



## **Davis + Henderson Income Fund Reports First Quarter Results**

Davis + Henderson achieved year-over-year growth in revenue and cash flow for the three months ended March 31, 2007.

### **Highlights**

- Revenue increased by \$19.2 million, or 26.7%, compared to the same quarter in 2006. Of this increase, \$12.7 million, or 17.6%, related to the inclusion of Filogix and 9.1% was due to organic growth.
- Net income increased by \$1.7 million, or 10.0%, compared to the first quarter of 2006. This increase reflected the benefit of higher sales, partially offset by increases in interest and amortization expense related to the Filogix acquisition. Net income per unit decreased 5.1%, or \$0.022 per unit, to \$0.415 per unit. Net income per unit included an expense for amortization of intangible assets related to the Filogix acquisition of \$0.057 per unit.
- Declared distributions in the first quarter of 2007 of \$0.388 per unit were 5.1% higher than in the first quarter of 2006.

### **Management Commentary**

We are pleased with the results of the first quarter of 2007. From a performance perspective, we benefited from the inclusion of the Filogix results and from several important organic initiatives. Organic growth in sales and cash flow in the first quarter was driven by positive results from successful program initiatives, including our *iDefence*<sup>®</sup> and *BizAssist*<sup>™</sup> programs and stronger than expected cheque order volumes.

Looking forward, Davis + Henderson remains committed to its financial objective of delivering stable and modestly growing distributions. With the addition of Filogix, we have significantly strengthened our capabilities and the breadth of services we offer to the Canadian financial services marketplace. From our established platforms, we look to increase value for our customers and owners as we seek to build on our programs and achieve our vision.

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

## **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 on SEDAR at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis ("MD&A") for the first quarter of 2007 should be read in conjunction with MD&A in the Davis + Henderson Income Fund's (the "Fund" or the "Business" or "Davis + Henderson") Annual Report for the year ended December 31, 2006, dated February 27, 2007 and the attached interim unaudited consolidated financial statements. External economic and industry factors remain substantially unchanged from the annual MD&A and the Fund's most recently filed Annual Information Form, unless otherwise stated.*

## STRATEGY

The Fund's financial goal is to deliver stable and modestly growing cash distributions to unitholders by targeting annual revenue 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*<sup>®</sup>, 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 Filogix and Advanced Validation Systems Limited Partnership ("AVS" or "AVS L.P."). Among other services, Filogix provides processing services related to the origination and underwriting of mortgages in Canada. AVS, under Davis + Henderson's brand *Collateral Guard*<sup>™</sup>, 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.

Late in 2006, the Minister of Finance (Canada) released draft legislation which, if enacted, would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. The payment of such taxes would reduce the cash flow of the Fund, thereby reducing the amount available for distributions to

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

unitholders. The proposed changes have caused uncertainty in the capital markets and variability in the unit prices of many income trusts, including the Fund. This uncertainty and the related impacts may affect the Fund's ability to make future acquisitions. Since the announcement of the proposed changes, management and the Trustees have been monitoring the changes in the income trust environment and are continuing to review potential impacts on the Fund's current strategy and the alternatives available to the Fund, consistent with protecting and enhancing unitholder value. The tax proposals are not law, but may become law at any time.

### FINANCIAL INFORMATION PRESENTATION

The Fund's results for the quarter ended March 31, 2007 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 Davis + Henderson's disclosures.

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 corporation-wide costs.

### OPERATING RESULTS FOR THE FIRST QUARTER

#### Consolidated Statement of Income

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

	Three months ended	
	March 31, 2007	March 31, 2006
Revenue	\$ 91,149	\$ 71,918
Cost of sales and operating expenses	63,913	51,016
Amortization of capital and other assets	3,706	3,000
	23,530	17,902
Interest expense	2,230	695
Net unrealized gain on interest rate swaps	(324)	–
Amortization of intangible assets	3,294	647
Minority interest	109	–
Net income	\$ 18,221	\$ 16,560
Net income per unit, basic and diluted	\$ 0.4146	\$ 0.4367

## Operating Results by Business Segment

(in thousands of Canadian dollars, unaudited)

	Davis + Henderson Segment	Filogix Segment	Three months ended March 31, 2007	
			Corporate	Consolidated
Revenue	\$ 78,497	\$ 12,652	\$ –	\$ 91,149
Cost of sales and operating expenses	54,486	8,748	679	63,913
Amortization of capital and other assets	2,377	1,329	–	3,706
	21,634	2,575	(679)	23,530
Interest expense	–	–	2,230	2,230
Net unrealized gain on interest rate swaps	–	–	(324)	(324)
Amortization of intangible assets	811	2,483	–	3,294
Minority interest	109	–	–	109
Net income	\$ 20,714	\$ 92	\$ (2,585)	\$ 18,221

### Revenue

Total revenue for the first quarter of 2007 was \$91.1 million, an increase of \$19.2 million, or 26.7%, compared to the first quarter of 2006. The inclusion of the Filogix Segment accounted for \$12.7 million of the increase, with the balance of the increase, \$6.5 million, attributable to the Davis + Henderson Segment.

Revenue for the Davis + Henderson Segment increased by 9.1% year-over-year. This is higher than the Business' overall long-term objective of growing revenue in the 3% to 5% range and is primarily related to successful program initiatives introduced in 2006, including product and service enhancements such as *iDefence*<sup>®</sup> and *BizAssist*<sup>™</sup> and stronger than expected order volume including the benefit of accelerated reorders related to changes in the imaging standard on cheques as further discussed below.

Historically, cheque order volumes have, on average, been declining by low single digit percentages annually as a result of declining cheque usage. In 2006 and in the first quarter of 2007, the Davis + Henderson Segment did not experience this decline and overall cheque order volume was generally comparable to prior year levels. These stronger than anticipated order volumes are believed to be the result of increased customer promotional activities and programs, the continuing movement of consumers to orders with fewer cheques and increased orders related to branch mergers or system conversion activities. In addition, during the first quarter of 2007, management estimates that the Business received incremental orders contributing approximately \$2.0 million of revenue related to one particular financial institution that advised its customers of the July 1, 2007 date for converting cheques to the new imaging formats. Management believes this customer communication accelerated reorders that would otherwise have been received in future periods pursuant to normal reorder cycles. Management continues

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

to believe that declining cheque usage will continue to contribute to declining cheque orders as it has in the past.

As well, during the first quarter of 2007, the Business also benefited from its increased ownership of the AVS business, the expansion of the personal property search and registration programs to two additional financial institutions and continued growth in *eSwitch* volume related to customer promotional programs. These initiatives, while still small relative to the cheque program and Filogix revenue, continue to grow and enhance the value of the Business' service offerings.

