



Davis + Henderson Income Fund Reports Third Quarter Results; Announces Intention to Increase Distributions

Davis + Henderson achieved year-over-year growth in sales and cash flow for the three and nine-months ended September 30, 2006 due to both the inclusion of newly-acquired Filigix as well as solid organic growth.

Filigix, a leading provider of information and transaction technology primarily for the residential mortgage and real estate market, was acquired June 15, 2006. This acquisition advanced Davis + Henderson's strategy of being a leading service provider to the financial services marketplace by deepening its relationships with current customers and adding important new relationships.

Davis + Henderson intends to increase its distributions for the month of November 2006, payable on December 29, 2006, to \$0.128 per unit (equivalent to \$1.54 per unit annualized), subject to normal course regulatory requirements. This represents a 2.4% increase over distributions declared for the month of October 2006, which were equivalent to \$1.50 per unit annualized.

Third Quarter Highlights

- Sales increased by \$18.1 million, or 25.9%, compared to the same quarter in 2005. Of this increase, \$14.9 million, or 21.3%, related to the inclusion of Filigix and 4.6% was due to organic growth.
- Net income increased by \$0.5 million, or 3.2%, compared to the third quarter of 2005. This modest increase reflected the benefit of higher sales, largely offset by a \$2.5 million (\$0.056 per unit) increase in amortization of intangible assets related to the Filigix acquisition. Net income per unit decreased 10.9%, or \$0.044 per unit to \$0.359 per unit.
- Declared distributions in the third quarter of 2006 of \$0.375 per unit were 3.0% higher than in the third quarter of 2005.

Nine-Month Highlights

- Sales increased \$28.5 million, or 13.7%, compared to the same period in 2005 with \$17.5 million, or 8.4%, of this growth related to the addition of Filigix and the remaining 5.3% relating to solid organic growth.
- Net income increased \$4.3 million, or 9.4% compared to the first nine months of 2005. Net income per unit increased 3.0% to \$1.244 per unit. Net income included an increase in expense related to amortization of intangible assets recorded upon the acquisition of Filigix of \$2.9 million, or \$0.065 per unit.
- Declared distributions for the first nine months of 2006 of \$1.119 per unit were 3.2% higher than in the first nine months of 2005.

Management Commentary

As expected, Filigix contributed significantly to Davis + Henderson's strong year-over-year sales growth as did several important customer-oriented initiatives which added to our performance. Organic growth in sales and cash flow through the three quarters of 2006 was driven by positive results from our *iDefence*[®] and *BizAssist*[™] programs, stronger than expected cheque order volumes and improvements in margins gained through effective cost management. The performance of Filigix was consistent with our expectations and reflected growth in origination and underwriting services, including implementation services.

Looking forward, we remain committed to our financial objective of delivering stable and modestly growing distributions. With the acquisitions of Filigix and Advanced Validation Systems, we have significantly strengthened our capabilities and the breadth of services we offer to the Canadian financial services marketplace. With our strong and established platforms, we look to increase value for our customers and owners as we seek to build these leading businesses.

For a more detailed discussion of third 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.

Performance for TODAY • Progress for TOMORROW

About Davis + Henderson

Davis + Henderson and its predecessors have been serving 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 account and lending services within Canada.

Davis + Henderson Income Fund is listed on the Toronto Stock Exchange, symbol DHF.UN.

Further information can be found in the disclosure documents filed by **Davis + Henderson Income Fund** with the securities regulatory authorities, available at www.sedar.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") for the third 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

Davis + Henderson Income Fund's (the "Fund" or the "Business" or "Davis + Henderson") 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, personal property search and registration programs across Canada. The addition of these business interests has created another business 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 THIRD QUARTER

Consolidated Statement of Income*(in thousands of Canadian dollars, except per unit amounts, unaudited)*

	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Sales	\$ 87,966	\$ 69,845	\$ 235,784	\$ 207,305
Cost of sales and operating expenses	62,754	49,791	166,759	147,370
Amortization of capital and other assets	3,752	3,339	10,038	9,849
	21,460	16,715	58,987	50,086
Interest expense	2,248	813	3,830	2,541
Amortization of intangible assets	3,339	610	4,982	1,776
Minority interest	88	–	113	–
Net income	\$ 15,785	\$ 15,292	\$ 50,062	\$ 45,769
Net income per unit, basic and diluted	\$ 0.3592	\$ 0.4033	\$ 1.2436	\$ 1.2070

The Fund's results for the three and nine months ended September 30, 2006 include the results of the Filogix business acquired on June 15, 2006. The inclusion of Filogix had a significant impact on the financial results and has also resulted in changes to the form of our disclosures.

Historically, the Fund has reported expenses related to cost of sales and operating expenditures separately within the income statement. This classification was reflective of the historic product manufacturing orientation of the cheque programs offered to customers. With the evolution of the Business, including the offering of electronic services introduced through the acquisitions of AVS and Filogix, management believes this historical presentation is no longer appropriate. Starting in the third quarter of 2006, costs of sales and operating expenditures have been combined and amortization of depreciable and other assets and amortization of intangible assets have been presented separately within the income statement. The comparative numbers for previous periods have been reclassified to conform to this new presentation format. There is no impact on net income related to the new expense classifications.

