Q1

QUARTERLY REPORT
QUARTER ENDED MARCH 31, 2004

Davis + Henderson
Income Fund

Davis + Henderson Income Fund

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

Davis + Henderson has 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 and related 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 make solid progress during the opening quarter of 2004, growing our revenues through product repositioning, increasing average order value, and by delivering new programs. The sales base was also lifted this quarter as the Business began to deliver services under its cheque supply contract with RBC Centura Bank, a member of RBC Financial Group. As well, the Business enjoyed the benefit of an additional business day related to 2004 being a leap year.

For a full report on the three months ended March 31, 2004 and the comparative period in 2003, please see our MD&A and consolidated financial statements. Financial highlights of the quarter include:

- On sales of $68.6 million and net income of $12.9 million, the Fund generated distributable cash of $15.5 million.
- On a per unit basis, the Fund generated $0.4079 per unit in distributable cash for the quarter and declared distributions of $0.3468 in the quarter.
- In March 2004, distributions were increased to $0.1168 per unit per month, an annualized amount of $1.40 per unit.
- Distributions declared for the first quarter of 2004 of $0.3468 per unit were up 3.5% over the same quarter last year.

Davis + Henderson continues to be successful in growing profits from its core cheque program by increasing the value of products and services the Business offers and by migrating consumers to order directly from Davis + Henderson through our call centres, or Cheque*Advisors*, and through our web-based ordering platform, Cheque*Central*.

This quarter Davis + Henderson implemented a first step in another of its business strategies, which involves offering the cheque program to the U.S. subsidiaries of Canadian financial institutions. On January 1, 2004, the Business began supplying RBC Centura Bank to meet their cheque supply requirements under a contract that was concluded in 2003. Looking forward we expect growth to come as RBC Centura Bank expands its retail operations over the coming years.

Additionally we continue to expand the complementary programs we offer to our financial institution customers, such as our deposit and pre-authorized payments switching programs. Combined, we expect these three strategies to contribute to helping us meet our targeted annual sales growth of 3% to 5% and our objective of providing stable and growing distributions to our unitholders.

April 16, 2004
Davis + Henderson Income Fund

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

Robert Cronin
Co-Chief Executive Officer
Davis + Henderson G.P. Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS

The Management's Discussion and Analysis ("MD&A") for the first quarter of 2004 should be read in conjunction with the MD&A in the Fund's Annual Report for the year ended December 31, 2003 and the attached interim unaudited consolidated financial statements. External economic and industry factors remain substantially unchanged, unless otherwise stated.

STRATEGY

The Davis + Henderson Income Fund's (the "Fund" or the "Business") financial goal and strategies are unchanged from those expressed in the 2003 Annual Report. The Fund remains focused on delivering stable and growing cash distributions to unitholders through three key strategies: growing profits from the core cheque supply program, introducing and expanding complementary products and programs to Canadian financial institutions, and serving our Canadian bank customers as they expand their operations in the United States.

Results from the first quarter ended March 31, 2004, are in line with the strategies and consistent with management's expectations.

OPERATING RESULTS FOR THE FIRST QUARTER

Statement of Income

(in thousands of Canadian dollars except per unit amounts, unaudited)	March 31, 2004	Quarter ended March 31, 2003
Sales	$ 68,589	$ 62,067
Cost of sales	41,077	37,414
Operating expenses	7,709	6,451
Operating income	19,803	18,202
Interest expense	1,085	1,151
Amortization and income taxes	5,800	5,223
Net income	$ 12,918	$ 11,828
Net income, basic and diluted	$ 0.3407	$ 0.3119

For the three months ended March 31, 2004, the Business recorded sales of $68.6 million, up $6.5 million, or 10.5%, over the prior year's first quarter sales of $62.1 million. On January 1, 2004, the Business commenced delivery of products and services under its long-term cheque supply contract with RBC Centura Bank of Raleigh, North Carolina, a member of RBC Financial Group. The implementation of this initiative, together with an extra business day in the quarter as a result of 2004 being a leap year, contributed to an increase in sales in the first quarter of 2004. Excluding the impact of the revenues from the new contract and the leap year effect, sales increased by $3.7 million, or 6.0%, over the same period last year. The balance of this year-over-year growth was related primarily to increased values of orders received as a result of program enhancements and the continued migration of orders to Cheque*Advisor* and Cheque*Central*, our call centre and web-based order programs.

