Q3

QUARTERLY REPORT
QUARTER ENDED SEPTEMBER 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

Davis + Henderson Income Fund continued to make good progress in the third quarter ended September 30, 2004. The Management's Discussion and Analysis contains more detail, but of note:

- Sales stood at $69.1 million and operating income at $19.6 million, representing increases of 8.9% and 4.7%, respectively, compared to the third quarter of 2003.
- Net income was $13.7 million, or 11.5% higher compared to the third quarter of 2003.
- Distributable cash was $0.4278 per unit, a 4.7% increase from the same period in the prior year.
- Declared distributions per unit were $0.3504 or $1.40 per unit annualized – a 3.1% increase over last year.

Operational Highlights

Operationally, we continued to deliver on our strategy of enhancing our cheque supply programs and delivering new valued programs for our customers. In addition to our new U.S. cheque supply program, Cheque*Advisor*, Cheque*Central*, security deposit bags, and product repositioning have all contributed positively to performance this year. With respect to progress on complementary programs, our *eSwitch*™ service is now part of the account opening process at three national financial institutions.

We are also pleased to report that Davis + Henderson successfully renewed and extended long-term cheque program contracts with two financial institution customers during the third quarter.

Structurally, early in the third quarter, unitholders approved a resolution to adopt a trust-on-trust-on-partnership model for the Fund. On July 26, 2004, the new structure was successfully implemented and is expected to provide improved tax efficiency, comparable to other more recently structured trusts.

Distribution Increase

As a result of our recent financial results and current financial position, the Fund will increase monthly distributions beginning in November to $0.120 per unit, or $1.44 on an annualized basis, subject to compliance with legal requirements. This represents a 2.7% increase from the October declared distribution of $0.1168 per unit, or $1.40 annualized.

As we look ahead to the remainder of 2004 and into 2005, we remain confident of the sustainability and stability of Davis + Henderson Income Fund and our ability to meet our objective of delivering stable and growing distributions to our unitholders.

Yours sincerely,

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

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

October 25, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") for the third 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 the annual MD&A, unless otherwise stated.

STRATEGY

Davis + Henderson Income Fund (the "Fund" or the "Business") is focused on 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.

In growing the cheque supply program, Davis + Henderson is focused on increasing the value of its program through continuously introducing product design alternatives, enhancing security components and combining other logical products into convenient and valuable packages for consumers. Additionally, the Business encourages the financial institution's customers to reorder directly with Davis + Henderson, thereby improving the efficiency of the order process for the financial institution and improving convenience for the consumer. This direct ordering has allowed the Business to make consumers more aware of their product and service choices, which has resulted in increasing average order value. The Business has, through the year, continued to increase the value of its offerings and the volume of orders it receives directly. Also, beginning in January of this year, the Business has been delivering its cheque supply program to the U.S. subsidiary of one of its major Canadian customers. This has contributed significantly to revenue growth in 2004 and modestly to earnings.

The Business has continued to expand its complementary programs as well. On a year-over-year basis, the Business has grown its deposit program and expanded its *eSwitch* service to several additional financial institutions.

OPERATING RESULTS FOR THE THIRD QUARTER

Consolidated Statement of Income

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Sept. 30, 2004	Three months ended Sept. 30, 2003	Sept. 30, 2004	Nine months ended Sept. 30, 2003
Sales	**$ 69,065**	$ 63,404	**$ 206,518**	$ 188,147
Cost of sales	**41,274**	38,061	**123,265**	113,158
Operating expenses	**8,177**	6,611	**24,400**	19,687
Operating income	**19,614**	18,732	**58,853**	55,302
Interest expense	**1,105**	1,151	**3,235**	3,473
Amortization expense	**3,847**	4,106	**11,954**	12,448
Income taxes	**955**	1,186	**4,494**	3,229
Net income	**$ 13,707**	$ 12,289	**$ 39,170**	$ 36,152
Net income per unit	**$ 0.3615**	$ 0.3241	**$ 1.0329**	$ 0.9534

For the three months ended September 30, 2004, the Business recorded sales of $69.1 million, up $5.7 million, or 8.9%, from the prior year's third quarter. A main contributor to year-over-year growth was the implementation (during the first quarter of 2004) of a long-term cheque supply contract with the U.S. subsidiary of a Canadian financial institution. Also contributing to higher sales were increased values of orders received as a result of program enhancements and the continued migration of orders to the Cheque*Advisor* and Cheque*Central* order channels. Complementary programs, such as our security deposit bags and *eSwitch*, have also contributed to sales growth.

