



Q2

QUARTERLY REPORT
QUARTER ENDED JUNE 30, 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

Fellow Unitholders:

Davis + Henderson Income Fund maintained solid growth in sales, net income, and distributable cash in the second quarter and six-month period ended June 30, 2004, as we continued to benefit from first-time volumes under a new contract with the U.S. subsidiary of a Canadian financial institution, as well as from ongoing efforts to increase the value of all of our customer programs.

More specifically, for the second quarter Davis + Henderson achieved:

- Sales of \$68.9 million, net income of \$12.5 million, and distributable cash of \$16.0 million.
- Distributable cash of \$0.4223 per unit.
- Declared distributions per unit of \$0.3504 (\$1.40 per unit annualized), an annual increase of 3.1% over last year.

One of the highlights of the first half of 2004 was the successful roll-out on January 1, 2004 of our arrangement with RBC Centura Bank. This long-term contract was secured in June of 2003, and volumes under this program had a positive impact on our sales for both the three-month and six-month period of 2004.

In addition, sales growth from our cheque supply and complementary programs remained solidly on plan and reflected our team's success in adding value through enhanced and repositioned products, ongoing consumer migration to more effective and efficient call centre and web-based ordering channels, and the development of new programs, such as eSwitch. Clearly, this was an active quarter for us and the business performed well on all fronts.

Additionally, on July 23, 2004 at a special meeting, unitholders approved a motion to modify and update the structure of the Fund using a trust-on-trust-on-partnership model. This is a positive change for Davis + Henderson, which will result in increased tax efficiencies in future years.

Overall, we believe we're on target as we enter the second half of the year. With the benefit of our strong results to date, we intend on increasing our capital spend to further support our call centre activities and the enhancement of certain components of our technology infrastructure.

We believe our growth strategies are working in support of our targeted financial objective of growing our revenue by 3% to 5% and delivering stable and growing distributions to our unitholders.

For a full report on the results and outlook, please see our Management's Discussion and Analysis and consolidated financial statements.

Yours sincerely,



C. Sanford McFarlane

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

July 23, 2004



Robert Cronin

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") for the second quarter of 2004 should be read in conjunction with 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 from those described in that report, unless otherwise stated.

STRATEGY

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 financial institution customers as they expand their operations in the United States.

For the second quarter ended June 30, 2004, Davis + Henderson continues to progress on all three strategies. Order migration through the *ChequeAdvisor* and *ChequeCentral* programs contributed to growing sales and profits from the core cheque supply program, new complementary programs are being developed, and we continue to successfully serve the United States operations of one of our Canadian financial institution customers.

OPERATING RESULTS FOR THE SECOND QUARTER

Consolidated Statement of Income

(in thousands of Canadian dollars except per unit amounts, unaudited)	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Sales	\$ 68,864	\$ 62,676	\$ 137,453	\$ 124,743
Cost of sales	40,914	37,683	81,991	75,098
Operating expenses	8,514	6,625	16,223	13,075
Operating income	19,436	18,368	39,239	36,570
Interest expense	1,045	1,171	2,130	2,322
Amortization and income taxes	5,846	5,162	11,646	10,385
Net income	\$ 12,545	\$ 12,035	\$ 25,463	\$ 23,863
Net income per unit	\$ 0.3308	\$ 0.3174	\$ 0.6715	\$ 0.6293

For the three months ended June 30, 2004, the Business recorded sales of \$68.9 million, up \$6.2 million, or 9.9%, from the prior year's second quarter. The implementation of the long-term cheque supply contract with RBC Centura Bank, a member of RBC Financial Group, during the first quarter of 2004, was a main contributor to the year-over-year increase in sales. Additionally, the year-over-year growth was related to increased values of orders received as a result of program enhancements and the continued migration of orders to *ChequeAdvisor* and *ChequeCentral*, our call centre and web-based order programs. Higher than expected volume in bank programs, such as line of credit cheque products, has also contributed to the overall increase in sales. Increase in sales from our complementary programs, such as our deposit and *eSwitch* programs, also contributed to sales growth.

