



## **Davis + Henderson Reports First Quarter Results; Announces Intention to Increase Distributions**

For the first quarter of 2008, Davis + Henderson reported solid results that were consistent with management's expectations.

### **First Quarter Highlights**

- Revenue in the first quarter of 2008 was \$89.1 million, a decrease of \$2.1 million, or 2.3%, compared to the same quarter in 2007. This lower level of revenue reflects reduced cheque order volumes, consistent with expectations.
- Net income per unit compared to the same period last year decreased \$0.0542, or 13.1% per unit, to \$0.3604 per unit. Excluding the impact of non-cash unrealized gains and losses on interest-rate swaps, net income was up 1.6% from the same quarter in 2007.
- Declared distributions in the first quarter of 2008 of \$0.4290 per unit were 10.6% higher than the first quarter of 2007.

Davis + Henderson also announced its intent to increase its distributions for the month of May 2008, payable on June 30, 2008, to \$0.1533 per unit (equivalent to \$1.84 per unit annualized), subject to normal course regulatory requirements. This represents a 7.2% increase over distributions declared for the month of April 2008, which were equivalent to \$1.72 per unit annualized. This increase in distributions recognizes the recent performance of the business, expectations of future performance and the need for the Fund to pay distributions sufficient to ensure the Fund itself is not taxable.

### **Management Commentary**

Overall, we are pleased with the results of the first quarter of 2008. These results reflect the continued positive expansion of our programs, offset by, as expected, lower cheque order volumes compared to the first quarter of 2007. Management believes the changes to cheque imaging standards in Canada resulted in consumers accelerating reorders in the first half of 2007. Management further believes that these orders would otherwise have been received in later periods, including the first quarter of 2008, and accordingly, their absence resulted in higher order volume declines in the current quarter than historically observed.

In the D+H Segment, solid results from product repositioning and successful program initiatives, including our *IDefence*<sup>®</sup> and *BizAssist*<sup>®</sup> programs partially offset volume declines resulting from shifting reorder cycles. Within our Filogix

**Delivering on our commitments**

Segment, increases in professional services revenues offset reduced transaction-based revenues.

Davis + Henderson remains committed to its long-term financial objective of delivering stable and modestly growing distributions based on achieving growth in the 3% to 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 first 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](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis ("MD&A") for the first quarter of 2008 should be read in conjunction with MD&A in Davis + Henderson Income Fund's (the "Fund" or the "Business" or "Davis + Henderson") Annual Report for the year ended December 31, 2007, dated February 26, 2008 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

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

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

Davis + Henderson significantly advanced its third key strategy with the acquisition of Filogix in June 2006. Among other services, Filogix provides processing services related to the origination and underwriting of mortgages in Canada. Davis + Henderson also acquired Advanced Validation Systems Limited Partnership ("AVS"), which, under Davis + Henderson's brand *CollateralGuard*<sup>™</sup>, provides lenders with, among other offerings, personal property search and registration ("PPSA") programs across Canada. The addition of these business interests has created another business platform for Davis + Henderson.

Changes made to the Income Tax Act require certain income trusts, including the Fund, to pay taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. The

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

payment of such taxes will, in the future, reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders. Since the announcement of this change in tax legislation, management and the Trustees have monitored the changes in the income trust environment and capital markets 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 operates in two business segments, the "Davis + Henderson Segment" and the "Filogix Segment". The Davis + Henderson Segment includes the cheque supply program, deposit program, and *eSwitch* among other offerings. The Filogix Segment includes services related to the origination and underwriting of mortgages in Canada, and the PPSA program, 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 business-wide costs.

Effective January 1, 2008, the PPSA business is operated and reported as part of the Filogix Segment. Prior to this date, this program was operated and reported as part of the Davis + Henderson Segment. The comparative segmented information for previous years has not been reclassified as the operational integration of the business in previous periods does not make a separation of these costs practical.