Revenue for the Filogix Segment in the first quarter of 2007 was stronger than expected with continued year-over-year growth in fees related to mortgage origination and underwriting services. Management believes that these higher than anticipated revenues are the result of the continuing high level of sales activity in the real estate market. Market forecasters have generally expected a gradual market slowdown in 2007, and as such, this growth in the Filogix Segment may not continue in future quarters.

### **Cost of Sales and Operating Expenses**

On a consolidated basis, cost of sales and operating expenses for the first quarter of 2007 increased by \$12.9 million, or 25.3%, when compared to the first quarter of 2006. The addition of the Filogix Segment accounted for \$8.7 million of the increase. The remaining \$4.2 million is related to the Davis + Henderson Segment and to corporate expenses.

Of the 8.1% year-over-year increase for the Davis + Henderson Segment and corporate expenses, more than one half was related to increased revenues as described above and to revenue generating initiatives being implemented. The balance of the increase was primarily a result of increased spending on information technology costs related to infrastructure upgrade initiatives and increased support costs related to enhancing the Business' overall computing environment.

Cost of sales and operating expenses of the Filogix Segment during the period since acquisition were consistent with expectations and reflected continued spending on product enhancements.

While Davis + Henderson operates primarily in Canada, the Business also services a U.S. subsidiary of one of our Canadian customers. All revenue 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.

### **Other Expenses and Net Income**

Amortization of capital and other assets on a consolidated level increased by \$0.7 million, or 23.5%, to \$3.7 million when comparing the first quarter of 2007 to the same quarter in 2006. The inclusion of the Filogix Segment, which contributed \$1.3 million to the increase, was partially offset by a decline in expense in the Davis + Henderson Segment of \$0.6 million, relating to certain capital and other assets having become fully amortized.

Net interest expense of \$2.2 million incurred in the first quarter of 2007 increased by \$1.5 million compared to the comparable 2006 period. This increase reflected the drawdown of additional debt for the acquisition of the Filogix business late in the second quarter of 2006. Included in this balance is \$0.2 million of amortization of net losses in fair market value of interest-rate swaps that were deferred prior to January 1, 2007. Commencing January 1, 2007, the Business no longer designates its interest-rate swaps as hedges for accounting purposes.

An unrealized gain in interest rate swaps of \$0.3 million reflects the recognition of the change in fair market value of the interest-rates swaps during the first quarter of 2007. This unrealized gain is recognized in income as these swaps are no longer designated as hedges for accounting purposes. For further discussion on the amortization of net losses in fair market value and the net gain or loss from change in fair value of interest-rate swaps, see the Comprehensive Income section below.

Amortization of intangibles increased by \$2.6 million to \$3.3 million when comparing the first quarter of 2007 to the first quarter of 2006. This increase was 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.

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. In 2006, the Minister of Finance (Canada) released draft legislation that could result in the Fund paying taxes on distributions made, starting in 2011. For additional information see the Business Risks section on page 15.

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 of 2006, 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.

Net income of \$18.2 million for the first quarter of 2007 represents an increase of \$1.7 million, or 10.0%, when compared to the first quarter of 2006. On a per unit basis, net income decreased by \$0.0221 per unit to \$0.4146 per unit. The per unit decrease reflects the negative impact of an increase in amortization of intangible assets of \$0.0565 per unit related to intangible assets recorded on the acquisition of Filogix.

### **Comprehensive Income**

On January 1, 2007, the Business adopted the Canadian Institute of Chartered Accountants (CICA) handbook sections 3855 "Financial Instruments – Recognition and Measurement", 1530 "Comprehensive Income" and 3251 "Equity".

The standards require that all financial assets be classified as trading, designated at fair value, available for sale, held to maturity, or loans and receivables. In addition, the standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity, and available-for-sale equities that do not have quoted market values in an active market. As required, these standards have been applied on a prospective basis and accordingly, the recording of an adjustment to opening Deficit and the recognition of Accumulated Other Comprehensive Income (Loss) ("AOCI") have been made. As a result, the Deficit balance decreased by \$0.1 million and AOCI increased by \$2.2 million. Prior period balances have not been restated.

The Business expects to continue to enter into interest-rate swaps for the purpose of hedging interest rates.

During the quarter ended March 31, 2007, the Business recognized \$0.2 million of comprehensive income reflecting the amortization of previously deferred net losses charged to net income as discussed above.

## Eight Quarter Consolidated Statement of Income – Summary

(in thousands, except per unit amounts, unaudited)

	2007				2006				2005
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue	\$91,149	\$87,932	\$87,966	\$75,900	\$71,918	\$69,232	\$69,845	\$71,226	
Net income	\$18,221	\$16,467	\$15,785	\$17,717	\$16,560	\$14,982	\$15,292	\$15,922	
Net income per unit	\$0.4146	\$0.3747	\$0.3592	\$0.4477	\$0.4367	\$0.3951	\$0.4033	\$0.4199	
Weighted average units outstanding	43,947	43,947	43,947	39,576	37,921	37,921	37,921	37,921	

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

Net income has been trending consistently with changing revenue. Net income per unit has generally increased consistent with increases in revenue, except, commencing in the third quarter of 2006 and continuing thereafter, when as a result of the acquisition of Filogix, as previously described, the Business incurred increased amortization of intangible assets expense.

Going forward, management believes that the combined Davis + Henderson results will be subject to seasonality with the inclusion of revenue from the Filogix Segment. Historically, Filogix has recorded stronger results in the second and third quarters, with lower results in the first quarter of each year. In the first quarter of 2007, Filogix revenue was stronger than expected.

## CASH FLOW AND LIQUIDITY

### Non- GAAP Measures

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 Fund including the amount of cash available for distribution to unitholders, repayment of debt and 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 (“GAAP”). These subtotals are used by management as measures of internal performance and as a supplement to the consolidated statement of cash flows. 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 consolidated 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.

## Summary of Cash Flows

(in thousands of Canadian dollars, unaudited)

	March 31, 2007	Three months ended March 31, 2006
Cash flows from operating activities	\$ 21,674	\$ 18,358
Add:		
Changes in non-cash working capital and other items	3,399	1,849
Adjusted cash flows from operating activities (note 2)	25,073	20,207
Less:		
Expenditures on maintenance capital	1,889	1,545
Contract payments, maintenance	1,517	1,250
Distributable cash after maintenance capital and contract payments (note 1)	21,667	17,412
Less:		
Expenditures on growth capital	183	–
Contract payments, non-maintenance	–	–
Distributable cash after all capital and contract payments (note 1)	21,484	17,412
Less:		
Distributions paid during period	16,875	13,879
Distributable cash after all capital, contract payments and distributions paid	4,609	3,533
Changes in non-cash working capital and other items (note 2)	(3,399)	(1,849)
Cash flows used in acquisition of businesses	91	(547)
Increase in cash and cash equivalents for the period	\$ 1,301	\$ 1,137

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. Minority interest and changes to other long-term liabilities are deducted from adjusted cash flow from operations. For details, see the Changes in Non-Cash Working Capital and Other Items section on page 13.

