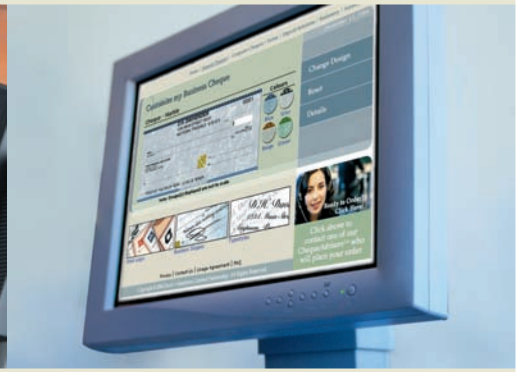
Evolving Our Programs



Building Our Future

Q2

QUARTERLY REPORT

Quarter Ended June 30, 2005

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

During the second quarter of 2005, Davis + Henderson recorded year-over-year sales growth of 3.4% which resulted in sales for the six months ended June 30, 2005 being essentially unchanged from a year ago. Despite relatively flat sales, the Business generated an increase in distributable cash of 4.9% compared to the same six-month period in 2004.

The Fund also announced it will increase monthly distributions in September for unitholders of record in August to $0.122 per unit or $1.464 on an annualized basis, subject to normal course regulatory requirements. This represents a 1.7% increase over the current monthly distribution level of $0.120 per unit.

The Business has benefited from many program enhancements, and the sales growth to date in 2005 has offset declines in cheque volumes, some of which are attributed to specific reductions in customer promotional programs and some of which are general declines attributed to reduced consumer cheque usage. As a management team, we are focused on achieving growth in our various programs to more than offset these declines.

Management's Discussion and Analysis ("MD&A") contains a detailed discussion of the changes in the year-over-year results and balances but some of the financial highlights of the three-month and six-month periods ended June 30, 2005 are as follows:

- Sales were $71.2 million for the second quarter and $137.5 million for the same six-month period, a 3.4% increase over the second quarter of 2004 and comparable to the same six-month period of 2004.
- Net income was $15.9 million for the quarter and $30.5 million for the six-month period, representing growth of 26.9% and 19.7% compared to the second quarter and first half of 2004. Both periods benefited from a change in accounting for income taxes as a result of the Fund's conversion in July 2004 to a trust-on-trust structure.
- Distributable cash for the second quarter and first half of 2005 were $0.4599 per unit and $0.8708 per unit, increases of 8.9% and 4.9% from the same periods in the prior year.
- Declared distributions per unit for the second quarter and first half were $0.3600 per unit and $0.7200 per unit, increases of 2.7% and 3.3% over last year.

Operational Highlights

June 2005 marked the launch of our switching program, *eSwitch*™, at two additional financial institution customers. Now, all of our largest customers have integrated this offering into their account opening services for chequing accounts. The impact of these new launches is not expected to be material in 2005, but it represents a significant milestone for Davis + Henderson. The adoption of *eSwitch*™ services by our large customers demonstrates our ability to be a service provider to the chequing account versus our historic position of being a provider of cheques and related products. Our *eSwitch*™ program is just one of many initiatives in our operational plan, and these initiatives are intended to allow us to meet our objective of growing revenues. Our other key initiatives Cheque*Advisor*, Cheque*Central*, and product repositioning continued to contribute positively to performance during the quarter.

Last quarter we announced that Davis + Henderson had acquired a partnership interest in Advanced Validation Systems Limited Partnership ("AVS"). The partnership interest, at quarter end, is still nominal at 7.5% of the business, and for the quarter had minimal impact on reported results. This business provides lenders and credit granting firms with search and registration services and has added another service which Davis + Henderson can supply to its financial institution customers. We are working with the management group of AVS to grow its customer base and are pleased with the progress made since the initial investment at the end of April.

Looking Forward

Davis + Henderson's overall long-term objective is to deliver stable and modestly growing distributions through growing sales in the 3% to 5% range and maintaining margins. In 2004, we exceeded our sales growth target as a result of the implementation of the U.S. cheque supply program, two additional business days, and the benefit of customer promotional campaigns. Based on the sales level for the first six months of 2005, the Fund expects sales growth for the year as a whole to be below the 3% to 5% range. For 2006, management expects to achieve its 3% to 5% sales growth objective.

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.

July 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") for the second quarter of 2005 should be read in conjunction with MD&A in the Fund's Annual Report for the year ended December 31, 2004, dated February 28, 2005, 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" or "Davis + Henderson") has three key strategies to meet its financial goal of delivering stable and modestly growing cash distributions to unitholders. These are to enhance the value of the cheque supply program, to expand into new programs to serve the chequing account and to pursue additional opportunities to supply program support for other key transaction accounts offered by the Business' financial institution customers.

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.

During the six-month period ended June 30, 2005, the Business expanded its complementary program, *eSwitch*™, for two additional financial institutions. *eSwitch*™ is a white label service offering which allows our customers to more easily redirect their customers' electronic pre-authorized payments and direct deposits upon the opening of new chequing accounts. Currently, all of the Business' largest financial institution customers have implemented national roll-outs of the *eSwitch*™ program.