With the continued success of the Cheque*Advisor* program, the call centres have become more integrated with the ordering and delivery of our products. The Fund, to better present the cost of this sales activity, has reclassified all customer service costs from operating expenses to cost of sales. All comparative balances presented have been adjusted to reflect this new presentation. There is no impact on sales, operating income or distributable cash as a result of this reclassification.

Gross profit for the quarter increased by $2.9 million to $27.5 million compared with the same period last year. Gross margin for the three months ended March 31, 2004 was 40.1% compared with 39.7% for the first quarter of 2003. The increase in gross profit percentage is attributed to continual investments in technology and processes resulting in increased production efficiencies, partially offset by lower margins earned on U.S. sourced business.

Operating expenses increased by $1.3 million, or 19.5%, during the first quarter of 2004 when compared to the first quarter of 2003. The Business increased spending in technology services both as a result of the implementation of the U.S. operations, and continuing activities directed towards the Cheque*Central* and Cheque*Advisor* programs. The Business also increased spending on new product launch support costs and on employee compensation. Management continues to manage its expense plans in relation to the revenue growth and the Fund's overall objective of growing its distributions.

Operating income increased by $1.6 million, or 8.8%, over the same period last year and, as referred to above and among other factors, benefited from the extra business day created by the leap year. Operating income as a percentage of sales was unchanged year-over-year.

Net interest expense decreased from $1.2 million for the three months ended March 31, 2003 to $1.1 million for the three months ended March 31, 2004. Lower interest expenses associated with the $13 million reduction in long-term indebtedness since the first quarter of 2003 were partially offset by lower interest income as a result of decreased cash balances.

Amortization during the first quarter remained consistent with amounts recorded in the same quarter in the prior year.

Income taxes increased by $0.6 million to $1.7 million mainly due to increased profits and was primarily related to the future income tax charge. The impact of reducing large corporations tax, which is expected to be eliminated by 2008, has been offset by an increase in corporate minimum tax.

With respect to the delivery of products and services under the U.S. cheque supply contract, the Business does not have a permanent establishment in the United States for purposes of determining tax liability and therefore does not have United States income tax liability.

Net income of $12.9 million for the quarter ended March 31, 2004, increased $1.1 million, or 9.2%, when compared with the same quarter in the previous year.

Statement of Distributable Cash

(in thousands of Canadian dollars except per unit amounts, unaudited)	March 31, 2004	Quarter ended March 31, 2003
Net income for the period	$ 12,918	$ 11,828
Add:		
Amortization	4,134	4,154
Future income taxes	1,363	819
	18,415	16,801
Less:		
Maintenance capital expenditures		
Capital and other assets	1,696	1,220
Contract payments	1,250	1,250
Distributable cash	$ 15,469	$ 14,331
Distributions declared	$ 13,151	$ 12,707
Net income per unit	$ 0.3407	$ 0.3119
Distributable cash per unit	$ 0.4079	$ 0.3779
Distributions per unit	$ 0.3468	$ 0.3351

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 items, 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 increased by $1.1 million, or 7.9%, to $15.5 million during the first quarter of 2004 relative to $14.3 million recorded in the first quarter of 2003. This increase was primarily attributed to the growth in net income, partially offset by the increases in maintenance capital expenditures of $0.5 million. Maintenance capital expenditures will fluctuate based on the timing differences in implementing the Business' capital plan. However, management's expectations are that total fiscal year 2004 capital maintenance expenditures will be higher than fiscal year 2003 as capital is invested to support the growth in the core cheque supply business and to replace certain components of its existing computer and telephony infrastructure.

In March 2004, the Fund announced an increase in its monthly distributions from $0.1150 per unit (equivalent to $1.38 per annum) to $0.1168 per unit (equivalent to $1.40 per annum) effective for unitholders of record on March 31, 2004. During the first quarter of 2004, the Fund declared distributions of $13.2 million compared to $12.7 million for the same period in the prior year, an increase of 3.5%.