Sales for the six-month period ended June 30, 2004, were \$137.5 million, an increase of \$12.7 million, or 10.2%, over the prior year for the reasons discussed above and as a result of one extra business day in 2004 as a result of the leap year.

As previously disclosed in the first quarter of 2004, the Fund has reclassified all customer service costs from operating expenses to cost of sales to better present the increased level of ordering activity associated with this function. 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 \$3.0 million to \$28.0 million compared with the same period last year. Gross margin for the three months ended June 30, 2004 was 40.6% compared with 39.9% for the second quarter of 2003. Gross profit for the six-month period increased by \$5.8 million, or 11.7%, compared with the same period in 2003, with gross margins increasing from 39.8% to 40.3%. 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 \$1.9 million, or 28.5%, during the second quarter of 2004 compared to the second quarter of 2003. When comparing the first six months of 2004 to the same period in 2003, operating expenses increased by \$3.1 million or 24.1%. In the second quarter of 2004, the Fund recorded \$0.6 million for legal and professional costs related to a proposed internal reorganization. On July 23, 2004, unitholders will be asked to approve the replacement of the intermediary corporation, D + H Holdings Corp., with a trust, converting the Davis + Henderson organization to a trust-on-trust-on-partnership structure. If approved, savings in taxes for the balance of the year are expected to offset the costs incurred to implement the structure.

Excluding the expenses associated with the proposed reorganization, operating expenses increased \$1.3 million and \$2.5 million, respectively, for the three-month and six-month periods over the comparable periods in 2003. These increases are attributed to growth in technology expenses, as a result of the implementation of the U.S. operations, continuing activities directed towards the *ChequeCentral* and *ChequeAdvisor* programs, and variable compensation increases related to bonus programs tied to the financial performance of the Business. Also in 2004, as described in the Fund's Management Information Circular dated March 15, 2004, the Business launched a phantom unit plan for senior management and the estimated cost of the program is charged to operating expenses. 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 \$1.1 million, or 5.8%, when comparing the second quarter of 2004 to the same quarter in 2003, and \$2.7 million, or 7.3%, when comparing the six-month periods ended June 30. Operating income as a percentage of sales decreased year-over-year from 29.3% to 28.2% for the three-month period and from 29.3% to 28.5% for the six-month period. Changes were a result of the factors referred to above.

Net interest expense decreased from \$1.2 million for the three months ended June 30, 2003, to \$1.0 million for the three months ended June 30, 2004. Lower interest expenses relate to the reduction of loan balances over the last four quarters.

MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

Amortization during the second quarter decreased by \$0.2 million, or 5.1%, from the prior year, mainly due to older assets being fully amortized. Similarly, amortization for the six months ended June 30, 2004, was lower than for the same period last year.

Income taxes increased by \$0.9 million to \$1.9 million during the second quarter of 2004 relative to the comparable period in 2003. Of this total amount, the component related to future income taxes increased by \$0.7 million as a result of increased profits. The balance of the increase in tax expense, related to current taxes, is a result of the payment of corporate minimum tax, which will not be recoverable. Taxes for the six-month period ended June 30, 2004 increased by \$1.5 million to \$3.5 million over the prior year, again as a result of increased profits and corporate minimum tax payments.

Net income of \$12.5 million for the second quarter ended June 30, 2004 increased by \$0.5 million, or 4.2%, when compared with the same quarter in the previous year. For the six-month period ended June 30, 2004, the increase was \$1.6 million, or 6.7%, over the comparable prior year period.

Consolidated Statement of Distributable Cash

<i>(in thousands of Canadian dollars except per unit amounts, unaudited)</i>	June 30, 2004	Three months ended June 30, 2003	June 30, 2004	Six months ended June 30, 2003
Net income for the period	\$ 12,545	\$ 12,035	\$ 25,463	\$ 23,863
Add:				
Amortization	3,973	4,188	8,107	8,342
Future income taxes	1,437	717	2,800	1,536
	17,955	16,940	36,370	33,741
Less:				
Maintenance capital expenditures				
Capital and other assets	1,317	1,312	3,013	2,532
Contract payments	625	625	1,875	1,875
Distributable cash	\$ 16,013	\$ 15,003	\$ 31,482	\$ 29,334
Distributions declared	\$ 13,287	\$ 12,888	\$ 26,438	\$ 25,596
Net income per unit	\$ 0.3308	\$ 0.3174	\$ 0.6715	\$ 0.6293
Distributable cash per unit	\$ 0.4223	\$ 0.3956	\$ 0.8302	\$ 0.7735
Distributions declared per unit	\$ 0.3504	\$ 0.3399	\$ 0.6972	\$ 0.6750