On April 28, 2005, the Business acquired a partnership interest in Advanced Validation Systems Limited Partnership ("AVS"), a business that provides lenders with search and registration services across Canada. The initial investment is part of an agreement that will result in Davis + Henderson owning 50% of AVS by January of 2007 with options to increase its ownership position to 100% thereafter. This initiative allows Davis + Henderson to expand its service offering to the lending side of its financial services 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, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Sales	**$ 71,226**	$ 68,864	**$ 137,460**	$ 137,453
Cost of sales	**41,623**	40,914	**80,923**	81,991
Gross profit	**29,603**	27,950	**56,537**	55,462
	41.6%	40.6%	**41.1%**	40.3%
Operating expenses	**8,962**	8,514	**16,656**	16,223
	12.6%	12.4%	**12.1%**	11.8%
Operating income	**20,641**	19,436	**39,881**	39,239
	29.0%	28.2%	**29.0%**	28.5%
Interest expense	**839**	1,045	**1,728**	2,130
Amortization expense	**3,880**	3,973	**7,676**	8,107
Income taxes	**–**	1,873	**–**	3,539
Net income	**$ 15,922**	$ 12,545	**$ 30,477**	$ 25,463
Net income per unit, basic and diluted	**$ 0.4199**	$ 0.3308	**$ 0.8037**	$ 0.6715

Sales for the second quarter of 2005 increased by $2.4 million, or 3.4%, to $71.2 million when compared to the same quarter in 2004. An additional working day in the second quarter of 2005, combined with the receipt and fulfillment of delayed orders from the first quarter of 2005 and increased *eSwitch*™ volume, all contributed to the year-over-year sales growth. Sales were also positively affected by the increased value of orders received as a result of program enhancements introduced in late 2004 and continual order migration to our Cheque*Advisor* and Cheque*Central* programs. Partially offsetting this increase were lower cheque order volumes related to reduced promotional activities by certain customers on line of credit and account acquisition activities and declines in volume attributed to continued reduced cheque usage.

For the six-month period ended June 30, 2005, total sales were unchanged at $137.5 million compared with the same period in 2004. Increased sales resulting from program enhancements, which increase the value of orders, and increased *eSwitch*™ volumes were offset by one less business day and reduced order volumes as discussed above.

Management does not believe that there have been material long-term changes in the primary factors affecting cheque orders beyond those historically experienced. Management continues to believe 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 toward orders with fewer cheques, will somewhat mitigate the impact related to reduced cheque usage.

Gross profit for the quarter ended June 30, 2005 increased by $1.7 million, or 5.9%, to $29.6 million compared with the same period last year primarily as a result of increased sales discussed above. Gross margin for the quarter ended June 30, 2005 improved to 41.6% from 40.6% reported during the second quarter of 2004. For the six-month period ended June 30, 2005, gross profit was $56.5 million compared to $55.5 million for the same period in 2004 with gross margin improving from 40.3% to 41.1%. The improvements in gross profit percentage for the three and six-month periods ended June 30, 2005 were a result of sales mix and material cost reductions, but were also attributed to higher production efficiencies resulting from continual investments in technology and processes, partially offset by increasing call centre costs.

Operating expenses of $9.0 million for the second quarter of 2005 represent an increase of $0.4 million, or 5.3%, over the comparable period in the prior year. For the six-month period ended June 30, 2005, operating expenses were $16.7 million, up 2.7%, compared to $16.2 million for the six-month period ended June 30, 2004. Expense reductions related to the elimination of capital taxes with the change in the internal corporate structure in July 2004, reduced marketing costs and lower professional fees were offset by an increase in technology expenses required to support and upgrade the Business' technology infrastructure.

Operating income increased by $1.2 million, or 6.2%, to $20.6 million in the second quarter of 2005 over the same quarter in 2004. The changes were a result of the combination of factors referred to above. Second quarter operating income as a percentage of sales increased to 29.0% from 28.2% for the same quarter last year. For the six-month period, operating income was $39.9 million, which was $0.6 million, or 1.6%, greater than the same 2004 six-month period.

Net interest expense decreased from $1.0 million for the three months ended June 30, 2004 to $0.8 million for the three months ended June 30, 2005. For the six-month period ended June 30, 2005, net interest expense was $1.7 million, down from $2.1 million in the same period in 2004. Lower net interest expenses reflect the lower loan balances outstanding during the periods and reduced average interest rates.

Amortization expense during the second quarter decreased $0.1 million, or 2.3%, from the same quarter in the prior year. For the six-month period ended June 30, 2005, amortization expense was $7.7 million, a $0.4 million, or 5.3%, decrease over the prior year comparable period. Both decreases were mainly due to older assets being fully amortized.

After the internal reorganization on July 26, 2004, which converted the Davis + Henderson corporate structure to a trust-on-trust-on-partnership structure, the Fund and its subsidiaries are no longer subject to any taxes as long as all taxable income generated by the structure is paid to unitholders in the form of distributions. Accordingly, there was no provision for income taxes recorded for the second quarter and the first six-month period of 2005 compared to $1.9 million and $3.5 million recorded in 2004 for the first quarter and the first six-month period, respectively.

