Davis + Henderson
Income Fund

2ND Quarter Report

For the Three and Six months ended June 30, 2007

Davis + Henderson Income Fund Reports Second Quarter 2007 Results

Davis + Henderson Income Fund reported sharp increases in revenue and cash flow for the three and six months ended June 30, 2007 as the positive impact of program enhancements, higher than anticipated cheque order volumes and strong activity in the mortgage and real estate markets combined to produce above-target performance.

Second Quarter Highlights

- Revenue increased by $26.1 million, or 34.4%, compared to the same quarter in 2006. Of this increase, $15.2 million, or 20.0%, related to the inclusion of Filogix with the balance related primarily to increases from the Davis + Henderson cheque supply program.
- Net income per unit increased to $0.6035, or 34.8%, compared to the second quarter of 2006.
- Declared distributions in the second quarter of 2007 of $0.3960 per unit were 5.6% higher than in the second quarter of 2006.

Six-Month Highlights

- Revenue increased by $45.3 million, or 30.7%, compared to the same period in 2006. Of this increase, $27.8 million, or 18.8%, related to the addition of Filogix with the balance related primarily to increases from the Davis + Henderson cheque supply program.
- Net income per unit increased to $1.0181, or 15.1%, compared to the first six months of 2006.
- Declared distributions for the first six months of 2007 of $0.784 per unit were 5.4% higher than in the first six months of 2006.

Management Commentary

The inclusion of the Filogix results for the full six months of 2007, as compared to just eleven business days for the same period in 2006, had a significant impact on revenue and cash flows to date this year. During the first six months of 2007, the Business continued to benefit from solid contributions related to program initiatives, such as *iDefence*® and *BizAssist*™.

Additionally, two other significant factors contributed to above-target revenue growth: (1) cheque order volumes were stronger than anticipated, including incremental reorders related to the changes in imaging standards on cheques; and (2) record real estate activity in 2007 has significantly increased mortgage origination and underwriting fees within the Filogix Segment.

While the factors contributing to incremental cheque orders may or may not continue to positively impact performance through the remainder of the current year, they are not expected to be sustained long term as management continues to expect overall cheque order volume declines. Recent increased reorder activity levels may contribute in future quarters to higher than historically observed average volume declines, as consumers delay orders due to recent cheque supply replenishments.

Looking forward, Davis + Henderson remains committed to its financial objective of delivering stable and modestly growing distributions based on achieving revenue growth in the 3-5% range. With the addition of Filogix, Davis + Henderson has significantly strengthened its capabilities and the breadth of services it offers to the Canadian financial services marketplace. From Davis + Henderson's established platforms, management looks to increase value for customers and unitholders by building on Davis + Henderson's programs.

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

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") for the second 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 Davis + Henderson 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 as part of its first strategy, 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 that have been developed as part of its second strategy 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 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 *CollateralGuard*™, 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 would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. These proposed amendments were enacted on June 22, 2007. The payment of such taxes will, in the future, reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders. These 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, management and the Trustees have monitored the changes in the income trust environment and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing unitholder value.

FINANCIAL INFORMATION PRESENTATION

The Fund's results for the quarter ended June 30, 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 SECOND QUARTER

Consolidated Statement of Income

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

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenue	**$ 101,992**	$ 75,900	**$ 193,141**	$ 147,818
Cost of sales and operating expenses	**66,873**	52,989	**130,786**	104,005
Amortization of capital and other assets	**3,745**	3,286	**7,451**	6,286
	31,374	19,625	**54,904**	37,527
Interest expense	**2,121**	887	**4,351**	1,582
Net unrealized loss (gain) on interest rate swaps	**(2,196)**	–	**(2,520)**	–
Amortization of intangible assets	**3,271**	996	**6,565**	1,643
Minority interest	**204**	25	**313**	25
Income before income taxes	**27,974**	17,717	**46,195**	34,277
Future income taxes expense	**1,454**	–	**1,454**	–
Net income	**$ 26,520**	$ 17,717	**$ 44,741**	$ 34,277
Net income per unit, basic and diluted	**$ 0.6035**	$ 0.4477	**$ 1.0181**	$ 0.8845

Operating Results by Business Segment

(in thousands of Canadian dollars, unaudited)

Three months ended

	Davis + Henderson Segment June 30, 2007	Davis + Henderson Segment June 30, 2006	Filogix Segment June 30, 2007	Filogix Segment June 30, 2006	Corporate June 30, 2007	Corporate June 30, 2006	Consolidated June 30, 2007	Consolidated June 30, 2006
Revenue	**$ 84,184**	$ 73,272	**$ 17,808**	$ 2,628	**$ –**	$ –	**$101,992**	$ 75,900
Cost of sales and operating expenses	**57,383**	50,784	**8,820**	1,674	**670**	531	**66,873**	52,989
Amortization of capital and other assets	**2,289**	3,091	**1,456**	195	**–**	–	**3,745**	3,286
	24,512	19,397	**7,532**	759	**(670)**	(531)	**31,374**	19,625
Interest expense	**–**	–	**–**	–	**2,121**	887	**2,121**	887
Net unrealized loss (gain) on interest rate swaps	**–**	–	**–**	–	**(2,196)**	–	**(2,196)**	–
Amortization of intangible assets	**788**	611	**2,483**	385	**–**	–	**3,271**	996
Minority interest	**204**	25	**–**	–	**–**	–	**204**	25
Income before income taxes	**23,520**	18,761	**5,049**	374	**(595)**	(1,418)	**27,974**	17,717
Future income taxes expense	**1,125**	–	**329**	–	**–**	–	**1,454**	–
Net income	**$ 22,395**	$ 18,761	**$ 4,720**	$ 374	**$ (595)**	$ (1,418)	**$ 26,520**	$ 17,717

