



Davis + Henderson Income Fund Reports Second Quarter Results

Davis + Henderson achieved solid growth in sales, net income and distributable cash for the three and six-month periods ended June 30, 2006 and, with the acquisition of Filogix, has advanced its strategic position within the Canadian Financial Services marketplace.

Second Quarter Highlights

- At \$0.375 per unit, declared distributions were 4.2% higher than in the second quarter of 2005.
- Distributable cash per unit grew 7.6% to \$0.4949 per unit compared to the second quarter of last year.
- Net income increased 6.6% to \$0.4477 per unit.

Six Month Highlights

- Declared distributions for the first half of 2006 were \$0.7440 per unit, an increase of 3.3% over the same period of 2005.
- Distributable cash increased 9.6% to \$0.9540 per unit.
- Net income per unit increased 10.0% to \$0.8844.

See Management's Discussion and Analysis for further discussions regarding "distributable cash".

Management Commentary

Davis + Henderson's financial performance through the first two quarters reflected solid gains in sales, driven by program enhancements and by stronger than expected cheque order volumes and improvements in margins gained through effective cost management. Additionally, as previously announced on June 15, 2006 we completed the acquisition of Filogix, Canada's leading provider of information and transaction technology for residential mortgage lending and real estate markets.

Through the recent acquisitions of Filogix and AVS, we have significantly strengthened our capabilities and the breadth of services we offer to the Canadian financial services marketplace. We look forward to increasing value for our customers and owners as we seek to build these leading businesses.

Looking forward, we remain committed to our financial objective of delivering stable and modestly growing distributions.

For a more detailed discussion of second quarter results, management's outlook for 2006 and caution concerning forward-looking statements in this quarterly report, please see the Management's Discussion and Analysis section of this report.

ABOUT THE COMPANY

Davis + Henderson Income Fund is listed on the Toronto Stock Exchange under the symbol DHE.UN. The Fund went public in December 2001 with the financial objective relative to unitholders of delivering stable and modestly growing cash distributions. **Davis + Henderson** has served the Canadian financial services industry since 1875. Through integrated service offerings, **Davis + Henderson** is a market leader in providing programs to customers who offer chequing accounts and lending services within Canada.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") for the second quarter of 2006 should be read in conjunction with MD&A in the Fund's Annual Report for the year ended December 31, 2005, dated February 28, 2006, the Short Form Prospectus, dated May 30, 2006 and the attached interim unaudited consolidated financial statements. External economic and industry factors remain substantially unchanged from the annual MD&A and the Short Form Prospectus, unless otherwise stated.

STRATEGY

The Fund's financial goal is to deliver stable and modestly growing cash distributions to unitholders by targeting annual sales growth in the range of 3% to 5% and maintaining margins. The Fund has three primary strategies to meet this financial goal. These are to: enhance the value of the Business' cheque supply program; offer additional programs to serve the chequing account; and, deliver programs within the lending services market. The Fund advances its strategies through internal (or organic) initiatives, as well as by partnering with third parties and by way of selective acquisitions.

In growing its cheque supply program, Davis + Henderson is focused on increasing value by continuously introducing product design alternatives, enhancing security components and combining other logical products and services into convenient and valuable packages for chequing account holders.

Other Davis + Henderson programs that serve the chequing account include a deposit program, which is directed towards small business account holders, and eSwitch®, a service that allows financial institutions to more easily move electronic pre-authorized payments and direct deposit authorizations between chequing accounts on behalf of account holders at the time of new account openings.

To advance its third key strategy, the Business acquired partnership interests in Filogix Limited Partnership ("Filogix") and Advanced Validation Systems Limited Partnership ("AVS"). Among other services, Filogix provides processing services related to the origination and underwriting of mortgages in Canada. AVS provides lenders with, among other offerings, search and registration services across Canada. The addition of these business interests has created another strong sales platform for Davis + Henderson. For a more detailed description of the Filogix business, see the Short Form Prospectus dated May 30, 2006, filed on SEDAR in connection with the Fund's offering of units in June 2006.

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, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Sales | \$ 75,900 | \$ 71,226 | \$ 147,818 | \$ 137,460 |
| Cost of sales | 41,712 | 41,623 | 84,022 | 80,923 |
| Gross profit | 34,188 | 29,603 | 63,796 | 56,537 |
| Gross margin | 45.0% | 41.6% | 43.2% | 41.1% |
| Operating expenses | 11,277 | 8,962 | 19,983 | 16,656 |
| % of sales | 14.9% | 12.6% | 13.5% | 12.1 |
| Operating income | 22,911 | 20,641 | 43,813 | 39,881 |
| % of sales | 30.2% | 29.0% | 29.6% | 29.0% |
| Interest expense | 887 | 839 | 1,582 | 1,728 |
| Amortization expense | 4,282 | 3,880 | 7,929 | 7,676 |
| Income before minority interest | \$ 17,742 | \$ 15,922 | \$ 34,302 | \$ 30,477 |
| Minority interest | 25 | – | 25 | – |
| Net income | \$ 17,717 | \$ 15,922 | \$ 34,277 | \$ 30,477 |
| Net income per unit, basic and diluted | \$ 0.4477 | \$ 0.4199 | \$ 0.8844 | \$ 0.8037 |

The results of the three and six months ended June 30, 2006 included financial results of Filogix for the period of June 15, 2006 to June 30, 2006.

For the second quarter of 2006, sales increased by \$4.7 million, or 6.6% compared to the same quarter of 2005. Of this increase, \$2.6 million is from the first-time inclusion of the financial results of the Filogix. The Filogix results, for the two-week period ended June 30, 2006, were reflective of normal seasonality.

Excluding Filogix, consolidated sales increased \$2.0 million, or 2.9%, reflecting the benefit of program initiatives introduced late in 2005, including *iDefence*TM which contributed to higher order values. The benefit of these initiatives was partially offset by the impact of one less business day in the second quarter of 2006 compared with the second quarter of 2005. Additionally in the second quarter of 2005, Davis + Henderson received incremental orders that had been delayed from the first quarter of 2005.

For the first six months of 2006, sales increased \$10.4 million, or 7.5% compared to the same period in 2005. Excluding Filogix and the impact of one extra business day in 2006, consolidated sales increased by 5%, reflecting increased order values as a result of cheque program enhancements introduced in late fall and early 2006.

In general, cheque order volumes have been stronger to date in 2006 than had been anticipated.

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 the significant number of orders with fewer cheques, will somewhat mitigate the impact related to reduced cheque usage.

Gross profit for the second quarter of 2006 was \$34.2 million, an increase of \$4.6 million, or 15.5%, compared to the second quarter of 2005. Gross margin increased to 45.0% compared to 41.6% in the second quarter of 2005. For the six-month period ended June 30, 2006, gross profit was \$63.8 million, compared to \$56.5 million in 2005 with margins improving to 43.2% from 41.1%. The \$2.6 million of sales contributed by the Filogix business during the stub period have relatively insignificant expense components recorded as cost of sales, with most costs categorized as operating expenses. As a result, Filogix contributed approximately two percentage points to consolidated gross margin in the second quarter and one percentage point for the six-month period of 2006. The balance of the improvement in gross margin year-over-year relates to successful cost reduction initiatives introduced during the first quarter of 2006.