## OPERATING RESULTS FOR THE FIRST QUARTER – CONSOLIDATED

### Consolidated Statement of Income

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

	Three months ended March 31,	
	2008	2007
Revenue	\$ 89,088	\$ 91,149
Cost of sales and operating expenses <sup>1</sup>	62,206	64,278
Amortization of capital and other assets <sup>1</sup>	3,387	3,341
	23,495	23,530
Interest expense	1,863	2,230
Net unrealized loss (gain) on interest-rate swaps	2,344	(324)
Amortization of intangible assets	3,448	3,294
Minority interest	–	109
Net income	\$ 15,840	\$ 18,221
Net income per unit, basic and diluted	\$ 0.3604	\$ 0.4146

<sup>1</sup> Historically, the Business has reported amortization related to production assets used to manufacture finished products as part of amortization of capital and other assets. Commencing January 1, 2008, the Fund has included this amortization with cost of sales and operating expenses in order to present the total costs incurred in the manufacturing process in cost of sales. The comparative numbers for previous periods have been reclassified to conform to this new presentation format. For the quarter ended March 31, 2008, the Fund has included amortization of \$434 (Q1 2007 – \$365) in cost of sales and operating expenses for the Davis + Henderson Segment.

### Revenue

Revenue for the first quarter of 2008 was \$89.1 million, a decrease of \$2.1 million, or 2.3%, when compared to the first quarter of 2007. While results for both segments are discussed in more detail in the sections that follow, during the first quarter of 2008 expected declines in cheque order volumes related to the shift in reorder cycles offset the positive contribution from program enhancements and Filogix Segment revenue growth.

### Cost of Sales and Operating Expenses

On a consolidated basis, cost of sales and operating expenses for the first quarter of 2008 decreased by \$2.1 million, or 3.2%, compared to the first quarter of 2007. This decline was primarily driven by reduced costs related to the decline in cheque order volumes in the D+H Segment, partially offset by increased costs in the Filogix Segment, as more fully described below.

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.

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

dollar contribution from this activity is relatively modest, the change in relative dollar valuations has not had a meaningful impact on the results of the Business.

### **Amortization of Capital and Other Assets**

Amortization of capital and other assets on a consolidated level during the first quarter of 2008 was substantially unchanged compared to the same period in the prior year.

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

Interest expense decreased by \$0.4 million for the first quarter of 2008 compared to the same quarter in the prior year, reflecting \$15.0 million of debt repayments made over the past twelve months.

An unrealized loss on interest-rate swaps of \$2.3 million was recognized for the first quarter of 2008 reflecting mark-to-market adjustments related to generally lower interest rates at March 31, 2008 compared to December 31, 2007. For the same period in 2007, an unrealized gain of \$0.3 million was reported. These unrealized gains and losses were recognized in income as, effective January 1, 2007, the Business no longer designated its interest-rate swaps as hedges for accounting purposes.

Amortization of intangibles in the first quarter of 2008 increased by \$0.2 million to \$3.4 million compared with the same quarter last year. This increase was primarily related to the incremental intangible assets arising on the acquisition of the remaining 25% interest in the AVS business discussed below and the purchase of a customer service contract.

Effective January 2, 2008, the Fund increased its ownership in AVS to 100%. The acceleration of the ownership interest in AVS was initiated by the Business so as to better serve customers on an integrated basis. Now a wholly owned subsidiary, the Business no longer recognizes minority interest, as all earnings 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 do not anticipate being 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 income that is distributed to its unitholders at a rate similar to that paid by taxable corporations. As the new tax rules were enacted 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.

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 \$15.8 million for the first quarter of 2008 decreased by \$2.4 million compared to the first quarter of 2007. On a per unit basis, net income of \$0.3604 per unit decreased by \$0.0542 per unit. Excluding the non-cash impact of the mark-to-market losses on interest-rate swaps, net income per unit increased 1.6%.