SUMMARY OF QUARTERLY RESULTS

Eight Quarter Statement of Income – Summary

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

	2004				2003			2002
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	**$ 68,589**	$ 63,636	$ 63,404	$ 62,676	$ 62,067	$ 58,938	$ 56,770	$ 56,689
Operating income	**19,803**	18,777	18,732	18,368	18,202	17,890	17,877	17,535
Net income	**12,918**	12,305	12,289	12,035	11,828	11,242	11,640	11,586
Net income per unit, basic and diluted	**$ 0.3407**	$ 0.3245	$ 0.3241	$ 0.3174	$ 0.3119	$ 0.2965	$ 0.3070	$ 0.3055

Eight Quarter Statement of Distributable Cash – Summary

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

	2004				2003			2002
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Distributable cash	**$ 15,469**	$ 15,247	$ 15,501	$ 15,003	$ 14,331	$ 14,609	$ 14,134	$ 13,855
Distributions declared	**13,151**	13,083	12,889	12,889	12,707	12,707	12,707	12,320
Distributable cash per unit	**$ 0.4079**	$ 0.4021	$ 0.4088	$ 0.3956	$ 0.3779	$ 0.3853	$ 0.3727	$ 0.3654
Distributions per unit	**$ 0.3468**	$ 0.3450	$ 0.3399	$ 0.3399	$ 0.3351	$ 0.3351	$ 0.3351	$ 0.3249

CASH FLOW AND LIQUIDITY

Summary of Cash Flows Activities

(in thousands of Canadian dollars, unaudited)	March 31, 2004	Quarter ended March 31, 2003
Cash flows from operating activities	**$ 18,497**	$ 14,729
Cash flows used for distributions	**(13,083)**	(12,708)
Cash flows used in other financing activities	**—**	—
Cash flows from investing activities	**(3,243)**	(2,812)
Net change in cash	**$ 2,171**	$ (791)

Cash Flows from Operating Activities

During the quarter ended March 31, 2004, the Business generated $18.4 million in cash flow from operating activities before changes in non-cash working capital items, an increase of $1.6 million, or 9.6%, over the same period in the prior year. This increase was related to the growth in net income as described earlier in this report. The net non-cash working capital balance remained consistent with the balance at December 31, 2003 as increases in receivables were offset by decreases in inventory and prepaid amounts. In the quarter ended March 31, 2003, the Business' cash flow from operating activities of $14.7 million reflected the investment of cash in non-cash working capital items of $2.1 million. This investment was reduced in the subsequent quarter of 2003.

Cash Flows Used for Distributions and Other Financing Activities

Monthly distributions are declared by the Fund for unitholders of record on the last business day of each month and are paid within 31 days following each month end. As at March 31, 2004 and April 16, 2004, 37,920,792 trust units were outstanding. This total amount has remained unchanged since April 2, 2002.

During the quarter ended March 31, 2004, the Fund paid distributions of $13.1 million, compared to $12.7 million for the same period in the prior year. This is an increase of 3.0% and is consistent with the Fund's financial goal of delivering stable and growing cash distributions to unitholders.

The Business did not engage in any other financing activities during the first quarter of 2004 or the first quarter of 2003.

Expenditures on Capital and Other Assets

(in thousands of Canadian dollars, unaudited)	March 31, 2004	Quarter ended March 31, 2003
Maintenance capital		
Machinery and equipment	$ 38	$ 145
Computer equipment and software	1,193	1,075
Other	465	—
Total maintenance capital	1,696	1,220
Contract payments, maintenance	1,250	1,250
Total maintenance expenditures	2,946	2,470
Non-maintenance capital		
New programs	97	—
Production efficiency initiatives	—	342
Total non-maintenance capital	97	342
Contract payments, non-maintenance	200	—
Total non-maintenance expenditures	297	342
Total capital investments	$ 3,243	$ 2,812

The table above sets out capital expenditures, which include both capital assets and payments under customer contracts. The Fund has various payment obligations under customer contracts. Certain long-term customer contracts provide for contract or program initiation payments to be made and these are treated as non-maintenance capital in that they are not regularly recurring disbursements. Other customer contract payments are made annually over the life of the contract and therefore are treated as recurring maintenance capital. The aggregate of all contract payments, both fixed and variable, recognize, among other things, the high degree of integration and sharing between Davis + Henderson and the financial institutions of the many activities related to ordering, data handling, customer service and other activities undertaken by financial institutions as part of the operation of the cheque supply and other programs.

The Fund's capital program provides for continued annual maintenance expenditures to be funded by the cash flow from operations. The annual cost is expected to increase in line with the growth in business, which is expected to be primarily directed towards its call centre activities, the implementation of new programs within the cheque supply business and the maintenance of its technology infrastructure.