Net income of $15.9 million for the second quarter of 2005 represents an increase of $3.4 million, or 26.9%, over the same quarter in the previous year. For the six-month period ended June 30, 2005, net income was $30.5 million, which was $5.0 million, or 19.7%, over the comparable period in the prior year. A substantial portion of this increase is attributed to the change in corporate structure referred to above.

Consolidated Statement of Distributable Cash

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

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Net income	**$ 15,922**	$ 12,545	**$ 30,477**	$ 25,463
Add:				
Amortization expense	**3,880**	3,973	**7,676**	8,107
Future income taxes	**–**	1,437	**–**	2,800
Cash flow from operations	**19,802**	17,955	**38,153**	36,370
Less:				
Maintenance capital expenditures				
Capital and other assets	**1,739**	1,317	**3,258**	3,013
Contract payments	**625**	625	**1,875**	1,875
Distributable cash	**$ 17,438**	$ 16,013	**$ 33,020**	$ 31,482
Distributions declared	**$ 13,651**	$ 13,287	**$ 27,302**	$ 26,438
Net income per unit	**$ 0.4199**	$ 0.3308	**$ 0.8037**	$ 0.6715
Distributable cash per unit	**$ 0.4599**	$ 0.4223	**$ 0.8708**	$ 0.8302
Distributions per unit	**$ 0.3600**	$ 0.3504	**$ 0.7200**	$ 0.6972

Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Business as net income for the period adjusted to remove specific 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 $1.4 million, or 8.9%, to $17.4 million for the second quarter of 2005 relative to $16.0 million recorded in the second quarter of 2004. For the six-month period ended June 30, 2005, distributable cash increased by $1.5 million, or 4.9%, to $33.0 million compared to the same period in 2004. In both cases, the increases were attributable to the higher cash flow from operations, as calculated above, partially offset by an increase in maintenance capital expenditures in both periods.

Maintenance capital expenditures will fluctuate based on the timing differences in implementing the Business' capital plan. The Business is continuing its program of investment in the technology area to enable the replacement and enhancement of certain components of the Business' technology infrastructure.

Declared distributions of $13.7 million for the second quarter of 2005 and $27.3 million for the six-month ended June 30, 2005 represent increases of $0.4 million, or 2.7%, and $0.9 million, or 3.3%, over the prior year periods, respectively. The current monthly distribution rate is $0.1200 per unit, or $1.44 per unit annualized.

SUMMARY OF QUARTERLY RESULTS

Eight Quarter Consolidated Statement of Income – Summary

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

		2005				2004		2003
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**$71,226**	$66,234	$69,068	$69,065	$68,864	$68,589	$63,636	$63,404
Operating income	**20,641**	19,240	19,944	19,614	19,436	19,803	18,777	18,732
Net income	**15,922**	14,555	15,098	13,707	12,545	12,918	12,305	12,289
Net income per unit	**$0.4199**	$0.3838	$0.3981	$0.3615	$0.3308	$0.3407	$0.3245	$0.3241

Over the six quarters ended December 31, 2004, sales were generally stable and growing. However, in the first quarter of 2005, sales were down $2.8 million compared with the previous quarter. The primary factors that impacted first quarter 2005 sales were lower than expected personal order volumes and reduced sales from a customer promotional campaign in the fourth quarter of 2004. In the second quarter of 2005, sales increased over the first quarter primarily as a result of two extra sales days and the receipt and fulfillment of orders delayed from the first quarter of 2005.

Operating income has generally been trending consistent with modestly growing sales. Net income, commencing in the third quarter of 2004, increased as a result of reduced taxes attributed to the change in corporate structure as previously discussed.

Eight Quarter Consolidated Statement of Distributable Cash – Summary
(in thousands of Canadian dollars, except per unit amounts, unaudited)

		2005				2004		2003
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Distributable cash	**$17,438**	$15,582	$15,626	$16,223	$16,013	$15,469	$15,247	$15,501
Distributions declared	**$13,651**	$13,651	$13,530	$13,287	$13,287	$13,151	$13,083	$12,889
Distributable cash per unit	**$0.4599**	$0.4109	$0.4121	$0.4278	$0.4223	$0.4079	$0.4021	$0.4088
Distributions declared per unit	**$0.3600**	$0.3600	$0.3568	$0.3504	$0.3504	$0.3468	$0.3450	$0.3399

CASH FLOW AND LIQUIDITY

Consolidated Summary of Cash Flow Activities
(in thousands of Canadian dollars, unaudited)

		Three months ended		Six months ended
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Cash flows from operating activities	**$ 24,175**	$ 19,561	**$ 37,581**	$ 38,058
Cash flows used for distributions	**(13,650)**	(13,287)	**(27,302)**	(26,370)
Cash flows from (used in) other financing activities	**–**	(4,000)	**(3,000)**	(4,000)
Cash flows used for investing in capital and other assets	**(2,964)**	(2,069)	**(5,733)**	(5,312)
Cash flows used in acquisition of business	**(2,144)**	–	**(2,144)**	–
Net change in cash	**$ 5,417**	$ 205	**$ (598)**	$ 2,376

Cash Flows from Operating Activities

During the quarter ended June 30, 2005, the Business generated $24.2 million in cash flows from operating activities, including an increase in cash flows of $4.2 million as a result of a reduction in non-cash working capital balances. The changes in the non-cash working capital were primarily related to an expected increase in payable levels. The second quarter of 2004 reflected an increase in non-cash working capital balances of $1.6 million, much of which also related to increased payable levels.