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

	Six months ended							
	Davis + Henderson Segment		Filogix Segment		Corporate		Consolidated	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenue	**$162,681**	$145,190	**$ 30,460**	$ 2,628	**$ –**	$ –	**$193,141**	$147,818
Cost of sales and operating expenses	**111,869**	101,337	**17,568**	1,674	**1,349**	994	**130,786**	104,005
Amortization of capital and other assets	**4,666**	6,091	**2,785**	195	**–**	–	**7,451**	6,286
	46,146	37,762	**10,107**	759	**(1,349)**	(994)	**54,904**	37,527
Interest expense	**–**	–	**–**	–	**4,351**	1,582	**4,351**	1,582
Net unrealized loss (gain) on interest rate swaps	**–**	–	**–**	–	**(2,520)**	–	**(2,520)**	–
Amortization of intangible assets	**1,599**	1,258	**4,966**	385	**–**	–	**6,565**	1,643
Minority interest	**313**	25	**–**	–	**–**	–	**313**	25
Income before income taxes	**44,234**	36,479	**5,141**	374	**(3,180)**	(2,576)	**46,195**	34,277
Future income taxes expense	**1,125**	–	**329**	–	**–**	–	**1,454**	–
Net income	**$ 43,109**	$ 36,479	**$ 4,812**	$ 374	**$ (3,180)**	$ (2,576)	**$ 44,741**	$ 34,277

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

Revenue

Total revenue for the second quarter of 2007 was $102.0 million, an increase of $26.1 million, or 34.4%, compared to the second quarter of 2006. The inclusion of the Filogix Segment for the full quarter accounted for $15.2 million of the increase, with the balance of the increase, $10.9 million, attributable to the Davis + Henderson Segment.

For the first six months of 2007, total revenue increased by $45.3 million, or 30.7%, compared to the first six months of 2006. The Filogix Segment accounted for $27.8 million of the increase and the Davis + Henderson Segment accounted for $17.5 million of the increase.

Revenue for the Davis + Henderson Segment increased by 14.9% and 12.0% in the second quarter and first half of 2007, respectively, when compared to the same periods in 2006. This is higher than the Fund's overall long-term objective of growing revenues in the 3% to 5% range. As expected, the Business achieved solid growth in revenues related to successful program initiatives introduced late in 2006, including product and service enhancements such as *iDefence*® and *BizAssist*™, and it benefited from certain customer initiatives during the second quarter, including orders relating to account conversion activities. In addition, almost half of the year-over-year revenue increase came from stronger than expected Canadian cheque order volumes as further discussed below.

Historically, cheque order volumes have, on average, declined annually by low single digit percentages as a result of declining cheque usage. In the first six months of 2007, the Davis + Henderson Segment did not experience this decline and overall cheque order volume was higher than the prior year. These stronger than anticipated order volumes are believed to be the result of increased customer promotional activities, the continuing movement of consumers to orders with fewer cheques and changes in the imaging standards required for cheques produced in Canada, which generated incremental and accelerated orders. In the first quarter of 2007, these incremental orders related primarily to one financial institution, but during the second quarter, orders were increasing from many of our financial institution customers. Management believes that many of these accelerated reorders would otherwise have been received in future periods pursuant to normal reorder cycles.

Management also believes that declining cheque usage will continue to contribute to declining cheque orders as it has in the past, although, the Business may continue to receive incremental and accelerated orders, as previously described, over the short term. Additionally, it is believed that the acceleration of orders may contribute to higher than historically observed average declines in future quarters, reducing revenues in such periods.

During the first six months of 2007, the Business also benefited from its increased ownership of the AVS business, the expansion of 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 Davis + Henderson's service offerings.

Revenue for the Filogix Segment in the first six months of 2007 was stronger than expected with continued year-over-year growth in fees related to mortgage origination and underwriting services. Including 2006 revenue recorded prior to the acquisition of Filogix by the Fund, origination services revenue was up over 35% year-over-year. This performance is consistent with the record activity in the real estate market and strong origination mortgage volume.

Cost of Sales and Operating Expenses

On a consolidated basis, cost of sales and operating expenses for the second quarter of 2007 increased by $13.9 million, or 26.2%, compared to the second quarter of 2006. The addition of the Filogix Segment accounted for $7.1 million of the increase. The remaining $6.8 million is related to the Davis + Henderson Segment and to corporate expenses.

For the first half of 2007, consolidated cost of sales and operating expenses increased by $26.8 million, or 25.7%, when compared to the first half of 2006. The Filogix Segment accounted for $15.9 million of the increase and the Davis + Henderson Segment, along with corporate expenses, accounted for the remaining $10.9 million.

For the second quarter, substantially all of the Davis + Henderson Segment and corporate year-over-year expense increase of 13.1%, was related to increased revenues as described above. For the six-month period ended June 30, 2007, while most of the expense increase related directly to revenue growth, the Business also had increased spending on information technology related to infrastructure upgrade initiatives and enhancing the overall internal computing environment. As a result of revenue growth, including the higher than expected cheque order volume described above, the Davis + Henderson Segment margins improved.

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. In general, operating costs are not directly correlated with increases or decreases in revenue. Increases in Filogix revenues, due to the factors described above, significantly increased the Filogix Segment margins. The Business expects to increase expenses within the Filogix Segment in support of further product enhancements, and accordingly, margins are expected to be reduced from the second quarter of 2007 levels.

While Davis + Henderson operates primarily in Canada, the Business also services a U.S. subsidiary of one of its Canadian customers. All revenue and substantially all expenses relating to the 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 $0.5 million, or 14.0%, to $3.7 million compared to the second quarter of 2006. The inclusion of the Filogix Segment for the full quarter, which contributed $1.3 million to the increase, was partially offset by a decline in expense in the Davis + Henderson Segment of $0.8 million, relating to certain capital and other assets having become fully amortized. For the first half of 2007, amortization of capital and other assets on a consolidated basis was $7.5 million, an increase of $1.2 million compared to the first half of 2006. The Filogix Segment contributed $2.6 million of the increase, partially offset by a decrease in expenses for the Davis + Henderson Segment of $1.4 million as described above.

Interest expense increased by $1.2 million for the second quarter of 2007 compared to the same quarter in the prior year. For the first half of 2007, interest expense was $2.8 million higher than the comparable 2006 period. These increases reflected the draw down of additional debt for the acquisition of the Filogix business late in the second quarter of 2006. Included in these balances were $0.2 million and $0.4 million, respectively for the second quarter and first half of 2007, 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.