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 \$1.0 million, or 6.7%, to \$16.0 million for the second quarter of 2004 relative to \$15.0 million recorded in the second quarter of 2003. For the six-month period ended June 30, 2004, distributable cash increased by \$2.1 million, or 7.3%, over the comparable period in the prior year. These increases in both periods, as compared to the prior year, were primarily attributed to the growth in net income before amortization and future income taxes. Maintenance capital expenditures, which are deducted in arriving at distributable cash, will fluctuate based on the timing differences in implementing the Business' capital strategy, and although expenditures in the second quarter of 2004 are comparable to those made in 2003, management expects to increase its capital spend in 2004. Management expects that total fiscal year 2004 capital maintenance expenditures will be up to \$1.5 million higher than maintenance expenditures in fiscal year 2003. The increase will be invested to support the growth in the core cheque supply business and to replace and enhance certain components of its existing computer and telephony infrastructure.

Declared distributions of \$13.3 million for the second quarter of 2004 increased by \$0.4 million, or 3.1%, compared with the second quarter of 2003. This increase reflects two increases in declared monthly distributions per unit since June 30, 2003. The current monthly distribution rate is \$0.1168 per unit, or \$1.40 per unit annualized. The six-month period ending June 30, 2004 saw a similar change from the prior year as declared distributions increased by \$0.8 million, or 3.3%.

SUMMARY OF QUARTERLY RESULTS

Eight Quarter Consolidated Statement of Income – Summary

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

	2004				2003			2002
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	\$ 68,864	\$ 68,589	\$ 63,636	\$ 63,404	\$ 62,676	\$ 62,067	\$ 58,938	\$ 56,770
Operating income	19,436	19,803	18,777	18,732	18,368	18,202	17,890	17,877
Net income	12,545	12,918	12,305	12,289	12,035	11,828	11,242	11,640
Net income per unit	\$ 0.3308	\$ 0.3407	\$ 0.3245	\$ 0.3241	\$ 0.3174	\$ 0.3119	\$ 0.2965	\$ 0.3070

Eight Quarter Consolidated Statement of Distributable Cash – Summary

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

	2004				2003			2002
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Distributable cash	\$ 16,013	\$ 15,469	\$ 15,247	\$ 15,501	\$ 15,003	\$ 14,331	\$ 14,609	\$ 14,134
Distributions declared	13,287	13,151	13,083	12,889	12,888	12,708	12,707	12,707
Distributable cash per unit	\$ 0.4223	\$ 0.4079	\$ 0.4021	\$ 0.4088	\$ 0.3956	\$ 0.3779	\$ 0.3853	\$ 0.3727
Distributions per unit	\$ 0.3504	\$ 0.3468	\$ 0.3450	\$ 0.3399	\$ 0.3399	\$ 0.3351	\$ 0.3351	\$ 0.3351

CASH FLOW AND LIQUIDITY

Consolidated Summary of Cash Flow Activities

<i>(in thousands of Canadian dollars, unaudited)</i>	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Cash flows from				
operating activities	\$ 19,561	\$ 18,945	\$ 38,058	\$ 33,674
Cash flows used for distributions	(13,287)	(12,828)	(26,370)	(25,536)
Cash flows used in other				
financing activities	(4,000)	—	(4,000)	—
Cash flows used in				
investing activities	(2,069)	(2,799)	(5,312)	(5,611)
Net change in cash	\$ 205	\$ 3,318	\$ 2,376	\$ 2,527

Cash Flows from Operating Activities

During the quarter ended June 30, 2004, the Business generated \$18.0 million in cash flow from operating activities before changes in non-cash working capital items, an increase of \$1.0 million, or 6.0%, 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 reduction in non-cash working capital balance contributed an additional \$1.6 million to cash flows during the quarter. This increase was related primarily to temporary increases in the Business' short-term trade liabilities, which are expected to reverse in upcoming quarters.