During the six-month period ended June 30, 2005, total cash flows from operating activities were $37.6 million compared with $38.1 million in 2004. Growth in net income before amortization and future income taxes, period over period, was offset by differences in non-cash working capital from a source of funds of $1.7 million in 2004 to a use of funds of $0.8 million in 2005.

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. Distributions paid during the second quarter include distributions declared for the month of March prior to the start of the quarter, but do not include amounts declared for the last month of the quarter.

During the quarter ended June 30, 2005, the Fund paid distributions of $13.7 million, compared to $13.3 million for the same period in the prior year. This increase is consistent with the Fund's financial goal of delivering stable and modestly growing cash distributions to unitholders.

The tax allocation of distributions declared for 2005 is currently estimated to be 91.6% interest income and 8.4% return of capital. The 2004 tax allocation was 15.0% dividend income, 75.2% interest income and 9.8% return of capital.

The Fund may issue an unlimited number of trust units. Each trust unit is transferable and represents an equal, undivided beneficial interest in any distribution from the Fund and 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.

As at June 30, 2005 and July 21, 2005, 37,920,792 trust units were outstanding. This total number of outstanding units has remained unchanged since April 2, 2002.

Cash Flows Used in Other Financing Activities

Cash flows used in other financing activities relate to reductions of the Business' long-term indebtedness.

Cash Flows Used in Investing Activities

Expenditures on Capital and Other Assets

(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Maintenance capital				
Machinery and equipment	$ **86**	$ 69	$ **174**	$ 107
Computer and software	**1,629**	1,477	**3,015**	2,670
Furniture, fixtures and leasehold improvements	**24**	(228)	**69**	237
Total maintenance capital	**1,739**	1,318	**3,258**	3,014
Contract payments, maintenance	**625**	625	**1,875**	1,875
Total maintenance expenditures	**2,364**	1,943	**5,133**	4,889
Non-maintenance capital				
Other new services	**–**	126	**–**	223
Total non-maintenance capital	**–**	126	**–**	223
Contract payments, non-maintenance	**600**	–	**600**	200
Total non-maintenance expenditures	**600**	126	**600**	423
Total capital investments	$ **2,964**	$ 2,069	$ **5,733**	$ 5,312

The table above sets out maintenance and non-maintenance 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 fixed 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 fixed 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.

Previously, total maintenance capital expenditures for the full 2005 fiscal year were anticipated to be equal to or a little more than the $7.2 million spent in 2004. As a result of further scoping of information technology maintenance and replacement programs, it is now estimated that certain projects will be implemented over a longer time period than originally anticipated. The planned programs remain unchanged with the exception that the implementation time frame will extend into 2006. Accordingly, it is anticipated that the maintenance capital expenditures in 2005 will be approximately $6.0 to $7.0 million.

The Fund's capital program provides for continued annual maintenance capital expenditures to be funded by the cash flows from operations. These expenditures are generally directed toward direct ordering technology, the implementation of new programs within the cheque supply business and the maintenance and upgrading of the Business' technology infrastructure. Maintenance capital for the quarter ended and the six-month period ended June 30, 2005 was consistent with this capital program.

Non-maintenance expenditures support the development of new programs and services, major production efficiency initiatives and certain contract payments. During the quarter, the Business made a fixed contract payment pursuant to its obligation under a customer contract.

Acquisition

On April 28, 2005, the Fund entered into an agreement to acquire a 50% interest in AVS through a step-by-step acquisition over the next 20 months. Future purchases will be at a price based on a formula that references the earnings of the AVS business. As at June 30, 2005, the fund owns 7.5% of the partnership units of AVS.

Cash Balances and Long-term Indebtedness

At June 30, 2005, cash and cash equivalents totalled $9.7 million compared to $10.3 million at December 31, 2004. Net cash disbursements relating to a voluntary debt payment of $3.0 million in the first quarter and the acquisitions of an interest in AVS were each funded by positive cash flows from operating activities net of distributions.

The total debt facilities available remain at $90.0 million and include a $50.0 million non-revolving term loan and a $40.0 million revolving term credit facility. As of June 30, 2005, the Business had drawn $50.0 million under the non-revolving term loan and $7.0 million under the revolving credit facility. The Business is permitted to draw on the revolving facility's available balance of $33.0 million to fund capital expenditures or for other general corporate purposes.

As of June 30, 2005, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on $50.0 million, or 87.7%, of its outstanding indebtedness are effectively fixed at the interest-rates and for the time periods ending as follows:

Maturity Date	Notional Amount	Interest Rate[1]
March 27, 2006	$16 million	6.83%
June 30, 2007	$12 million	5.39%
June 30, 2008	$12 million	5.66%
January 4, 2009	$10 million	5.13%

[1] The listed interest rates are inclusive of banker's acceptance fees currently in effect. Such fees would increase in the event that the Fund's financial leverage increased beyond certain levels specified in the credit agreement.

The Fund's remaining indebtedness is subject to floating interest rates and banker's acceptance fees that may be funded either by way of prime-rate loans or through the issuance of banker's acceptances with maturities, and thus interest rates, resetting typically in the one-month to three-month range. The average effective interest rate applicable to the Fund's total indebtedness was 5.64% as at June 30, 2005.