Unrealized gains on interest-rate swaps of $2.2 million and $2.5 million were recognized for the three and six months ended June 30, 2007, respectively, and reflected the recognition of the change in fair value of the interest-rate swaps during each period. These unrealized gains were 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 $2.3 million and $4.9 million compared to the second quarter and first half of 2006, respectively. 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 from 10 to 15 years.

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.

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 until 2011, as long as all taxable income generated by the Fund is paid to unitholders in the form of distributions. In 2011 and subsequent years, the Fund will pay a tax on its distributions at a rate of 31.5%. As the new tax rules were enacted late in June 2007, the Fund is required under Canadian GAAP to recognize future income tax assets and liabilities, with a corresponding impact on future income tax expense or recovery based on the temporary differences expected to reverse after the date the tax is effective. Accordingly, the Fund recognized a future income tax liability and a corresponding non-cash future income tax expense of $1.5 million during the second quarter of 2007.

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.

Net income of $26.5 million for the second quarter of 2007 represents an increase of $8.8 million compared to the second quarter of 2006. Net income of $0.6035 per unit increased by $0.1558 per unit. For the six-month period ended June 30, 2007, net income was $44.7 million, or $1.0181 per unit. This represents an increase of $10.5 million, or $0.1336 per unit.

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".

These 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 three-month and six-month periods ended June 30, 2007 the Business recognized $0.2 million and $0.4 million, respectively, 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 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3
Revenue	**$101,992**	$91,149	$87,932	$87,966	$75,900	$71,918	$69,232	$69,845
Net income	**$ 26,520**	$18,221	$16,467	$15,785	$17,717	$16,560	$14,982	$15,292
Net income per unit	**$ 0.6035**	$0.4146	$0.3747	$0.3592	$0.4477	$0.4367	$0.3951	$0.4033
Weighted average units outstanding	**43,947**	43,947	43,947	43,947	39,576	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. The increase from the first to the second quarter of 2007 reflected the higher than expected order volume and origination fees as described previously.

Net income and net income per unit has been trending consistently with changing revenue with two exceptions. Commencing in the third quarter of 2006 and continuing thereafter, as a result of the acquisition of Filogix, the Business incurred increased amortization of intangible assets expense and both net income and net income per unit were impacted accordingly. More recently, the increase in net income and net income per unit from the first quarter to the second quarter of 2007 reflected higher contribution resulting from increased revenue discussed above.

Going forward, management believes that consolidated 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. Additionally, the accelerated and incremental order received within the Davis + Henderson Segment related to the changes in imaging standards as previously described, may cause increased variability in revenue and cash flows.

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)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows from operating activities	**$ 34,784**	$ 26,498	**$ 56,458**	$ 44,856
Add (deduct):				
Changes in non-cash working capital and other items	**(1,814)**	(4,499)	**1,585**	(2,650)
Adjusted cash flows from operating activities (note 2)	**32,970**	21,999	**58,043**	42,206
Less:				
Expenditures on maintenance capital	**2,955**	1,377	**4,844**	2,922
Contract payments, maintenance	**–**	625	**1,517**	1,875
Distributable cash after maintenance capital and contract payments (note 1)	**30,015**	19,997	**51,682**	37,409
Less:				
Expenditures on growth capital	**–**	411	**183**	411
Contract payments, non-maintenance	**–**	–	**–**	–
Distributable cash after all capital and contract payments (note 1)	**30,015**	19,586	**51,499**	36,998
Less:				
Distributions paid during period	**17,403**	14,221	**34,278**	28,100
Distributable cash after all capital, contract payments and distributions paid	**12,612**	5,365	**17,221**	8,898
Changes in non-cash working capital and other items (note 2)	**1,814**	4,499	**(1,585)**	2,650
Distributions paid to minority interest	**–**	–	**–**	–
Cash flows provided by (used in) other financing activities	**(10,000)**	207,749	**(10,000)**	207,749
Cash flows used in acquisition of businesses	**–**	(222,447)	**91**	(222,994)
Increase (decrease) in cash and cash equivalents for the period	**$ 4,426**	$ (4,834)	**$ 5,727**	$ (3,697)

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.

Summary of Cash Flows Per Unit

(in Canadian dollars, unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Adjusted cash flows from operating activities	**$ 0.7502**	$ 0.5559	**$ 1.3208**	$ 1.0891
Distributable cash after maintenance capital and contract payments	**$ 0.6830**	$ 0.5053	**$ 1.1760**	$ 0.9653
Distributable cash after all capital and contract payments	**$ 0.6830**	$ 0.4949	**$ 1.1718**	$ 0.9547
Distributions paid during period	**$ 0.3960**	$ 0.3750	**$ 0.7800**	$ 0.7410
Distributions declared during period	**$ 0.3960**	$ 0.3750	**$ 0.7840**	$ 0.7440

	Per unit % change: Three months ended June 2007 vs. June 2006	Per unit % change: Six months ended June 2007 vs. June 2006
Adjusted cash flows from operating activities	**35.0%**	21.3%
Distributable cash after maintenance capital and contract payments	**35.2%**	21.8%
Distributable cash after all capital and contract payments	**38.0%**	22.7%
Distributions paid during period	**5.6%**	5.3%
Distributions declared during period	**5.6%**	5.4%

During the second quarter of 2007, the Business generated $33.0 million in adjusted cash flow from operating activities, an increase of $11.0 million, or 35.0%, compared to the second quarter of 2006. For the first half of 2007, adjusted cash flow from operating activities was $58.0 million, an increase of $15.8 million, or 21.3%, over the comparable period in 2006. These increases are primarily due to the inclusion of the Filogix business, net of increased interest expense, and, in general, increases in cash flow from organic growth initiatives and higher than expected order volume and origination fee revenues, as previously described.

Excess Cash Flows and Net Income Over Distributions Paid

The following table presents excess cash flows from operating activities and net income over distributions paid for the three and six-month periods ended June 30, 2007 and for the years ended December 31, 2006 and 2005.