All sales and substantially all expenses relating to Davis + Henderson's U.S. cheque supply program are contracted for in U.S. dollars. As the net U.S. dollar contribution from this activity is relatively modest, the change in relative dollar valuations has not had an impact on gross profit.

Operating expenses in the second quarter of 2006 were \$11.3 million, an increase of \$2.3 million, or 25.8%, over the comparable period in the prior year. For the six-month period ended June 30, 2006, operating expenses were \$20.0 million, a \$3.3 million or 20% increase compared to the first half of 2005. Filogix operating expenses accounted for \$1.6 million of these increases. The balance of the expense increase, 7.8% for the second quarter and 10.3% for the first half of 2006 compared to the same period last year, related to a number of factors, the largest of which was increased spending on information technology infrastructure upgrade initiatives. These initiatives started in late 2004. In 2004 and the early part of 2005, capital assets were purchased in support of this project. Later in 2005 and in 2006, expenditures on this project have continued but are primarily payments related to personnel activities in the technology area. These more recent expenditures were recorded as operating expenses and were a contributing factor to operating expense growth. Other contributing factors were general increases in corporate expenses and increases in staff levels to fill vacant positions.

Operating income for the second quarter and for the first half of 2006 was \$22.9 million and \$43.8 million, respectively, representing increases of \$2.3 million, or 11.0%, and

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

\$3.9 million, or 9.9%, respectively, over the comparable prior year period. These increases reflected the combination of factors discussed above.

Net interest expense increased slightly to \$0.9 million for the second quarter of 2006 compared to the same quarter in the prior year. This small increase reflected the draw down of additional debt for the acquisition of the Filogix business late in the second quarter, partially offset by the impact of lower loan balances for most of the quarter compared to the same quarter last year. For the first half of 2006, interest expense was \$1.6 million, or 8.4%, lower than the comparable 2005 period. This decline in interest expense reflects lower average loan balances outstanding during the period. For a more detailed description of the financing of the acquisition of Filogix, see "Acquisitions".

Amortization increased by \$0.4 million, or 10.4%, to \$4.3 million during the second quarter and by \$0.3 million, or 3.3%, for the six-month period ended June 30, 2006 compared to the same periods in 2005. These increases are primarily related to incremental amortization on the capital and intangible assets arising on the purchase of the Filogix business, partially offset by a reduction in amortization related to certain capital and other assets becoming fully amortized.

Income earned by the Business and distributed annually to unitholders is not subject to taxation in the Business, but is taxed at the individual unitholder level. The Fund and its subsidiaries are not anticipated to be subject to taxes as long as all taxable income generated by the Fund is paid to unitholders in the form of distributions. Accordingly, there are no provisions for income taxes recorded. With respect to delivery of products and services under its U.S. cheque supply contract, the Business does not have a permanent establishment in the U.S. for the purposes of determining tax liability and therefore does not have U.S. income tax liability.

During the second quarter, the Fund increased its ownership in AVS to 75% from 29% at March 31, 2006. This acceleration of the ownership interest was initiated by the Business so as to better serve customers on an integrated basis. With the increased ownership, the Business now fully consolidates the results of AVS. The minority interest recorded in the consolidated statement of income represents the 25% interest in the earnings of AVS that do not accrue to the Business.

At \$17.7 million, net income for the second quarter of 2006 increased \$1.8 million, or 11.3%, compared to the second quarter of 2005. For the six-month period ended June 30, 2006, net income was \$34.3 million, an increase of \$3.8 million, or 12.5%, compared to the same period of 2005. Net income per unit for the second quarter increased by 6.6%

compared with the same quarter last year. Net income per unit was up 10.0% during the first half of 2006 compared to 2005.

Distributable Cash

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

| | Three months ended | | Six months ended | |
|-----------------------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Net income | \$ 17,717 | \$ 15,922 | \$ 34,277 | \$ 30,477 |
| Add: | | | | |
| Amortization expense | 4,282 | 3,880 | 7,929 | 7,676 |
| | 21,999 | 19,802 | 42,206 | 38,153 |
| Less: | | | | |
| Maintenance capital expenditures: | | | | |
| Capital and other assets | 1,788 | 1,739 | 3,333 | 3,258 |
| Contract payments | 625 | 625 | 1,875 | 1,875 |
| Distributable cash | \$ 19,586 | \$ 17,438 | \$ 36,998 | \$ 33,020 |
| Distributions declared | \$ 14,974 | \$ 13,651 | \$ 28,967 | \$ 27,302 |
| Net income per unit | \$ 0.4477 | \$ 0.4199 | \$ 0.8844 | \$ 0.8037 |
| Distributable cash per unit | \$ 0.4949 | \$ 0.4599 | \$ 0.9540 | \$ 0.8708 |
| Distributions per unit | \$ 0.3750 | \$ 0.3600 | \$ 0.7440 | \$ 0.7200 |

The results of the three and six months ended June 30, 2006 included financial results of Filigix for the period of June 15, 2006 to June 30, 2006.

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 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. In the case of 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 as 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. For more information on customer contract obligations, see the “Cash Flows Used in Investing Activities” section.

Distributable cash per unit is calculated by dividing distributable cash by the weighted average number of units outstanding during the period. Distributions per unit is the actual amount of distributions declared per unit during the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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 income 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 calculations used by other income trusts. Following is a full reconciliation between cash flows from operating activities to distributable cash.

| <i>(in thousands of Canadian dollars, unaudited)</i> | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Cash flows from operating activities | \$ 26,498 | \$ 24,175 | \$ 44,856 | \$ 37,581 |
| Changes in non-cash working capital items | (4,424) | (4,232) | (2,549) | 790 |
| Minority interest | (25) | – | (25) | – |
| Changes in other long-term assets and liabilities | (50) | (141) | (76) | (218) |
| Cash flows from operations | 21,999 | 19,802 | 42,206 | 38,153 |
| Less: | | | | |
| Maintenance capital expenditures: | | | | |
| Capital and other assets | 1,788 | 1,739 | 3,333 | 3,258 |
| Contract payments | 625 | 625 | 1,875 | 1,875 |
| Distributable cash | \$ 19,586 | \$ 17,438 | \$ 36,998 | \$ 33,020 |

Distributable cash increased by \$2.1 million, or 12.3%, during the second quarter compared to the same quarter in 2005. On a per unit basis, the increase was \$0.0350 per unit to \$0.4949 per unit, or 7.6%. For the six-month period ended June 30, 2006, distributable cash was \$37.0 million, an increase of \$4.0 million, or 12.0%, over the same period last year. On a per unit basis, the increase for the six-month period was \$0.0832 per unit to \$0.9540 per unit, or 9.6%, compared with the same period last year. The increase for both periods was attributable to growth in the net income before amortization of the Business as more fully discussed previously.