Non-maintenance expenditure plans for fiscal 2002 to 2005, which support the development of new programs and services, major production efficiency initiatives and certain contract payments, as described above, are expected to total approximately $18.0 million, of which $4.9 million has been spent to date on asset additions and $2.8 million on contract initiation payments.

Cash Balances and Long-term Indebtedness

At March 31, 2004, cash and cash equivalents totalled $7.2 million, compared to $5.0 million at December 31, 2003. The Fund, from time to time, may apply portions of its cash balances to reduce the outstanding balance of its credit facilities, in order to more effectively manage its capital, but did not make any debt reduction payments this quarter.

As at March 31, 2004, total long-term indebtedness was $67.0 million, unchanged since the Fund's prior fiscal year end of December 31, 2003.

The Business continues to have access to $98 million of term credit facilities due June 30, 2006, which consist of a $60 million non-revolving term loan and a $38 million revolving credit facility. As of March 31, 2004, and consistent with December 31, 2003, the Business had drawn $60.0 million under the non-revolving term loan and $7.0 million under the revolving credit facility. The Business is permitted to draw on the revolving facility's available balance of $31 million to fund capital expenditures or for other general corporate purposes.

The Business' credit facilities bear interest on a floating-rate basis. At the end of the first quarter in 2002, the Business implemented a hedging program, fixing interest rates on 60% of its then outstanding debt. In July 2003, the Business entered into two additional interest-rate swaps such that 100% of the debt was hedged. On March 15, 2004, one of the hedges matured with the result that 83% of the currently outstanding debt is now hedged.

The Business has fixed interest rates on $56 million of its outstanding debt at rates of between 5.89% and 7.33%. The average effective interest rate applicable to the Fund's total indebtedness was 6.1% as of March 31, 2004.

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

ACCOUNTING ESTIMATES

A long-term incentive plan for management was implemented on January 1, 2004, which, subject to the performance criteria and vesting terms, would be paid shortly after December 31, 2006. For the first quarter of 2004, a pro-rated portion of the estimated ultimate obligation, assuming key goals and objectives are met, was recognized in operating expenses. A key assumption in making this estimate was the use of the current unit price at March 31, 2004. For a full description of this plan, please see the Management Information Circular dated March 15, 2004, available on SEDAR at www.sedar.com.

OUTLOOK

During the first quarter, and for the remaining quarters of fiscal 2004, the percentage of year-over-year revenue growth will benefit from the inclusion of RBC Centura Bank revenues. This, in turn, is expected to allow the Business to exceed, in fiscal 2004, its long-term annual revenue growth objective of 3% to 5%. The contribution margin from the RBC Centura Bank business is expected to be less than the average margin for the balance of Davis + Henderson's business and, as such, will have a modest impact on cash flow. The Business' long range objectives remain unchanged, with targeted sales growth of 3% to 5% and the maintenance of operating margins with the overall objective to modestly grow distributions.

As set out in the Business' statement of strategy, the objective is to grow profits from the core cheque supply program and use the capabilities already in place to introduce and expand complementary products and programs and to serve the Business' Canadian bank customers as they expand their operations in the United States.

The Business' operational plans include many initiatives which, combined, are intended to allow the Business to meet its objectives. Meeting the growth objective is not dependent on any one of the initiatives as most of the new programs and services are individually not large. Examples of such programs include the continued rollout of the security deposit bag program, the pre-authorized credit and debit switching service and the recently implemented Cheque*Essentials* program. Additionally, the continued increase in adoption rate of the Business' Cheque*Central* and Cheque*Advisor* programs is expected to increase the Business' average value per order.

The Business' capital program provides for continued annual maintenance expenditures to be funded by cash flows from operations. The annual cost is expected to increase in line with the growth in business, which is expected to be directed primarily towards its call centre activities, the implementation of new programs within the cheque supply business and the maintenance and some replacement of its technology infrastructure.

Non-maintenance expenditure plans for fiscal 2002 through 2005, which support the development of new programs and services and major production efficiency initiatives and for non-recurring contract payments, are expected to require $18 million, of which $4.9 million has been spent to date on asset additions and $2.8 million on contract initiation payments. With respect to its U.S. initiative, to date the Business has spent $1.3 million of anticipated expenditures of $2 million.

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'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 above, as well as in greater detail in the Fund's most recently filed Annual Information Form available on SEDAR.