Sales for the nine-month period ended September 30, 2004 were $206.5 million, an increase of $18.4 million, or 9.8%, over the prior year. Sales performance was driven by the same factors noted for the third quarter and as a result of one extra business day in 2004 due to the leap year.

With the delivery of its cheque program to the U.S. commencing January 2004, the Business has revenues and expenses in U.S. dollars. As the net U.S. dollar contribution from this activity is relatively modest and not significant to the results of the Business, Davis + Henderson does not hedge its U.S. net receipts.

Management believes that declining cheque usage has historically contributed to and will continue to contribute to declining cheque orders. Management further believes that other factors, including a significant number of orders received when consumers open new accounts and the migration by consumers towards orders with fewer cheques, will somewhat mitigate the impact related to reduced cheque usage. During the current year, the Business has benefitted from promotional programs initiated by its customers, which include line of credit cheque orders.

As previously disclosed, 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 $2.4 million to $27.8 million compared with the same period last year. Gross margin for the three months ended September 30, 2004 was 40.2% compared to 40.0% during the third quarter of 2003. Gross profit for the nine-month period increased by $8.3 million compared with the same period in 2003 with gross margin increasing from 39.9% to 40.3%. Gross margin percentages have remained relatively consistent over the respective periods. The small increase in gross profit percentage is attributed to higher production efficiencies resulting from continual investments in technology and processes, partially offset by lower margins earned on U.S.-sourced business and increasing call centre costs.

Operating expenses increased $1.6 million, or 23.7%, during the third quarter of 2004 compared to the third quarter of 2003. When comparing the first nine months of 2004 to the same period in 2003, operating expenses increased by $4.7 million, or 23.9%. In both reporting periods, these increases are primarily attributed to growth in technology expenses as a result of the implementation of the U.S. cheque supply program and continuing activities directed towards the Cheque*Central* and Cheque*Advisor* programs. The accrual of variable compensation related to the financial performance of the Business in 2004 also contributed to the increase in expenses.

Another factor related to the increasing operating costs was the internal reorganization undertaken by Davis + Henderson. On July 23, 2004, unitholders approved a change in corporate structure that replaced the intermediary corporation, D + H Holdings Corp., with a trust, thereby converting the Davis + Henderson organization to a trust-on-trust-on-partnership structure. Total charges for legal and professional fees to complete the internal reorganization, which were included in operating expenses, are approximately $0.8 million.

Operating income increased $0.9 million, or 4.7%, in the third quarter of 2004 over the same quarter in 2003, and $3.6 million, or 6.4%, during the nine-month period ended September 30, 2004 over the same nine months of 2003. Third quarter operating income as a percentage of sales decreased year-over-year to 28.4% from 29.6%. For the first nine months, operating income as a percentage of sales decreased to 28.5% from 29.4% for the same nine-month period of 2003. The changes were a result of the factors referred to above.

Net interest expense decreased from $1.2 million for the three months ended September 30, 2003, to $1.1 million for the three months ended September 30, 2004 and from $3.5 million to $3.2 million for the nine-month period ended September 30, 2004. Lower interest expenses relate to the reduction of loan balances since June 30, 2003.

Amortization expense during the third quarter decreased $0.3 million, or 6.3%, from the prior year, mainly due to older assets being fully amortized. Similarly, amortization for the nine months ended September 30, 2004, was lower than the same period last year by $0.5 million, or 4.0%.

Income taxes decreased $0.2 million to $1.0 million during the third quarter of 2004 relative to the comparable period in 2003, despite an increase in net income. This decrease is directly attributable to the reorganization of the corporate structure to a trust-on-trust-on-partnership structure. Taxes for the nine-month period ended September 30, 2004 increased $1.3 million to $4.5 million over the prior year, as a result of increased profits during the first seven months of 2004, partially offset by the decrease in taxes since completion of the internal reorganization.