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

**Summary of Cash Flows Per Unit**

*(in Canadian dollars, unaudited)*

	Three months ended		% Change
	March 31, 2007	March 31, 2006	
Adjusted cash flows from operating activities	\$ 0.5705	\$ 0.5329	7.1%
Distributable cash after maintenance capital and contract payments	\$ 0.4930	\$ 0.4592	7.4%
Distributable cash after all capital and contract payments	\$ 0.4889	\$ 0.4592	6.5%
Distributions paid during period	\$ 0.3840	\$ 0.3660	4.9%
Distributions declared during period	\$ 0.3880	\$ 0.3690	5.1%

During the first quarter of 2007, the Business generated \$25.1 million in adjusted cash flow from operating activities, an increase of \$4.9 million compared to the first quarter of 2006. This increase is primarily due to the inclusion of the Filogix business, net of increased interest expense, and, in general, increases in cash flow from the organic growth initiatives and higher than expected order volume within the Davis + Henderson Segment, as previously described.

## Summary of Capital Expenditures by Segment

(in thousands of Canadian dollars, unaudited)

	March 31, 2007	Three months ended March 31, 2006
<b>Davis + Henderson Segment</b>		
Maintenance capital expenditures	\$ 578	\$ 1,545
Maintenance contract payments	1,517	1,250
Growth capital expenditures	-	-
Non-maintenance capital expenditures	-	-
Non-maintenance contract payments	-	-
	<b>\$ 2,095</b>	<b>\$ 2,795</b>
<b>Filogix Segment</b>		
Maintenance capital expenditures	\$ 1,311	n/a
Maintenance contract payments	-	n/a
Growth capital expenditures	183	n/a
Non-maintenance capital expenditures	-	n/a
Non-maintenance contract payments	-	n/a
	<b>\$ 1,494</b>	<b>n/a</b>
<b>Consolidated</b>		
Maintenance capital expenditures	\$ 1,889	\$ 1,545
Maintenance contract payments	1,517	1,250
Growth capital expenditures	183	-
Non-maintenance capital expenditures	-	-
Non-maintenance contract payments	-	-
	<b>\$ 3,589</b>	<b>\$ 2,795</b>

The table above sets out capital expenditures 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, reflects, 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The level of capital expenditures in the Davis + Henderson Segment in 2007 is expected to be similar to the expenditure levels in 2006. Maintenance capital expenditures in the Davis + Henderson Segment for the quarter ended March 31, 2007 have decreased year-over-year by \$1.0 million as a result of timing of expenditures. This reduction is not indicative of the full-year expenditure program. Maintenance capital expenditures in the Filogix Segment of \$1.3 million were disproportionately large relative to the annual plan due to timing between quarters.

Growth expenditures of \$0.2 million made in the Filogix Segment in the first quarter of 2007 relate to hardware and software acquired to support the implementation of new underwriting service customers.

The Business' capital program provides for continued expenditures to be funded by cash flows from operations. The Business' 2007 capital program is expected to be approximately \$12.0 million to \$13.0 million of which \$2.0 million to \$3.0 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. The level of investment in 2007 required to maintain and sustain the productive capacity of the Business is expected to be comparable to the annualized expenditures in 2006.

### **Distributions**

The Fund paid distributions of \$16.9 million (\$0.3840 per unit) during the first quarter of 2007 compared to \$13.9 million (\$0.3660 per unit) in the first quarter of 2006. In June 2006, the Fund issued 6,026,000 additional units to finance the Filogix acquisition. On a per unit basis, distributions paid increased by 4.9% when comparing the first quarters of 2007 and 2006.

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 increase in distributions per unit was 5.1% for the quarter ended March 31, 2007.

On an annualized basis, the monthly distribution rate for March 2007 was \$1.58 per unit as compared to \$1.50 per unit annualized in March 2006, representing an increase of 5.6%.

The estimated tax allocation of distributions declared for 2007 is 100% "other income", as was the case for all of 2006.

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 March 31, 2007 and May 1, 2007, 43,946,792 trust units were outstanding. This reflects the issuance of an additional 6,026,000 trust units on June 15, 2006 in exchange for subscription receipts issued on June 6, 2006, which 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)

	March 31, 2007	Three months ended March 31, 2006
Minority interest	\$ 109	\$ –
Decrease in non-cash working capital items	(3,526)	(1,875)
Changes in other operating assets and liabilities	18	26
Changes in non-cash working capital and other items	\$ (3,399)	\$ (1,849)

The decrease in non-cash working capital items for the three months ended March 31, 2007 was primarily related to the payment of certain accruals, including performance based compensation which is paid annually in the first quarter of every year.

### Cash Flows Used in Acquisition of Business

Cash flows relating to the acquisition of the AVS business and customer service contracts reflect minor purchase price adjustments for interests previously acquired by the Business.

### Cash Balances and Long-term Indebtedness

The Business has continued to generate operating cash flow in excess of distributions, capital expenditures and contractual obligations. Management expects to use a portion of any future excess flow to pay down debt during 2007 and, in April 2007, the Fund made a voluntary debt payment of \$2.0 million.

At March 31, 2007, cash and cash equivalents totalled \$7.1 million, compared to \$5.8 million at December 31, 2006.

Total debt facilities available at March 31, 2007 and December 31, 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 March 31, 2007 and December 31, 2006, the Business had drawn \$120.0 million under the non-revolving term loan and \$25.0 million under the revolving term credit facility. The Business is permitted to draw on the revolving facility's available balance of \$25.0 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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 on SEDAR at [www.sedar.com](http://www.sedar.com).

As of March 31, 2007, the Fund had interest-rate swap hedge contracts in place with certain of its lenders, such that the borrowing rates on 91.0% of outstanding indebtedness are effectively fixed at the interest rates and for the time periods ending as follows:

Maturity Date	Notional Amount	Fair value – Interest rate swaps			Interest Rate <sup>1</sup>
		Asset	Liability		
June 30, 2007	\$ 12,000	\$ 14	\$ –		5.140%
June 30, 2008	12,000	16	–		5.410%
January 4, 2009	10,000	121	–		4.880%
July 15, 2009	20,000	–	269		6.063%
July 15, 2010	33,000	–	609		6.065%
June 15, 2011	20,000	–	421		5.935%
June 15, 2011	25,000	–	336		5.935%
	\$ 132,000	\$ 151	\$ 1,635		

<sup>1</sup>The 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 would have to pay the fair value of \$1.6 million (\$2.0 million at December 31, 2006) if it were to close out four of the contracts and would receive \$0.2 million (\$0.2 million at December 31, 2006) on the closing of the other three contracts, as set out on the balance sheet. It is not the present intention of the Fund to close out these contracts. As at March 31, 2007, consistent with the new accounting pronouncements implemented with effect from January 1, 2007, the fair value of the interest-rate swaps is now recorded on the balance sheet. For a further description of this accounting treatment, see the Comprehensive Income section.