(in thousands of Canadian dollars, unaudited)	Three months ended June 30, 2007	Six months ended June 30, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Cash flows from operating activities	**$ 34,784**	$ 56,458	**$ 89,753**	$ 76,844
Net income	**$ 26,520**	$ 44,741	**$ 66,529**	$ 60,751
Distributions paid during period	**$ 17,403**	$ 34,278	**$ 61,311**	$ 54,910
Excess of cash flows from operating activities over cash distributions paid	**$ 17,381**	$ 22,180	**$ 28,442**	$ 21,934
Excess of net income over cash distributions paid	**$ 9,117**	$ 10,463	**$ 5,218**	$ 5,841

Excess cash flows from operating activities over cash distributions paid have been used to fund capital expenditures, pay down debt and to fund acquisitions as shown in the previous table.

Summary of Capital Expenditures by Segment

(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Davis + Henderson Segment				
Maintenance capital expenditures	**$ 2,142**	$ 1,261	**$ 2,720**	$ 2,806
Maintenance contract payments	**–**	625	**1,517**	1,875
Growth capital expenditures	**–**	–	**–**	–
Non-maintenance capital expenditures	**–**	–	**–**	–
Non-maintenance contract payments	**–**	–	**–**	–
	$ 2,142	$ 1,886	**$ 4,237**	$ 4,681
Filogix Segment				
Maintenance capital expenditures	**$ 813**	$ 116	**$ 2,124**	$ 116
Maintenance contract payments	**–**	–	**–**	–
Growth capital expenditures	**–**	411	**183**	411
Non-maintenance capital expenditures	**–**	–	**–**	–
Non-maintenance contract payments	**–**	–	**–**	–
	$ 813	$ 527	**$ 2,307**	$ 527

Summary of Capital Expenditures by Segment (continued)
(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Consolidated				
Maintenance capital expenditures	**$ 2,955**	$ 1,377	**$ 4,844**	$ 2,922
Maintenance contract payments	**–**	625	**1,517**	1,875
Growth capital expenditures	**–**	411	**183**	411
Non-maintenance capital expenditures	**–**	–	**–**	–
Non-maintenance contract payments	**–**	–	**–**	–
	$ 2,955	$ 2,413	**$ 6,544**	$ 5,208

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.

The level of capital expenditures in the Davis + Henderson Segment in 2007 is expected to be similar to, or slightly higher than, the expenditure levels in 2006. Maintenance capital expenditures in the Filogix Segment for 2007 is expected to be higher only as a reflection of a full-year capital program.

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 in the range of $12.0 million to $14.0 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 $17.4 million ($0.396 per unit) during the second quarter of 2007 and $34.3 million ($0.780 per unit) for the first half of 2007 compared to $14.2 million ($0.375 per unit) and $28.1 million ($0.741 per unit), respectively, for the same periods in 2006. 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 six months ended June 30, 2007, distributions paid increased by 5.6% and 5.3%, respectively, when compared to the same periods in 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 5.6% and 5.4% for the three and six-month periods ended June 30, 2007 respectively.

On an annualized basis, the monthly distribution rate for June 2007 was $1.58 per unit as compared to $1.50 per unit annualized in June 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 June 30, 2007 and July 31, 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)

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Minority interest	**$ 204**	$ 25	**$ 313**	$ 25
Decrease (increase) in non-cash working capital items	**1,520**	4,424	**(2,006)**	2,549
Changes in other operating assets and liabilities	**90**	50	**108**	76
Changes in non-cash working capital and other items	**$ 1,814**	$ 4,499	**$ (1,585)**	$ 2,650

The decrease in non-cash working capital items for the three months ended June 30, 2007 was primarily related to an increase in trade payables that is expected to reverse, partially offset by increases in receivable balances in the Filogix Segment as a result of increased revenue between the second and first quarter of 2007.

The increase for the six-month period ended June 30, 2007 was related to payment of certain accruals, including performance-based compensation which is paid annually in the first quarter of every year, partially offset by the decrease in non-cash working capital items during the second quarter of 2007 as discussed above.

Cash Balances and Long-term Indebtedness

The Business has continued to generate operating cash flow in excess of distributions, capital expenditures and contractual obligations. During the second quarter of 2007, the Business made voluntary debt payments totalling $10.0 million. Management expects to continue to use a portion of any future excess flow to pay down debt during 2007.

At June 30, 2007, cash and cash equivalents totalled $11.5 million, compared to $5.8 million at December 31, 2006.

Total debt facilities available at June 30, 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 June 30, 2007, the Business had drawn $120.0 million under its non-revolving term loan and $15.0 million under the revolving term credit facility. The Business is permitted to draw on the revolving facility's available balance of $35.0 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 on SEDAR at www.sedar.com.

As of June 30, 2007, the Fund had interest-rate swap hedge contracts in place with certain of its lenders, such that the borrowing rates on 88.9% of outstanding indebtedness are effectively fixed at the interest rates and for the time periods ending as follows:

(in thousands of Canadian dollars, unaudited)		Fair value – Interest rate swaps		
Maturity Date	Notional Amount	Asset	Liability	Interest Rate [1]
June 30, 2008	$ 12,000	$ 74	$ –	5.160%
January 4, 2009	10,000	193	–	4.630%
July 15, 2009	20,000	2	–	5.813%
July 15, 2010	33,000	65	–	5.815%
June 15, 2011	20,000	210	–	5.685%
June 15, 2011	25,000	168	–	5.685%
	$ 120,000	$ 712	$ –	

[1] 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.

At June 30, 2007, the Fund would receive the fair value of $0.7 million if it were to close out its swap contracts. It is not the present intention of the Fund to close out these contracts. Pursuant to 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 5.59% as at June 30, 2007.

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.

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.

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 cash generated 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.

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.

On June 12, 2007, with the third reading of Bill C-52, which contained the new tax rules regarding the taxation of income trusts, including the Fund, the new tax rules were considered to be substantively enacted under Canadian GAAP. As a result, the Fund commenced accounting for tax changes in its June 30, 2007 interim reporting. A future income tax liability of $1.5 million was recognized with a corresponding amount flowing through the Fund's income for the quarter ended June 30, 2007. The liability represents estimated temporary differences at June 30, 2007 that are expected to reverse starting in the fiscal year 2011. The future income tax liability will be assessed on a annual basis and any changes will be recognized on the statement of income.