April 16, 2004

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

As at	March 31, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,152	$ 4,981
Accounts receivable	8,640	7,432
Inventory	6,151	6,527
Prepaid expenses	1,107	1,820
	23,050	20,760
Future income taxes (note 2)	30,352	31,715
Capital assets (note 3)	25,035	25,408
Other assets (note 4)	9,554	9,988
Intangible assets (note 5)	11,004	11,588
Goodwill	359,385	359,385
	$ 458,380	$ 458,844
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 23,946	$ 23,750
Distributions payable to unitholders	4,429	4,361
Current portion of disbursement obligations on customer contracts (note 6)	3,025	3,025
	31,400	31,136
Disbursement obligations on customer contracts (note 6)	3,125	3,625
Obligations relating to employee future benefits (note 7)	1,360	1,355
Long-term indebtedness (note 8)	67,000	67,000
	102,885	103,116
Unitholders' Equity:		
Trust units (note 9)	365,385	365,385
Deficit	(9,890)	(9,657)
	355,495	355,728
Commitments (note 10)		
	$ 458,380	$ 458,844

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

Paul Damp
Trustee

Allan Gotlieb
Trustee

Brad Nullmeyer
Trustee

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

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

Quarter ended	March 31, 2004	March 31, 2003
Sales	$ 68,589	$ 62,067
Cost of sales	41,077	37,414
	27,512	24,653
Operating expenses	7,709	6,451
	19,803	18,202
Interest expense	1,085	1,151
Amortization expense	4,134	4,154
Income before income taxes	14,584	12,897
Income taxes (note 2):		
Current	303	250
Future	1,363	819
	1,666	1,069
Net income for the period	12,918	11,828
Deficit, beginning of period	(9,657)	(6,547)
Distributions	(13,151)	(12,708)
Deficit, end of period	$ (9,890)	$ (7,427)
Net income per trust unit, basic and diluted	$ 0.3407	$ 0.3119

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)

Quarter ended	March 31, 2004	March 31, 2003
Cash and cash equivalents provided by (used in):		
OPERATING ACTIVITIES		
Net income	$ 12,918	$ 11,828
Add:		
Amortization expense	4,134	4,154
Future income taxes	1,363	819
	18,415	16,801
Changes in non-cash working capital items	77	(2,106)
Changes in obligations relating to employee future benefits	5	34
	18,497	14,729
FINANCING ACTIVITIES		
Distributions paid to public unitholders	(13,083)	(12,708)
	(13,083)	(12,708)
INVESTING ACTIVITIES		
Expenditures on capital assets	(1,793)	(1,562)
Expenditures on other assets	(1,450)	(1,250)
	(3,243)	(2,812)
Increase (decrease) in cash and cash equivalents for the period	2,171	(791)
Cash and cash equivalents, beginning of period	4,981	12,046
Cash and cash equivalents, end of period	$ 7,152	$ 11,255
Supplementary information:		
Cash interest paid	$ 620	$ 1,088
Cash income taxes paid	$ 421	$ 252

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 business of providing cheque supply program services to Canadian financial institutions. Davis + Henderson L.P. commenced operations on December 20, 2001, when it acquired the Davis + Henderson business. Simultaneously, on December 20, 2001, the Fund completed an initial public offering and acquired a 45.4% interest in Davis + Henderson L.P. On January 10, 2002, under an over-allotment option, the Fund acquired an additional 4.5% interest in Davis + Henderson L.P. On April 2, 2002, the Fund acquired the remaining balance of Davis + Henderson L.P. and now holds 100%.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared using the following accounting policies generally accepted in Canada and follow the same accounting policies and their method of application as the Fund's consolidated financial statements for the year ended December 31, 2003, which are included in the 2003 Annual Report. 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 year ended December 31, 2003.

The preparation of financial statements requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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 its customers. The Fund 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 Fund 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, being 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 Fund's debt. The Fund's policy is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The Fund 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 Fund's program to manage the fixed and floating interest rate mix of the Fund'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 is 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 of raw materials 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 Fund capitalizes direct costs related to the development of new products and services until the commencement of commercial operation, at which time all related costs are amortized on a straight-line basis over their estimated useful life.

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

Goodwill

Goodwill reflects the price paid for the Davis + Henderson business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment annually.

Intangible Assets

Intangible assets represent the fair market value of rights related to the cheque supply outsourcing contracts obtained by the Fund upon the acquisition of the Davis + Henderson business. Intangible assets are amortized over seven years. The carrying value of the intangible assets is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Revenue Recognition

The Fund is the principal on all sales transactions and has presented sales based on the gross amount billed to the customers. Revenue for services and products sales are recognized when the services are completed and the products are shipped.