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 March 31, 2007.

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.

The Fund intends to make monthly cash distributions of its distributable cash, as defined in the Fund's Declaration of Trust, subject to working capital requirements, debt repayments and other reserves.

In general, mutual fund trusts, like the Fund, must distribute all their taxable income to their unitholders in order not to pay income taxes in the trust. Taxable income may be less than distributable cash if the Business has excess tax deductions it can utilize to reduce taxable income.

Historically, Davis + Henderson has paid distributions below the level of distributable cash generated, using the excess to pay down debt and to fund acquisitions. It has been possible to pay less than 100% of its distributable cash generated to unitholders and not pay taxes within the trust as the Business had excess tax deductions available to reduce taxable income. These excess tax deductions diminish each year and, if the Business continues to generate growing cash flow, the Fund will need to pay out a higher proportion of the distributable cash it generates to unitholders in order not to pay taxes in the trust.

## **BUSINESS RISKS**

For a comprehensive discussion of risks, please refer to the Fund's most recently filed Annual Information Form and Annual Report available on SEDAR at [www.sedar.com](http://www.sedar.com).

On October 31, 2006, the Minister of Finance (Canada) announced the "Tax Fairness Plan" and tabled a Notice of Ways and Means Motion that proposes to significantly change the income tax treatment of most publicly traded trusts and partnerships (other than certain real estate investment trusts) and the distributions and allocations, as the case may be, from these entities to their investors. On March 29, 2007, the Minister of Finance (Canada) introduced Bill C-52 in the House of Commons to implement these proposals. Under the proposals, certain income earned by these entities will be taxed in a manner similar to income earned by a corporation and distributions or allocations of such income made by these entities to investors will be taxed in a manner similar to dividends from taxable Canadian corporations. The deemed dividend will be eligible for the enhanced dividend tax credit if paid or allocated to a resident of Canada. These proposals will generally be effective beginning in the 2011 taxation year for trusts and partnerships that were publicly traded prior to November 1, 2006, such as the Fund. However, the proposals will apply immediately in any taxation year ending after 2006 if the income trust does not comply with the guidelines concerning "normal growth" released by the Department of Finance on December 15, 2006 as may be amended from time to time, unless the excess growth arose as a result of a prescribed transaction. Under these guidelines, an income trust such as the Fund will be limited as to the amount of new units it can issue after October 31, 2006 in order to avoid becoming subject to these proposals prior to the 2011 taxation year. The payment of such taxes would reduce the cash flow of the Fund thereby reducing the amount available for distributions to the Fund's unitholders. Additionally, in spite of recent recovery in value, uncertainty in the capital

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

markets reflected in price variability in income trust units, including the Fund's, may impact the Fund's ability to make future acquisitions.

Since the announcement of the proposed changes, management of Davis + Henderson and the Trustees have been monitoring the changes in the income trust environment and are continuing to review potential impacts on the Fund's current strategy and the alternatives available to the Fund, consistent with protecting and enhancing unitholder value. The tax proposals may become law during 2007. Until the final legislation implementing the proposed changes becomes law, the exact impact of the changes to the Fund is unknown.

### **CHANGES IN ACCOUNTING POLICY**

The Fund reviews all revisions to the Canadian Institute of Chartered Accountants ("CICA") Handbook when issued. All revisions are considered and applied by the effective date or earlier if practical.

If the draft legislation to tax distributions of certain mutual fund trusts, as previously described, is enacted in 2007, the Fund will be subject to taxation in future periods and as such will commence to account for future income taxes through the recognition of future tax balances. On-going changes to future tax balances will be recognized in the consolidated statement of income. Additionally, if enacted, this change may affect the carrying value of certain of the Fund's assets including goodwill. GAAP requires accounting for changes in tax legislation only upon substantial enactment.

### **DISCLOSURE CONTROLS AND INTERNAL CONTROLS**

The Fund and its subsidiaries have designed and maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms.

The Fund and its subsidiaries have also designed and maintain a set of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Fund's internal controls over financial reporting during the quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

### **OUTLOOK**

Davis + Henderson's overall long-term objective is to deliver stable and modestly growing distributions through growing revenue in the 3% to 5% range and maintaining margins.

In 2007, revenues 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 our cheque supply program, offering additional programs to serve the chequing account and delivering programs within the lending services market.

In 2006, Davis + Henderson made a significant investment with the acquisition of the Filogix business. This strategically aligned acquisition added another significant platform for the Business and in 2007 is contributing 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. The Business' 2007 capital program is expected to be approximately \$12.0 million to \$13.0 million, of which \$2.0 million to \$3.0 million is expected to be growth capital. Most of the increase over the 2006 expenditures of \$9.9 million arises as a result of including a full year capital program for the Filogix business.

Late in 2006, the Minister of Finance (Canada) released draft legislation which, if enacted, would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. The payment of such taxes would reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders. The proposed changes have caused uncertainty in the capital markets and variability in the unit prices of many income trusts, including the Fund. This uncertainty and the related impacts may affect the Fund's ability to make future acquisitions. Since the announcement of the proposed changes, management and the Trustees have been monitoring the changes in the income trust environment and are continuing to review potential impacts on the Fund's current strategy and the alternatives available to the Fund, consistent with protecting and enhancing unitholder value. The tax proposals are not law, but may become law at any time.

### **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 above. Such forward-looking statements involve

## MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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; 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, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

May 1, 2007

# CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

March 31, 2007    December 31, 2006

## ASSETS

### Current Assets:

Cash and cash equivalents	\$ 7,089	\$ 5,788
Accounts receivable	18,386	18,299
Inventory	4,767	5,238
Prepaid expenses	3,179	3,920
	<u>33,421</u>	<u>33,245</u>
Capital assets (note 3)	31,601	32,567
Other assets (note 4)	8,933	7,369
Interest rate swaps (note 8)	151	–
Intangible assets (note 5)	127,252	130,546
Goodwill (note 6)	438,502	438,546
	<u>\$ 639,860</u>	<u>\$ 642,273</u>

## LIABILITIES AND UNITHOLDERS' EQUITY

### Current Liabilities:

Accounts payable and accrued liabilities	\$ 32,271	\$ 36,600
Distributions payable to unitholders	5,801	5,625
Current portion of disbursement obligations on customer contracts (note 7)	2,962	2,195
	<u>41,034</u>	<u>44,420</u>
Disbursement obligations on customer contracts (note 7)	2,212	2,195
Long-term indebtedness (note 8)	145,000	145,000
Other long-term liabilities (note 9)	2,469	2,520
Interest rate swaps (note 8)	1,635	–
Minority interest	372	263
	<u>192,722</u>	<u>194,398</u>