With the acquisition of Filogix, the Fund now operates in two business segments, the "Davis + Henderson Segment" and the "Filogix Segment". The Davis + Henderson Segment includes the cheque supply program, deposit program, eSwitch® and the personal property search and registration programs, among other offerings. The Filogix Segment includes services related to the origination and underwriting of mortgages in Canada, among other offerings. Corporate expenses have also been segmented and include expenditures related to public company activities, a share of executive corporate management costs and certain other corporate wide costs.

Following are summarized financial information for the three and nine-month periods ended September 30, 2006 for each segment:

Operating Results by Business Segment

(in thousands of Canadian dollars, unaudited)

	Three months ended September 30, 2006			
	Davis + Henderson Segment	Filogix Segment	Corporate	Consolidated
Sales	\$ 73,061	\$ 14,905	\$ –	\$ 87,966
Cost of sales and operating expenses	51,381	10,898	475	62,754
Amortization of capital and other assets	2,656	1,096	–	3,752
	19,024	2,911	(475)	21,460
Interest expense	–	–	2,248	2,248
Amortization of intangible assets	855	2,484	–	3,339
Minority interest	88	–	–	88
Net income	\$ 18,081	\$ 427	\$ (2,723)	\$ 15,785

	Nine months ended September 30, 2006			
	Davis + Henderson Segment	Filogix Segment	Corporate	Consolidated
Sales	\$ 218,251	\$ 17,533	\$ –	\$ 235,784
Cost of sales and operating expenses	152,718	12,572	1,469	166,759
Amortization of capital and other assets	8,747	1,291	–	10,038
	56,786	3,670	(1,469)	58,987
Interest expense	–	–	3,830	3,830
Amortization of intangible assets	2,113	2,869	–	4,982
Minority interest	113	–	–	113
Net income	\$ 54,560	\$ 801	\$ (5,299)	\$ 50,062

Total sales increased by \$18.1 million, or 25.9%, during the third quarter of 2006 when compared to the same quarter in 2005. The inclusion of the Filogix Segment accounted for \$14.9 million of the increase with the balance of \$3.2 million, or 4.6%, attributable to the Davis + Henderson Segment.

The Davis + Henderson Segment continued to benefit from program initiatives introduced late in 2005 and early 2006, including *iDefence*[®] and *BizAssist*[™] which contributed to higher order values. Stronger than expected order volumes, which continued in the third quarter of 2006, largely offset the impact on sales of one less business day in the third quarter of 2006 compared with the same quarter in 2005.

Sales for the Filogix Segment were consistent with management's expectations and continued to reflect increasing fees related to origination and underwriting services, including fees for implementation services.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

For the first nine months of 2006, sales increased by \$28.5 million, or 13.7%. Year-to-date, \$11.0 million of this increase related to the Davis + Henderson Segment, which grew 5.3% over the comparable period in 2005. This growth is attributed to increased order values related to the programs initiated in late 2005 and early 2006 as referred to above. Stronger than expected order volumes also contributed to the positive results. The inclusion of sales from the Filogix Segment accounted for the balance of the year-over-year change.

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.

Cost of sales and operating expenses, on a consolidated basis, increased by \$13.0 million, or 26.0%, during the third quarter of 2006 when compared to the same quarter in 2005. Of the increase, \$10.9 million related to the inclusion of the Filogix Segment. The remaining \$2.1 million is related to the Davis + Henderson Segment along with corporate costs and represented a 4.1% year-over-year increase. Cost reductions, driven by efficiency improvements related to purchasing of third party products and services, were offset by increased spending on information technology and a specific compensation charge of \$1.1 million. Increased technology costs relate to the infrastructure upgrade 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 expense growth.

Cost of sales and operating expenses of the Filogix Segment during the third quarter were consistent with expectations and reflected increased spending on product enhancements and on customer implementations in support of revenue growth.

Cost of sales and operating expenses for the nine months ended September 30, 2006 increased by \$19.4 million, or 13.2%, over the comparable 2005 period. Excluding the expenses of the Filogix Segment, expenses increased by \$6.8 million, or 4.6%, over the same period last year. This increase reflected the combination of factors discussed above.

While Davis + Henderson operates primarily in Canada, we also service a U.S. subsidiary of one of our Canadian customers. All sales and substantially all expenses relating to our 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 a meaningful impact on the results of the Business.

Amortization of capital and other assets increased by \$0.4 million, or 12.4%, when comparing the third quarter of 2006 with the third quarter of 2005. The inclusion of the Filogix Segment, which contributed \$1.1 million to the increase, was partially offset by a decline in expense in the Davis + Henderson Segment of \$0.7 million, relating to certain capital and other assets having become fully amortized.

Net interest expense increased by \$1.4 million for the third quarter of 2006 compared to the same quarter in the prior year. This increase reflected the draw down of additional debt for the acquisition of the Filogix business late in the second quarter of 2006. For the first nine months of 2006, interest expense was \$3.8 million, \$1.3 million higher than in the comparable 2005 period. The incremental interest expense related to the acquisition was partially offset by reduced interest expense associated with lower average loan balances outstanding during the first five months of 2006 compared to 2005.

Amortization of intangibles increased by \$2.7 million and \$3.2 million for the three-month and nine-month periods ended September 30, 2006, respectively, when compared to the same periods in 2005. These increases were primarily related to incremental intangible assets arising on the purchase of the Filogix business. These intangible assets consist of rights related to customer relationships, brand names and proprietary software and are amortized on a straight-line basis over periods ranging between 10 and 15 years. For more information on the acquisition of Filogix, see Note 2 to the Consolidated Financial Statements.