Subsequent to quarter end, in July, the Business made another voluntary payment of $3.0 million, reducing the outstanding revolving portion of the facility from $7.0 million to $4.0 million.

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.

OUTLOOK

Davis + Henderson's overall long-term objective is to deliver stable and modestly growing distributions through growing sales in the 3% to 5% range and maintaining margins. In 2004, with the implementation of the U.S. cheque supply program, extra business days, and the benefit of strong customer promotional campaigns, the Business exceeded this growth target. Based upon the sales level in the first six months of 2005, the Fund expects sales growth for the year as a whole to be below the 3% to 5% range. For 2006, management expects to achieve its 3% to 5% sales growth objective.

As set out in the Fund's statement of strategy, the objective is to grow profits by enhancing the value of our cheque supply program, by expanding into new programs to serve the chequing account and by pursuing additional opportunities related to other key transactional accounts of our financial institution customers.

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 extending our *eSwitch*™ program and introducing complementary products and services as part of our chequing account programs.

In April, the Fund announced an additional initiative with the purchase of a partnership interest in a business that provides lenders with search and registration services across Canada. This initiative allows Davis + Henderson to expand its service offerings to the lending side of its financial services customers.

In aggregate, the above program enhancements and additions are expected to support the revenue growth targets. Operating expenses in 2005 are expected to be modestly higher than 2004 levels and, for 2005, maintenance capital expenditures are expected to show modest declines, as previously described.

Davis + Henderson intends to increase its distributions for the month of August 2005 payable September 30, 2005 to $0.122 per unit (equivalent to $1.464 per unit annualized), subject to normal course regulatory requirements. This represents a 1.7% increase over distributions declared for the month of July 2005.

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 and Annual Information Form, 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.

July 21, 2005

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

	June 30, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,660	$ 10,258
Accounts receivable	10,238	8,936
Inventory	5,188	5,404
Prepaid expenses	1,583	1,012
	26,669	25,610
Capital assets (note 3)	23,287	24,333
Other assets (note 4)	9,806	12,012
Intangible assets (note 5)	8,332	9,255
Goodwill (note 6)	361,278	359,385
	$ 429,372	$ 430,595
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 26,985	$ 26,126
Distributions payable to unitholders	4,551	4,551
Current portion of disbursement obligations on customer contracts (note 7)	2,645	3,745
	34,181	34,422
Disbursement obligations on customer contracts (note 7)	4,060	5,435
Long-term indebtedness (note 8)	57,000	60,000
Other long-term liabilities (note 9)	2,386	2,168
	97,627	102,025
Unitholders' Equity:		
Trust units (note 10)	365,385	365,385
Deficit	(33,640)	(36,815)
	331,745	328,570
Commitments (note 11)		
	$ 429,372	$ 430,595

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

Paul Damp
Trustee

Gordon J. Feeney
Trustee

Allan Gotlieb
Trustee

Brad Nullmeyer
Trustee

Helen K. Sinclair
Trustee

CONSOLIDATED STATEMENTS OF INCOME

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

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Sales	**$ 71,226**	$ 68,864	**$ 137,460**	$ 137,453
Cost of sales	**41,623**	40,914	**80,923**	81,991
	29,603	27,950	**56,537**	55,462
Operating expenses	**8,962**	8,514	**16,656**	16,223
	20,641	19,436	**39,881**	39,239
Interest expense	**839**	1,045	**1,728**	2,130
Amortization expense	**3,880**	3,973	**7,676**	8,107
Income before income taxes	**15,922**	14,418	**30,477**	29,002
Income taxes (note 12):				
Current	**–**	436	**–**	739
Future	**–**	1,437	**–**	2,800
	–	1,873	**–**	3,539
Net income	**$ 15,922**	$ 12,545	**$ 30,477**	$ 25,463
Net income per unit, basic and diluted	**$ 0.4199**	$ 0.3308	**$ 0.8037**	$ 0.6715

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

CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Deficit, beginning of period	**$ (35,911)**	$ (9,890)	**$ (36,815)**	$ (9,657)
Net income for the period	**15,922**	12,545	**30,477**	25,463
Distributions	**(13,651)**	(13,287)	**(27,302)**	(26,438)
Deficit, end of period	**$ (33,640)**	$ (10,632)	**$ (33,640)**	$ (10,632)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	**$ 15,922**	$ 12,545	**$ 30,477**	$ 25,463
Add:				
Amortization expense	**3,880**	3,973	**7,676**	8,107
Future income taxes	**–**	1,437	**–**	2,800
	19,802	17,955	**38,153**	36,370
Changes in non-cash working capital items	**4,232**	1,601	**(790)**	1,678
Changes in other long-term liabilities	**141**	5	**218**	10
	24,175	19,561	**37,581**	38,058
FINANCING ACTIVITIES				
Repayment of revolving credit facility	**–**	(4,000)	**(3,000)**	(4,000)
Distributions paid to public unitholders	**(13,650)**	(13,287)	**(27,302)**	(26,370)
	(13,650)	(17,287)	**(30,302)**	(30,370)
INVESTING ACTIVITIES				
Expenditures on capital assets	**(1,739)**	(1,444)	**(3,258)**	(3,237)
Expenditures on other assets	**(1,225)**	(625)	**(2,475)**	(2,075)
Acquisition of business (note 2)	**(2,144)**	–	**(2,144)**	–
	(5,108)	(2,069)	**(7,877)**	(5,312)
Increase (decrease) in cash and cash equivalents for the period	**5,417**	205	**(598)**	2,376
Cash and cash equivalents, beginning of period	**4,243**	7,152	**10,258**	4,981
Cash and cash equivalents, end of period	**$ 9,660**	$ 7,357	**$ 9,660**	$ 7,357
Supplementary information:				
Cash interest paid	**$ 401**	$ 1,470	**$ 2,025**	$ 2,090
Cash income taxes paid	**$ –**	$ 332	**$ –**	$ 753