Net income of $13.7 million for the third quarter of 2004 increased $1.4 million, or 11.5%, over the same quarter in the previous year. For the nine-month period ended September 30, 2004, the increase was $3.0 million, or 8.3%, over the comparable prior year period.

Consolidated Statement of Distributable Cash

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Three months ended Sept. 30, 2004	Three months ended Sept. 30, 2003	Nine months ended Sept. 30, 2004	Nine months ended Sept. 30, 2003
Net income for the period	**$ 13,707**	$ 12,289	**$ 39,170**	$ 36,152
Add:				
Amortization expense	**3,847**	4,106	**11,954**	12,448
Future income taxes	**745**	933	**3,545**	2,469
	18,299	17,328	**54,669**	51,069
Less:				
Maintenance capital expenditures				
Capital and other assets	**1,451**	1,202	**4,464**	3,734
Contract payments	**625**	625	**2,500**	2,500
Distributable cash	**$ 16,223**	$ 15,501	**$ 47,705**	$ 44,835
Distributions declared	**$ 13,287**	$ 12,889	**$ 39,726**	$ 38,485
Net income per unit	**$ 0.3615**	$ 0.3241	**$ 1.0329**	$ 0.9534
Distributable cash per unit	**$ 0.4278**	$ 0.4088	**$ 1.2580**	$ 1.1823
Distributions declared per unit	**$ 0.3504**	$ 0.3399	**$ 1.0476**	$ 1.0149

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 $0.7 million, or 4.7%, to $16.2 million for the third quarter of 2004 relative to $15.5 million recorded in the third quarter of 2003. For the nine-month period ended September 30, 2004, distributable cash increased $2.9 million, or 6.4%, over the comparable period in the prior year. The increases in both periods, as compared to the prior year, were primarily attributable to growth in net income before amortization and future income taxes. Maintenance capital expenditures, which are deducted in arriving at distributable cash, are growing and are expected to be about $1.5 million more than the $5.2 million recorded in fiscal 2003. This increased investment level supports growth in the core cheque supply business and will enable the replacement and enhancement of certain components of the Business' existing computer and telephony infrastructure.

Declared distributions of $13.3 million for the third quarter of 2004 increased by $0.4 million, or 3.1%, compared with the third quarter of 2003. This reflects two increases in declared monthly distributions per unit since September 30, 2003. The current monthly distribution rate is $0.1168 per unit, or $1.40 per unit annualized. The nine-month period ending September 30, 2004 saw a similar change from the prior year as declared distributions increased $1.2 million, or 3.2%.

SUMMARY OF QUARTERLY RESULTS

Eight Quarter Consolidated Statement of Income – Summary

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

			2004				2003	2002
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	**$ 69,065**	$ 68,864	$ 68,589	$ 63,636	$ 63,404	$ 62,676	$ 62,067	$ 58,938
Operating income	**19,614**	19,436	19,803	18,777	18,732	18,368	18,202	17,890
Net income	**13,707**	12,545	12,918	12,305	12,289	12,035	11,828	11,242
Net income per unit	**$ 0.3615**	$ 0.3308	$ 0.3407	$ 0.3245	$ 0.3241	$ 0.3174	$ 0.3119	$ 0.2965

Eight Quarter Consolidated Statement of Distributable Cash – Summary

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

			2004				2003	2002
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Distributable cash	**$ 16,223**	$ 16,013	$ 15,469	$ 15,247	$ 15,501	$ 15,003	$ 14,331	$ 14,609
Distributions declared	**13,287**	13,287	13,151	13,083	12,889	12,888	12,708	12,707
Distributable cash per unit	**$ 0.4278**	$ 0.4223	$ 0.4079	$ 0.4021	$ 0.4088	$ 0.3956	$ 0.3779	$ 0.3853
Distributions declared per unit	**$ 0.3504**	$ 0.3504	$ 0.3468	$ 0.3450	$ 0.3399	$ 0.3399	$ 0.3351	$ 0.3351

CASH FLOW AND LIQUIDITY

Consolidated Summary of Cash Flow Activities

(in thousands of Canadian dollars, unaudited)