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%. The acceleration of the ownership interest in AVS 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Net income of \$15.8 million for the third quarter of 2006 represents an increase of \$0.5 million, or 3.2%, when compared to the third quarter of 2005. On a per unit basis, net income decreased by \$0.044 per unit to \$0.359. The per unit decrease is attributed to an increase in amortization of intangible assets of \$0.056 recorded on the acquisition of Filogix. For the nine-month period ended September 30, 2006, net income was \$50.1 million, an increase of \$4.3 million, or 9.4%, compared to the same period of 2005. Net income per unit for the nine-month period of \$1.244, increased by 3.0% compared with the same period last year and includes \$2.9 million, or \$0.065 per unit, of increased amortization of intangible assets recorded upon the acquisition of Filogix.

Eight Quarter Consolidated Statement of Income – Summary

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

	Q3	Q2	2006		Q3	Q2	2005	2004
			Q1	Q4			Q1	Q4
Sales	\$87,966	\$75,900	\$71,918	\$69,232	\$69,845	\$71,226	\$66,234	\$69,068
Net income	\$15,785	\$17,717	\$16,560	\$14,982	\$15,292	\$15,922	\$14,555	\$15,098
Net income per unit	\$0.3592	\$0.4477	\$0.4367	\$0.3951	\$0.4033	\$0.4199	\$0.3838	\$0.3981
Weighted average units outstanding	43,947	39,576	37,921	37,921	37,921	37,921	37,921	37,921

The Fund has generally reported quarterly sales that are stable and growing on a year-over-year basis. The significant increases in sales in the second and third quarter of 2006 are primarily a result of the inclusion of the Filogix Segment sales beginning mid-June 2006.

Net income has been trending consistently with changing sales. Net income per unit has generally increased consistent with increases in sales, with the exception of the third quarter of 2006, when as described above, the Business incurred increased amortization of intangible asset expense in connection with the acquisition of Filogix.

Going forward, management believes that the combined Davis + Henderson results will be subject to seasonality with the inclusion of sales from the Filogix Segment. Historically, Filogix has recorded stronger results in the second and third quarter with lower results in the first quarter of each year.

CASH FLOW AND LIQUIDITY

The following table is derived from, and should be read in conjunction with, the Consolidated Statement of Cash Flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of the Business including the amount of cash available for distribution to unitholders, repayment of debt and for other investing activities. Certain subtotals presented within the cash flows table below, such as “Adjusted cash flows from operating activities”, “Distributable cash after maintenance capital and contract payments”, “Distributable cash after all capital and contract payments” and “Distributable cash after all capital, contract payments and distributions paid”, are not defined terms under Canadian generally accepted accounting principles. Investors are cautioned that these measures should not be construed as an alternative to using net income as a measure of profitability or as an alternative to the GAAP statement of cash flows. Further, the Fund’s method of calculating each measure may not be comparable to calculations used by other income trusts bearing the same description. In previous periods, the Fund provided a table entitled Distributable Cash, which reconciled net income and cash flow from operating activities to Distributable Cash. The supplementary table below replaces the Distributable Cash table previously presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Summary of Cash Flows

(in thousands of Canadian dollars, unaudited)

	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Cash flows from operating activities	\$ 22,786	\$ 19,634	\$ 67,643	\$ 57,213
Add (deduct):				
Changes in non-cash working capital and other items	90	(393)	(2,561)	181
Adjusted cash flows from operating activities (note 2)	22,876	19,241	65,082	57,394
Less:				
Expenditures on maintenance capital	997	1,645	3,919	4,901
Contract payments, maintenance	800	625	2,676	2,500
Distributable cash after maintenance capital and contract payments (note 1)	21,079	16,971	58,487	49,993
Less:				
Expenditures on growth capital (note 3)	884	–	1,295	–
Contract payments, non-maintenance	–	–	–	600
Distributable cash after all capital and contract payments (note 1)	20,195	16,971	57,192	49,393
Less:				
Distributions, paid during period	16,479	13,728	44,579	41,030
Distributable cash after all capital, contract payments and distributions paid	3,716	3,243	12,613	8,363
Changes in non-cash working capital and other items (note 2)	(90)	393	2,561	(181)
Cash flows provided by (used in) other financing activities	–	(3,000)	207,749	(6,000)
Cash flows used in acquisition of businesses	660	(622)	(222,334)	(2,766)
Increase (decrease) in cash and cash equivalents for the period	\$ 4,286	\$ 14	\$ 589	\$ (584)

Note 1: Maintenance capital expenditures are defined by the Fund as capital expenditures necessary to maintain and sustain the current productive capacity of the Business or generally improve the efficiency of the Business. Maintenance expenditures also include recurring fixed customer contract payments that are made annually over the life of the contract. Growth capital expenditures are defined by the Fund as capital expenditures that increase the productive capacity of the Business with a reasonable expectation of an increase in cash flow. Non-maintenance capital expenditures are defined as expenditures, which are expected to increase future operating cash flows of the Business, that are infrequent and include non-maintenance contract payments which are payment obligations under certain long-term customer contracts.

Note 2: Changes in non-cash working capital and certain other balance sheet items have been excluded from cash flows from operating activities so as to remove the effects of timing differences in cash receipts and cash disbursements, which generally reverse themselves but can vary significantly across quarters.

Note 3: For the quarter ending June 30, 2006, approximately \$0.4 million pertaining to Filogix capital expenditures have been classified as growth capital rather than maintenance capital, as reported in the second quarter Management's Discussion and Analysis.