Maintenance capital expenditures were comparable in 2006 to 2005 for both periods. More detail concerning maintenance capital expenditures is provided under the “Cash Flow and Liquidity” section.

Declared distributions were \$15.0 million (\$13.7 million in 2005), or \$0.3750 per unit, and \$29.0 million (\$27.3 million in 2005), or \$0.7440 per unit, for the quarter and half year ended June 30, 2006. In connection with the acquisition of the Filogix business on June 15, 2006, the Fund issued an additional 6,026,000 units, which qualify to receive distributions declared in June and payable in July. On a per unit basis, distribution increases were 4.2% for the second quarter and 3.3% for the first half of 2006 compared to the same prior year period. The monthly distribution rate for June 2006 was \$0.1250 per unit, or \$1.50 annualized, as compared to \$0.1200 per unit, or \$1.44 per unit annualized, in June 2005.

Eight Quarter Consolidated Statement of Income – Summary

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

| | Q2 | 2006 Q1 | Q4 | Q3 | Q2 | 2005 Q1 | Q4 | 2004 Q3 |
|---------------------|----------|------------|----------|----------|----------|------------|----------|------------|
| Sales | \$75,900 | \$71,918 | \$69,232 | \$69,845 | \$71,226 | \$66,234 | \$69,068 | \$69,065 |
| Operating income | 22,911 | 20,902 | 19,646 | 20,054 | 20,641 | 19,240 | 19,944 | 19,614 |
| Net income | \$17,717 | \$16,560 | \$14,982 | \$15,292 | \$15,922 | \$14,555 | \$15,098 | \$13,707 |
| Net income per unit | \$0.4477 | \$0.4367 | \$0.3951 | \$0.4033 | \$0.4199 | \$0.3838 | \$0.3981 | \$0.3615 |

Since inception, the Fund has generally reported quarterly sales that are stable and growing. 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 business days and the receipt and fulfillment of orders delayed from the first quarter of 2005. The third quarter did not have the benefit of order volumes from a prior quarter and had one less business day than the second quarter and, as a result, sales were lower in the third quarter of 2005 than in the second quarter. The fourth quarter had two fewer business days than the third quarter but the introduction of enhanced and repositioned products during the quarter increased the value of orders and partially offset the impact of reduced order volume. The increase from the fourth quarter of 2005 to the first quarter of 2006 is primarily a result of three additional working days and the effect of enhanced and repositioned products introduced during the fourth quarter of 2005. The increase from the first quarter of 2006 to the second quarter of 2006 is primarily a result of the inclusion of the Filogix business and the benefit of higher order volumes in spite of the second quarter of 2006 having one less business day than the previous quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Operating income has generally been trending consistently with growing sales. Except for the latest quarter, as a result of the acquisition of the Filogix business, interest expense has been consistently falling as average loan balances decreased and contracted interest rates were reduced. Net income increased in the fourth quarter of 2004, as a result of reduced income taxes attributed to the change in corporate structure during July 2004.

Going forward, management believes that the Davis + Henderson results will be subject to seasonality as a result of sales contribution from Filogix which are subject to seasonality.

Quarterly Distributable Cash¹

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

| | Q2 | 2006 Q1 | Q4 | Q3 | Q2 | 2005 Q1 | Q4 | 2004 Q3 |
|------------------------------------|----------|------------|----------|----------|----------|------------|----------|------------|
| Distributable cash | \$19,586 | \$17,409 | \$16,413 | \$16,971 | \$17,440 | \$15,582 | \$15,626 | \$16,223 |
| Distributions declared | \$14,974 | \$13,993 | \$13,879 | \$13,803 | \$13,651 | \$13,651 | \$13,530 | \$13,287 |
| Distributable cash per unit | \$0.4949 | \$0.4591 | \$0.4328 | \$0.4475 | \$0.4599 | \$0.4109 | \$0.4121 | \$0.4278 |
| Distributions declared per unit | \$0.3750 | \$0.3690 | \$0.3660 | \$0.3640 | \$0.3600 | \$0.3600 | \$0.3568 | \$0.3504 |

¹ Distributable cash is a non-GAAP measure and is defined in the "Distributable Cash" section above.

In general, distributable cash from the Business showed growth through the quarters consistent with changing sales and operating income as previously described. Total distributable cash and distributable cash per unit increased through the quarters with some variation from quarter to quarter as a result of the timing of maintenance capital expenditures.

Cash generated from the Business has consistently funded all distributions and distributable cash has exceeded distributions each quarter.

CASH FLOW AND LIQUIDITY

Consolidated Statement of Cash Flows – Summary

(in thousands of Canadian dollars, unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Cash flows from operating activities | \$ 26,498 | \$ 24,175 | \$ 44,856 | \$ 37,581 |
| Cash flows used for distributions | (14,221) | (13,650) | (28,100) | (27,302) |
| Cash flows provided by (used in) other financing activities | 207,749 | – | 207,749 | (3,000) |
| Cash flows used for investing in capital and fixed payments pursuant to long-term supply contracts | (2,413) | (2,964) | (5,208) | (5,733) |
| Cash flows used in acquisition of businesses | (222,447) | (2,144) | (222,994) | (2,144) |
| Net change in cash | \$ (4,834) | \$ 5,417 | \$ (3,697) | \$ (598) |

Cash Flows from Operating Activities

During the second quarter of 2006, the Business generated \$26.5 million in cash flow from operating activities, an increase of \$2.3 million compared to the same quarter in 2005. Approximately \$2.2 million of the increase was from higher net income before amortization with the balance of the change related to the difference in non-cash working capital items. The inclusion of the Filogix business, in general, has and will continue to increase non-cash working capital balances. At June 30, 2006, outstanding balances payable related to the acquisition have approximately offset these increases.

For the six-month period ended June 30, 2006, cash flows from operating activities increased by \$7.3 million over the same period of 2005, with \$4.1 million resulting from changes in income before amortization. The balance of the increase was from the differences in non-cash working capital and was mostly related to timing of certain large payments and did not reflect a long-term change in working capital requirements.

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 of 2006 included distributions declared for the month of March 2006, but do not include amounts declared for June 2006 as these amounts will not be paid until July 31, 2006.

The Fund paid distributions of \$14.2 million during the second quarter and \$28.1 million for the first half of 2006 compared to \$13.7 million and \$27.3 million for the same

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

period in 2005. Additional units of 6,026,000 issued as a result of the Filogix acquisition are entitled to receive distributions declared in June to be paid in July but did not receive distributions paid in June 2006.

During the first quarter of 2006, the Fund announced an increase in distributions to unitholders of record on March 31, 2006. Distributions were increased from \$0.1220 per unit (equivalent to \$1.46 per annum) to \$0.1250 per unit (equivalent to \$1.50 per annum).