	Three months ended		Nine months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Cash flows from operating activities	**$ 19,786**	$ 17,574	**$ 57,844**	$ 51,248
Cash flows used for distributions	**(13,287)**	(12,888)	**(39,657)**	(38,424)
Cash flows used in other financing activities	**—**	(8,000)	**(4,000)**	(8,000)
Cash flows used in investing activities	**(2,209)**	(2,990)	**(7,521)**	(8,601)
Net change in cash	**$ 4,290**	$ (6,304)	**$ 6,666**	$ (3,777)

Cash Flows from Operating Activities

During the quarter ended September 30, 2004, the Business generated $18.3 million in cash flows from operating activities before changes in non-cash working capital items, an increase of $1.0 million, or 5.6%, 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 reduction in non-cash working capital balance contributed an additional $1.5 million to cash flows during the quarter. This increase was related primarily to temporary increases in short-term liabilities, which are expected to reverse over the next several quarters.

During the nine-month period ended September 30, 2004, total cash flows from operating activities were $57.8 million compared to $51.2 million in the comparable period of 2003, an increase of $6.6 million, of which $3.0 million related to changes in non-cash working capital items, expected to reverse in subsequent quarters. The balance of the change can be attributable to the year-over-year growth in net income.

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 September 30, 2004 and October 25, 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 September 30, 2004, the Fund paid distributions of $13.3 million, compared to $12.9 million for the same period in the prior year. This is an increase of 3.1% and is consistent with the Fund's financial goal of delivering stable and growing cash distributions to unitholders.

Other Financing Activities

Total long-term indebtedness was $63.0 million at September 30, 2004, compared to $67 million at December 31, 2003. This reduction in long-term indebtedness reflected payment of $4.0 million on the outstanding revolving credit facility during the second quarter of 2004.

Expenditures on Capital and Other Assets

(in thousands of Canadian dollars, unaudited)

	Three months ended Sept. 30, 2004	Three months ended Sept. 30, 2003	Nine months ended Sept. 30, 2004	Nine months ended Sept. 30, 2003
Maintenance capital				
Machinery and equipment	$ 15	$ 245	$ 122	$ 503
Computer equipment and software	887	947	3,557	3,203
Furniture, fixtures and leasehold improvements	549	10	786	29
Total maintenance capital	1,451	1,202	4,465	3,735
Contract payments, maintenance	625	625	2,500	2,500
Total maintenance expenditures	2,076	1,827	6,965	6,235
Non-maintenance capital				
New programs	82	—	305	—
Production efficiency initiatives	—	1,162	—	1,766
Total non-maintenance capital	82	1,162	305	1,766
Contract payments, non-maintenance	50	—	250	600
Total non-maintenance expenditures	132	1,162	555	2,366
Total capital investments	$ 2,208	$ 2,989	$ 7,520	$ 8,601

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, recognizes, 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 nine months ended September 30, 2004 was consistent with this capital program.

During the third quarter, two long-term customer contracts were renewed. Future fixed payment obligations of approximately $6.0 million related to these contracts have been recorded on the Balance Sheet as Disbursement obligations on customer contracts and Other assets, accordingly. These contracts have been renewed with substantially the same business terms and conditions and, therefore, their extensions are not expected to result in changes to distributable cash generation.

The change in maintenance expenditures for the nine-month period ended September 30, 2004 relative to the same period in the prior year was an increase of $0.7 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.

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

Cash Balances and Long-term Indebtedness

At September 30, 2004, cash and cash equivalents totalled $11.6 million, compared to $5.0 million at December 31, 2003. Subsequent to September 30, 2004, the Fund paid $1.0 million in non-maintenance customer contract payments, as well as a $3.0 million voluntary debt repayment on its revolving loan.

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 September 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 ($38.0 million as at October 25, 2004) to fund capital expenditures or for other general corporate purposes.

The Business has fixed interest rates on $56.0 million of its outstanding debt at rates of between 5.89% and 7.33% for swap terms ending between December 15, 2004 and June 30, 2008. The average effective interest rate applicable to the Fund's total indebtedness was 6.19% as at September 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.

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 nine 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 Fund's unit price at September 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.

CORPORATE STRUCTURE CHANGES

On July 23, 2004, unitholders approved an internal reorganization to replace the Fund's subsidiary, D + H Holdings Corp., which owned the Fund's operating business (represented by 100% ownership of the partnership units of Davis + Henderson, Limited Partnership), with a newly created trust, D + H Holdings Trust. On July 26, 2004, the reorganization was successfully completed with the Fund still having the same indirect interest in the assets of the Business as it had prior to the reorganization. The effect of the reorganization is to allow the Fund to operate in a more tax efficient manner consistent with a structure that has now become common industry practice for most new income funds.