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 June 30, 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. Also, as previously described, two additional factors have contributed in 2007 to organic growth exceeding the targeted range: the incremental revenue from accelerated cheque reorders related to the changes in imaging standards; and, the record real estate and mortgage activity in 2007 which has to date contributed to strong growth in fee revenue in the Filogix segment. The impact related to cheque order volume may or may not continue to positively impact performance through the remainder of the current year, however, it is not expected to be sustained long term as management continues to expect overall cheque order volume declines. Recent increased reorder activity levels may contribute in future quarters to higher than historically observed average volume declines, as consumers delay orders due to recent cheque supply replenishments. Additionally, the increased activity within the real estate and mortgage markets may not be sustained due to the historical cyclical nature of those markets.

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.

Management's operational plans include many initiatives which, when combined, are intended to allow the Fund to meet its objectives. Examples include further implementations and enhancements of *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 current U.S. cheque supply contract will expire at the end of 2008 and it is not expected to be renewed. Contributions from this business are relatively modest and its expiration will not have a significant impact on overall operations and, more specifically, cash flows.

The Business' capital program provides for continued expenditures to be funded by cash flows from operations. The 2007 capital program is expected to be in the range of $12.0 million to $14.0 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 would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. These proposed amendments were enacted on June 22, 2007. The payment of such taxes will, in the future, reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders. These 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, management and the Trustees have monitored the changes in the income trust environment and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing unitholder value.

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 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.

July 31, 2007

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ **11,515**	$ 5,788
Accounts receivable	**22,237**	18,299
Inventory	**4,259**	5,238
Prepaid expenses	**3,276**	3,920
	41,287	33,245
Capital assets (note 3)	**31,420**	32,567
Other assets (note 4)	**8,255**	7,369
Interest rate swaps (note 8)	**712**	–
Intangible assets (note 5)	**123,981**	130,546
Goodwill (note 6)	**438,502**	438,546
	$ **644,157**	$ 642,273
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ **37,231**	$ 36,600
Distributions payable to unitholders	**5,801**	5,625
Current portion of disbursement obligations on customer contracts (note 7)	**2,962**	2,195
	45,994	44,420
Disbursement obligations on customer contracts (note 7)	**2,212**	2,195
Long-term indebtedness (note 8)	**135,000**	145,000
Other long-term liabilities (note 9)	**2,490**	2,520
Future income taxes (note 2)	**1,454**	–
Minority interest	**576**	263
	187,726	194,398
Unitholders' Equity:		
Trust units (note 10)	**474,585**	474,585
Deficit	**(16,307)**	(26,710)
Accumulated other comprehensive income (loss)	**(1,847)**	–
	456,431	447,875
Commitments (note 11)		
	$ **644,157**	$ 642,273

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

Paul Damp, *Trustee* · Gordon J. Feeney, *Trustee* · Michael A. Foulkes, *Trustee* · Allan Gotlieb, *Trustee* · Brad Nullmeyer, *Trustee* · Helen K. Sinclair, *Trustee*

CONSOLIDATED STATEMENTS OF INCOME

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

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenue	**$101,992**	$ 75,900	**$193,141**	$147,818
Cost of sales and operating expenses	**66,873**	52,989	**130,786**	104,005
Amortization of capital and other assets	**3,745**	3,286	**7,451**	6,286
	31,374	19,625	**54,904**	37,527
Interest expense	**2,121**	887	**4,351**	1,582
Net unrealized loss (gain) on interest rate swaps	**(2,196)**	–	**(2,520)**	–
Amortization of intangible assets	**3,271**	996	**6,565**	1,643
Minority interest	**204**	25	**313**	25
Income before income taxes	**27,974**	17,717	**46,195**	34,277
Future income taxes expense	**1,454**	–	**1,454**	–
Net income	**$ 26,520**	$ 17,717	**$ 44,741**	$ 34,277
Net income per unit, basic and diluted	**$ 0.6035**	$ 0.4477	**$ 1.0181**	$ 0.8845

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Net income	**$ 26,520**	$ 17,717	**$ 44,741**	$ 34,277
Other comprehensive income:				
Amortization of transitional adjustment to net income	**176**	–	**352**	–
Total comprehensive income	**$ 26,696**	$ 17,717	**$ 45,093**	$ 34,277

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)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Deficit:				
Deficit, beginning of period	**$ (25,424)**	$ (28,482)	**$ (26,710)**	$ (31,049)
Transitional adjustment on adoption of financial instruments standards	**–**	–	**116**	–
Net income	**26,520**	17,717	**44,741**	34,277
Distributions	**(17,403)**	(14,974)	**(34,454)**	(28,967)
Deficit, end of period	**(16,307)**	(25,739)	**(16,307)**	(25,739)
Accumulated Other Comprehensive Income (Loss):				
Accumulated other comprehensive income (loss), beginning of period	**(2,023)**	–	**–**	–
Transitional adjustment on adoption of financial instruments standards	**–**	–	**(2,199)**	–
Other comprehensive income:				
Amortization of transitional adjustment to net income	**176**	–	**352**	–
Accumulated other comprehensive income (loss), end of period	**(1,847)**	–	**(1,847)**	–
Deficit and accumulated other comprehensive income (loss), end of period	**$ (18,154)**	$ (25,739)	**$ (18,154)**	$ (25,739)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars, unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash and cash equivalents provided by (used in):				
OPERATING ACTIVITIES				
Net income	**$ 26,520**	$ 17,717	**$ 44,741**	$ 34,277
Add:				
Amortization of capital assets	**3,136**	2,199	**6,174**	4,113
Amortization of other assets	**609**	1,087	**1,277**	2,173
Amortization of intangible assets	**3,271**	996	**6,565**	1,643
Amortization of transitional adjustment in interest expense	**176**	–	**352**	–
Net unrealized loss (gain) on interest rate swaps	**(2,196)**	–	**(2,520)**	–
Future income taxes expense	**1,454**	–	**1,454**	–
Minority interest	**204**	25	**313**	25
	33,174	22,024	**58,356**	42,231
Decrease (increase) in non-cash working capital items	**1,520**	4,424	**(2,006)**	2,549
Changes in other operating assets and liabilities	**90**	50	**108**	76
	34,784	26,498	**56,458**	44,856
FINANCING ACTIVITIES				
Gross proceeds from issuance of trust units	**–**	116,000	**–**	116,000
Issuance costs	**–**	(6,800)	**–**	(6,800)
Proceeds from (repayment of) long-term indebtedness	**(10,000)**	100,000	**(10,000)**	100,000
Financing fees	**–**	(1,451)	**–**	(1,451)
Distributions paid to unitholders	**(17,403)**	(14,221)	**(34,278)**	(28,100)
	(27,403)	193,528	**(44,278)**	179,649
INVESTING ACTIVITIES				
Expenditures on capital assets	**(2,955)**	(1,788)	**(5,027)**	(3,333)
Payments pursuant to long-term supply contracts	**–**	(625)	**(1,517)**	(1,875)
Acquisitions and acquisition adjustments	**–**	(222,447)	**91**	(222,994)
	(2,955)	(224,860)	**(6,453)**	(228,202)
Increase (decrease) in cash and cash equivalents for the period	**4,426**	(4,834)	**5,727**	(3,697)
Cash and cash equivalents, beginning of period	**7,089**	9,441	**5,788**	8,304
Cash and cash equivalents, end of period	**$ 11,515**	$ 4,607	**$ 11,515**	$ 4,607
Supplementary information:				
Cash interest paid	**$ 2,016**	$ 1,287	**$ 4,088**	$ 2,132