### Operating Results by Business Segment<sup>1</sup>

(in thousands of Canadian dollars, unaudited)

	Three months ended March 31,							
	Davis + Henderson Segment		Filogix Segment		Corporate		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	\$ 74,724	\$ 78,497	\$ 14,364	\$ 12,652	\$ –	\$ –	\$ 89,088	\$ 91,149
Percentage change	-4.8%		13.5%		–		-2.3%	
Cost of sales and operating expenses <sup>2</sup>	50,543	54,851	11,071	8,748	592	679	62,206	64,278
Amortization of capital and other assets <sup>2</sup>	2,150	2,012	1,237	1,329	–	–	3,387	3,341
	22,031	21,634	2,056	2,575	(592)	(679)	23,495	23,530
Percentage change	1.8%		-20.2%		-12.8%		-0.1%	
Interest expense	–	–	–	–	1,863	2,230	1,863	2,230
Net unrealized loss (gain) on interest-rate swaps	–	–	–	–	2,344	(324)	2,344	(324)
Amortization of intangible assets	724	811	2,724	2,483	–	–	3,448	3,294
Minority interest	–	–	–	–	–	109	–	109
Net income	\$ 21,307	\$ 20,823	\$ (668)	\$ 92	\$ (4,799)	\$ (2,694)	\$ 15,840	\$ 18,221

<sup>1</sup> Effective January 1, 2008, the results of the PPSA program are included in the Filogix Segment. Prior to this date, the results were included in the Davis + Henderson Segment.

<sup>2</sup> Historically, the Business has reported amortization related to production assets used to manufacture finished products as part of amortization of capital and other assets. Commencing January 1, 2008, the Fund has included this amortization with cost of sales and operating expenses in order to present the total costs incurred in the manufacturing process in cost of sales. The comparative numbers for previous periods have been reclassified to conform to this new presentation format. For the quarter ended March 31, 2008, the Fund has included amortization of \$434 (Q1 2007 – \$365) in cost of sales and operating expenses.

## OPERATING RESULTS – D+H SEGMENT

### Revenue

Revenue within the Davis + Henderson Segment decreased by \$3.8 million, or 4.8%, year-over-year. Of this decrease, \$0.9 million relates to the reclassification of the PPSA business to the Filogix Segment. The PPSA programs, which were formerly operated and reported within the Davis + Henderson Segment, are now operated and reported as part of the results of the Filogix Segment. Excluding the impact of this reclassification, there was a \$2.8 million, or 3.6%, decrease in revenues in the first quarter of 2008, compared to the same period in 2007. This decrease in revenue was primarily a result of a decline in cheque order volume partially offset by successful program initiatives, including products and service enhancements such as *IDefence* and *BizAssist*. Management believes this decline was higher than usual for two reasons. First, there were two fewer business days in the first quarter of 2008 versus the same quarter in 2007, and second, the change in reorder patterns that affected 2007, also impacted reorder volume in the first quarter of 2008.

Historically, cheque order volumes have, on average, declined annually by low single digit percentages as a result of declining cheque usage. In the first quarter of 2008, this decline was in excess of historical declines due to changes in the imaging standards required for cheques produced in Canada, which generated incremental and accelerated reorders in the first half of 2007. Management believes that many of these accelerated reorders would otherwise have been received in later periods pursuant to normal reorder cycles.

Management also believes that, for this reason, cheque order volumes were lower in the first quarter of 2008 than would otherwise be expected given historical declines and that declines may continue at this higher level into the next quarter, before an expected return to reorder declines directionally more in line with historical experience.

### Cost of Sales and Operating Expenses

Expenses within the Davis + Henderson Segment decreased by \$4.3 million, or 7.9%. A large part of the year-over-year expense decrease was related to the decrease in cheque volumes and other revenue-related reductions including, the transfer of the PPSA business to the Filogix Segment, and an overall reduction in project costs and other costs generally related to the PPSA business.