During the six-month period ended June 30, 2004, total cash flows from operating activities were \$38.1 million compared with \$33.7 million in 2003, of which \$1.7 million related to the above described changes in non-cash working capital items, which are expected to reverse later in the year. Consistent with the change in the recently ended quarter, growth in net income was the main factor for the year-over-year increase in total cash flows.

Cash Flows Used for Distributions

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 June 30, 2004 and July 16, 2004, 37,920,792 trust units were outstanding. This total number of outstanding units has remained unchanged since April 2, 2002.

During the quarter ended June 30, 2004, the Fund paid distributions of \$13.3 million, compared to \$12.8 million for the same period in the prior year. This is an increase of 3.6% and is consistent with the Fund's financial goal of delivering stable and growing cash distributions to unitholders.

Other Financing Activities

During the quarter ended June 30, 2004, the Fund used \$4.0 million of cash to reduce its outstanding revolving credit facility. Total long-term indebtedness was \$63.0 million at June 30, 2004 as compared to \$67 million at March 31, 2004 and December 31, 2003.

Expenditures on Capital and Other Assets

<i>(in thousands of Canadian dollars, unaudited)</i>	Three months ended			Six months ended
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Maintenance capital				
Machinery and equipment	\$ 69	\$ 113	\$ 107	\$ 258
Computer equipment and software	1,477	1,180	2,670	2,255
Other	(228)	19	237	19
Total maintenance capital	1,318	1,312	3,014	2,532
Contract payments, maintenance	625	625	1,875	1,875
Total maintenance expenditures	1,943	1,937	4,889	4,407
Non-maintenance capital				
New programs	126	—	223	—
Production efficiency initiatives	—	262	—	604
Total non-maintenance capital	126	262	223	604
Contract payments, non-maintenance	—	600	200	600
Total non-maintenance expenditures	126	862	423	1,204
Total capital investments	\$ 2,069	\$ 2,799	\$ 5,312	\$ 5,611

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 flows 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. Maintenance capital for the quarter and six months ended June 30, 2004 was consistent with this capital program.

The change in maintenance expenditures for the six-month period ended June 30, 2004 relative to the same period in the prior year was an increase of \$0.5 million. This is in line with management's expectations that total anticipated expenditures for 2004 will exceed 2003's total expenditures by up to \$1.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

Maintenance expenditures during the second quarter of 2004 include a reduction in capital expenditures of \$0.2 million that relates to the receipt of a reimbursement of leasehold improvement costs from the lessor of one of the Business' locations. These expenditures were made by the Business during the first quarter of 2004.

Non-maintenance expenditures support the development of new programs and services, major production efficiency initiatives and certain contract payments, as described above.

Cash Balances and Long-term Indebtedness

At June 30, 2004, cash and cash equivalents totalled \$7.4 million, compared to \$5.0 million at December 31, 2003.

The Fund, from time to time, applies portions of its cash balances to reduce the outstanding balance of its credit facilities in order to more effectively manage its capital. In the second quarter of 2004, the Fund made a voluntary debt repayment of \$4.0 million. At June 30, 2004, total long-term indebtedness was \$63.0 million as compared to \$67.0 million at December 31, 2003.

The Business continues to have access to \$98.0 million of term credit facilities due June 30, 2006, which consist of a \$60.0 million non-revolving term loan and a \$38.0 million revolving credit facility. As of June 30, 2004, the Business had drawn \$60.0 million under the non-revolving term loan and \$3.0 million under the revolving credit facility. The Business is permitted to draw on the revolving facility's available balance of \$35.0 million to fund capital expenditures or for other general corporate purposes.

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 6.2% as of June 30, 2004.

Cash flows 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.