Summary of Cash Flows Per Unit

(in Canadian dollars, unaudited)

	Three months ended		% Change
	September 30, 2006	September 30, 2005	
Adjusted cash flows from operating activities	\$ 0.5205	\$ 0.5074	2.6%
Distributable cash after maintenance capital and contract payments	\$ 0.4796	\$ 0.4475	7.2%
Distributable cash after all capital and contract payments	\$ 0.4595	\$ 0.4475	2.7%
Distributions, paid during period	\$ 0.3750	\$ 0.3620	3.6%
Distributions, declared during period	\$ 0.3750	\$ 0.3640	3.0%

	Nine months ended		% Change
	September 30, 2006	September 30, 2005	
Adjusted cash flows from operating activities	\$ 1.6073	\$ 1.5135	6.2%
Distributable cash after maintenance capital and contract payments	\$ 1.4445	\$ 1.3184	9.6%
Distributable cash after all capital and contract payments	\$ 1.4125	\$ 1.3025	8.4%
Distributions, paid during period	\$ 1.1160	\$ 1.0820	3.1%
Distributions, declared during period	\$ 1.1190	\$ 1.0840	3.2%

During the third quarter of 2006, the Business generated \$22.9 million in adjusted cash flow from operating activities, an increase of \$3.6 million, compared to the same quarter in 2005. This increase is primarily due to the inclusion of the Filogix business and, in general, increases in cash flow from the organic growth initiatives of the Davis + Henderson Segment previously discussed. On a per unit basis, after reflecting the impact of additional units issued on acquiring Filogix, adjusted cash flow from operating activities increased by 2.6% over the same period in 2005.

For the nine-month period ended September 30, 2006, adjusted cash flows from operating activities increased by \$7.7 million to \$65.1 million, over the same period in 2005. On a per unit basis, this represents a year-over-year increase of 6.2% with the change being primarily related to the factors referred to above.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

Summary of Capital Expenditures by Segment

(in thousands of Canadian dollars, unaudited)

	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Davis + Henderson Segment				
Maintenance expenditures	\$ 1,487	\$ 2,270	\$ 6,169	\$ 7,401
Growth capital expenditures	–	–	–	–
Non-maintenance expenditures	–	–	–	600
	\$ 1,487	\$ 2,270	\$ 6,169	\$ 8,001
Filogix Segment				
Maintenance expenditures	\$ 310	\$ –	\$ 426	\$ –
Growth capital expenditures	884	–	1,295	–
Non-maintenance expenditures	–	–	–	–
	\$ 1,194	\$ –	\$ 1,721	\$ –
Consolidated				
Maintenance expenditures	\$ 1,797	\$ 2,270	\$ 6,595	\$ 7,401
Growth capital expenditures	884	–	1,295	–
Non-maintenance expenditures	–	–	–	600
	\$ 2,681	\$ 2,270	\$ 7,890	\$ 8,001

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.

Maintenance expenditures in the Davis + Henderson Segment for the nine month period in 2006 have decreased year-over-year by \$1.2 million due to the substantial completion of the capital component of an infrastructure upgrade project and a reduction of expenditures applied to our call centre technology infrastructure. Maintenance expenditures in the Filogix Segment for the same period were consistent with expectations.

Growth expenditures of \$1.3 million made in the Filogix Segment for the nine months ended September 30, 2006, related to hardware and software acquired to support implementation of new underwriting service customers and to develop new service offerings for existing customers.

The Business' capital program provides for continued expenditures to be funded by cash flows from operations. Currently, 2006 capital payments, including customer contract payments and expenditures made within Filogix, are expected to be approximately \$10 million to \$11 million including growth capital of approximately \$2.0 million. The Business' 2007 capital program is expected to be approximately \$12 million to \$13 million of which \$2 million to \$3 million is expected to be growth capital. Most of the increase arises as a result of including a full year capital program for the Filogix business.

Distributions

The Fund paid distributions of \$16.5 million (\$0.375 per unit) during the third quarter and \$44.6 million (\$1.116 per unit) for the first nine months of 2006 compared to \$13.7 million (\$0.362 per unit) and \$41.0 million (\$1.082 per unit) for the same period in 2005. In June 2006, the Fund issued 6,026,000 additional units to finance the Filogix acquisition. On a per unit basis for the three and nine months ended September 30, 2006, distributions paid increased by 3.6% and 3.1%, respectively.

Distributions paid can be different than distributions declared during a period. 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. On a declared basis, the year-over-year increases in distributions per unit were 3.0% and 3.2% for the three and nine-month periods ended September 30, respectively.

On an annualized basis, the monthly distribution rate for September 2006 was \$1.50 per unit as compared to \$1.46 per unit annualized in September 2005, representing an increase of 2.5%.

The estimated tax allocation of distributions declared during the first nine months 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

As at September 30, 2006 and October 23, 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 of units by the Fund since April 2, 2002.

Changes in Non-Cash Working Capital and Other Items

(in thousands of Canadian dollars, unaudited)

	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Minority interest	\$ 88	\$ -	\$ 113	\$ -
Decrease (increase) in non-cash working capital items	(268)	293	2,281	(499)
Changes in other operating assets and liabilities	90	100	167	318
Changes in non-cash working capital and other items	\$ (90)	\$ 393	\$ 2,561	\$ (181)

The differences in non-cash working capital were mostly related to timing of certain large payments and did not reflect a long-term change in working capital requirements. The differences are expected to reverse in future periods.