Net Income per Unit

Net income per unit is calculated by dividing net income by the weighted average number of units outstanding during the period.

Foreign Currency Translation

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

Future Income Taxes

Future income taxes of the Fund's subsidiary are determined using the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined on the basis of 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 Fund provides certain post-retirement benefits for eligible 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 Fund.

For the Fund's defined contribution pension plan, annual pension expense is based on the Fund's required contribution to the plan during the period.

2. 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 corporations tax.

The provision for income taxes in the consolidated statement of income represents an effective rate different from the Canadian statutory rate of 34.11% (Q1 2003 – 33.63%). The differences are as follows:

		Quarter ended
	March 31, 2004	March 31, 2003
Income before income taxes	$ 14,584	$ 12,897
Income subject to tax in the hands of the unitholders	10,439	10,051
Income of subsidiary company	4,145	2,846
Canadian statutory rate	34.11%	33.63%
Income taxes at statutory rate	1,414	957
Increase (decrease) resulting from:		
Large corporations tax	197	250
Corporate minimum tax	106	—
Net tax effect of expenses that are deductible for income tax purposes	(51)	(138)
Income tax expense, current and future	$ 1,666	$ 1,069

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

	March 31, 2004	As at December 31, 2003
Future income tax assets:		
Goodwill	$ 27,481	$ 28,451
Capital assets	(1,521)	(1,386)
Loss carryforward	3,974	4,339
Other	418	311
	$ 30,352	$ 31,715

Loss carryforward is available to claim against income taxes up to 2011.

3. CAPITAL ASSETS

			As at March 31, 2004
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	$ 25,689	$ 13,445	$ 12,244
Machinery and equipment	13,605	3,027	10,578
Leasehold improvements	4,092	1,879	2,213
	$ 43,386	$ 18,351	$ 25,035

			As at December 31, 2003
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	$ 24,360	$ 11,889	$ 12,471
Machinery and equipment	13,566	2,647	10,919
Leasehold improvements	3,667	1,649	2,018
	$ 41,593	$ 16,185	$ 25,408

Amortization during the quarter ended March 31, 2004 was $2,166 (Q1 2003 – $2,074).

4. OTHER ASSETS

		As at
	March 31, 2004	December 31, 2003
Cost:		
Long-term supply contracts	$ 19,446	$ 18,495
Deferred charges and other	2,352	2,353
	21,798	20,848
Accumulated amortization	(12,244)	(10,860)
	$ 9,554	$ 9,988

Amortization during the quarter ended March 31, 2004 was $1,384 (Q1 2003 – $1,497).

5. INTANGIBLE ASSETS

		As at
	March 31, 2004	December 31, 2003
Cost	$ 16,328	$ 16,328
Accumulated amortization	(5,324)	(4,740)
	$ 11,004	$ 11,588

Amortization during the quarter ended March 31, 2004 was $584 (Q1 2003 – $583).

6. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

		As at
	March 31, 2004	December 31, 2003
Current portion	$ 3,025	$ 3,025
Long-term portion	3,125	3,625
Total disbursement obligations on customer contracts	$ 6,150	$ 6,650

The Fund has customer contract disbursement obligations payable as of March 31, 2004 as follows, for the years ending:

December 31, 2004	$ 2,525
December 31, 2005	2,375
December 31, 2006	1,250
	$ 6,150

7. EMPLOYEE FUTURE BENEFITS

The Fund'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 Fund's defined contribution pension plan for the quarter ended March 31, 2004 was $0.3 million (Q1 2003 – $0.3 million).

In addition to the Fund's pension plan, the Fund also provides certain health care, life insurance and dental benefits to eligible employees under a non-pension post-retirement benefit plan. Information about the Fund's non-pension post-retirement benefit plan is as follows:

		As at
	March 31, 2004	December 31, 2003
Accrued non-pension post-retirement benefit obligation		
Balance at beginning of period	$ 1,355	$ 1,289
Service cost – benefits earned	12	50
Interest cost	21	84
Benefits paid	(28)	(68)
Balance at end of period	1,360	1,355
Accrued non-pension post-retirement benefit liability		
Plan deficit	1,360	1,355
Accrued non-pension post-retirement benefit liability	$ 1,360	$ 1,355

		Quarter ended
	March 31, 2004	March 31, 2003
Fund expense		
Service cost – benefits earned	$ 12	$ 12
Interest cost	21	21
Net non-pension post-retirement plan expense	$ 33	$ 33
Actuarial assumptions		
Discount rate	6.75%	6.75%
Medical inflation[1]	9.00%	9.00%
Dental inflation	5.00%	5.00%

[1] Medical inflation is assumed to be 9% in 2004, grading down to 5% in 2009.