### Unitholders' Equity:

Trust units (note 10)	474,585	474,585
Deficit	(25,424)	(26,710)
Accumulated other comprehensive income (loss)	(2,023)	–
	<u>447,138</u>	<u>447,875</u>

### Commitments (note 11)

	<u>\$ 639,860</u>	<u>\$ 642,273</u>
--	-------------------	-------------------

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



Paul Damp  
Trustee



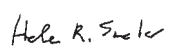
Gordon J. Feeney  
Trustee



Allan Gotlieb  
Trustee



Brad Nullmeyer  
Trustee



Helen K. Sinclair  
Trustee

## CONSOLIDATED STATEMENTS OF INCOME

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

	March 31, 2007	Three months ended March 31, 2006
Revenue	\$ 91,149	\$ 71,918
Cost of sales and operating expenses	63,913	51,016
Amortization of capital and other assets	3,706	3,000
	23,530	17,902
Interest expense	2,230	695
Net unrealized gain on interest rate swaps	(324)	–
Amortization of intangible assets	3,294	647
Minority interest	109	–
Net income	\$ 18,221	\$ 16,560
Net income per unit, basic and diluted	\$ 0.4146	\$ 0.4367

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars, unaudited)

	March 31, 2007	Three months ended March 31, 2006
Net income	\$ 18,221	\$ 16,560
Other comprehensive income:		
Amortization of transitional adjustment to net income	176	–
Other comprehensive income	176	–
Total comprehensive income	\$ 18,397	\$ 16,560

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

## CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars, unaudited)

	March 31, 2007	Three months ended March 31, 2006
Deficit:		
Deficit, beginning of period	\$ (26,710)	\$ (31,049)
Transitional adjustment on adoption of financial instruments standards	116	–
Net income	18,221	16,560
Distributions	(17,051)	(13,993)
Deficit, end of period	(25,424)	(28,482)
Accumulated Other Comprehensive Income (Loss):		
Accumulated other comprehensive income (loss), beginning of period	–	–
Transitional adjustment on adoption of financial instruments standards	(2,199)	–
Other comprehensive income:		
Amortization of transitional adjustment to net income	176	–
Accumulated other comprehensive income (loss), end of period	(2,023)	–
Deficit and accumulated other comprehensive income (loss), end of period	\$ (27,447)	\$ (28,482)

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)

	March 31, 2007	Three months ended March 31, 2006
Cash and cash equivalents provided by (used in):		
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 18,221	\$ 16,560
Add:		
Amortization of capital assets	3,038	1,914
Amortization of other assets	668	1,086
Amortization of intangible assets	3,294	647
Amortization of transitional adjustment in interest expense	176	-
Net unrealized gain on interest rate swaps	(324)	-
Minority interest	109	-
	25,182	20,207
Decrease in non-cash working capital items	(3,526)	(1,875)
Changes in other operating assets and liabilities	18	26
	21,674	18,358
<b>FINANCING ACTIVITIES</b>		
Distributions paid to unitholders	(16,875)	(13,879)
	(16,875)	(13,879)
<b>INVESTING ACTIVITIES</b>		
Expenditures on capital assets	(2,072)	(1,545)
Payments pursuant to long-term supply contracts	(1,517)	(1,250)
Acquisitions and acquisition adjustments	91	(547)
	(3,498)	(3,342)
Increase in cash and cash equivalents for the period	1,301	1,137
Cash and cash equivalents, beginning of period	5,788	8,304
Cash and cash equivalents, end of period	\$ 7,089	\$ 9,441
Supplementary information:		
Cash interest paid	\$ 2,072	\$ 845

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2007 and 2006

*(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.”) of which it has a 75% interest.

### 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, 2006, which are included in the 2006 Annual Report along with changes in accounting policies that became effective January 1, 2007 and as described below. 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, 2006.

#### 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 Inc., Filogix L.P. and its interest in AVS L.P. All inter-company transactions and accounts have been eliminated upon consolidation.

#### Changes in Accounting Policies

Effective January 1, 2007, the Fund adopted the following new Canadian Institute of Chartered Accountants (CICA) Handbook Sections: Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3251, Equity and Section 3861, Financial Instruments – Disclosure and Presentation. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges as well as the recognition of certain transitional adjustments that have been recorded in opening accumulated other comprehensive income (loss) and opening deficit. Accumulated other comprehensive income (loss) (“AOCI”) consists of cumulative net gains and losses that were deferred prior to January 1, 2007 when hedge accounting was used by the Fund. The comparative

quarterly consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are as follows:

### **Financial Instruments**

*Recognition and Measurement* 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. Financial assets are classified as available for sale, held to maturity, trading, or loans and receivables. Financial liabilities are recorded at amortized cost.

Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and financial liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of income. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are generally capitalized and then amortized over the expected life of the financial instrument using the effective yield method.

*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 by the Fund and the generally short payment terms and frequent settlement of swap differences.

*Derivative Financial Instruments* Derivatives are carried at fair value and are reported as assets where they have a positive fair value and liabilities where they have a negative fair value. Derivatives may be embedded in other financial instruments or contracts. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract unless such contracts relate to normal course operations and qualify for the normal purchase and sale exemption in accordance with the standards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

*Hedge Accounting* Where derivatives are held for risk management purposes or when transactions meet the criteria specified in the CICA HB Section 3865, hedge accounting is applied to the risks being hedged. When hedge accounting is not applied, the change in the fair value of the derivative is recognized in income including for instruments used for economic hedging purposes that do not meet the requirements for hedge accounting.

Effective January 1, 2007, the Fund ceased applying hedge accounting on the interest rate swaps outstanding at December 31, 2006.

*Accumulated Other Comprehensive Income (Loss)* Changes in the fair value of cash flow hedging instruments are recorded in accumulated other comprehensive income (loss) until recognized in the consolidated statement of income. Accumulated other comprehensive income (loss) forms part of unitholder's equity.

*Transitional adjustment* The impact of the adoption of the new standards on January 1, 2007 was as follows:

	As at December 31, 2006	Adjustment upon adoption of new standards	As at January 1, 2007
<b>ASSETS</b>			
Interest rate swaps	\$ -	\$ 152	\$ 152
Impact on total assets	\$ -	\$ 152	\$ 152
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Interest rate swaps	\$ -	\$ 1,960	\$ 1,960
Impact on total liabilities	-	1,960	1,960
Unitholder's equity:			
Deficit	(26,710)	116	(26,594)
Accumulated other comprehensive income (loss)	-	(2,199)	(2,199)
Impact on total unitholder's equity	(26,710)	(2,083)	(28,793)
Impact on total liabilities and unitholder's equity	\$ (26,710)	\$ (123)	\$ (26,833)

**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.

Direct costs relating to certain professional fee revenues that are determined to be a component of a contractual arrangement are capitalized by the Fund until completion of the professional services and are amortized on a straight-line basis over the remaining term of the contract.