Cash Flows Provided by (Used in) Other Financing Activities

During the nine-month period ended September 30, 2006, the Fund received \$109.2 million of net proceeds from issuance of new trust units and \$98.5 million from a new debt facility, net of financing fees, to fund the acquisition of Filogix. For the nine months ended September 30, 2005, the Fund repaid \$6.0 million of long-term indebtedness. There were no debt repayments during the nine months ended September 30, 2006.

Cash Flows Used in Acquisition of Business

In June 2006, 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 \$2.9 million of balance sheet adjustments. As described above, the cash required to fund this acquisition was raised by drawing \$100.0 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 second 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

Through the first three quarters of 2006, the Business has continued to generate operating cash flow in excess of distributions. Management expects to use a portion of this excess cash and further additional excess cash flow to pay down debt during the fourth quarter of 2006 and in 2007.

At September 30, 2006, cash and cash equivalents totalled \$8.9 million, compared to \$8.3 million at December 31, 2005 and \$4.6 million at June 30, 2006.

Total debt facilities available at September 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 September 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.

The Credit Agreement for the Business contains a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a leverage test, a fixed charge coverage ratio test, a minimum net worth test and a limit on the maximum amount of distributions that may be made by Davis + Henderson, Limited Partnership to the Fund during each rolling, four-quarter period. Davis + Henderson was in compliance with all of its financial covenants and financial condition tests as of the end of its latest quarterly period. A copy of the Credit Agreement is available at www.sedar.com.

As of September 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The Fund's remaining indebtedness is subject to floating interest rates that may be funded either by way of prime-rate loans or through the issuance of banker's acceptance 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 September 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.

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

Earlier this year, 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 further implementations and enhancements of our *iDefence*[®], *BizAssist*[™] and *eSwitch*[®] programs relating to the chequing account. Relating to lending markets, the Business looks to gain market share from its personal property search and registration programs and by increasing volumes related to mortgage origination and underwriting services.

The Business' capital program provides for continued expenditures to be funded by cash flows from operations. Currently, 2006 capital payments, including customer contract payments and expenditures made within the mortgage servicing business, are expected to be approximately \$10 million to \$11 million including growth capital of approximately \$2.0 million. The Business' 2007 capital program is expected to be approximately \$12 million to \$13 million of which \$2 million to \$3 million is expected to be growth capital. Most of the increase arises as a result of including a full year capital program for the Filogix business.

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 the Short Form Prospectus dated May 30, 2006, is available on SEDAR at www.sedar.com.

October 23, 2006

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

September 30, 2006 December 31, 2005

ASSETS

Current Assets:

Cash and cash equivalents	\$ 8,893	\$ 8,304
Accounts receivable	18,227	10,232
Inventory	5,240	5,158
Prepaid expenses	3,917	1,686
	<hr/>	<hr/>
	36,277	25,380
Capital assets (note 3)	33,948	22,376
Other assets (note 4)	7,960	8,297
Intangible assets (note 5)	133,436	7,962
Goodwill (note 6)	438,779	361,288
	<hr/>	<hr/>
	\$ 650,400	\$ 425,303

LIABILITIES AND UNITHOLDERS' EQUITY

Current Liabilities:

Accounts payable and accrued liabilities	\$ 39,412	\$ 27,894
Distributions payable to unitholders	5,493	4,626
Current portion of disbursement obligations on customer contracts (note 7)	2,195	3,145
	<hr/>	<hr/>
	47,100	35,665
Disbursement obligations on customer contracts (note 7)	2,215	2,790
Long-term indebtedness (note 8)	150,000	50,000
Other long-term liabilities (note 9)	2,582	2,512
Minority interest	351	–
	<hr/>	<hr/>
	202,248	90,967

Unitholders' Equity:

Trust units (note 10)	474,585	365,385
Deficit	(26,433)	(31,049)
	<hr/>	<hr/>
	448,152	334,336

Commitments (note 11)

	<hr/>	<hr/>
	\$ 650,400	\$ 425,303

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



Paul Damp
Trustee



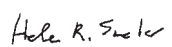
Gordon J. Feeney
Trustee



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		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Sales	\$ 87,966	\$ 69,845	\$ 235,784	\$ 207,305
Cost of sales and operating expenses	62,754	49,791	166,759	147,370
Amortization of capital and other assets	3,752	3,339	10,038	9,849
	21,460	16,715	58,987	50,086
Interest expense	2,248	813	3,830	2,541
Amortization of intangible assets	3,339	610	4,982	1,776
Minority interest	88	–	113	–
Net income	\$ 15,785	\$ 15,292	\$ 50,062	\$ 45,769
Net income per unit, basic and diluted	\$ 0.3592	\$ 0.4033	\$ 1.2436	\$ 1.2070

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		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Deficit, beginning of period	\$ (25,739)	\$ (33,640)	\$ (31,049)	\$ (36,815)
Net income	15,785	15,292	50,062	45,769
Distributions	(16,479)	(13,803)	(45,446)	(41,105)
Deficit, end of period	\$ (26,433)	\$ (32,151)	\$ (26,433)	\$ (32,151)