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 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 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.

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.

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.

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
ASSETS			
Interest rate swaps	$ –	$ **152**	$ **152**
Impact on total assets	$ –	$ **152**	$ **152**
LIABILITIES AND UNITHOLDERS' EQUITY			
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 subject to current income taxes on any amount not allocated to unitholders. As all current taxable income will be allocated to the unitholders, no provision for current income taxes has been made in these consolidated financial statements. Current income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders.

The Fund uses the asset and liability method to account for income taxes. Future income taxes are recognized for temporary differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates and laws that are expected to apply to taxable income in the years in which temporary differences are expected to be reversed or settled. The effect on future income tax assets and liabilities of a change in the tax rate is included in the period during which the change is considered substantively enacted. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

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 that is currently 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.

On June 22, 2007, legislation (the "SIFT Rules") relating to the federal income taxation of publicly-listed or traded trusts (such as income trusts and real estate investment trusts) and partnerships received royal assent. The SIFT Rules 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 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 legislation. Accordingly, the Fund will be subject to taxes on distributions of certain income earned from investments in its subsidiaries made after 2010. The Fund is also required to recognize future income tax assets and liabilities with respect to the temporary differences between the carrying amount and tax bases of its assets and liabilities and those of its subsidiaries that are expected to reverse in or after 2011. The impact of this legislation for this period is a future income tax expense of $1,454. The Fund expects that its distributions will not be subject to tax prior to 2011 and accordingly has not provided for future income taxes on the temporary differences expected to reverse prior to then.

Significant components of the Fund's future tax liabilities and assets with respect to its investments in certain partnership and trust subsidiaries as of June 30, 2007 are as follows:

	June 30, 2007
Future income tax assets:	
Intangible assets less than tax values	$ **12,001**
Valuation allowance	**(12,001)**
Total future tax assets	**–**
Future income tax liabilities:	
Capital assets greater than tax values	**1,454**
Total future tax liabilities	**1,454**
Net future income tax liabilities	$ **1,454**

The Fund does not expect the temporary difference between the carrying amount and tax base of intangible assets to reverse in the foreseeable future and accordingly has reduced the asset by a valuation allowance for the full amount. No future tax liability has been provided for the temporary difference related to goodwill since this amount is not deductible for tax and is therefore specifically exempt from the recognition requirements.

3. CAPITAL ASSETS

June 30, 2007	Cost	Accumulated amortization	Net
Machinery and equipment	$ **15,116**	$ **7,213**	$ **7,903**
Computer equipment and software	**40,815**	**19,965**	**20,850**
Furniture, fixtures and leasehold improvements	**8,001**	**5,334**	**2,667**
	$ **63,932**	$ **32,512**	$ **31,420**

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
	$ 58,999	$ 26,432	$ 32,567

Amortization during the quarter ended June 30, 2007 was $3,136 (Q2 2006 – $2,199) and during the six months ended June 30, 2007 was $6,174 (six months ended June 30, 2006 – $4,113). Fully amortized capital assets removed from the accounts during the quarter ended and the six months ended June 30, 2007 was $94 (Q2 2006 and the six months ended June 30, 2006 – nil).

4. OTHER ASSETS

	June 30, 2007	December 31, 2006
Cost:		
Long-term supply contracts	$ **12,051**	$ 9,750
Deferred finance costs	**1,451**	1,451
Other	**370**	370
	13,872	11,571
Accumulated amortization	**(5,617)**	(4,202)
	$ **8,255**	$ 7,369

Amortization during the quarter ended June 30, 2007 on long-term supply contracts and deferred finance costs was $609 (Q2 2006 – $1,087) and $69 (Q2 2006 – $24), respectively and during the six months ended June 30, 2007 was $1,277 (six months ended June 30, 2006 – $2,173) and $138 (six months ended June 30, 2006 – $24) respectively. Amortization of deferred finance costs is recognized as interest expense.

5. INTANGIBLE ASSETS

	June 30, 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	**(24,297)**	(17,732)
	$ **123,981**	$ 130,546

Amortization during the quarter ended June 30, 2007 was $3,271 (Q2 2006 – $996) and during the six months ended June 30, 2007 was $6,565 (six months ended June 30, 2006 – $1,643).

6. GOODWILL

	June 30, 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

	June 30, 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 June 30, 2007 as follows:

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

8. LONG-TERM INDEBTEDNESS

	June 30, 2007	December 31, 2006
Non-revolving term loan	$ **120,000**	$ 120,000
Revolving credit facility	**15,000**	25,000
	$ **135,000**	$ 145,000

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 June 30, 2007, the Fund was in compliance with all of its financial covenants and financial condition tests.