The estimated tax allocation of distributions declared during the first half of 2006 was 90.6% other income and 9.4% return of capital. The 2005 tax allocation was 91.6% other income, and 8.4% 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, 2006 and July 24, 2006, 43,946,792 trust units were outstanding. This reflects an issuance of an additional 6,026,000 trust units on June 15, 2006 in exchange for subscription receipts issued on June 6, 2006 and was the first new issuance since April 2, 2002.

Cash Flows Provided by (Used in) Other Financing Activities

Cash flows provided by other financing activities during the second quarter of 2006 reflect the net proceeds from issuance of new trust units and the draw down of debt, net of financing fees, to fund the acquisition of Filogix. The acquisition and related financing is discussed in more detail under "Acquisitions".

Cash Flows Used in Investing Activities

Expenditures on Capital and Fixed Payments Pursuant to Long-Term Supply Contracts

(in thousands of Canadian dollars, unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Maintenance capital: | | | | |
| Machinery and equipment | \$ 282 | \$ 86 | \$ 389 | \$ 174 |
| Computer and software | 1,496 | 1,629 | 2,792 | 3,015 |
| Furniture, fixtures and leasehold improvements | 10 | 24 | 152 | 69 |
| | 1,788 | 1,739 | 3,333 | 3,258 |
| Contract payments, maintenance | 625 | 625 | 1,875 | 1,875 |
| Total maintenance expenditures | 2,413 | 2,364 | 5,208 | 5,133 |
| Non-maintenance capital: | | | | |
| Contract payments, non-maintenance | – | 600 | – | 600 |
| Total non-maintenance expenditures | – | 600 | – | 600 |
| Total capital investments | \$ 2,413 | \$ 2,964 | \$ 5,208 | \$ 5,733 |

The table above sets out capital expenditures, which include both capital assets and payments under customer contracts. The Business 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 because 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 related to the operation of the cheque supply and other programs.

The Fund's capital program provides for continued annual maintenance expenditures to be funded by cash flows from operations. Maintenance capital expenditures during the second quarter of 2006 of \$1.8 million are slightly more than expenditures made during the second quarter of 2005 and included expenditures of \$0.5 million made in the Filogix business.

Non-maintenance expenditures support the development of new programs and services, major customer and production efficiency initiatives and also include certain customer contract payments. There were no expenditures qualifying as non-maintenance to date during 2006.

Acquisitions

During the quarter, the Fund significantly advanced its strategy of providing services to the consumer lending marketplace by acquiring 100% of Filogix Holdings Inc. for total cash consideration of \$212.5 million plus approximately \$3.6 million of balance sheet adjustments. The cash was raised by drawing \$100 million from a newly expanded credit facility, \$109.2 million from net proceeds on the issuance of new trust units, with the balance funded from cash generated by the operating activities of the Business.

Also during the quarter, the Fund entered into an amending agreement to accelerate its purchase obligation and its first option related to partnership units of Advanced Validation Systems (“AVS”). The Fund now has a 75% interest in AVS. The purchase price paid (and related adjustments) for both the accelerated purchases and the option are based on a formula that references the earnings of AVS up to and including earnings for the year ended December 31, 2006.

Cash Balances and Long-term Indebtedness

The Business has continued to generate operating cash flow in excess of distributions. During the period ended June 30, 2006, this excess cash was used to fund a portion of the Filogix acquisition, the AVS acquisition and other investing activities.

At June 30, 2006, cash and cash equivalents totalled \$4.6 million, compared to \$8.3 million at December 31, 2005.

Total debt facilities available at June 30, 2006 were \$170.0 million and include a \$120.0 million non-revolving term loan and a \$50.0 million revolving term credit facility. As of June 30, 2006, the Business had drawn \$120.0 million under the non-revolving term loan and \$30.0 million under the revolving term credit facility. The Business is permitted to draw on the revolving facility’s available balance of \$20.0 million to fund capital expenditures or for other general corporate purposes.

As of June 30, 2006, the Fund had interest-rate swap hedge contracts in place with certain of its lenders, such that the borrowing rates on 88% of outstanding indebtedness are effectively fixed at the interest rates and for the time periods ending as follows:

| Maturity Date | Notional Amount | Interest Rate ¹ |
|-----------------|-----------------|----------------------------|
| June 30, 2007 | \$12 million | 5.140% |
| June 30, 2008 | \$12 million | 5.410% |
| January 4, 2009 | \$10 million | 4.880% |
| July 15, 2009 | \$20 million | 6.063% |
| July 15, 2010 | \$33 million | 6.065% |
| June 15, 2011 | \$45 million | 5.935% |

¹The listed interest rates are inclusive of banker’s acceptance fees currently in effect. Such fees could increase or decrease depending on the Fund’s financial leverage as compared to 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 5.77% as at June 30, 2006.

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, contractual obligations and anticipated distributions.

OUTLOOK

Davis + Henderson's overall long-term financial objective is to deliver stable and modestly growing distributions by growing sales in the 3% to 5% range and maintaining margins. For the balance of 2006 and for 2007, sales are expected to grow in excess of the targeted range as a result of the consolidation of the Filogix business acquired on June 15, 2006. The results of the first six months reflect the successful implementation of several growth initiatives together with stronger than expected cheque order volumes and margins. These stronger volumes and related margin benefits may not continue for the balance of the year.

As set out in the Fund's statement of strategy, the objective is to grow profits and cash flow by enhancing the value of Business' cheque supply program, offering additional programs to serve the chequing account and delivering programs within the lending services market.

During the quarter, Davis + Henderson made a significant investment with the acquisition of the Filogix business. This strategically aligned acquisition adds another significant platform for the Business and is expected to contribute to growth in the overall business of the Fund.

The Business' operational plans include many initiatives which, when combined, are intended to allow us to meet our objectives. Examples include *iDefence*[™], *BizAssist*[™] and *eSwitch*[®] programs relating to the chequing account. Relating to lending markets, the Business looks to gain market share from personal property search and registration programs and by increasing volumes related to origination and underwriting services.

The Business' capital program provides for continued annual maintenance expenditures to be funded by cash flows from operations. Currently, 2006 maintenance capital payments, including customer contract payments and expenditures made by the mortgage servicing business, are expected to be approximately \$12 million to \$13 million.

Caution Concerning Forward-Looking Statements

This MD&A contains certain statements that constitute forward-looking information within the meaning of applicable securities laws (“forward-looking statements”) including those set out in the “Outlook” section above. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Business, or developments in Davis + Henderson’s industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements include all disclosure regarding possible events, conditions or results of operations that are based on assumptions about future economic conditions and courses of action. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. Davis + Henderson cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made.

Risks related to forward-looking statements include, among other things, challenges presented by declines in the use of cheques by consumers; the Fund’s dependence on a limited number of large financial institutions and dependence on their acceptance of new programs; exposure to fluctuations in residential real estate and mortgage activity; strategic initiatives being undertaken to meet the Fund’s financial objective as well as general market conditions, including economic and interest rate dynamics and investor interest in, and government regulations relating to income trusts. Forward-looking statements are based on management’s current plans, estimates, projections, beliefs and opinions, and Davis + Henderson does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.