OUTLOOK

During the third quarter and the nine-month period ended September 30, 2004, and for the remaining quarter of fiscal 2004, the percentage of year-over-year revenue growth has benefitted from and will continue to benefit from the inclusion of revenues from the U.S. supply program.

This 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 U.S. business has been and is expected to be less than the average margin for the balance of Davis + Henderson's business and, as such, has had and is expected to continue to have a modest impact on cash flow. The Fund's long-range objectives for 2005 and future periods remain unchanged, meaning the Fund will continue to target annual sales growth of 3% to 5%, while maintaining operating margins, with the overall objective to modestly grow distributions.

As set out in our 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.

The Business' operational plans include many initiatives which, when combined, are intended to allow us to meet our objectives. Meeting our 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 security deposit bag program, *eSwitch* and the recently implemented Cheque*Essentials* program. Additionally, the continued increase in the adoption rate of Cheque*Central* and Cheque*Advisor* programs is expected to increase average value per order. Growth in the U.S. over the next few years is expected to come solely from the Fund's current base of business.

During the second quarter of 2004, the Business completed an internal reorganization, which will allow the Business to be more tax efficient. Much of the future tax savings is expected to be deployed within the Business, including costs related to current growth initiatives and increasing expenditures relating to ongoing changes in corporate governance procedures.

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. The 2005 capital program for maintenance expenditures is presently expected to be similar to the 2004 capital program.

As previously announced, Davis + Henderson intends to increase its distributions for the month of November 2004, payable in December, to $0.120 per unit or $1.44 per unit annualized, subject to compliance with legal requirements. This represents a 2.7% increase over the distributions declared for the month of October 2004.

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 are available on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

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

October 25, 2004

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

	September 30, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 11,647	$ 4,981
Accounts receivable	9,176	7,432
Inventory	5,390	6,527
Prepaid expenses	1,178	1,820
	27,391	20,760
Future income taxes (note 2)	28,170	31,715
Capital assets (note 3)	23,775	25,408
Other assets (note 4)	13,113	9,988
Intangible assets (note 5)	9,838	11,588
Goodwill	359,385	359,385
	$ 461,672	$ 458,844
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 26,875	$ 23,750
Distributions payable to unitholders	4,429	4,361
Current portion of disbursement obligations on customer contracts (note 6)	4,745	3,025
	36,049	31,136
Disbursement obligations on customer contracts (note 6)	6,080	3,625
Obligations relating to employee future benefits (note 7)	1,370	1,355
Long-term indebtedness (note 8)	63,000	67,000
	106,499	103,116
Unitholders' Equity:		
Trust units (note 9)	365,385	365,385
Deficit	(10,212)	(9,657)
	355,173	355,728
Commitments (note 10)		
	$ 461,672	$ 458,844

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

Paul Damp
Trustee

Gordon J. Feeney
Trustee

Allan Gotlieb
Trustee

Brad Nullmeyer
Trustee

Helen K. Sinclair
Trustee

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

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

	Three months ended		Nine months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Sales	$ 69,065	$ 63,404	$ 206,518	$ 188,147
Cost of sales	41,274	38,061	123,265	113,158
	27,791	25,343	83,253	74,989
Operating expenses	8,177	6,611	24,400	19,687
	19,614	18,732	58,853	55,302
Interest expense	1,105	1,151	3,235	3,473
Amortization expense	3,847	4,106	11,954	12,448
Income before income taxes	14,662	13,475	43,664	39,381
Income taxes (note 2):				
Current	210	253	949	760
Future	745	933	3,545	2,469
	955	1,186	4,494	3,229
Net income for the period	13,707	12,289	39,170	36,152
Deficit, beginning of period	(10,632)	(8,280)	(9,657)	(6,547)
Distributions	(13,287)	(12,888)	(39,725)	(38,484)
Deficit, end of period	$ (10,212)	$ (8,879)	$ (10,212)	$ (8,879)
Net income per trust unit, basic and diluted	$ 0.3615	$ 0.3241	$ 1.0329	$ 0.9534