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		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	\$ 15,785	\$ 15,292	\$ 50,062	\$ 45,769
Add:				
Capital asset amortization expense	3,083	2,211	7,196	6,515
Other asset amortization expense	669	1,128	2,842	3,334
Intangible asset amortization expense	3,339	610	4,982	1,776
Minority interest	88	–	113	–
	22,964	19,241	65,195	57,394
Decrease (increase) in non-cash working capital items	(268)	293	2,281	(499)
Changes in other operating assets and liabilities	90	100	167	318
	22,786	19,634	67,643	57,213
FINANCING ACTIVITIES				
Gross proceeds from issuance of trust units	–	–	116,000	–
Issuance costs	–	–	(6,800)	–
Proceeds from (repayment of) long-term indebtedness	–	(3,000)	100,000	(6,000)
Financing fees	–	–	(1,451)	–
Distributions paid to unitholders	(16,479)	(13,728)	(44,579)	(41,030)
	(16,479)	(16,728)	163,170	(47,030)
INVESTING ACTIVITIES				
Expenditures on capital assets	(1,881)	(1,645)	(5,214)	(4,901)
Payments pursuant to long-term supply contracts	(800)	(625)	(2,676)	(3,100)
Acquisition of Filogix business (note 2a)	660	–	(215,440)	–
Acquisition of AVS business (note 2b)	–	(622)	(6,894)	(2,766)
	(2,021)	(2,892)	(230,224)	(10,767)
Increase (decrease) in cash and cash equivalents for the period	4,286	14	589	(584)
Cash and cash equivalents, beginning of period	4,607	9,660	8,304	10,258
Cash and cash equivalents, end of period	\$ 8,893	\$ 9,674	\$ 8,893	\$ 9,674
Supplementary information:				
Cash interest paid	\$ 2,336	\$ 1,265	\$ 4,468	\$ 3,290

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine months ended September 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.”).

Results of the Fund will be subject to seasonality with the inclusion of sales from the Filogix Segment. Historically, Filogix has recorded stronger results in the second and third quarter, with lower results in the first quarter of each year.

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 10 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.

Deferred finance costs are costs related to the restructuring of the term credit facilities and are amortized on a straight-line basis over the term of the facilities. Amortization is recognized as interest expense.

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 amount 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, basic and diluted, 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.

Reclassification

Historically, the Fund has reported expenses related to cost of sales and operating expenditures separately within the income statement. This classification was reflective of the historic product manufacturing orientation of the cheque programs offered to customers. With the evolution of the Business, including the offering of electronic services introduced through the acquisitions of AVS and Filogix, management believes this historical presentation is no longer appropriate. Starting in the third quarter of 2006, costs of sales and operating expenditures will be combined and amortization of depreciable and other assets and amortization of intangible assets will be presented separately within the income statement. The comparative numbers for previous periods have been reclassified to conform to this new presentation format. There is no impact on net income related to the new expense classifications.

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 September 30, 2006, the assets acquired and consideration given were as follows:

	September 30, 2006
Net assets acquired, at fair value:	
Assets	\$ 22,575
Intangibles	128,087
Liabilities	(8,446)
	142,216
Goodwill	73,224
Total	\$ 215,440
Consideration for 100% ownership:	
Cash	\$ 215,440
Total	\$ 215,440

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, \$98.5 million from the drawdown of debt net of financing fees, with the balance from cash on hand. As of September 30, 2006, the purchase price equation has not been finalized. The Fund expects to finalize the purchase price equation by December 31, 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 September 30, 2006, the Fund owns a 75% interest in AVS. The purchase price paid for the additional ownership was 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 assets acquired and consideration given were as follows:

	December 31, 2005	September 30, 2006	Total
Net assets acquired, at fair value:			
Assets	\$ 197	\$ 644	\$ 841
Intangibles	1,129	2,369	3,498
Liabilities	(15)	(386)	(401)
	1,311	2,627	3,938
Goodwill	1,903	4,267	6,170
Total	\$ 3,214	\$ 6,894	\$ 10,108
Consideration for 75% ownership:			
Cash	\$ 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 on hand.

3. CAPITAL ASSETS

	September 30, 2006		
	Cost	Accumulated amortization	Net
Machinery and equipment	\$ 14,836	\$ 6,391	\$ 8,445
Computer equipment and software	39,672	17,127	22,545
Furniture, fixtures and leasehold improvements	7,667	4,709	2,958
	\$ 62,175	\$ 28,227	\$ 33,948
	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amortization during the quarter ended September 30, 2006 was \$3,083 (Q3 2005 – \$2,211) and during the nine months ended September 30, 2006 was \$7,196 (nine months ended September 30, 2005 – \$6,515).

4. OTHER ASSETS

	September 30, 2006	December 31, 2005
Cost:		
Long-term supply contracts	\$ 14,053	\$ 12,903
Deferred finance costs	1,451	–
Other	370	370
	<u>15,874</u>	<u>13,273</u>
Accumulated amortization	(7,914)	(4,976)
	<u>\$ 7,960</u>	<u>\$ 8,297</u>

Amortization during the quarter ended September 30, 2006 on long-term supply contracts and deferred finance fees was \$669 (Q3 2005 – \$1,128) and \$73 (Q3 2005 – nil) respectively and during the nine months ended September 30, 2006 was \$2,842 (nine months ended September 30, 2005 – \$3,334) and \$97 (nine months ended September 30, 2005 – nil) respectively.

5. INTANGIBLE ASSETS

	September 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	–
	<u>147,914</u>	<u>17,458</u>
Accumulated amortization	(14,478)	(9,496)
	<u>\$ 133,436</u>	<u>\$ 7,962</u>

Amortization during the quarter ended September 30, 2006 was \$3,339 (Q3 2005 – \$610) and during the nine months ended September 30, 2006 was \$4,982 (nine months ended September 30, 2005 – \$1,776).