## OPERATING RESULTS – FILOGIX SEGMENT

### Revenue

Total revenue for the first quarter of 2008 for the Filogix Segment increased 13.5% over the same period in 2007. Excluding the PPSA program, revenue increased \$0.8 million, or 6.2% compared with the same quarter in 2007. Increased revenue from project implementation and customization services offset lower origination services revenue. Consistent with reduced activities in the real estate and mortgage markets, origination services revenue was down 4.4% compared to the same quarter last year.

### Cost of Sales and Operating Expenses

Consistent with expense levels in the fourth quarter of 2007 and with management's expectations, direct and operating expenses for the Filogix Segment, increased by \$2.3 million, or 26.6%. The year-over-year increase in operating costs during the first quarter of 2008 compared to the first quarter of 2007 includes the expenses relating to PPSA services now recorded within the Filogix Segment and a planned increase in expenditures in support of product enhancements and strengthening the general delivery capabilities of the Business. These expenditures are expected to continue through 2008. The higher expense levels combined with the lower revenues in the first quarter, traditionally the weakest quarter of the year, reduced the segment's overall margins for the quarter.

### Eight Quarter Consolidated Statement of Income – Summary

*(in thousands, except per unit amounts, unaudited)*

	2008				2007				2006
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenue	\$89,088	\$90,934	\$94,676	\$101,992	\$91,149	\$87,932	\$87,966	\$75,900	
Net income	\$15,840	\$16,622	\$20,876	\$26,520	\$18,221	\$16,467	\$15,785	\$17,717	
Net income per unit	\$0.3604	\$0.3782	\$0.4750	\$0.6035	\$0.4146	\$0.3747	\$0.3592	\$0.4477	
Weighted average units outstanding	43,947	43,947	43,947	43,947	43,947	43,947	43,947	39,576	

The Fund has generally reported quarterly revenues that are stable and growing. The significant increase in revenue from the second to third quarter of 2006 is primarily a result of the inclusion of the Filogix Segment revenue beginning in mid-June 2006. For the first three quarters of 2007, reported revenues benefited from higher than expected order volume and mortgage origination fees as described previously. The impact of the higher than expected order volume was most pronounced in the second quarter of 2007 before beginning a gradual return toward historical averages.

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

Net income and net income per unit has generally been trending consistently with changing revenue with one exception. 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.

Management believes that the 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 orders 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, repayment of debt and other investing activities. Certain subtotals presented within the tables below, such as “Adjusted cash flows from operating activities”, “Adjusted cash flows after capital assets and contract payments”, and “Adjusted net income” are not defined terms under Canadian generally accepted accounting principles (“GAAP”). Management uses these subtotals 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 balance may not be comparable to calculations used by other income trusts bearing the same description.

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

### Summary of Cash Flows

*(in thousands of Canadian dollars, unaudited)*

	Three months ended March 31,	
	2008	2007
Cash flows from operating activities	\$ 16,523	\$ 21,674
Add:		
Changes in non-cash working capital other items <sup>1</sup>	9,037	3,399
Adjusted cash flows from operating activities	25,560	25,073
Less:		
Maintenance capital expenditures – D+H <sup>2</sup>	948	578
Maintenance capital expenditures – Filogix <sup>2</sup>	69	1,311
Growth capital expenditures <sup>2</sup>	–	183
Contract payments <sup>3</sup>	1,517	1,517
Adjusted cash flows after capital expenditures and contract payments <sup>2</sup>	23,026	21,484
Distributions paid to unitholders	(18,853)	(16,875)
	4,173	4,609
Cash flows provided by (used in) other financing activities	–	–
Cash flows used in acquisition of businesses and customer service contracts	(4,250)	91
Changes in non-cash working capital and other items <sup>1</sup>	(9,037)	(3,399)
Increase (decrease) in cash and cash equivalents for the period	\$ (9,114)	\$ 1,301

<sup>1</sup> Changes in non-cash working capital and certain other balance sheet items have been excluded from adjusted 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 to arrive at adjusted cash flows. For details, see the Changes in Non-Cash Working Capital and Other Items section.