As of June 30, 2007, the Fund has entered into interest-rate swap hedge contracts with its lenders, such that the borrowing rates on $120.0 million, or 88.9%, of its outstanding term indebtedness are effectively fixed at interest rates and for periods shown in the following table:

		Fair value – Interest rate swaps		
Maturity Date	Notional Amount	Asset	Liability	Interest Rate[1]
June 30, 2008	$ 12,000	$ 74	$ –	5.160%
January 4, 2009	10,000	193	–	4.630%
July 15, 2009	20,000	2	–	5.813%
July 15, 2010	33,000	65	–	5.815%
June 15, 2011	20,000	210	–	5.685%
June 15, 2011	25,000	168	–	5.685%
	$ 120,000	$ 712	$ –	

[1] 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.

At June 30, 2007, the Fund would receive the fair value of $0.7 million if it were to close out the contracts compared to having to pay the fair value of $2.0 million on four contracts and receive $0.2 million on three contracts at December 31, 2006, as set out on the balance sheet.

9. OTHER LONG-TERM LIABILITIES

	June 30, 2007	December 31, 2006
Deferred compensation program	**$ 1,776**	$ 1,659
Employee future benefits	**714**	861
	$ 2,490	$ 2,520

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 quarter ended June 30, 2007 was $0.4 million (Q2 2006 – $0.2 million) and $0.9 million for the six months ended June 30, 2007 (six months ended June 30, 2006 – $0.6 million).

The Fund's non-pension post-retirement benefit plan provides certain health care, life insurance and dental benefits to eligible employees. Terms of the plan were amended effective January 1, 2005, resulting in a reduction in obligations of $1.8 million and actuarial losses of $1.6 million. Reductions in obligations from the plan amendment are being amortized over three-and-one-half years and the actuarial losses are being amortized over six years.

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:

	June 30, 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 quarter ended and the six months ended June 30, 2007 was 43,946,792 (Q2 2006 – 39,576,287 and for the six months ended June 30, 2006 – 38,753,112).

11. COMMITMENTS

As of June 30, 2007, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows for the years ending:

2007	$ 2,142
2008	3,908
2009	3,136
2010	3,035
2011	1,523
Thereafter	803
	$ 14,547

12. SIGNIFICANT CUSTOMERS

For the quarter ended June 30, 2007, the Fund earned 77% (Q2 2006 – 82%) 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.

13. 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.

The business of Filogix is seasonal and varies according to the funding of residential mortgages and real estate activity in general. This may result in an increase in the quarter-to-quarter seasonality of the Fund's consolidated revenues and cash flows.

Summarized financial information for the three and six months ended June 30, 2007 are as follows:

Three months ended

	Davis + Henderson Segment		Filogix Segment		Corporate		Consolidated	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenue	**$ 84,184**	$ 73,272	**$ 17,808**	$ 2,628	**$ –**	$ –	**$101,992**	$ 75,900
Cost of sales and operating expenses	**57,383**	50,784	**8,820**	1,674	**670**	531	**66,873**	52,989
Amortization of capital and other assets	**2,289**	3,091	**1,456**	195	**–**	–	**3,745**	3,286
	24,512	19,397	**7,532**	759	**(670)**	(531)	**31,374**	19,625
Interest expense	**–**	–	**–**	–	**2,121**	887	**2,121**	887
Net unrealized loss (gain) on interest rate swaps	**–**	–	**–**	–	**(2,196)**	–	**(2,196)**	–
Amortization of intangible assets	**788**	611	**2,483**	385	**–**	–	**3,271**	996
Minority interest	**204**	25	**–**	–	**–**	–	**204**	25
Income before income taxes	**23,520**	18,761	**5,049**	374	**(595)**	(1,418)	**27,974**	17,717
Future income taxes expense	**1,125**	–	**329**	–	**–**	–	**1,454**	–
Net income	**$ 22,395**	$ 18,761	**$ 4,720**	$ 374	**$ (595)**	$ (1,418)	**$ 26,520**	$ 17,717
Capital and other asset expenditures	**$ 2,142**	$ 1,886	**$ 813**	$ 527	**$ –**	$ –	**$ 2,955**	$ 2,413
Intangible assets	**$ 6,211**	$ 9,073	**$117,770**	$127,702	**$ –**	$ –	**$123,981**	$136,775
Goodwill	**$366,562**	$365,484	**$ 71,940**	$ 73,376	**$ –**	$ –	**$438,502**	$438,860
Total assets	**$446,568**	$440,572	**$186,074**	$206,598	**$ 11,515**	$ 4,607	**$644,157**	$651,777

	Davis + Henderson Segment		Filogix Segment		Corporate		Consolidated	Six months ended
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenue	**$162,681**	$145,190	**$ 30,460**	$ 2,628	**$ –**	$ –	**$193,141**	$147,818
Cost of sales and operating expenses	**111,869**	101,337	**17,568**	1,674	1,349	994	**130,786**	104,005
Amortization of capital and other assets	**4,666**	6,091	**2,785**	195	**–**	–	**7,451**	6,286
	46,146	37,762	**10,107**	759	**(1,349)**	(994)	**54,904**	37,527
Interest expense	**–**	–	**–**	–	**4,351**	1,582	**4,351**	1,582
Net unrealized loss (gain) on interest rate swaps	**–**	–	**–**	–	**(2,520)**	–	**(2,520)**	–
Amortization of intangible assets	**1,599**	1,258	**4,966**	385	**–**	–	**6,565**	1,643
Minority interest	**313**	25	**–**	–	**–**	–	**313**	25
Income before income taxes	**44,234**	36,479	**5,141**	374	**(3,180)**	(2,576)	**46,195**	34,277
Future income taxes expense	**1,125**	–	**329**	–	**–**	–	**1,454**	–
Net income	**$ 43,109**	$ 36,479	**$ 4,812**	$ 374	**$ (3,180)**	$ (2,576)	**$ 44,741**	$ 34,277
Capital and other asset expenditures	**$ 4,237**	$ 4,681	**$ 2,307**	$ 527	**$ –**	$ –	**$ 6,544**	$ 5,208
Intangible assets	**$ 6,211**	$ 9,073	**$117,770**	$127,702	**$ –**	$ –	**$123,981**	$136,775
Goodwill	**$366,562**	$365,484	**$ 71,940**	$ 73,376	**$ –**	$ –	**$438,502**	$438,860
Total assets	**$446,568**	$440,572	**$186,074**	$206,598	**$ 11,515**	$ 4,607	**$644,157**	$651,777

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

For the Davis + Henderson Segment, five customers individually accounted for greater than 10% but not more than 20% of the Davis + Henderson Segment revenue. For the Filogix Segment, three customers individually accounted for greater than 10% but not more than 17% of the Filogix Segment revenue.