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended June 30, 2005 and 2004
(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 pursuant to a declaration of trust dated November 6, 2001, 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, pursuant to 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, 2004, which are included in the 2004 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, 2004.

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, 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., and its interest in Advanced Validation Systems Limited Partnership ("AVS"). The Fund's Interest in AVS is accounted for by the proportionate consolidation method. Under this method, the Fund includes in its accounts its proportionate share of assets, liabilities, revenues and expenses. 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. Risks associated with concentrations of credit risk with respect to accounts receivable and interest-rate swaps are limited due to the credit ratings of customers and of swap counterparties used by the Fund and the generally short payment terms and frequent settlement of swap differences.

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 amounts payable to or receivable from swap counterparties are included as adjustments 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 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.

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 and AVS businesses 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 and the proportionate share of the proprietary software and service contracts obtained with the acquisition of the AVS business. Intangible assets are amortized over the lesser of seven years and the remaining term of the related service contracts. 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 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, D + H Holdings Corp., prior to July 26, 2004, 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.

Subsequent to July 26, 2004, the Fund and its subsidiaries are not subject to any income taxes provided all taxable income generated is distributed to unitholders in the form of distributions. Accordingly, subsequent to that date, the Fund no longer records a provision for income taxes.

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 actual contributions to the plan.

2. ACQUISITION

On April 28, 2005, the Fund entered into an agreement to acquire a 50% interest in AVS through a step-by-step acquisition over the next 20 months. Future purchases will be based on a formula that references the earnings of AVS. The acquisitions of partnership units were accounted for by the purchase method of accounting, and the results of the partnership were proportionately consolidated from the date of the initial acquisition. The Fund has entered into a unanimous shareholders agreement, which provides for joint control over the business. As at June 30, 2005, the fund owned 7.5% of the partnership units of AVS. The assets acquired and consideration given were as follows:

Assets acquired, at fair value:		
Assets	$	10
Intangibles		243
Liabilities		(2)
Net assets acquired, at fair value		251
Goodwill		1,893
Total	$	2,144

Consideration for 7.5% ownership:		
Cash	$	2,144
Total	$	2,144

3. CAPITAL ASSETS

June 30, 2005	Cost	Accumulated amortization	Net
Machinery and equipment	**$ 14,121**	**$ 4,830**	**$ 9,291**
Computer equipment and software	**25,728**	**13,926**	**11,802**
Furniture, fixtures and leasehold improvements	**5,976**	**3,782**	**2,194**
	$ 45,825	**$ 22,538**	**$ 23,287**

December 31, 2004	Cost	Accumulated amortization	Net
Machinery and equipment	$ 13,954	$ 4,172	$ 9,782
Computer equipment and software	22,715	10,923	11,792
Furniture, fixtures and leasehold improvements	5,905	3,146	2,759
	$ 42,574	$ 18,241	$ 24,333

Amortization during the quarter ended June 30, 2005 was $2,199 (Q2 2004 – $2,102) and during the six months ended June 30, 2005 was $4,304 (six months ended June 30, 2004 – $4,268).

4. OTHER ASSETS

	June 30, 2005	December 31, 2004
Cost:		
Long-term supply contracts	**$ 17,787**	$ 17,788
Deferred charges and other	**370**	370
	18,157	18,158
Accumulated amortization	**(8,351)**	(6,146)
	$ 9,806	$ 12,012

Amortization during the quarter ended June 30, 2005 was $1,099 (Q2 2004 – $1,288) and during the six months ended June 30, 2005 was $2,206 (six months ended June 30, 2004 – $2,672).

5. INTANGIBLE ASSETS

	June 30, 2005	December 31, 2004
Cost	**$ 16,572**	$ 16,328
Accumulated amortization	**(8,240)**	(7,073)
	$ 8,332	$ 9,255

Amortization during the quarter ended June 30, 2005 was $582 (Q2 2004 – $583) and during the six months ended June 30, 2005 was $1,166 (six months ended June 30, 2004 – $1,167).