6. GOODWILL

	September 30, 2006	December 31, 2005
Balance, beginning of period	\$ 361,288	\$ 359,385
Goodwill acquired during the period:		
AVS acquisition	4,267	1,903
Filogix acquisition	73,224	–
Balance, end of period	\$ 438,779	\$ 361,288

7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS

	September 30, 2006	December 31, 2005
Current portion	\$ 2,195	\$ 3,145
Long-term portion	2,215	2,790
Total disbursement obligations on customer contracts	\$ 4,410	\$ 5,935

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

2006	\$ 20
2007	2,195
2008	2,195
	\$ 4,410

8. LONG-TERM INDEBTEDNESS

	September 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 available 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.

The Credit Agreement for the Fund contains a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. As at

September 30, 2006, the Fund was in compliance with all of its financial covenants and financial condition tests.

As of September 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 September 30, 2006, the net fair value of outstanding interest-rate swaps was approximately \$2.5 million, which the Fund would have to pay 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

	September 30, 2006	December 31, 2005
Deferred compensation program	\$ 1,649	\$ 1,373
Employee future benefits	933	1,139
	\$ 2,582	\$ 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 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 defined contribution pension plans 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 September 30, 2006 were \$0.2 million (Q3 2005 – \$0.3 million) and \$1.0 million for the nine months ended September 30, 2006 (nine months ended September 30, 2005 – \$0.8 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 September 30, 2006 were \$42 (Q3 2005 – \$42) and for the nine months ended September 30, 2006 were \$126 (nine months ended September 30, 2005 – \$126).

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:

	September 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 September 30, 2006 was 43,946,792 (Q3 2005 – 37,920,792) and for the nine months ended September 30, 2006 was 40,490,704 (nine months ended September 30, 2005 – 37,920,792)

11. COMMITMENTS

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

2006	\$ 1,076
2007	3,860
2008	2,930
2009	2,114
2010	2,098
Thereafter	982
	\$ 13,060

12. RELATED PARTY TRANSACTIONS

A Trustee of the Fund serves as Chairman of the Board of Canada Post Corporation, one of the Company's major suppliers. Total purchases from this supplier during the quarter ended September 30, 2006 were \$5,727 (Q3 2005 – \$6,175) and during the nine months ended September 30, 2006 were \$17,499 (nine months ended September 30, 2005 – \$18,678). As at September 30, 2006, \$1,680 (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 September 30, 2006, the Fund earned 76% (Q3 2005 – 83%) of its sales from its seven largest customers.

14. SEGMENTED INFORMATION

The Fund operates its business in two segments, organized on the basis of products, services and markets served. The Davis + Henderson Segment includes the cheque supply program, deposit bags program, eSwitch® and the personal property search and registration programs, among other offerings. The Filogix Segment includes services related to the origination and underwriting of mortgages in Canada, among other offerings. Segment assets include goodwill and intangible assets recognized with the acquisition of businesses included with each respective Segment.

Corporate costs include costs incurred by the Fund for the operation of a public entity. Corporate assets consist primarily of cash and cash equivalents.

Prior to June 15, 2006, the Fund operated in one segment, the Davis + Henderson segment. Summarized financial information for the three and nine-month periods ended September 30, 2006 are as follows:

Three months ended September 30, 2006

	Davis + Henderson Segment	Filogix Segment	Corporate	Consolidated
Sales	\$ 73,061	\$ 14,905	\$ –	\$ 87,966
Cost of sales and operating expenses	51,381	10,898	475	62,754
Amortization of capital and other assets	2,656	1,096	–	3,752
	19,024	2,911	(475)	21,460
Interest expense	–	–	2,248	2,248
Amortization of intangible assets	855	2,484	–	3,339
Minority interest	88	–	–	88
Net income	\$ 18,081	\$ 427	\$ (2,723)	\$ 15,785
Capital and other assets expenditures	\$ 1,487	\$ 1,194	\$ –	\$ 2,681
Total assets	\$ 420,629	\$ 220,878	\$ 8,893	\$ 650,400

Nine months ended September 30, 2006

	Davis + Henderson Segment	Filogix Segment	Corporate	Consolidated
Sales	\$ 218,251	\$ 17,533	\$ –	\$ 235,784
Cost of sales and operating expenses	152,718	12,572	1,469	166,759
Amortization of capital and other assets	8,747	1,291	–	10,038
	56,786	3,670	(1,469)	58,987
Interest expense	–	–	3,830	3,830
Amortization of intangible assets	2,113	2,869	–	4,982
Minority interest	113	–	–	113
Net income	\$ 54,560	\$ 801	\$ (5,299)	\$ 50,062
Capital and other assets expenditures	\$ 6,169	\$ 1,721	\$ –	\$ 7,890
Total assets	\$ 420,629	\$ 220,878	\$ 8,893	\$ 650,400