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 market value of net tangible assets and identifiable intangible assets acquired. Goodwill is not amortized but is assessed for impairment annually and is further assessed when an event or change in circumstances indicates that the asset might be impaired.

Goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately.

**Intangible Assets**

Intangible assets are recorded at fair market value and consist of rights related to cheque supply outsourcing contracts, proprietary software, customer 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
Customer 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 cause its carrying value to exceed the total undiscounted future cash flows. The impairment is calculated by deducting the fair value of the intangible asset from its carrying value.

**Impairment of Long-lived Assets**

The carrying value of long-lived assets is tested for impairment when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment is calculated by deducting the fair value of the asset from its carrying value.

**Revenue Recognition**

The Fund is the principal on all revenue transactions related to the cheque supply and other transaction account program services and has presented revenue based on the gross amount billed to customers. Revenue for services and product sales is recognized when the services are completed and the products are shipped.

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.

Certain professional fees, if determined to be a component of a contractual arrangement, are deferred by the Fund until completion and are recognized as revenue evenly over the remaining term of the contract.

**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.

## 2. INCOME TAXES

Income earned by the Fund that is distributed annually to unitholders is not subject to taxation in the Fund, but is taxed at the individual unitholder level.

The Fund does not recognize any future tax assets or liabilities on temporary differences between the carrying amount of the balance sheet items and their corresponding tax basis because the Fund is committed to distribute to its unitholders, all or virtually all of its taxable income and taxable gains. The Fund intends to continue to meet the “mutual fund trust” requirements under the Income Tax Act (Canada) and there is no indication that the Fund will fail to meet those requirements. As at December 31, 2006, the excess of the carrying value of the Fund’s assets and liabilities, excluding goodwill, over their tax basis is approximately \$112.0 million (2005 – \$(6.3) million) of which \$130.5 million (2005 – \$6.9 million) is related to the carrying value of intangible assets over their tax basis. The tax basis of goodwill as at December 31, 2006 was \$157.8 million (2005 – \$169.7 million).

On December 21, 2006 the Minister of Finance (Canada) released draft legislation (the “Proposals”) relating to the federal income taxation of publicly-traded trusts and partnerships. On March 29, 2007, the Minister of Finance (Canada) introduced Bill C-52 in the House of Commons to implement these Proposals. The Proposals are contemplated to apply to a publicly-traded trust that is a specified investment flow-through entity (a “SIFT”) which existed before November 1, 2006 (“Existing Trust”) commencing with taxation years ending in or after 2011.

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT’s taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust’s market capitalization at the close of trading on October 31, 2006.

The Fund is a SIFT as defined in the Proposals. If enacted, the Fund would be subject to taxes on certain income earned from investments in its subsidiaries. The Fund would also be required to recognize future income tax assets and liabilities with respect to the temporary differences of its assets and liabilities and those of its subsidiaries that are expected to reverse in or after 2011.

**3. CAPITAL ASSETS**

March 31, 2007			
	Cost	Accumulated amortization	Net
Machinery and equipment	\$ 15,127	\$ 6,970	\$ 8,157
Computer equipment and software	38,046	17,373	20,673
Furniture, fixtures and leasehold improvements	7,898	5,127	2,771
	<b>\$ 61,071</b>	<b>\$ 29,470</b>	<b>\$ 31,601</b>

December 31, 2006			
	Cost	Accumulated amortization	Net
Machinery and equipment	\$ 15,014	\$ 6,689	\$ 8,325
Computer equipment and software	36,211	14,827	21,384
Furniture, fixtures and leasehold improvements	7,774	4,916	2,858
	<b>\$ 58,999</b>	<b>\$ 26,432</b>	<b>\$ 32,567</b>

Amortization during the three months ended March 31, 2007 was \$3,038 (Q1 2006 – \$1,914).

**4. OTHER ASSETS**

	March 31, 2007	December 31, 2006
Cost:		
Long-term supply contracts	\$ 12,051	\$ 9,750
Deferred finance costs	1,451	1,451
Other	370	370
	<b>13,872</b>	<b>11,571</b>
Accumulated amortization	<b>(4,939)</b>	<b>(4,202)</b>
	<b>\$ 8,933</b>	<b>\$ 7,369</b>

Amortization during the three months ended March 31, 2007 on long-term supply contracts and deferred finance costs was \$668 (Q1 2006 – \$1,086) and \$69 (Q1 2006 – nil), respectively. Amortization of deferred finance costs is recognized as interest expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**5. INTANGIBLE ASSETS**

	March 31, 2007	December 31, 2006
Cost:		
Cheque supply outsourcing contracts	\$ 16,329	\$ 16,329
Customer service contracts	3,669	3,669
Proprietary software	41,993	41,993
Brand names	8,400	8,400
Customer relationships	77,887	77,887
	148,278	148,278
Accumulated amortization	(21,026)	(17,732)
	\$ 127,252	\$ 130,546

Amortization during the three months ended March 31, 2007 was \$3,294 (Q1 2006 – \$647).

**6. GOODWILL**

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 438,546	\$ 361,288
Goodwill acquired during the period:		
AVS acquisition	(44)	5,318
Filogix acquisition	–	71,940
Balance, end of period	\$ 438,502	\$ 438,546

**7. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS**

	March 31, 2007	December 31, 2006
Current portion	\$ 2,962	\$ 2,195
Long-term portion	2,212	2,195
Total disbursement obligations on customer contracts	\$ 5,174	\$ 4,390

The Fund has fixed customer contract disbursement obligations payable as of March 31, 2007 as follows:

2007	\$ 1,445
2008	2,962
2009	767
	\$ 5,174

## 8. LONG-TERM INDEBTEDNESS

	March 31, 2007	December 31, 2006
Non-revolving term loan	\$ 120,000	\$ 120,000
Revolving credit facility	25,000	25,000
	<b>\$ 145,000</b>	<b>\$ 145,000</b>

The Fund has \$170.0 million of available term credit facilities due June 15, 2011 (December 31, 2006 – \$170.0 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 carrying value of long-term indebtedness approximates its fair value as it bears interest at floating rates that reset in most cases within three months and in all cases within one year.

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 March 31, 2007, the Fund was in compliance with all of its financial covenants and financial condition tests.