6. GOODWILL

Balance as of January 1, 2005	**$ 359,385**
Goodwill acquired during the period	**1,893**
Balance as of June 30, 2005	**$ 361,278**

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	June 30, 2005	December 31, 2004
Current portion	**$ 2,645**	$ 3,745
Long-term portion	**4,060**	5,435
Total disbursement obligations on customer contracts	**$ 6,705**	$ 9,180

The Fund has customer fixed contract disbursement obligations payable as of June 30, 2005 as follows:

2005	$ 1,270
2006	2,645
2007	1,395
2008	1,395
	$ 6,705

8. LONG-TERM INDEBTEDNESS

	June 30, 2005	December 31, 2004
Non-revolving term loan	**$ 50,000**	$ 60,000
Revolving credit facility	**7,000**	–
	$ 57,000	$ 60,000

The Fund has $90.0 million of term credit facilities due January 24, 2009 (December 31, 2004 – $98.0 million), consisting of a $50.0 million non-revolving term loan and a

$40.0 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. The fair value of long-term indebtedness approximates its carrying value.

As of June 30, 2005, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on $50.0 million or 87.7% of its outstanding term indebtedness are effectively fixed at interest rates of between 5.13% and 6.83% per annum for terms ending between March 27, 2006 and January 4, 2009. As of June 30, 2005, the fair value of outstanding interest-rate swaps was approximately $1.0 million (December 31, 2004 – $0.9 million), which the Fund would be required to pay if it were to close out the contracts.

9. OTHER LONG-TERM LIABILITIES

	June 30, 2005	December 31, 2004
Deferred compensation program	**$ 1,111**	$ 766
Employee future benefits	**1,275**	1,402
	$ 2,386	$ 2,168

The deferred compensation program is a long-term incentive plan for management, subject to certain performance criteria and vesting terms, payable shortly after December 31, 2006. This incentive plan was implemented on January 1, 2004.

Employee future benefits consist of a defined contribution pension plan and a non-pension post-retirement benefit plan. Obligations relating to employee future benefits relate to the non-pension post-retirement benefit plan.

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, 2005 was $0.3 million (Q2 2004 – $0.2 million) and $0.6 million for the six months ended June 30, 2005 (six months ended June 30, 2004 – $0.5 million).

The Fund's non-pension post-retirement benefit plan provides certain health care, life insurance and dental benefits to eligible employees. Terms of the plan were amended effective January 1, 2005 resulting in a reduction in obligations of $1.8 million and actuarial losses of $1.6 million. Reduction in obligations from the plan amendment will be amortized over three and one-half years and the actuarial losses will be amortized over the next six years starting in 2005. The components of post-retirement benefits costs recognized for the quarter ended June 30, 2005 are as follows:

	June 30, 2005	June 30, 2004
Service cost – benefits earned	**$ 3**	$ 13
Interest cost	**16**	21
Difference between actuarial loss recognized and actual actuarial loss on accrued benefit obligation for the quarter	**67**	–
Difference between amortization of past service costs and actual plan amendments for the quarter	**(128)**	–
Net non-pension post-retirement plan (recovery) expense	**$ (42)**	$ 34

10. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. The weighted number of units outstanding during the quarter ended June 30, 2005 was 37,920,792 (Q2 2004 – 37,920,792).

11. COMMITMENTS

As of June 30, 2005, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows:

2005	$ 1,579
2006	3,123
2007	2,695
2008	2,281
2009	1,860
Thereafter	2,788
	$ 14,326

12. INCOME TAXES

Income earned by the Fund that is distributed to unitholders in the form of distributions is not subject to taxation in the Fund, but is taxed at the individual unitholder level. A provision for income taxes is recognized for the Fund's former subsidiary, D + H Holdings Corp., as this subsidiary was subject to tax, including large corporations tax and corporate minimum tax.

In July 2004, unitholders approved an internal reorganization which resulted in the replacement of D + H Holdings Corp. with a trust entity, D + H Holdings Trust. Income of D + H Holdings Trust will not be subject to income taxes as long as all taxable income generated is distributed to the Fund and ultimately to the unitholders in the form of distributions. Accordingly, no provision has been made for income taxes subsequent to July 2004.

13. RELATED PARTY TRANSACTIONS

A Trustee of the Fund serves as Chairman of the Board of Canada Post Corporation, one of the Business' major suppliers. Total purchases from this supplier during the quarter ended June 30, 2005 were $7,836 (Q2 2004 – $6,577) and during the six months ended June 30, 2005 were $14,122 (six months ended June 30, 2004 – $12,932).

14. 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, 2005, the Fund earned 73% (Q2 2004 – 74%) of its revenue from its six largest customers.