PROPOSED CORPORATE STRUCTURE CHANGES

As previously announced, management has been active in reviewing alternatives to the Fund's current structure in order to achieve tax efficiencies within the organization. As a result of this review, the Fund proposes to effect an internal reorganization, which is subject to unitholder approval. The restructuring will result in the replacement of the Fund's subsidiary, D + H Holdings Corp., which owns the Fund's operating business, with a newly created trust. After giving effect to the proposed reorganization, the Fund will have the same interest in the assets of the Business as it had prior to the reorganization. From a unitholder perspective, the reorganization will not result in a change in the number or the legal attributes of the units they currently hold. A special meeting of unitholders will take place on July 23, 2004, to review the proposed transactions and to vote on the proposed reorganization.

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 six months 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 June 30, 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 second quarter and the six-month period ended June 30, 2004, and for the remaining quarters of fiscal 2004, the percentage of year-over-year revenue growth has benefitted from and will continue to 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 annual 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 roll-out of the security deposit bag program, the pre-authorized credit and debit switching service, and the recently implemented *ChequeEssentials* program. Additionally, the continued increase in adoption rate of the Business' *ChequeCentral* and *ChequeAdvisor* 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, which support the development of new programs and services, major production efficiency initiatives, and non-recurring contract payments are expected to require \$10 to \$15 million over the next few years, although no major expenditures are pending.

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 Report, Annual Information Form and Management Information Circular, each of which is available on SEDAR.

ADDITIONAL INFORMATION

Additional information relating to the Fund, including the Fund's most recently filed Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

July 22, 2004

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

As at	June 30, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,357	\$ 4,981
Accounts receivable	9,023	7,432
Inventory	5,932	6,527
Prepaid expenses	1,717	1,820
	24,029	20,760
Future income taxes (note 2)	28,915	31,715
Capital assets (note 3)	24,377	25,408
Other assets (note 4)	8,266	9,988
Intangible assets (note 5)	10,421	11,588
Goodwill	359,385	359,385
	\$ 455,393	\$ 458,844
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 26,321	\$ 23,750
Distributions payable to unitholders	4,429	4,361
Current portion of disbursement obligations on customer contracts (note 6)	3,025	3,025
	33,775	31,136
Disbursement obligations on customer contracts (note 6)	2,500	3,625
Obligations relating to employee future benefits (note 7)	1,365	1,355
Long-term indebtedness (note 8)	63,000	67,000
	100,640	103,116
Unitholders' Equity:		
Trust units (note 9)	365,385	365,385
Deficit	(10,632)	(9,657)
	354,753	355,728
Commitments (note 10)		
	\$ 455,393	\$ 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)

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Sales	\$ 68,864	\$ 62,676	\$ 137,453	\$ 124,743
Cost of sales	40,914	37,683	81,991	75,098
	27,950	24,993	55,462	49,645
Operating expenses	8,514	6,625	16,223	13,075
	19,436	18,368	39,239	36,570
Interest expense	1,045	1,171	2,130	2,322
Amortization expense	3,973	4,188	8,107	8,342
Income before income taxes	14,418	13,009	29,002	25,906
Income taxes (note 2):				
Current	436	257	739	507
Future	1,437	717	2,800	1,536
	1,873	974	3,539	2,043
Net income for the period	12,545	12,035	25,463	23,863
Deficit, beginning of period	(9,890)	(7,427)	(9,657)	(6,547)
Distributions	(13,287)	(12,888)	(26,438)	(25,596)
Deficit, end of period	\$ (10,632)	\$ (8,280)	\$ (10,632)	\$ (8,280)
Net income per trust unit, basic and diluted	\$ 0.3308	\$ 0.3174	\$ 0.6715	\$ 0.6293