<sup>2</sup> Maintenance capital expenditures are defined by the Fund as capital expenditures necessary to maintain and sustain the current productive capacity of the Business or generally improve the efficiency of the Business. 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.

<sup>3</sup> The Business has various payment obligations under customer contracts, which include fixed contract or program initiation payments and annual payments payable over the life of the contract. 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.

## Summary of Cash Flows Per Unit

(in Canadian dollars, unaudited)

	Three months ended March 31,		
	2008	2007	% Change
Adjusted cash flows from			
operating activities	\$ 0.5816	\$ 0.5705	1.9%
Adjusted cash flows after capital			
expenditures and contract payments	\$ 0.5240	\$ 0.4889	7.2%
Distributions paid to unitholders	\$ 0.4290	\$ 0.3840	11.7%
Distributions declared during period	\$ 0.4290	\$ 0.3880	10.6%

## Cash Flows, Net Income and Distributions Paid

The following table compares cash flows from operating activities and net income to distributions paid for the three months ended March 31, 2008 and for the years ended December 31, 2007 and 2006.

(in thousands of Canadian dollars, unaudited)	Three months ended	Year ended	Year ended
	March 31, 2008	December 31, 2007	December 31, 2006
Cash flows from operating activities	\$ 16,523	\$ 117,401	\$ 89,753
Net income	\$ 15,840	\$ 82,239	\$ 66,529
Adjusted net income <sup>1</sup>	\$ 21,739	\$ 97,066	\$ 74,765
Distributions paid during period	\$ 18,853	\$ 78,357	\$ 61,191
Excess (shortfall) of cash flows from operating			
activities over cash distributions paid	\$ (2,330)	\$ 39,044	\$ 28,562
Excess (shortfall) of net income over cash			
distributions paid	\$ (3,013)	\$ 3,882	\$ 5,338
Excess (shortfall) of adjusted net income			
over cash distributions paid	\$ 2,886	\$ 18,709	\$ 13,574

Note 1: Adjusted net income is a non-GAAP term and is defined as net income (Q1 2008 – \$15,840) adjusted to remove amortization of intangible assets (Q1 2008 – \$3,448), unrealized losses on interest-rate swaps (Q1 2008 – \$2,344), and amortization of net losses in fair market value of interest-rate swaps (Q1 2008 – \$107) that were deferred prior to January 1, 2007 and which are included in interest expense. In each case, these adjustments are non-cash items.

Excess cash flows from operating activities over cash distributions paid have historically been used to fund capital expenditures, reduce debt and to fund acquisitions. In the first quarter of 2008, cash flow from operating activities was less than cash distributions paid as \$9.0 million of cash was applied to fund working capital. The application of this cash largely reflects the reversing of approximately \$7.0 million of incremental cash flow from changes in working capital balances generated in the fourth quarter of 2007.

Net income was less than cash distributions paid in the first quarter of 2008 as a result of deducting non-cash costs such as amortization of intangibles and mark-to-market adjustment for interest-rate swaps. In order to remove the impact of these items we have additionally reported adjusted net income.

**Expenditures on Capital Assets and Contract Payments**

Total capital asset expenditures for the first quarter of 2008 were \$1.0 million, a decrease of \$1.1 million compared to the first quarter of 2007. This decrease, attributed to the Filogix Segment, reflects the timing of capital project expenditures, and does not reflect a change in the overall capital expenditures program for the year.

The level of investment in 2008 for both capital assets and contract payments that is required to maintain, sustain and grow the productive capacity of the Business is expected to be in the range of \$13.0 million to \$15.0 million similar to the level of expenditures made in fiscal 2007. The Business' capital program provides for continued expenditures to be funded by cash flows from operations.

**Distributions**

The Fund paid distributions of \$18.9 million ( \$0.4290 per unit) during the first quarter of 2008 compared to \$16.9 million ( \$0.3840 per unit) in the same period in 2007. On a per unit basis for the three months ended March 31, 2008, distributions paid increased by 11.7% when compared to the same period in 2007.

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 10.6%.