As of March 31, 2007, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on \$132.0 million, or 91.0%, of its outstanding term indebtedness are effectively fixed at interest rates and for periods shown in the following table:

Maturity Date	Notional Amount	Fair value – Interest rate swaps			Interest Rate <sup>1</sup>
		Asset	Liability		
June 30, 2007	\$ 12,000	\$ 14	\$ –		5.140%
June 30, 2008	12,000	16	–		5.410%
January 4, 2009	10,000	121	–		4.880%
July 15, 2009	20,000	–	269		6.063%
July 15, 2010	33,000	–	609		6.065%
June 15, 2011	20,000	–	421		5.935%
June 15, 2011	25,000	–	336		5.935%
	<b>\$ 132,000</b>	<b>\$ 151</b>	<b>\$ 1,635</b>		

<sup>1</sup> The 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

At March 31, 2007, the Fund would have to pay the fair value of \$1.6 million (\$2.0 million at December 31, 2006) if it were to close out four of the contracts and would receive \$0.2 million (\$0.2 million at December 31, 2006) on the closing of the balance of the contracts as set out on the balance sheet.

### 9. OTHER LONG-TERM LIABILITIES

	March 31, 2007	December 31, 2006
Deferred compensation program	\$ 1,682	\$ 1,659
Employee future benefits	787	861
	<u>\$ 2,469</u>	<u>\$ 2,520</u>

The deferred compensation program is a five-year long-term incentive plan for management, subject to certain performance criteria and vesting terms, payable after 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 plan for the three months ended March 31, 2007 was \$0.5 million (Q1 2006 – \$0.4 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.

### 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 and a pro rata share of distributions declared by the Fund. The Fund intends

to make monthly cash distributions of its distributable cash, as defined in the Fund's Declaration of Trust, subject to working capital requirements and other reserves. The net proceeds from the issuance of trust units and the number of units outstanding are as follows:

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 474,585	\$ 365,385
Units issued	–	109,200
Balance, end of period	\$ 474,585	\$ 474,585
Units outstanding, end of period	43,946,792	43,946,792

The weighted average number of units outstanding during the three months ended March 31, 2007 was 43,946,792 (Q1 2006 – 37,920,792).

## 11. COMMITMENTS

As of March 31, 2007, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows for the years ending:

2007	\$ 3,201
2008	3,405
2009	2,589
2010	2,577
2011	1,072
Thereafter	583
	\$ 13,427

## 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 three months ended March 31, 2007 were \$6,044 (Q1 2006 – \$5,922). As at March 31, 2007, \$1,405 (December 31, 2006 – \$1,285) was owing to Canada Post Corporation. This amount has been included in accounts payable and accrued liabilities.

## 13. SIGNIFICANT CUSTOMERS

For the three months ended March 31, 2007, the Fund earned 78% (Q1 2006 – 83%) of its revenue from its seven largest customers. Five of these customers individually accounted for greater than 10% but not more than 17% of the Fund's total revenue.

**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 months ended March 31, 2007 are as follows:

	Three months ended March 31, 2007			
	Davis + Henderson Segment	Filogix Segment	Corporate	Consolidated
Revenue	\$ 78,497	\$ 12,652	\$ –	\$ 91,149
Cost of sales and operating expenses	54,486	8,748	679	63,913
Amortization of capital and other assets	2,377	1,329	–	3,706
	21,634	2,575	(679)	23,530
Interest expense	–	–	2,230	2,230
Net unrealized gain on interest rate swaps	–	–	(324)	(324)
Amortization of intangible assets	811	2,483	–	3,294
Minority interest	109	–	–	109
Net income	\$ 20,714	\$ 92	\$ (2,585)	\$ 18,221
Capital and other assets expenditures	\$ 2,095	\$ 1,494	\$ –	\$ 3,589
Intangible assets	\$ 7,000	\$ 120,252	\$ –	\$ 127,252
Goodwill	\$ 366,562	\$ 71,940	\$ –	\$ 438,502
Total assets	\$ 445,686	\$ 187,085	\$ 7,089	\$ 639,860

For the Davis + Henderson Segment, five customers individually accounted for greater than 10% but not more than 19% of the Davis + Henderson Segment revenue. For the Filogix Segment, three customers individually accounted for greater than 10% but not more than 16% of the Filogix Segment revenue.

## Supplementary Information

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Three months ended March 31, 2007	Three months ended December 31, 2006	Three months ended September 30, 2006	Three months ended June 30, 2006	Three months ended March 31, 2006
Revenue	<b>\$ 91,149</b>	\$ 87,932	\$ 87,966	\$ 75,900	\$ 71,918
Cost of sales and operating expenses	<b>63,913</b>	62,034	62,754	52,989	51,016
Amortization of capital and other assets	<b>3,706</b>	3,902	3,752	3,286	3,000
	<b>23,530</b>	21,996	21,460	19,625	17,902
Interest expense	<b>2,230</b>	2,186	2,248	887	695
Net unrealized gain on interest rate swaps	<b>(324)</b>	-	-	-	-
Amortization of intangible assets	<b>3,294</b>	3,254	3,339	996	647
Minority interest	<b>109</b>	89	88	25	-
<b>Net income</b>	<b>\$ 18,221</b>	\$ 16,467	\$ 15,785	\$ 17,717	\$ 16,560
Cash flows from operating activities	<b>\$ 21,674</b>	\$ 22,111	\$ 22,786	\$ 26,498	\$ 18,358
Change in non-cash working capital items	<b>3,526</b>	1,671	268	(4,424)	1,875
Minority interest	<b>(109)</b>	(89)	(88)	(25)	-
Changes in other operating assets and liabilities	<b>(18)</b>	(70)	(90)	(50)	(26)
Adjusted cash flows from operations <sup>2</sup>	<b>25,073</b>	23,623	22,876	21,999	20,207
Less:					
Expenditures on maintenance capital	<b>1,889</b>	1,912	997	1,377	1,545
Contract payments, maintenance	<b>1,517</b>	20	800	625	1,250
Distributable cash after maintenance capital and contract payments <sup>1</sup>	<b>21,667</b>	21,691	21,079	19,997	17,412
Less:					
Expenditures on growth capital <sup>3</sup>	<b>183</b>	34	884	411	-
Expenditures on non-maintenance capital	<b>-</b>	-	-	-	-
Contract payments, non-maintenance	<b>-</b>	-	-	-	-
Distributable cash after all capital and contract payments	<b>\$ 21,484</b>	\$ 21,657	\$ 20,195	\$ 19,586	\$ 17,412

<sup>1</sup>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.

<sup>2</sup>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. Minority interest and changes to other long-term liabilities are deducted from adjusted cash flow from operations.