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 Sept. 30, 2004	Three months ended Sept. 30, 2003	Nine months ended Sept. 30, 2004	Nine months ended Sept. 30, 2003
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	**$ 13,707**	$ 12,289	**$ 39,170**	$ 36,152
Add:				
Amortization expense	**3,847**	4,106	**11,954**	12,448
Future income taxes	**745**	933	**3,545**	2,469
	18,299	17,328	**54,669**	51,069
Changes in non-cash working capital items	**1,482**	242	**3,160**	119
Changes in obligations relating to employee future benefits	**5**	4	**15**	60
	19,786	17,574	**57,844**	51,248
FINANCING ACTIVITIES				
Repayment of long-term indebtedness	**—**	(8,000)	**(4,000)**	(8,000)
Distributions paid to public unitholders	**(13,287)**	(12,888)	**(39,657)**	(38,424)
	(13,287)	(20,888)	**(43,657)**	(46,424)
INVESTING ACTIVITIES				
Expenditures on capital assets	**(1,534)**	(2,511)	**(4,771)**	(5,435)
Expenditures on other assets	**(675)**	(479)	**(2,750)**	(3,166)
	(2,209)	(2,990)	**(7,521)**	(8,601)
Increase (decrease) in cash and cash equivalents for the period end	**4,290**	(6,304)	**6,666**	(3,777)
Cash and cash equivalents, beginning of period	**7,357**	14,573	**4,981**	12,046
Cash and cash equivalents, end of period	**$ 11,647**	$ 8,269	**$ 11,647**	$ 8,269
Supplementary information:				
Cash interest paid	**$ 648**	$ 1,518	**$ 2,738**	$ 4,439
Cash income taxes paid	**$ 165**	$ 245	**$ 918**	$ 750

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 and as amended and restated on July 23, 2004. 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 Trust, D + H Holdings Corp. (prior to July 26, 2004), 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. Risks associated with 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 the 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 former subsidiary, D + H Holdings Corp., up to July 25, 2004, as this subsidiary was subject to tax, including large corporations tax and corporate minimum tax.

On July 26, 2004, an internal reorganization resulted in the replacement of D + H Holdings Corp. with the trust entity D + H Holdings Trust. A provision for income taxes is recognized for this trust, as it is subject to income taxes on all undistributed income at the highest individual marginal tax rate of 46.41%.

The provision for income taxes in the consolidated statement of income represents an effective rate different from the Canadian statutory rate of 38.75% (Q3 2003 – 33.61%). The differences are as follows:

		Three months ended		Nine months ended
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Income before income taxes	$ 14,662	$ 13,475	$ 43,664	$ 39,381
Income subject to tax in the hands of the unitholders	12,783	10,591	33,661	31,119
	1,879	2,884	10,003	8,262
Canadian statutory rate	38.75%	33.61%	34.98%	33.61%
Income taxes at statutory rate	728	969	3,499	2,777
Increase (decrease) resulting from:				
Large corporations tax	65	253	459	760
Corporate minimum tax	145	—	490	—
Net tax effect of expenses that are not (are) deductible for income tax purposes	17	(36)	46	(308)
Income tax expense, current and future	$ 955	$ 1,186	$ 4,494	$ 3,229

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:

	September 30, 2004	December 31, 2003
Future income tax assets:		
Goodwill	$ 26,077	$ 28,451
Capital assets	1,228	(1,386)
Loss carryforward	—	4,339
Other	865	311
	$ 28,170	$ 31,715

3. CAPITAL ASSETS

			September 30, 2004
	Cost	Accumulated amortization	Net
Machinery and equipment	$ 13,677	$ 3,788	$ 9,889
Computer equipment and software	26,759	15,853	10,906
Furniture, fixtures and leasehold improvements	5,912	2,932	2,980
	$ 46,348	$ 22,573	$ 23,775

			December 31, 2003
	Cost	Accumulated amortization	Net
Machinery and equipment	$ 13,566	$ 2,646	$ 10,920
Computer equipment and software	22,901	11,397	11,504
Furniture, fixtures and leasehold improvements	5,126	2,142	2,984
	$ 41,593	$ 16,185	$ 25,408

Amortization during the quarter ended September 30, 2004 was $2,136 (Q3 2003 – $2,081) and during the nine months ended September 30, 2004 was $6,404 (nine months ended September 30, 2003 – $6,236).