8. LONG-TERM INDEBTEDNESS

	March 31, 2004	As at December 31, 2003
Non-revolving term loan	$ 60,000	$ 60,000
Revolving credit facility	7,000	7,000
	$ 67,000	$ 67,000

The Fund has $98 million of term credit facilities due June 30, 2006 (December 31, 2003 – $98 million), consisting of a $60 million non-revolving term loan and a $38 million revolving credit facility. The facilities bear interest at rates that depend on certain financial ratios of the Fund 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 Fund's assets and by a pledge of the Fund's indirect ownership interests in Davis + Henderson L.P.

As of March 31, 2004, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on $56 million or 83.6% of its outstanding term indebtedness are effectively fixed at interest rates of between 5.89% and 7.33% per annum for terms ending between December 15, 2004 and June 30, 2008. As of March 31, 2004, the fair value of outstanding interest-rate swaps was approximately $1.9 million (December 31, 2003 – $1.2 million), which the Fund would be required to pay if it were to close out the contracts.

The terms of two interest-rate swap hedge contracts extend beyond the current term of the credit facilities. The Fund anticipates that the credit facilities will be extended prior to its current due date of June 30, 2006. As at March 31, 2004, the fair value of these two outstanding interest-rate swaps was approximately $0.7 million, which the Fund would be required to pay if it were to close out the contracts.

9. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Trust unit transactions 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
Balances, March 31, 2004 and 2003	37,920,792	$ 388,691	$ 23,306	$ 365,385

The weighted average number of units outstanding for the quarter ended March 31, 2004 and 2003 was 37,920,792.

10. COMMITMENTS

As of March 31, 2004, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows for the years ending:

December 31, 2004	$ 2,343
December 31, 2005	2,685
December 31, 2006	2,446
December 31, 2007	684
December 31, 2008	518
Thereafter	1,701
	$ 10,377

11. RELATED PARTY TRANSACTIONS

The Fund has a supplies and equipment maintenance contract with an entity related to an Officer of the Fund. Total amount paid during the quarter ended March 31, 2004 was $29 (Q1 2003 – $26). Based on a review of amounts charged by third parties for similar services, the Fund determined the contract to be at fair market value.

12. SIGNIFICANT CUSTOMERS

The Fund operates in one segment, an integrated service offering to Canadian financial institutions and their account holders. For the quarter ended March 31, 2004, the Fund earned 74% of its revenue from its six largest customers.

13. COMPARATIVE FIGURES

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

SUPPLEMENTARY FINANCIAL INFORMATION

Operating Results by Period[1]

(see notes below)

(in thousands of Canadian dollars except per unit amounts, unaudited)	Three months ended March 31, 2004 (reported)	Three months ended December 31, 2003 (reported)	Three months ended September 30, 2003 (reported)	Three months ended June 30, 2003 (reported)	Three months ended March 31, 2003 (reported)
Sales	$ **68,589**	$ 63,636	$ 63,404	$ 62,676	$ 62,067
Cost of sales[1]	**41,077**	38,230	38,061	37,683	37,414
Operating expenses[1]	**7,709**	6,629	6,611	6,625	6,451
Operating income	**19,803**	18,777	18,732	18,368	18,202
Interest expense	**1,085**	1,157	1,151	1,171	1,151
Amortization and income taxes	**5,800**	5,315	5,292	5,162	5,223
Net income for the period	**12,918**	12,305	12,289	12,035	11,828
Add:					
Amortization	**4,134**	3,949	4,106	4,188	4,154
Future income taxes	**1,363**	1,114	933	717	819
Cash flow from operations	**18,415**	17,368	17,328	16,940	16,801
Less: Maintenance capital expenditures:					
Capital and other assets	**1,696**	1,476	1,202	1,312	1,220
Contract payments	**1,250**	645	625	625	1,250
Distributable cash[2]	$ **15,469**	$ 15,247	$ 15,501	$ 15,003	$ 14,331
Distributions declared	$ **13,151**	$ 13,083	$ 12,889	$ 12,889	$ 12,707
Net income per unit	$ **0.3407**	$ 0.3245	$ 0.3241	$ 0.3174	$ 0.3119
Cash flow from operations per unit	$ **0.4856**	$ 0.4579	$ 0.4570	$ 0.4467	$ 0.4431
Distributable cash per unit	$ **0.4079**	$ 0.4021	$ 0.4088	$ 0.3956	$ 0.3779
Distributions per unit	$ **0.3468**	$ 0.3450	$ 0.3399	$ 0.3399	$ 0.3351