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	\$ 12,545	\$ 12,035	\$ 25,463	\$ 23,863
Add:				
Amortization expense	3,973	4,188	8,107	8,342
Future income taxes	1,437	717	2,800	1,536
	17,955	16,940	36,370	33,741
Changes in non-cash working capital items	1,601	1,983	1,678	(123)
Changes in obligations relating to employee future benefits	5	22	10	56
	19,561	18,945	38,058	33,674
FINANCING ACTIVITIES				
Repayment of long-term indebtedness	(4,000)	—	(4,000)	—
Distributions paid to public unitholders	(13,287)	(12,828)	(26,370)	(25,536)
	(17,287)	(12,828)	(30,370)	(25,536)
INVESTING ACTIVITIES				
Expenditures on capital assets	(1,444)	(1,511)	(3,237)	(3,073)
Expenditures on other assets	(625)	(1,288)	(2,075)	(2,538)
	(2,069)	(2,799)	(5,312)	(5,611)
Increase (decrease) in cash and cash equivalents for the period	205	3,318	2,376	2,527
Cash and cash equivalents, beginning of period	7,152	11,255	4,981	12,046
Cash and cash equivalents, end of period	\$ 7,357	\$ 14,573	\$ 7,357	\$ 14,573
Supplementary information:				
Cash interest paid	\$ 1,470	\$ 1,674	\$ 2,090	\$ 2,762
Cash income taxes paid	\$ 332	\$ 253	\$ 753	\$ 505

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 product sales is 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% (Q2 2003 – 33.63%). The differences are as follows:

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Income before income taxes	\$ 14,418	\$ 13,009	\$ 29,002	\$ 25,906
Income subject to tax in the hands of the unitholders	10,439	10,477	20,878	20,528
Income of subsidiary company	3,979	2,532	8,124	5,378
Canadian statutory rate	34.11%	33.63%	34.11%	33.63%
Income taxes at statutory rate	1,357	852	2,771	1,809
Increase (decrease) resulting from:				
Large corporations tax	197	257	394	507
Corporate minimum tax	239	—	345	—
Net tax effect of expenses that are not (are) deductible for income tax purposes	80	(135)	29	(273)
Income tax expense, current and future	\$ 1,873	\$ 974	\$ 3,539	\$ 2,043

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:

	As at	
	June 30, 2004	December 31, 2003
Future income tax assets:		
Goodwill	\$ 26,825	\$ 28,451
Capital assets	(451)	(1,386)
Loss carryforward	2,016	4,339
Other	525	311
	\$ 28,915	\$ 31,715

The Fund's loss carryforward is available to claim against income taxes up to 2011.

3. CAPITAL ASSETS

	As at June 30, 2004		
	Cost	Accumulated amortization	Net
Computer, furniture and fixtures	\$ 27,317	\$ 14,945	\$ 12,372
Machinery and equipment	13,662	3,405	10,257
Leasehold improvements	3,835	2,087	1,748
	\$ 44,814	\$ 20,437	\$ 24,377

	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 June 30, 2004 was \$2,102 (Q2 2003 – \$2,082) and during the six months ended June 30, 2004 was \$4,268 (six months ended June 30, 2003 – \$4,156).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

4. OTHER ASSETS

	As at	
	June 30, 2004	December 31, 2003
Cost:		
Long-term supply contracts	\$ 19,446	\$ 18,495
Deferred charges and other	2,353	2,353
	21,799	20,848
Accumulated amortization	(13,533)	(10,860)
	<u>\$ 8,266</u>	<u>\$ 9,988</u>

Amortization during the quarter ended June 30, 2004 was \$1,288 (Q2 2003 – \$1,523) and during the six months ended June 30, 2004 was \$2,672 (six months ended June 30, 2003 – \$3,020).

5. INTANGIBLE ASSETS

	As at	
	June 30, 2004	December 31, 2003
Cost	\$ 16,328	\$ 16,328
Accumulated amortization	(5,907)	(4,740)
	<u>\$ 10,421</u>	<u>\$ 11,588</u>

Amortization during the quarter ended June 30, 2004 was \$583 (Q2 2003 – \$583) and during the six months ended June 30, 2004 was \$1,167 (six months ended June 30, 2003 – \$1,166).

6. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	As at	
	June 30, 2004	December 31, 2003
Current portion	\$ 3,025	\$ 3,025
Long-term portion	2,500	3,625
Total disbursement obligations on customer contracts	<u>\$ 5,525</u>	<u>\$ 6,650</u>

The Fund has customer contract disbursement obligations payable as of June 30, 2004 as follows, for the years ending:

December 31, 2004	\$ 1,900
December 31, 2005	2,375
December 31, 2006	1,250
	<u>\$ 5,525</u>

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 June 30, 2004 was \$0.2 million (Q2 2003 – \$0.2 million) and \$0.5 million for the six months ended June 30, 2004 (six months ended June 30, 2003 – \$0.5 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			
	June 30, 2004	December 31, 2003		
Accrued non-pension post-retirement benefit obligation:				
Balance at beginning of period	\$ 1,360	\$ 1,289		
Service cost – benefits earned	13	50		
Interest cost	21	84		
Benefits paid	(29)	(68)		
Balance at end of period	1,365	1,355		
Accrued non-pension post-retirement benefit liability:				
Plan deficit	1,365	1,355		
Accrued non-pension post-retirement benefit liability	\$ 1,365	\$ 1,355		
	Three months ended	Six months ended		
	June 30, 2004	June 30, 2003		
	June 30, 2004	June 30, 2003		
Fund expense:				
Service cost – benefits earned	\$ 13	\$ 12	\$ 25	\$ 24
Interest cost	21	21	42	42
Net non-pension post-retirement plan expense	\$ 34	\$ 33	\$ 67	\$ 66
Actuarial assumptions:				
Discount rate	6.75%	6.75%	6.75%	6.75%
Medical inflation ¹	9.00%	9.00%	9.00%	9.00%
Dental inflation	5.00%	5.00%	5.00%	5.00%

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

8. LONG-TERM INDEBTEDNESS

	June 30, 2004	As at December 31, 2003
Non-revolving term loan	\$ 60,000	\$ 60,000
Revolving credit facility	3,000	7,000
	\$ 63,000	\$ 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 June 30, 2004, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on \$56 million or 88.9% 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 June 30, 2004, the fair value of outstanding interest-rate swaps was approximately \$0.8 million (December 31, 2003 – \$1.3 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 June 30, 2004, the fair value of these two outstanding interest-rate swaps was less than \$0.1 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, June 30, 2004 and December 31, 2003	37,920,792	\$ 388,691	\$ 23,306	\$ 365,385

The weighted average number of units outstanding for the quarters ended June 30, 2004 and 2003 was 37,920,792.

10. COMMITMENTS

As of June 30, 2004, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows for the years ending:

December 31, 2004	\$ 1,860
December 31, 2005	2,698
December 31, 2006	2,459
December 31, 2007	688
December 31, 2008	518
Thereafter	1,701
	<hr/> \$ 9,924

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 June 30, 2004 was \$62 (Q2 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 June 30, 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.

14. SUBSEQUENT EVENTS

On July 23, 2004, the unitholders of the Fund are expected to approve a proposed reorganization resulting in the replacement of the Fund's subsidiary, D + H Holdings Corp, which owns the Fund's operating business, with a newly created trust, D + H Holdings Trust. After giving effect to the proposed reorganization, the Fund will have the same interest in the assets of the operating business as it had prior to the reorganization. The reorganization will not result in a change in the number or the legal attributes of the outstanding units of the Fund. The reorganization is expected to be completed on July 26, 2004.