SUPPLEMENTARY FINANCIAL INFORMATION

Operating Results by Period

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Three months ended September 30, 2006	Three months ended June 30, 2006	Three months ended March 31, 2006	Three months ended December 31, 2005	Three months ended September 30, 2005
Sales	\$ 87,966	\$ 75,900	\$ 71,918	\$ 69,232	\$ 69,845
Cost of sales and operating expenses	62,754	52,989	51,016	49,586	49,791
Amortization of capital and other assets	3,752	3,285	3,000	3,258	3,339
	21,460	19,626	17,902	16,388	16,715
Interest expense	2,248	887	695	760	813
Amortization of intangible assets	3,339	996	647	646	610
Minority interest	88	25	-	-	-
Net income	\$ 15,785	\$ 17,717	\$ 16,560	\$ 14,982	\$ 15,292
Cash flows from operating activities	\$ 22,786	\$ 26,498	\$ 18,358	\$ 19,629	\$ 19,634
Change in non-cash working capital items	268	(4,424)	1,875	(717)	(293)
Minority interest	(88)	(25)	-	-	-
Changes in other operating assets and liabilities	(90)	(50)	(26)	(26)	(100)
Adjusted cash flows from operations ²	22,876	21,999	20,207	18,886	19,241
Less:					
Expenditures on maintenance capital	997	1,376	1,548	1,828	1,645
Contract payments, maintenance	800	625	1,250	645	625
Distributable cash after maintenance capital and contract payments ¹	21,079	19,998	17,409	16,413	16,971
Less:					
Expenditures on growth capital ³	884	412	-	-	-
Contract payments, non-maintenance	-	-	-	200	-
Distributable cash after all capital and contract payments	\$ 20,195	\$ 19,586	\$ 17,409	\$ 16,213	\$ 16,971

¹ Maintenance capital expenditures are defined by the Fund as capital expenditures necessary to maintain and sustain the current productive capacity of the Business or generally improve the efficiency of the Business. Maintenance expenditures also include recurring fixed customer contract payments that are made annually over the life of the contract. Growth capital expenditures are defined by the Fund as capital expenditures that increase the productive capacity of the Business with a reasonable expectation of an increase in cash flow. Non-maintenance capital expenditures are defined as expenditures, which are expected to increase future operating cash flows of the Business, are infrequent and are one-time in nature and include non-maintenance contract payments which are non-recurring payment obligations under certain long-term customer contracts.

² Changes in non-cash working capital and certain other balance sheet items have been excluded from cash flows from operating activities so as to remove the effects of timing differences in cash receipts and cash disbursements, which generally reverse themselves but can vary significantly across quarters.

³ For the quarter ending June 30, 2006, approximately \$0.4 million pertaining to Filogix capital expenditures have been classified as growth capital rather than maintenance capital, as reported in the second quarter Management's Discussion and Analysis.

Summary of Cash Flows Per Unit

Adjusted cash flow from operating activities	\$ 0.5205	\$ 0.5559	\$ 0.5329	\$ 0.4980	\$ 0.5074
Distributable cash after maintenance capital and contract payments	\$ 0.4796	\$ 0.5053	\$ 0.4591	\$ 0.4328	\$ 0.4475
Distributable cash after all capital and contract payments	\$ 0.4595	\$ 0.4949	\$ 0.4591	\$ 0.4275	\$ 0.4475
Distributions, paid during period	\$ 0.3750	\$ 0.3750	\$ 0.3660	\$ 0.3660	\$ 0.3620
Distributions, declared during period	\$ 0.3750	\$ 0.3750	\$ 0.3690	\$ 0.3660	\$ 0.3640

Condensed Balance Sheet

(in thousands of Canadian dollars, unaudited)	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Cash and cash equivalents	\$ 8,893	\$ 4,607	\$ 9,441	\$ 8,304	\$ 9,674
Other current assets	27,384	28,834	17,136	17,076	18,245
Capital and other assets	41,908	42,701	29,220	30,673	31,401
Goodwill and other intangible assets	572,215	575,635	369,131	369,250	369,538
	\$650,400	\$651,777	\$ 424,928	\$425,303	\$ 428,858
Payables and other current liabilities	\$ 47,100	\$ 48,064	\$ 32,697	\$ 35,665	\$ 35,703
Other long-term liabilities	4,797	4,604	5,328	5,302	5,921
Long-term indebtedness	150,000	150,000	50,000	50,000	54,000
Minority interest	351	263	-	-	-
Unitholders' equity	448,152	448,846	336,903	334,336	333,234
	\$650,400	\$651,777	\$ 424,928	\$425,303	\$ 428,858

SUPPLEMENTARY FINANCIAL INFORMATION *(continued)*

Distribution History

Month	2006	2005	2004	2003	Distributions per unit ¹	
					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	0.1250	0.1200	0.1168	0.1133	0.1117	-
August	0.1250	0.1220	0.1168	0.1133	0.1117	-
September	0.1250	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
	\$ 1.1190	\$ 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, except 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 Q3	\$ 19.49	\$ 17.21	\$ 19.19	96	43,947	\$ 843,339
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

Bradley 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,
Davis + Henderson,
Limited Partnership

Catherine Martin

Officer
Chief Financial Officer,
Davis + Henderson,
Limited Partnership

EXECUTIVE TEAM

Robert Cronin

Chief Executive Officer

Yousry Bissada

Executive Vice President

Catherine Martin

Chief Financial Officer

Chad Alderson

Vice President and
Chief Information Officer

Yves Denommé

Vice President,
Operations

Suzanne Mandroz

Vice President,
Human Resources

Larry Mullins

Vice President,
Lending Solutions

Serge Rivest

Executive Vice President,
Sales and Marketing

Steve Rotz

Vice President,
Corporate Development

Joanne Sisco

Vice President,
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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
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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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Code of Business Conduct and Ethics

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,
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