ADDITIONAL INFORMATION

Additional information relating to the Fund, including the Fund’s most recently filed Annual Information Form and Short Form Prospectus dated May 30, 2006, is available on SEDAR at www.sedar.com.

July 24, 2006

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

June 30, 2006 December 31, 2005

ASSETS

Current Assets:

| | | |
|----------------------------|------------|------------|
| Cash and cash equivalents | \$ 4,607 | \$ 8,304 |
| Accounts receivable | 20,341 | 10,232 |
| Inventory | 5,449 | 5,158 |
| Prepaid expenses | 3,044 | 1,686 |
| | <hr/> | <hr/> |
| | 33,441 | 25,380 |
| Capital assets (note 3) | 35,150 | 22,376 |
| Other assets (note 4) | 7,551 | 8,297 |
| Intangible assets (note 5) | 136,775 | 7,962 |
| Goodwill (note 6) | 438,860 | 361,288 |
| | <hr/> | <hr/> |
| | \$ 651,777 | \$ 425,303 |

LIABILITIES AND UNITHOLDERS' EQUITY

Current Liabilities:

| | | |
|---|------------|------------|
| Accounts payable and accrued liabilities | \$ 40,551 | \$ 27,894 |
| Distributions payable to unitholders | 5,493 | 4,626 |
| Current portion of disbursement obligations on customer contracts (note 7) | 2,020 | 3,145 |
| | <hr/> | <hr/> |
| | 48,064 | 35,665 |
| Disbursement obligations on customer contracts (note 7) | 2,040 | 2,790 |
| Long-term indebtedness (note 8) | 150,000 | 50,000 |
| Other long-term liabilities (note 9) | 2,564 | 2,512 |
| Minority interest | 263 | – |
| | <hr/> | <hr/> |
| | 202,931 | 90,967 |
| Unitholders' Equity: | | |
| Trust units (note 10) | 474,585 | 365,385 |
| Deficit | (25,739) | (31,049) |
| | <hr/> | <hr/> |
| | 448,846 | 334,336 |
| Commitments (note 11) | | |
| | <hr/> | <hr/> |
| | \$ 651,777 | \$ 425,303 |

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



Paul Damp
Trustee



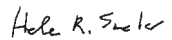
Gordon J. Feeney
Trustee



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 | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Sales | \$ 75,900 | \$ 71,226 | \$ 147,818 | \$ 137,460 |
| Cost of sales | 41,712 | 41,623 | 84,022 | 80,923 |
| | 34,188 | 29,603 | 63,796 | 56,537 |
| Operating expenses | 11,277 | 8,962 | 19,983 | 16,656 |
| | 22,911 | 20,641 | 43,813 | 39,881 |
| Interest expense | 887 | 839 | 1,582 | 1,728 |
| Amortization expense | 4,282 | 3,880 | 7,929 | 7,676 |
| Income before minority interest | 17,742 | 15,922 | 34,302 | 30,477 |
| Minority interest | 25 | – | 25 | – |
| Net income | \$ 17,717 | \$ 15,922 | \$ 34,277 | \$ 30,477 |
| Net income per unit, basic and diluted | \$ 0.4477 | \$ 0.4199 | \$ 0.8844 | \$ 0.8037 |

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 | | Six months ended | |
|------------------------------|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Deficit, beginning of period | \$ (28,482) | \$ (35,911) | \$ (31,049) | \$ (36,815) |
| Net income | 17,717 | 15,922 | 34,277 | 30,477 |
| Distributions | (14,974) | (13,651) | (28,967) | (27,302) |
| Deficit, end of period | \$ (25,739) | \$ (33,640) | \$ (25,739) | \$ (33,640) |

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 | | Six months ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Cash and cash equivalents provided by (used in): | | | | |
| OPERATING ACTIVITIES | | | | |
| Net income | \$ 17,717 | \$ 15,922 | \$ 34,277 | \$ 30,477 |
| Add: | | | | |
| Capital asset amortization expense | 2,199 | 2,199 | 4,113 | 4,304 |
| Other asset amortization expense | 1,087 | 1,099 | 2,173 | 2,206 |
| Intangible asset amortization expense | 996 | 582 | 1,643 | 1,166 |
| | 21,999 | 19,802 | 42,206 | 38,153 |
| Decrease (increase) in non-cash working capital items | 4,424 | 4,232 | 2,549 | (790) |
| Minority interest | 25 | – | 25 | – |
| Changes in other long-term assets and liabilities | 50 | 141 | 76 | 218 |
| | 26,498 | 24,175 | 44,856 | 37,581 |
| FINANCING ACTIVITIES | | | | |
| Gross proceeds from issuance of trust units | 116,000 | – | 116,000 | – |
| Issuance costs | (6,800) | – | (6,800) | – |
| Proceeds from (repayment of) long-term indebtedness | 100,000 | – | 100,000 | (3,000) |
| Long-term debt refinancing fees | (1,451) | – | (1,451) | – |
| Distributions paid to unitholders | (14,221) | (13,650) | (28,100) | (27,302) |
| | 193,528 | (13,650) | 179,649 | (30,302) |
| INVESTING ACTIVITIES | | | | |
| Expenditures on capital assets | (1,788) | (1,739) | (3,333) | (3,258) |
| Payments pursuant to long-term supply contracts | (625) | (1,225) | (1,875) | (2,475) |
| Acquisition of Filogix business (note 2a) | (216,100) | – | (216,100) | – |
| Acquisition of AVS business (note 2b) | (6,347) | (2,144) | (6,894) | (2,144) |
| | (224,860) | (5,108) | (228,202) | (7,877) |
| Increase (decrease) in cash and cash equivalents for the period | (4,834) | 5,417 | (3,697) | (598) |
| Cash and cash equivalents, beginning of period | 9,441 | 4,243 | 8,304 | 10,258 |
| Cash and cash equivalents, end of period | \$ 4,607 | \$ 9,660 | \$ 4,607 | \$ 9,660 |
| Supplementary information: | | | | |
| Cash interest paid | \$ 1,287 | \$ 401 | \$ 2,132 | \$ 2,025 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Six months ended June 30, 2006 and 2005

(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 a declaration of trust dated November 6, 2001 and as amended and restated on July 23, 2004. The Fund holds indirectly all of the partnership units of Davis + Henderson, Limited Partnership (“Davis + Henderson L.P.”) and its subsidiaries Filogix Limited Partnership (“Filogix L.P.”) and Advanced Validation System Limited Partnership (“AVS L.P.”)