SUPPLEMENTARY FINANCIAL INFORMATION

Operating Results by Period¹

<i>(in thousands of Canadian dollars except per unit amounts, unaudited)</i>	Three months ended June 30, 2004	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
Sales	\$ 68,864	\$ 68,589	\$ 63,636	\$ 63,404	\$ 62,676	\$ 62,067
Cost of sales ¹	40,914	41,077	38,230	38,061	37,683	37,414
Operating expenses ¹	8,514	7,709	6,629	6,611	6,625	6,451
Operating income	19,436	19,803	18,777	18,732	18,368	18,202
Interest expense	1,045	1,085	1,157	1,151	1,171	1,151
Amortization and income taxes	5,846	5,800	5,315	5,292	5,162	5,223
Net income for the period	12,545	12,918	12,305	12,289	12,035	11,828
Add:						
Amortization	3,973	4,134	3,949	4,106	4,188	4,154
Future income taxes	1,437	1,363	1,114	933	717	819
Cash flow from operations	17,955	18,415	17,368	17,328	16,940	16,801
Less: Maintenance capital expenditures:						
Capital and other assets	1,317	1,696	1,476	1,202	1,312	1,220
Contract payments	625	1,250	645	625	625	1,250
Distributable cash ²	\$ 16,013	\$ 15,469	\$ 15,247	\$ 15,501	\$ 15,003	\$ 14,331
Distributions declared	\$ 13,287	\$ 13,151	\$ 13,083	\$ 12,889	\$ 12,888	\$ 12,708
Net income per unit	\$ 0.3308	\$ 0.3407	\$ 0.3245	\$ 0.3241	\$ 0.3174	\$ 0.3119
Cash flow from operations per unit	\$ 0.4735	\$ 0.4856	\$ 0.4579	\$ 0.4570	\$ 0.4467	\$ 0.4431
Distributable cash per unit	\$ 0.4223	\$ 0.4079	\$ 0.4021	\$ 0.4088	\$ 0.3956	\$ 0.3779
Distributions declared per unit	\$ 0.3504	\$ 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)

	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003	March 31, 2003
Cash and cash equivalents	\$ 7,357	\$ 7,152	\$ 4,981	\$ 8,269	\$ 14,573	\$ 11,255
Other current assets	16,672	15,898	15,779	17,187	16,000	16,531
Future income taxes	28,915	30,352	31,715	32,829	33,762	34,479
Capital and other assets	32,643	34,589	35,396	36,916	38,074	37,605
Goodwill and other intangible assets	369,806	370,389	370,973	371,556	372,139	372,722
	\$ 455,393	\$ 458,380	\$ 458,844	\$ 466,757	\$ 474,548	\$ 472,592
Payables and other current liabilities	\$ 33,775	\$ 31,400	\$ 31,136	\$ 32,652	\$ 31,223	\$ 30,311
Other long-term liabilities	3,865	4,485	4,980	5,599	6,220	4,323
Long-term indebtedness	63,000	67,000	67,000	72,000	80,000	80,000
Unitholders' equity	354,753	355,495	355,728	356,506	357,105	357,958
	\$ 455,393	\$ 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	0.1168	0.1133	0.1083	—
May	0.1168	0.1133	0.1083	—
June	0.1168	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
	\$ 0.6972	\$ 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 June 30, 2004 have been estimated as follows for income tax purposes:

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

Other Statistics

	Three months ended June 30, 2004	Three months ended March 31, 2004	Three months ended December 31, 2003	Three months ended September 30, 2003	Three months ended June 30, 2003
<i>(in thousands of dollars except per unit amounts)</i>					
Trading price range of units (TSX: "DHF.UN")					
High	\$ 19.34	\$ 19.40	\$ 17.50	\$ 15.65	\$ 15.20
Low	\$ 15.05	\$ 16.71	\$ 15.10	\$ 14.52	\$ 12.91
Close	\$ 18.00	\$ 19.40	\$ 17.45	\$ 15.30	\$ 15.00
Average daily volume	93	92	67	99	82
Number of units outstanding at period end	37,921	37,921	37,921	37,921	37,921
Market capitalization at period end	\$ 682,574	\$ 735,663	\$ 661,718	\$ 580,188	\$ 568,812

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 and Trustee

CEO, BankWorks Trading Inc.

Gordon J. Feeney⁽¹⁾

Director and Trustee

Corporate Director

C. Sanford McFarlane

Director and Officer

*Co-Chief Executive Officer,
Davis + Henderson,
Limited Partnership*

Robert Cronin

Director and Officer

*Co-Chief Executive Officer,
Davis + Henderson,
Limited Partnership*

Catherine Martin

Officer

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

EXECUTIVE TEAM

C. Sanford McFarlane

Co-Chief Executive Officer

Robert 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,

Corporate Data Services

CORPORATE INFORMATION

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KPMG LLP

Transfer Agent

CIBC Mellon Trust Company

Corporate Counsel

Torys LLP

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Toronto Stock Exchange**Symbol**

DHF.UN

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

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

Davis + Henderson Income Fund

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Toronto Stock Exchange: "DHF.UN"

Website: www.dhif.com