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. Historically, Davis + Henderson has paid distributions below the level of adjusted cash flows after capital asset and contract expenditures generated and has not paid taxes as the Business had excess tax deductions available to eliminate taxable income.

The Fund announced its intent to increase its regular monthly distribution for May 2008, payable on June 30, 2008, to \$0.1533 per unit (equivalent to \$1.84 per unit annualized), subject to normal course regulatory requirements. This represents a 7.2% increase over distributions declared for the month of April 2008, which were equivalent to \$1.72 per unit annualized. This increase in distributions recognizes the recent performance of the business, expectations of future performance and the need for the Fund to pay distributions sufficient to ensure the Fund itself is not taxable.

If the Business continues to generate growing cash flow and net income, and in combination with expected diminishing deductions for tax purposes, the Fund may pay out a higher proportion of the cash flows it generates to unitholders in order not to pay taxes in the trust.

The estimated tax allocation of distributions expected to be declared for 2008 is 100% “other income”, as was the case for all of 2007.

The Fund may issue an unlimited number of trust units. Each trust unit is transferable and represents an equal, undivided beneficial interest in any distribution from the Fund and the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders.

As at March 31, 2008 and the date of this report, 43,946,792 trust units were outstanding.

**Changes in Non-Cash Working Capital and Other Items**

*(in thousands of Canadian dollars, unaudited)*

	March 31, 2008	Three months ended March 31, 2007
Minority interest	\$ -	\$ 109
Changes in non-cash working capital items	(9,092)	(3,526)
Changes in other operating assets and liabilities	55	18
Changes in non-cash working capital and other items	\$ (9,037)	\$ (3,399)

The increase in non-cash working capital items for the first quarter was primarily related to decreases in trade payables reflecting normal course timing differences of when payments are made, including payments made for capital asset purchases in the later portion of 2007. In particular, in the fourth quarter of 2007, the Business had \$7.0 million of incremental cash flow generated from changes in working capital balances. These timing differences largely reversed in the first quarter of 2008.

**Cash Balances and Long-term Indebtedness**

At March 31, 2008, cash and cash equivalents totalled \$4.0 million, compared to \$13.1 million at December 31, 2007.

The balance of long-term indebtedness as at March 31, 2008 and December 31, 2007 was \$130.0 million. During the previous 12 months, the Business made voluntary debt payments totalling \$15.0 million. The long-term indebtedness is recorded on the Balance Sheet net of \$0.9 million of unamortized deferred financing fees.

Management expects to continue to use a portion of any future excess cash flow to pay down debt and fund acquisitions.

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

Total debt facilities available at March 31, 2008 and December 31, 2007 were \$170.0 million, comprised of a \$120.0 million non-revolving term loan and a \$50.0 million revolving term credit facility. As of March 31, 2008, the Business had drawn \$120.0 million under its non-revolving term loan and \$10.0 million under the revolving term credit facility. The Business is permitted to draw on the revolving facility's available balance of \$40.0 million to fund capital expenditures or for other general corporate purposes. The credit facilities mature on June 15, 2011.

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](http://www.sedar.com).

As of March 31, 2008, the Fund had interest-rate swap hedge contracts in place with certain of its lenders, such that the borrowing rates on 92.3% of outstanding indebtedness are effectively fixed at the interest rates and for the time periods ending as follows:

Maturity Date	Notional Amount	Fair value of Interest-rate swaps			Interest Rate <sup>1</sup>
		Asset	Liability		
June 30, 2008	\$ 12,000	\$ -	\$ 16		5.035%
January 4, 2009	10,000	-	14		4.505%
July 15, 2009	20,000	-	455		5.688%
July 15, 2010	33,000	-	1,161		5.690%
June 15, 2011	20,000	-	981		5.560%
June 15, 2011	25,000	-	785		5.560%
	\$ 120,000	\$ -	\$ 3,412		

<sup>1</sup> The listed interest rates are inclusive of banker's acceptance fees currently in effect. Such fees could increase or decrease depending on the Fund's financial leverage as compared to certain levels specified in the Credit Agreement.