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

[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 earnings measure is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

Condensed Balance Sheet

(in thousands of Canadian dollars except per unit amounts, unaudited)	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Cash and cash equivalents	$ **7,152**	$ 4,981	$ 8,269	$ 14,573	$ 11,255
Other current assets	**15,898**	15,779	17,187	16,000	16,531
Future income taxes	**30,352**	31,715	32,829	33,762	34,479
Capital and other assets	**34,589**	35,396	36,916	38,074	37,605
Goodwill and other intangible assets	**370,389**	370,973	371,556	372,139	372,722
	$ **458,380**	$ 458,844	$ 466,757	$ 474,548	$ 472,592
Payables and other current liabilities	$ **31,400**	$ 31,136	$ 32,652	$ 31,223	$ 30,311
Other long-term liabilities	**4,485**	4,980	5,599	6,220	4,323
Long-term indebtedness	**67,000**	67,000	72,000	80,000	80,000
Unitholders' equity	**355,495**	355,728	356,506	357,105	357,958
	$ **458,380**	$ 458,844	$ 466,757	$ 474,548	$ 472,592

Distribution History

Month	2004	2003	2002	Distributions[1] per unit 2001
January	$ **0.1150**	$ 0.1117	$ 0.1083	$ —
February	**0.1150**	0.1117	0.1083	—
March	**0.1168**	0.1117	0.1083	—
April		0.1133	0.1083	—
May		0.1133	0.1083	—
June		0.1133	0.1083	—
July		0.1133	0.1117	—
August		0.1133	0.1117	—
September		0.1133	0.1117	—
October		0.1150	0.1117	—
November		0.1150	0.1117	—
December [2]		0.1150	0.1117	0.0427
	$ **0.3468**	$ 1.3599	$ 1.3200	$ 0.0427

[1] Monthly distributions are made to unitholders of record on the last business day of each month and are paid within 31 days following each month end.

[2] Distribution paid in 2001 is in respect of the 12 calendar days from December 20, 2001 to December 31, 2001.

SUPPLEMENTARY FINANCIAL INFORMATION *continued*

Tax Allocation of Distributions

The distributions declared for the quarter ended March 31, 2004 have been estimated as follows for income tax purposes:

	2004 Percent
Dividend income	**20.7%**
Interest income	**70.0%**
Return of capital	**9.3%**
Total distributions for the period	**100.0%**

Other Statistics

(in thousands of dollars except per unit amounts)	Three months ended March 31, 2004	Three months ended December 31, 2003	Three months ended September 30, 2003	Three months ended June 30, 2003	Three months ended March 31, 2003
Trading price range of units (TSX: "DHF.UN")					
High	**$ 19.40**	$ 17.50	$ 15.65	$ 15.20	$ 13.69
Low	**$ 16.71**	$ 15.10	$ 14.52	$ 12.91	$ 12.48
Close	**$ 19.40**	$ 17.45	$ 15.30	$ 15.00	$ 12.94
Average daily volume	**92**	67	99	82	92
Number of units outstanding at period end	**37,921**	37,921	37,921	37,921	37,921
Market capitalization at period end	**$ 735,663**	$ 661,718	$ 580,188	$ 568,812	$ 490,695

DAVIS + HENDERSON INCOME FUND

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Sanford McFarlane
Co-Chief Executive Officer

Bob Cronin
Co-Chief Executive Officer

Chad Alderson
Vice President and
Chief Technology Officer

Yves Denommé
Vice President,
Operations

Suzanne Mandrozos
Vice President,
Human Resources

Catherine Martin
Chief Financial Officer

Serge Rivest
Vice President,
Sales and Marketing

Joanne Sisco
Vice President,
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Toronto Stock Exchange Symbol
DHF.UN

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Website: www.dhif.com

Davis + Henderson
Income Fund