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, 2005, which are included in the 2005 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, 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries, consisting of D + H Holdings Trust, Davis + Henderson G.P. Inc., Davis + Henderson L.P., Filogix Holdings Inc., Filogix L.P. and its interest in AVS 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. Risks associated with concentrations of credit risk with respect to accounts receivable and interest-rate swaps are limited due to the credit rating of customers and

swap counterparties serviced or 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 and accrued liabilities, distributions payable to unitholders and 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.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The

Fund also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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:

| | |
|--|--------------------------------------|
| Machinery and equipment | 10% to 20% declining balance |
| Computer equipment, furniture and fixtures | 10% to 30% declining balance |
| Computer software | straight-line over 2 to 5 years |
| 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, AVS and Filogix businesses in excess of the fair value of net tangible assets and identifiable intangible assets acquired. Goodwill is not amortized but is tested for impairment annually.

Intangible Assets

Intangible assets are recorded at fair value and consist of rights related to cheque supply outsourcing contracts, proprietary software, service contracts, customer relationships, and brand names. Intangible assets with finite useful lives are amortized over their useful lives as follows:

| | |
|---|---|
| Rights related to cheque supply outsourcing contracts | lesser of seven years or the remaining term |
| Service contracts | lesser of seven years or the remaining term |
| Proprietary software | straight-line over 10 years |
| Brand names | straight-line over 15 years |
| Customer relationships | straight-line over 15 years |

The carrying value of the intangible assets is tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Revenue Recognition

The Fund is the principal on all sales transactions related to the cheque supply and other transaction account program services 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.

Technology fees consist primarily of arrangements whereby the Fund earns a fee on each transaction processed by the customers. The Fund recognizes revenue on fee arrangements as transactions are reported by customers, provided collectibility is reasonably assured.

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.

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. As all taxable income will be allocated to the unitholders, no provision for income taxes has been made in these consolidated financial statements. Income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders.

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. The latest actuarial valuation of the post-retirement benefit plan was performed on January 1, 2005. The next valuation will be performed on January 1, 2008.

For the Fund's defined contribution pension plans, annual pension expense is based on when amounts are earned by eligible employees.

Related Parties

For the purposes of the financial statements, parties are considered related to the Fund if the Fund has the ability to, directly or indirectly, control the party or exercise significant influence over the party in making financial and operating decisions or vice versa, or where the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. ACQUISITION**a. Filogix Business**

On June 15, 2006, the Fund completed an agreement to indirectly acquire all the outstanding partnership units of Filogix L.P. through the acquisition of Filogix Holdings Inc. The Filogix L.P. provides, among other offerings, processing services related to the origination and underwriting of mortgages in Canada. As at June 30, 2006, the assets acquired and consideration given were as follows:

| | June 30, 2006 |
|-------------------------------------|-------------------|
| Net assets acquired, at fair value: | |
| Assets | \$ 22,322 |
| Intangibles | 128,087 |
| Liabilities | (7,686) |
| | <u>142,723</u> |
| Goodwill | 73,377 |
| Total | <u>\$ 216,100</u> |
| Consideration for 100% ownership: | |
| Cash | 216,100 |
| Total | <u>\$ 216,100</u> |

Intangibles consist of proprietary software, brand names and customer relationships. The purchase price and related transaction costs was financed with net proceeds of \$109.2 million from the issuance of trust units, \$100 million from the drawdown of debt, and from cash generated from the operating activities of the Fund. The above values are preliminary figures and are subject to change. The Fund expects to finalize the purchase price equation by September 30, 2006.

b. AVS Business

On April 28, 2005, the Fund entered into an agreement to acquire a 50% interest in AVS through a step-by-step acquisition over 20 months ending January 2007. On May 25, 2006, the Fund entered into an amending agreement to accelerate its remaining obligation as well as exercising its option to acquire a further 25% interest in the AVS business. As at June 30, 2006, the Fund owns a 75% interest in AVS. The purchase price paid for the additional ownership is based on a formula that reference the earnings of AVS up to and including earnings for the year ended December 31, 2006. The Fund has adopted the consolidation method of accounting in respect of AVS. The remaining 25% of the outstanding partnership units is recognized as minority interest.

The net assets acquired and consideration given were as follows:

| | December 31, 2005 | June 30, 2006 | Total |
|--|-------------------|---------------|-----------|
| Net assets acquired, at fair value: | | | |
| Assets | \$ 197 | \$ 644 | \$ 841 |
| Intangibles | 1,129 | 2,369 | 3,498 |
| Liabilities | (15) | (314) | (329) |
| | 1,311 | 2,699 | 4,010 |
| Goodwill | 1,903 | 4,195 | 6,098 |
| Total | \$ 3,214 | \$ 6,894 | \$ 10,108 |
| Consideration for 75% ownership: | | | |
| Cash (including \$520 of transaction fees) | \$ 3,214 | \$ 6,894 | \$ 10,108 |
| Total | \$ 3,214 | \$ 6,894 | \$ 10,108 |

Intangibles include proprietary software and service contracts. The purchases were made with available cash generated from the operating activities of the Fund.

3. CAPITAL ASSETS

| | June 30, 2006 | | |
|--|-------------------|--------------------------|-----------|
| | Cost | Accumulated amortization | Net |
| Machinery and equipment | \$ 14,739 | \$ 6,090 | \$ 8,649 |
| Computer equipment and software | 37,977 | 14,613 | 23,364 |
| Furniture, fixtures and leasehold improvements | 7,597 | 4,460 | 3,137 |
| | \$ 60,313 | \$ 25,163 | \$ 35,150 |
| | December 31, 2005 | | |
| | Cost | Accumulated amortization | Net |
| Machinery and equipment | \$ 14,289 | \$ 5,502 | \$ 8,787 |
| Computer equipment and software | 22,917 | 11,353 | 11,564 |
| Furniture, fixtures and leasehold improvements | 6,199 | 4,174 | 2,025 |
| | \$ 43,405 | \$ 21,029 | \$ 22,376 |

Amortization during the quarter ended June 30, 2006 was \$2,199 (Q2 2005 – \$2,199) and during the six months ended June 30, 2006 was \$4,113 (six months ended June 30, 2005 – \$4,304).

4. OTHER ASSETS

| | June 30, 2006 | December 31, 2005 |
|----------------------------|---------------|-------------------|
| Cost: | | |
| Long-term supply contracts | \$ 12,903 | \$ 12,903 |
| Deferred finance costs | 1,451 | – |
| Other | 370 | 370 |
| | 14,724 | 13,273 |
| Accumulated amortization | (7,173) | (4,976) |
| | \$ 7,551 | \$ 8,297 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Amortization during the quarter ended June 30, 2006 on long-term supply contracts and deferred finance fees was \$1,087 (Q2 2005 – \$1,099) and \$24 (Q2 2005 – nil) respectively and during the six months ended June 30, 2006 was \$2,173 (six months ended June 30, 2005 – \$2,206) and \$24 (six months ended June 30, 2005 – nil) respectively.