<sup>3</sup>For the quarter ending June 30, 2006, approximately \$0.4 million pertaining to Filogix capital expenditures has been classified as growth capital rather than maintenance capital.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### Summary of Cash Flows Per Unit

(in Canadian dollars, unaudited)	Three months	Three months	Three months	Three months	Three months
	ended March 31, 2007	ended December 31, 2006	ended September 30, 2006	ended June 30, 2006	ended March 31, 2006
Adjusted cash flow from operating activities	\$ 0.5705	\$ 0.5375	\$ 0.5205	\$ 0.5559	\$ 0.5329
Distributable cash after maintenance capital and contract payments	\$ 0.4930	\$ 0.4936	\$ 0.4796	\$ 0.5053	\$ 0.4592
Distributable cash after all capital and contract payments	\$ 0.4889	\$ 0.4928	\$ 0.4595	\$ 0.4949	\$ 0.4592
Distributions paid during period	\$ 0.3840	\$ 0.3780	\$ 0.3750	\$ 0.3750	\$ 0.3660
Distributions declared during period	\$ 0.3880	\$ 0.3810	\$ 0.3750	\$ 0.3750	\$ 0.3690

### Condensed Consolidated Balance Sheet

(in thousands of Canadian dollars, unaudited)	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Cash and cash equivalents	\$ 7,089	\$ 5,788	\$ 8,893	\$ 4,607	\$ 9,441
Other current assets	26,332	27,457	27,384	28,834	17,136
Capital and other assets	40,685	39,936	41,908	42,701	29,220
Goodwill and other intangible assets	565,754	569,092	572,215	575,635	369,131
	<b>\$639,860</b>	<b>\$642,273</b>	<b>\$ 650,400</b>	<b>\$651,777</b>	<b>\$ 424,928</b>
Payables and other current liabilities	\$ 41,034	\$ 44,420	\$ 47,100	\$ 48,064	\$ 32,697
Other long-term liabilities	6,316	4,715	4,797	4,604	5,328
Long-term indebtedness	145,000	145,000	150,000	150,000	50,000
Minority interest	372	263	351	263	–
Unitholders' equity	447,138	447,875	448,152	448,846	336,903
	<b>\$639,860</b>	<b>\$642,273</b>	<b>\$ 650,400</b>	<b>\$651,777</b>	<b>\$ 424,928</b>

### Distribution History

Month	Distributions per unit <sup>1</sup>						
	2007	2006	2005	2004	2003	2002	2001
January	\$ 0.1280	\$ 0.1220	\$ 0.1200	\$ 0.1150	\$ 0.1117	\$ 0.1083	\$ –
February	0.1280	0.1220	0.1200	0.1150	0.1117	0.1083	–
March	0.1320	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	–	0.1250	0.1220	0.1168	0.1150	0.1117	–
November	–	0.1280	0.1220	0.1200	0.1150	0.1117	–
December <sup>2</sup>	–	0.1280	0.1220	0.1200	0.1150	0.1117	0.0427
	<b>\$ 0.3880</b>	<b>\$ 1.5000</b>	<b>\$ 1.4500</b>	<b>\$ 1.4044</b>	<b>\$ 1.3599</b>	<b>\$ 1.3200</b>	<b>\$ 0.0427</b>

<sup>1</sup>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.

<sup>2</sup>Distributions paid in 2001 are in respect of the 12 calendar days from December 20, 2001 to December 31, 2001.

## SUPPLEMENTARY FINANCIAL INFORMATION

### Tax Allocation of Distributions

	2007	2006	2005	2004	2003	2002
Dividend income	0.0%	0.0%	0.0%	15.0%	19.5%	16.9%
Other income	100.0%	100.0%	91.6%	75.2%	69.5%	71.5%
Return of capital	0.0%	0.0%	8.4%	9.8%	11.0%	11.6%
Total distributions for the period	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The above tax allocation of distributions for 2007 represents an estimate based on the total expected distributions for the year ended December 31, 2007.

### Other Statistics

(in thousands, except per unit amounts)

Quarter ended	Trading price range of units (TSX: "DHF.UN")			Average daily volume	Number of units outstanding at quarter end	Market capitalization at quarter end
	High	Low	Close			
2007 Q1	\$ 17.19	\$ 15.00	\$ 16.60	87	43,947	\$ 729,517
2006 Q4	19.80	13.80	15.46	143	43,947	679,417
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

### Paul Damp<sup>1,2</sup>

Chairman, Director and Trustee  
*Managing Partner,*  
*Kestrel Capital*

### Allan Gotlieb<sup>2</sup>

Director and Trustee  
*Chairman, Sotheby's Canada*

### Bradley Nullmeyer<sup>1</sup>

Director and Trustee  
*President and CEO,*  
*A&A Capital*

### Helen K. Sinclair<sup>2</sup>

Director and Trustee  
*CEO, BankWorks Trading Inc.*

### Gordon J. Feeney<sup>1</sup>

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 Mandrozos

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,  
Corporate Data Services

## CORPORATE INFORMATION

### Auditors:

KPMG LLP

### Transfer Agent:

CIBC Mellon Trust Company

### Corporate Counsel:

Torys LLP

### Investor Relations:

Catherine Martin

416-696-7700

Email:

catherine.martin@dhld.com

### Corporate Office:

Suite 201,  
939 Eglinton Avenue East,  
Toronto, Ontario M4G 4H7

Telephone: 416-696-7700

Facsimile: 416-696-9720

Website: www.dhld.com

### Toronto Stock Exchange

### 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

<sup>1</sup> Member, Audit Committee (Committee Chair is Brad Nullmeyer)

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

## DAVIS + HENDERSON INCOME FUND

### Trademarks, Patents and Copyright

All words contained in this Quarterly Report that appear in italics are trademarks of Davis + Henderson, Limited Partnership, Advanced Validation Systems Limited Partnership or Filogix Limited Partnership as applicable. All other marks are trademarks of their respective holders.

© 2007 Davis + Henderson, Limited Partnership

### 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](http://www.dhltd.com) or can be obtained by writing to:

The Secretary,  
Davis + Henderson  
Income Fund,  
Suite 201,  
939 Eglinton Avenue East,  
Toronto, Ontario  
M4G 4H7

### Copies of this Quarterly Report

Copies of this Quarterly Report can be found on the Fund's website at [www.dhltd.com](http://www.dhltd.com) or can be obtained by writing to:

The Secretary,  
Davis + Henderson  
Income Fund,  
Suite 201,  
939 Eglinton Avenue East,  
Toronto, Ontario  
M4G 4H7

**La version française :** Sur simple demande, nous nous ferons un plaisir de vous faire parvenir la version française du présent rapport. Veuillez composer le 416-696-7700 ou nous faire parvenir un courriel [investorrelations@dhltd.com](mailto:investorrelations@dhltd.com).





DAVIS + HENDERSON INCOME FUND  
Suite 201, 939 Eglinton Avenue East,  
Toronto, Ontario M4G 4H7

Toronto Stock Exchange: "DHF.UN"  
Website: [www.dhltd.com](http://www.dhltd.com)

  
**Davis + Henderson**  
Income Fund

  
**FSC**  
**Mixed Sources**  
Product group from well-managed  
forests and other controlled sources  
Cert no. SW-COC-1161  
[www.fsc.org](http://www.fsc.org)  
© 1996 Forest Stewardship Council