15. 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 June 30, 2005	Three months ended March 31, 2005	Three months ended December 31, 2004	Three months ended September 30, 2004	Three months ended June 30, 2004
Sales	**$ 71,226**	$ 66,234	$ 69,068	$ 69,065	$ 68,864
Cost of sales	**41,623**	39,300	40,758	41,274	40,914
Operating expenses	**8,962**	7,694	8,366	8,177	8,514
Operating income	**20,641**	19,240	19,944	19,614	19,436
Interest expense	**839**	889	958	1,105	1,045
Amortization and income taxes	**3,880**	3,796	3,888	4,802	5,846
Net income	**15,922**	14,555	15,098	13,707	12,545
Add:					
Amortization expense	**3,880**	3,796	3,888	3,847	3,973
Future income taxes	**–**	–	–	745	1,437
Cash flow from operations	**19,802**	18,351	18,986	18,299	17,955
Less: Maintenance capital expenditures:					
Capital and other assets	**1,739**	1,519	2,715	1,451	1,317
Contract payments	**625**	1,250	645	625	625
Distributable cash[1]	**$ 17,438**	**$ 15,582**	**$ 15,626**	**$ 16,223**	**$ 16,013**
Distributions declared	**$ 13,651**	**$ 13,651**	**$ 13,530**	**$ 13,287**	**$ 13,287**
Net income per unit	**$ 0.4199**	**$ 0.3838**	**$ 0.3981**	**$ 0.3615**	**$ 0.3308**
Cash flow from operations per unit	**$ 0.5222**	**$ 0.4839**	**$ 0.5007**	**$ 0.4826**	**$ 0.4735**
Distributable cash per unit	**$ 0.4599**	**$ 0.4109**	**$ 0.4121**	**$ 0.4278**	**$ 0.4223**
Distributions declared per unit	**$ 0.3600**	**$ 0.3600**	**$ 0.3568**	**$ 0.3504**	**$ 0.3504**

[1] 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 as an alternative to the statement of cash flows. Further, the Fund's method of calculating distributable cash may not be comparable to similarly titled amounts reported by other issuers.

SUPPLEMENTARY FINANCIAL INFORMATION *(continued)*

Condensed Balance Sheet[1]

(in thousands of Canadian dollars, unaudited)	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004
Cash and cash equivalents	**$ 9,660**	$ 4,243	$ 10,258	$ 11,647	$ 7,357
Other current assets	**17,009**	16,826	15,352	15,744	16,672
Future income taxes	**–**	–	–	28,170	28,915
Capital and other assets	**33,093**	34,652	36,345	36,888	32,643
Goodwill and other intangible assets	**369,610**	368,056	368,640	369,223	369,806
	$429,372	$ 423,777	$430,595	$461,672	$ 455,393
Payables and other current liabilities[1]	**$ 34,181**	$ 30,373	$ 34,422	$ 35,632	$ 33,473
Other long-term liabilities[1]	**6,446**	6,930	7,603	7,867	4,167
Long-term indebtedness	**57,000**	57,000	60,000	63,000	63,000
Unitholders' equity	**331,745**	329,474	328,570	355,173	354,753
	$429,372	$ 423,777	$430,595	$461,672	$ 455,393

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

Distribution History

				Distributions[1] per unit	
Month	2005	2004	2003	2002	2001
January	**$ 0.1200**	$ 0.1150	$ 0.1117	$ 0.1083	$ –
February	**0.1200**	0.1150	0.1117	0.1083	–
March	**0.1200**	0.1168	0.1117	0.1083	–
April	**0.1200**	0.1168	0.1133	0.1083	–
May	**0.1200**	0.1168	0.1133	0.1083	–
June	**0.1200**	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		0.1168	0.1150	0.1117	–
November		0.1200	0.1150	0.1117	–
December[2]		0.1200	0.1150	0.1117	0.0427
	$ 0.7200	$ 1.4044	$ 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.

Tax Allocation of Distributions

	2005	2004
Dividend income	**0.0%**	15.0%
Interest income	**91.6%**	75.2%
Return of capital	**8.4%**	9.8%
Total distributions for the period	**100.0%**	100.0%

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

Other Statistics

Quarter ended (in thousands, except per unit amounts)	Trading price range of units (TSX: "DHF.UN") High	Low	Close	Average daily volume	Number of units outstanding at period end	Market capitalization at quarter end
2005 Q2	$ 22.85	$ 19.58	$ 20.92	61	37,921	$ 793,303
Q1	23.25	19.65	22.00	67	37,921	834,257
2004 Q4	23.25	18.80	22.70	81	37,921	860,802
Q3	19.62	16.75	19.45	58	37,921	737,559
Q2	19.34	15.05	18.00	93	37,921	682,574
Q1	19.40	16.71	19.40	92	37,921	735,663
2003 Q4	17.50	15.10	17.45	67	37,921	661,718
Q3	15.65	14.52	15.30	99	37,921	580,188
Q2	15.20	12.91	15.00	82	37,921	568,812
Q1	13.69	12.48	12.94	92	37,921	490,695
2002 Q4	13.25	11.22	12.86	139	37,921	487,661
Q3	12.13	10.45	12.10	165	37,921	458,842
Q2	11.25	10.00	10.95	176	37,921	415,233
Q1	11.20	10.11	10.51	149	18,955	199,217

DIRECTORS, TRUSTEES AND OFFICERS

Paul Damp[1,2]
Chairman, Director and Trustee
Managing Partner,
Kestrel Capital

Gordon J. Feeney[1]
Director and Trustee
Corporate Director

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.

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

Steve Rotz
Vice President,
Corporate Development

Joanne Sisco
Vice President,
Corporate Data Services

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DHF.UN

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

Chair of the Audit Committee
Davis + Henderson Income Fund
P.O. Box 47577
939 Lawrence Avenue East
Don Mills, ON M3C 3S7

[1] Member, Audit Committee (Committee Chair is Gordon J. Feeney. Effective July 22, 2005, Committee Chair is Brad Nullmeyer)
[2] Member, Human Resources and Corporate Governance Committee (Committee Chair is Helen K. Sinclair)

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