5. INTANGIBLE ASSETS

| | June 30, 2006 | December 31, 2005 |
|-------------------------------------|---------------|-------------------|
| Cost: | | |
| Cheque supply outsourcing contracts | \$ 16,329 | \$ 16,329 |
| Customer service contracts | 3,306 | 1,059 |
| Proprietary software | 41,992 | 70 |
| Brand names | 8,400 | – |
| Customer relationships | 77,887 | – |
| | 147,914 | 17,458 |
| Accumulated amortization | (11,139) | (9,496) |
| | \$ 136,775 | \$ 7,962 |

Amortization during the quarter ended June 30, 2006 was \$996 (Q2 2005 – \$582) and during the six months ended June 30, 2006 was \$1,643 (six months ended June 30, 2005 – \$1,166).

6. GOODWILL

| | June 30, 2006 | December 31, 2005 |
|--------------------------------------|---------------|-------------------|
| Balance, beginning of period | \$ 361,501 | \$ 359,385 |
| Goodwill acquired during the period: | | |
| AVS acquisition | 3,982 | 1,903 |
| Filogix acquisition | 73,377 | – |
| Balance, end of period | \$ 438,860 | \$ 361,288 |

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

| | June 30, 2006 | December 31, 2005 |
|--|---------------|-------------------|
| Current portion | \$ 2,020 | \$ 3,145 |
| Long-term portion | 2,040 | 2,790 |
| Total disbursement obligations on customer contracts | \$ 4,060 | \$ 5,935 |

The Fund has fixed customer contract disbursement obligations payable as of June 30, 2006 as follows:

| | |
|------|----------|
| 2006 | \$ 1,270 |
| 2007 | 1,395 |
| 2008 | 1,395 |
| | \$ 4,060 |

8. LONG-TERM INDEBTEDNESS

| | June 30, 2006 | December 31, 2005 |
|---------------------------|---------------|-------------------|
| Non-revolving term loan | \$ 120,000 | \$ 50,000 |
| Revolving credit facility | 30,000 | – |
| | \$ 150,000 | \$ 50,000 |

The Fund has \$170.0 million of term credit facilities due June 15, 2011 (December 31, 2005 – \$90.0 million), consisting of a \$120.0 million non-revolving term loan and a \$50.0 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, 2006, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on \$132.0 million, or 88%, of its outstanding term indebtedness are effectively fixed at interest rates of between 4.880% and 6.065% per annum for terms ending between June 30, 2007 and June 15, 2011. As of June 30, 2006, the net fair value of outstanding interest-rate swaps was approximately \$0.5 million, which the Fund would receive if it were to close out the contracts (December 31, 2005 – the net fair value of the outstanding interest-rate swaps was approximately \$0.1 million, which the Fund would be required to pay if it were to close out the contracts).

9. OTHER LONG-TERM LIABILITIES

| | June 30, 2006 | December 31, 2005 |
|-------------------------------|---------------|-------------------|
| Deferred compensation program | \$ 1,557 | \$ 1,373 |
| Employee future benefits | 1,007 | 1,139 |
| | \$ 2,564 | \$ 2,512 |

The deferred compensation program is a long-term incentive plan for management, subject to certain performance criteria and vesting terms, payable after December 31, 2008. This

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

incentive plan was originally implemented on January 1, 2004 and was amended on November 28, 2005 to add incremental performance criteria and to extend the payment date by two years to December 31, 2008. 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 plans are defined contribution pension plans that provide pensions to substantially all eligible employees. Total expense for the Fund's defined contribution pension plans for the quarter ended June 30, 2006 were \$0.2 million (Q2 2005 – \$0.3 million) and \$0.6 million for the six months ended June 30, 2006 (six months ended June 30, 2005 – \$0.6 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. Reductions in obligations from the plan amendment are being amortized over three-and-one-half years and the actuarial losses are being amortized over six years. Post-retirement benefit costs recovered during the quarter ended June 30, 2006 were \$42 (Q2 2005 – \$42).

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 net proceeds from the issuance of trust units and the number of units outstanding are as follows:

| | June 30, 2006 | December 31, 2005 |
|----------------------------------|---------------|-------------------|
| Balance, beginning of period | \$ 365,385 | \$ 365,385 |
| Units issued | 109,200 | – |
| Balance, end of period | \$ 474,585 | \$ 365,385 |
| Units outstanding, end of period | 43,946,792 | 37,920,792 |

The weighted average number of units outstanding during the quarter ended June 30, 2006 was 39,576,287 (Q2 2005 – 37,920,792) and for the six months ended June 30, 2006 was 38,753,112 (six months ended June 30, 2005 – 37,920,792).

11. COMMITMENTS

As of June 30, 2006, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows for the years ending:

| | | |
|------------|----|-----------|
| 2006 | \$ | 2,137 |
| 2007 | | 3,840 |
| 2008 | | 2,905 |
| 2009 | | 2,094 |
| 2010 | | 2,095 |
| Thereafter | | 977 |
| | | <hr/> |
| | | \$ 14,048 |

12. RELATED PARTY TRANSACTIONS

A Trustee of the Fund serves as Chairman of the Board of Canada Post Corporation, one of the Fund's major suppliers. Total purchases from this supplier during the quarter ended June 30, 2006 were \$5,849 (Q2 2005 – \$6,703) and during the six months ended June 30, 2006 were \$11,772 (six months ended June 30, 2005 – \$12,726). As at June 30, 2006, \$1,370 (December 31, 2005 – \$2,123) was owing to Canada Post Corporation, this amount has been included in accounts payable and accrued liabilities.

13. SIGNIFICANT CUSTOMERS

For the quarter ended June 30, 2006, the Fund earned 79% (Q2 2005 – 80%) of its sales from its six largest customers.

14. COMPARATIVE FIGURES

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

SUPPLEMENTARY FINANCIAL INFORMATION

Operating Results by Period¹

| (in thousands of Canadian dollars, except per unit amounts, unaudited) | Three months ended June 30, 2006 | Three months ended March 31, 2006 | Three months ended December 31, 2005 | Three months ended September 30, 2005 | Three months ended June 30, 2005 |
|---|---|--|---|--|---|
| Sales | \$ 75,900 | \$ 71,918 | \$ 69,232 | \$ 69,845 | \$ 71,226 |
| Cost of sales | 41,712 | 42,310 | 40,887 | 40,865 | 41,623 |
| Operating expenses | 11,277 | 8,706 | 8,699 | 8,926 | 8,962 |
| Operating income | 22,911 | 20,902 | 19,646 | 20,054 | 20,641 |
| Interest expense | 887 | 695 | 760 | 813 | 839 |
| Amortization | 4,282 | 3,647 | 3,904 | 3,949 | 3,880 |
| Minority interest | 25 | - | - | - | - |
| Net income | 17,717 | 16,560 | 14,982 | 15,292 | 15,922 |
| Cash flows from operating activities | 26,498 | 18,358 | 19,629 | 19,634 | 24,175 |
| Change in non-cash working capital items | (4,424) | 1,875 | (717) | (293) | (4,232) |
| Minority interest | (25) | - | - | - | - |
| Changes in other long-term assets and liabilities | (50) | (26) | (26) | (100) | (141) |
| Cash flows from operations | 21,999 | 20,207 | 18,886 | 19,241 | 19,802 |
| Less: Maintenance capital expenditures: | | | | | |
| Capital and other assets | 1,788 | 1,548 | 1,828 | 1,645 | 1,739 |
| Contract payments | 625 | 1,250 | 645 | 625 | 625 |
| Distributable cash¹ | \$ 19,586 | \$ 17,409 | \$ 16,413 | \$ 16,971 | \$ 17,438 |
| Distributions declared | \$ 14,974 | \$ 13,993 | \$ 13,880 | \$ 13,803 | \$ 13,651 |