4. OTHER ASSETS

	September 30, 2004	December 31, 2003
Cost:		
Long-term supply contracts	$ 25,421	$ 18,495
Deferred charges and other	2,353	2,353
	27,774	20,848
Accumulated amortization	(14,661)	(10,860)
	$ 13,113	9,988

Amortization during the quarter ended September 30, 2004 was $1,128 (Q3 2003 – $1,442) and during the nine months ended September 30, 2004 was $3,800 (nine months ended September 30, 2003 – $4,463).

5. INTANGIBLE ASSETS

	September 30, 2004	December 31, 2003
Cost	$ 16,328	$ 16,328
Accumulated amortization	(6,490)	(4,740)
	$ 9,838	$ 11,588

Amortization during the quarter ended September 30, 2004 was $583 (Q3 2003 – $583) and during the nine months ended September 30, 2004 was $1,750 (nine months ended September 30, 2003 – $1,750).

6. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	September 30, 2004	December 31, 2003
Current portion	$ 4,745	$ 3,025
Long-term portion	6,080	3,625
Total disbursement obligations on customer contracts	$ 10,825	$ 6,650

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

December 31, 2004	$ 2,245
December 31, 2005	3,145
December 31, 2006	2,645
December 31, 2007	1,395
December 31, 2008	1,395
	$ 10,825

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 September 30, 2004 was $0.2 million (Q3 2003 – $0.2 million) and $0.7 million for the nine months ended September 30, 2004 (nine months ended September 30, 2003 – $0.7 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:

	September 30, 2004	December 31, 2003
Accrued non-pension post-retirement benefit obligation:		
Balance at beginning of period	$ 1,365	$ 1,289
Service cost – benefits earned	13	50
Interest cost	21	84
Benefits paid	(29)	(68)
Balance at end of period	1,370	1,355
Accrued non-pension post-retirement benefit liability:		
Plan deficit	1,370	1,355
Accrued non-pension post-retirement benefit liability	$ 1,370	$ 1,355

		Quarter ended		Nine months ended
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Fund expense:				
Service cost – benefits earned	$ 13	$ 13	$ 38	$ 37
Interest cost	21	21	63	63
Net non-pension post-retirement plan expense	$ 34	$ 34	$ 101	$ 100
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

	September 30, 2004	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 September 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 September 30, 2004, the fair value of outstanding interest-rate swaps was approximately $0.8 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 the current due date of June 30, 2006. As at September 30, 2004, the fair value of these two outstanding interest-rate swaps was approximately $0.2 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, September 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 September 30, 2004 and December 31, 2003 was 37,920,792.

10. COMMITMENTS

As of September 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	$ 812
December 31, 2005	2,705
December 31, 2006	2,465
December 31, 2007	2,046
December 31, 2008	1,872
Thereafter	4,747
	$ 14,647

11. RELATED PARTY TRANSACTIONS

The Fund has a supplies and equipment maintenance contract with an entity related to an Officer of the Fund. Total amounts paid during the quarter ended September 30, 2004 was $52 (Q3 2003 – $28). 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 September 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.

SUPPLEMENTARY FINANCIAL INFORMATION

Operating Results by Period[1]

