cash equivalents	\$ 8,730	\$ 8,429	\$ 11,203	\$ 11,876	\$ 12,046	\$ 11,255	\$ 14,573	\$ 8,269
Other current assets	15,972	17,256	14,749	15,775	16,142	16,531	16,000	17,187
Future income taxes	37,603	37,182	36,745	36,129	35,298	34,479	33,762	32,829
Capital and other assets	45,175	43,853	42,981	41,196	39,614	37,605	38,074	36,916
Goodwill and other intangible assets	169,648	185,911	374,472	373,889	373,305	372,722	372,139	371,556
	\$ 277,128	\$ 292,631	\$ 480,150	\$ 478,865	\$ 476,405	\$ 472,592	\$ 474,548	\$ 466,757
Payables and other current liabilities	\$ 31,684	\$ 33,845	\$ 33,374	\$ 34,407	\$ 32,778	\$ 30,311	\$ 31,223	\$ 32,652
Other long-term liabilities	6,663	5,413	5,404	4,154	4,789	4,323	6,220	5,599
Long-term indebtedness	80,000	80,000	80,000	80,000	80,000	80,000	80,000	72,000
Unitholders' equity	158,781	173,373	361,372	360,304	358,838	357,958	357,105	356,506
	\$ 277,128	\$ 292,631	\$ 480,150	\$ 478,865	\$ 476,405	\$ 472,592	\$ 474,548	\$ 466,757

Other Statistics

(000s except per unit amounts)	Twelve days ended Dec. 31, 2001	Three months ended March 31, 2002	Three months ended June 30, 2002	Three months ended Sept. 30, 2002	Three months ended Dec. 31, 2002	Three months ended March 31, 2003	Three months ended June 30, 2003	Three months ended Sept. 30, 2003
Trading price range of units (TSX: "DHF.UN")								
High	\$ 10.64	\$ 11.20	\$ 11.25	\$ 12.13	\$ 13.25	\$ 13.69	\$ 15.20	\$ 15.65
Low	\$ 9.90	\$ 10.11	\$ 10.00	\$ 10.45	\$ 11.22	\$ 12.48	\$ 12.91	\$ 14.52
Close	\$ 10.64	\$ 10.51	\$ 10.95	\$ 12.10	\$ 12.86	\$ 12.94	\$ 15.00	\$ 15.30
Average daily volume	266	149	176	165	139	92	82	99
Number of units outstanding at period end	17,235	18,955	37,921	37,921	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	\$ 568,812	\$ 580,188

Davis + Henderson Income Fund

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

Chief Financial Officer,

Davis + Henderson, Limited Partnership

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Transfer Agent:

CIBC Mellon Trust Company

Corporate Counsel:

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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)



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Davis + Henderson
Income Fund