SUPPLEMENTARY FINANCIAL INFORMATION

Consolidated Operating Results by Period

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Three months ended June 30, 2007	Three months ended March 31, 2007	Three months ended December 31, 2006	Three months ended September 30, 2006	Three months ended June 30, 2006
Revenue	**$ 101,992**	$ 91,149	$ 87,932	$ 87,966	$ 75,900
Cost of sales and operating expenses	**66,873**	63,913	62,034	62,754	52,989
Amortization of capital and other assets	**3,745**	3,706	3,902	3,752	3,286
	31,374	23,530	21,996	21,460	19,625
Interest expense	**2,121**	2,230	2,186	2,248	887
Net unrealized loss (gain) on interest rate swaps	**(2,196)**	(324)	–	–	–
Amortization of intangible assets	**3,271**	3,294	3,254	3,339	996
Future income taxes expense	**1,454**	–	–	–	–
Minority interest	**204**	109	89	88	25
Net income	**$ 26,520**	$ 18,221	$ 16,467	$ 15,785	$ 17,717
Cash flows from operating activities	**$ 34,784**	21,674	$ 22,111	$ 22,786	$ 26,498
Change in non-cash working capital items	**(1,520)**	3,526	1,671	268	(4,424)
Minority interest	**(204)**	(109)	(89)	(88)	(25)
Changes in other operating assets and liabilities	**(90)**	(18)	(70)	(90)	(50)
Adjusted cash flows from operations[2]	**32,970**	25,073	23,623	22,876	21,999
Less:					
Expenditures on maintenance capital	**2,955**	1,889	1,912	997	1,377
Contract payments, maintenance	**–**	1,517	20	800	625
Distributable cash after maintenance capital and contract payments[1]	**30,015**	21,667	21,691	21,079	19,997
Less:					
Expenditures on growth capital	**–**	183	34	884	411
Expenditures on non-maintenance capital	**–**	–	–	–	–
Contract payments, non-maintenance	**–**	–	–	–	–
Distributable cash after all capital and contract payments	**$ 30,015**	21,484	$ 21,657	$ 20,195	$ 19,586

[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.

[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.

Summary of Cash Flows Per Unit

(in Canadian dollars, unaudited)	Three months ended June 30, 2007	Three months ended March 31, 2007	Three months ended December 31, 2006	Three months ended September 30, 2006	Three months ended June 30, 2006
Adjusted cash flows from operating activities	**$ 0.7502**	$ 0.5705	$ 0.5375	$ 0.5205	$ 0.5559
Distributable cash after maintenance capital and contract payments	**$ 0.6830**	$ 0.4930	$ 0.4936	$ 0.4796	$ 0.5053
Distributable cash after all capital and contract payments	**$ 0.6830**	$ 0.4889	$ 0.4928	$ 0.4595	$ 0.4949
Distributions paid during period	**$ 0.3960**	$ 0.3840	$ 0.3780	$ 0.3750	$ 0.3750
Distributions declared during period	**$ 0.3960**	$ 0.3880	$ 0.3810	$ 0.3750	$ 0.3750

Condensed Consolidated Balance Sheet

(in thousands of Canadian dollars, unaudited)	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Cash and cash equivalents	**$ 11,515**	$ 7,089	$ 5,788	$ 8,893	$ 4,607
Other current assets	**29,772**	26,332	27,457	27,384	28,834
Capital and other assets	**40,387**	40,685	39,936	41,908	42,701
Goodwill and other intangible assets	**562,483**	565,754	569,092	572,215	575,635
	$ 644,157	$ 639,860	$642,273	$650,400	$ 651,777
Payables and other current liabilities	**$ 45,994**	$ 41,034	$ 44,420	$ 47,100	$ 48,064
Other long-term liabilities	**4,702**	6,316	4,715	4,797	4,604
Long-term indebtedness	**135,000**	145,000	145,000	150,000	150,000
Future income taxes	**1,454**	–	–	–	–
Minority interest	**576**	372	263	351	263
Unitholders' equity	**456,431**	447,138	447,875	448,152	448,846
	$ 644,157	$ 639,860	$642,273	$650,400	$ 651,777

Distribution History

Month	2007	2006	2005	2004	2003	Distributions per unit[1] 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	**0.1320**	0.1250	0.1200	0.1168	0.1133	0.1083	–
May	**0.1320**	0.1250	0.1200	0.1168	0.1133	0.1083	–
June	**0.1320**	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[2]	–	0.1280	0.1220	0.1200	0.1150	0.1117	0.0427
	$ 0.7840	$ 1.5000	$ 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

	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%
	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)

	Trading price range of units (TSX: "DHF.UN")			Average	Number of	Market
				daily	units outstanding	capitalization
Quarter ended	High	Low	Close	volume	at quarter end	at quarter end
2007 Q2	**$ 19.79**	**$ 16.30**	**$ 19.31**	**90**	**43,947**	**$ 848,613**
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

DIRECTORS, TRUSTEES AND OFFICERS

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

Allan Gotlieb[2]
Director and Trustee
Chairman, Sotheby's Canada

Bradley Nullmeyer[1]
Director and Trustee
President and CEO,
A&A Capital

Helen K. Sinclair[2]
Director and Trustee
CEO, BankWorks Trading Inc.

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

Michael A. Foulkes[2]
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

Gerrard Schmid
President and CEO, Filogix

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,
Privacy, Security and Compliance

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@dhltd.com

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

Telephone:	416-696-7700
Facsimile:	416-696-9720
Website:	www.dhltd.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

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

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

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

Toronto Stock Exchange: “DHF.UN”
Website: www.dhltd.com

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