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Three months ended September 30, 2004	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
Sales	$ **69,065**	$ 68,864	$ 68,589	$ 63,636	$ 63,404	$ 62,676
Cost of sales[1]	**41,274**	40,914	41,077	38,230	38,061	37,683
Operating expenses[1]	**8,177**	8,514	7,709	6,629	6,611	6,625
Operating income	**19,614**	19,436	19,803	18,777	18,732	18,368
Interest expense	**1,105**	1,045	1,085	1,157	1,151	1,171
Amortization and income taxes	**4,802**	5,846	5,800	5,315	5,292	5,162
Net income for the period	**13,707**	12,545	12,918	12,305	12,289	12,035
Add:						
Amortization expense	**3,847**	3,973	4,134	3,949	4,106	4,188
Future income taxes	**745**	1,437	1,363	1,114	933	717
Cash flow from operations	**18,299**	17,955	18,415	17,368	17,328	16,940
Less: Maintenance capital expenditures:						
Capital and other assets	**1,451**	1,317	1,696	1,476	1,202	1,312
Contract payments	**625**	625	1,250	645	625	625
Distributable cash[2]	$ **16,223**	$ 16,013	$ 15,469	$ 15,247	$ 15,501	$ 15,003
Distributions declared	$ **13,287**	$ 13,287	$ 13,151	$ 13,083	$ 12,889	$ 12,888
Net income per unit	$ **0.3615**	$ 0.3308	$ 0.3407	$ 0.3245	$ 0.3241	$ 0.3174
Cash flow from operations per unit	$ **0.4826**	$ 0.4735	$ 0.4856	$ 0.4579	$ 0.4570	$ 0.4467
Distributable cash per unit	$ **0.4278**	$ 0.4223	$ 0.4079	$ 0.4021	$ 0.4088	$ 0.3956
Distributions declared per unit	$ **0.3504**	$ 0.3504	$ 0.3468	$ 0.3450	$ 0.3399	$ 0.3399

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)

	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003	June 30, 2003
Cash and cash equivalents	**$ 11,647**	$ 7,357	$ 7,152	$ 4,981	$ 8,269	$ 14,573
Other current assets	**15,744**	16,672	15,898	15,779	17,187	16,000
Future income taxes	**28,170**	28,915	30,352	31,715	32,829	33,762
Capital and other assets	**36,888**	32,643	34,589	35,396	36,916	38,074
Goodwill and other intangible assets	**369,223**	369,806	370,389	370,973	371,556	372,139
	$ 461,672	$ 455,393	$ 458,380	$ 458,844	$ 466,757	$ 474,548
Payables and other current liabilities	**$ 36,049**	$ 33,775	$ 31,400	$ 31,136	$ 32,652	$ 31,223
Other long-term liabilities	**7,450**	3,865	4,485	4,980	5,599	6,220
Long-term indebtedness	**63,000**	63,000	67,000	67,000	72,000	80,000
Unitholders' equity	**355,173**	354,753	355,495	355,728	356,506	357,105
	$ 461,672	$ 455,393	$ 458,380	$ 458,844	$ 466,757	$ 474,548

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	**0.1168**	0.1133	0.1117	—
August	**0.1168**	0.1133	0.1117	—
September	**0.1168**	0.1133	0.1117	—
October		0.1150	0.1117	—
November		0.1150	0.1117	—
December[2]		0.1150	0.1117	0.0427
	$ 1.0476	$ 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

	2004
Dividend income	**15.0%**
Interest income	**75.2%**
Return of capital	**9.8%**
Total distributions for the period	**100.0%**

The above estimate of tax allocation of distributions is based on total expected distributions for the year ending December 31, 2004. As a result of the recent reorganization to a trust-on-trust-on-partnership structure, the 2005 distributions will not have a dividend component.

Other Statistics

(in thousands of Canadian dollars, except per unit amounts)	Three months ended September 30, 2004	Three months ended June 30, 2004	Three months ended March 31, 2004	Three months ended December 31, 2003	Three months ended September 30, 2003
Trading price range of units (TSX: "DHF.UN")					
High	**$ 19.62**	$ 19.34	$ 19.40	$ 17.50	$ 15.65
Low	**$ 16.75**	$ 15.05	$ 16.71	$ 15.10	$ 14.52
Close	**$ 19.45**	$ 18.00	$ 19.40	$ 17.45	$ 15.30
Average daily volume	**58**	93	92	67	99
Number of units outstanding at period end	**37,921**	37,921	37,921	37,921	37,921
Market capitalization at period end	**$ 737,559**	$ 682,574	$ 735,663	$ 661,718	$ 580,188

DAVIS + HENDERSON INCOME FUND

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

Steve Rotz
Vice President, Corporate Development

Joanne Sisco
Vice President, Corporate Data Services

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Toronto Stock Exchange Symbol
DHF.UN

Submissions of concerns regarding accounting, internal controls or auditing matters may be made in writing to the Chair of the Audit Committee on a confidential basis:

Gordon J. Feeney
Chair of the Audit Committee
Davis + Henderson Income Fund
270 The Kingsway, P.O. Box 74569
Toronto, ON M9A 3T0

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

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

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Davis + Henderson
Income Fund