Per Unit Operating Results by Period¹

| | | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net income per unit | \$ 0.4477 | \$ 0.4367 | \$ 0.3951 | \$ 0.4033 | \$ 0.4199 |
| Cash flow from operations per unit | \$ 0.5559 | \$ 0.5329 | \$ 0.4980 | \$ 0.5074 | \$ 0.5222 |
| Distributable cash per unit | \$ 0.4949 | \$ 0.4591 | \$ 0.4328 | \$ 0.4475 | \$ 0.4599 |
| Distributions declared per unit | \$ 0.3750 | \$ 0.3690 | \$ 0.3660 | \$ 0.3640 | \$ 0.3600 |

¹ Distributable cash is not a defined term under Canadian generally accepted accounting principles but is determined by the Fund as cash flows from operating activities for the period adjusted to remove non-cash expenses, including amortization, 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 income 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

| <i>(in thousands of Canadian dollars, unaudited)</i> | June 30, 2006 | March 31, 2006 | December 31, 2005 | September 30, 2005 | June 30, 2005 |
|--|------------------|-------------------|----------------------|-----------------------|-------------------|
| Cash and cash equivalents | \$ 4,607 | \$ 9,441 | \$ 8,304 | \$ 9,674 | \$ 9,660 |
| Other current assets | 28,834 | 17,136 | 17,076 | 18,245 | 17,009 |
| Capital and other assets | 42,701 | 29,220 | 30,673 | 31,401 | 33,093 |
| Goodwill and other intangible assets | 575,635 | 369,131 | 369,250 | 369,538 | 369,610 |
| | 651,777 | \$424,928 | \$ 425,303 | \$428,858 | \$ 429,372 |
| Payables and other current liabilities | \$ 48,064 | \$ 32,697 | \$ 35,665 | \$ 35,703 | \$ 34,181 |
| Other long-term liabilities | 4,604 | 5,328 | 5,302 | 5,921 | 6,446 |
| Long-term indebtedness | 150,000 | 50,000 | 50,000 | 54,000 | 57,000 |
| Minority interest | 263 | - | - | - | - |
| Unitholders' equity | 448,846 | 336,903 | 334,336 | 333,234 | 331,745 |
| | \$651,777 | \$424,928 | \$ 425,303 | \$428,858 | \$ 429,372 |

Distribution History

| Month | Distributions per unit ¹ | | | | | |
|-----------------------|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
| January | \$ 0.1220 | \$ 0.1200 | \$ 0.1150 | \$ 0.1117 | \$ 0.1083 | \$ - |
| February | 0.1220 | 0.1200 | 0.1150 | 0.1117 | 0.1083 | - |
| March | 0.1250 | 0.1200 | 0.1168 | 0.1117 | 0.1083 | - |
| April | 0.1250 | 0.1200 | 0.1168 | 0.1133 | 0.1083 | - |
| May | 0.1250 | 0.1200 | 0.1168 | 0.1133 | 0.1083 | - |
| June | 0.1250 | 0.1200 | 0.1168 | 0.1133 | 0.1083 | - |
| July | | 0.1200 | 0.1168 | 0.1133 | 0.1117 | - |
| August | | 0.1220 | 0.1168 | 0.1133 | 0.1117 | - |
| September | | 0.1220 | 0.1168 | 0.1133 | 0.1117 | - |
| October | | 0.1220 | 0.1168 | 0.1150 | 0.1117 | - |
| November | | 0.1220 | 0.1200 | 0.1150 | 0.1117 | - |
| December ² | | 0.1220 | 0.1200 | 0.1150 | 0.1117 | 0.0427 |
| | \$ 0.7440 | \$ 1.4500 | \$ 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 Distributions paid in 2001 are in respect of the 12 calendar days from December 20, 2001 to December 31, 2001.

Tax Allocation of Distributions

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|------------------------------------|--------|--------|--------|--------|--------|
| Dividend income | 0.0% | 0.0% | 15.0% | 19.5% | 16.9% |
| Other income | 90.6% | 91.6% | 75.2% | 69.5% | 71.5% |
| Return of capital | 9.4% | 8.4% | 9.8% | 11.0% | 11.6% |
| Total distributions for the period | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

The above tax allocation of distributions for 2006 represents an estimate based on the total expected distributions for the year ended December 31, 2006. As a result of the July 2004 reorganization to a trust-on-trust-on-partnership structure, the 2005 and 2006 distributions do not have a dividend component.

Other Statistics

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

| Quarter ended | Trading price range of units (TSX: "DHEUN") | | | Average daily volume | Number of units outstanding at quarter end | Market capitalization at quarter end |
|---------------|---|----------|----------|----------------------|--|--------------------------------------|
| | High | Low | Close | | | |
| 2006 Q2 | \$ 21.99 | \$ 16.99 | \$ 17.70 | 100 | 43,947 | \$ 777,858 |
| Q1 | 23.18 | 19.50 | 21.50 | 61 | 37,921 | 815,297 |
| 2005 Q4 | 24.00 | 16.32 | 23.19 | 92 | 37,921 | 879,383 |
| Q3 | 24.07 | 19.50 | 21.19 | 88 | 37,921 | 803,542 |
| 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 |

DAVIS + HENDERSON INCOME FUND

DIRECTORS, TRUSTEES AND OFFICERS

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Managing Partner,
Kestrel Capital

Allan Gotlieb²

Director and Trustee
Chairman, Sotheby's Canada

Brad Nullmeyer¹

Director and Trustee
President and CEO,
A&A Capital

Helen K. Sinclair²

Director and Trustee
CEO, BankWorks Trading Inc.

Gordon J. Feeney¹

Director and Trustee
Corporate Director

Robert Cronin

Director and Officer
Chief Executive Officer,
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Director and Officer
Vice Chairman
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Catherine Martin

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Vice President,
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Suzanne Mandrozos

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Catherine Martin

Chief Financial Officer

Serge Rivest

Vice President,
Sales and Marketing

Steve Rotz

Vice President,
Corporate Development

Joanne Sisco

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Symbol

DHF.UN

Submissions of Concerns

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 Brad Nullmeyer)

² Member, Human Resources and Corporate Governance Committee (Committee Chair is Helen K. Sinclair)

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Copies of the Fund's Code of Business Conduct and Ethics can be found on the Fund's website at www.dhltd.com or can be obtained by writing to:

The Secretary
Davis + Henderson
Income Fund
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Davis + Henderson
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