At March 31, 2008, the Fund would have had to pay the fair value of \$3.4 million if it were to close out all of its swap contracts. It is not the present intention of the Fund to close out these contracts. The Fund expects to continue to enter into interest-rate swaps for the purpose of hedging its exposure to interest rates.

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 5.40% as at March 31, 2008.

The Fund intends to make monthly cash distributions of its adjusted cash flows after capital asset and contract expenditures, 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.

### **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. Effective January 1, 2008, the Fund adopted the following CICA Handbook sections: Section 3031, Inventories and Going Concern – Amendments to Section 1400, General Standards of Financial Statement Presentation.

Section 3031, which replaces Section 3030 with the same title, establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The impact of adoption of this new standard on the January 1, 2008 Fund's consolidated financial statements was a nominal amount and therefore was charged to the income statement.

Section 1400, General Standards of Financial Statement Presentation, was amended to require management, when preparing financial statements, to make an assessment of an entity's ability to continue as a going concern. Any material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern must be disclosed. Management does not believe that there are any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS**

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

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

There have been no changes in the Fund's internal controls over financial reporting during the quarter ended March 31, 2008 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, revenue grew in excess of the targeted range. In 2008, revenue growth may fall below the targeted range, as increased reorder activity levels experienced early in 2007 may, particularly in the first half of 2008, contribute to higher than historically observed average volume declines as consumers delay orders due to recent cheque supply replenishments. Additionally, increased activity in 2007 within the real estate and mortgage markets may not be sustained in 2008 due to the cyclical nature of those markets. The combined impact of these factors may result in revenue growth in 2008 being below the targeted long-term range of 3% to 5%.

In addition, while the Fund's long-term objective is to modestly grow distributions supported by growing revenue, distribution levels can be influenced by the level of taxable income generated in the Fund as the Fund is subject to income taxes on taxable income that is not distributed to its unitholders. Deductions for tax purposes that were previously available to the Fund have been diminishing and, as a result, the Fund may pay out a greater proportion of its cash flows to unitholders than in previous periods.

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 objective. Examples include further implementations

and enhancements of *IDefence*, *BizAssist* and *eSwitch* programs. Relating to lending markets, the Business looks to grow its volumes related to mortgage origination and underwriting services.

The Business' 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. Consistent with 2007, the 2008 capital program is expected to be in the range of \$13.0 million to \$15.0 million.

Recent changes made to the Income Tax Act require certain income trusts, including the Fund, to pay taxes after fiscal 2010, similar to those paid by taxable Canadian corporations. 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. Since the announcement of this change in tax legislation, management and the Trustees have monitored the changes in the income trust environment and capital markets 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

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

limited number of large financial institutions and dependence on their acceptance of new programs; strategic initiatives being undertaken to meet the Fund's financial objective, as well as general market conditions, including economic and interest rate dynamics and investor interest in, and government regulations relating to income trusts. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and Davis + Henderson does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.

### **ADDITIONAL INFORMATION**

Additional information relating to the Fund, including the Fund's most recently filed Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

April 29, 2008

# CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars, unaudited)

March 31, 2008    December 31, 2007

## ASSETS

### Current Assets:

Cash and cash equivalents	\$ 4,034	\$ 13,148
Accounts receivable	17,461	17,860
Inventory (note 3)	4,736	5,316
Prepaid expenses	3,185	2,973
	<u>29,416</u>	<u>39,297</u>
Capital assets (note 4)	30,316	32,199
Other assets (note 5)	4,913	5,964
Interest-rate swaps (note 10)	–	105
Intangible assets (note 6)	115,980	118,085
Goodwill (note 7)	441,193	438,502
	<u>\$ 621,818</u>	<u>\$ 634,152</u>

## LIABILITIES AND UNITHOLDERS' EQUITY

### Current liabilities:

Accounts payable and accrued liabilities	\$ 29,995	\$ 39,870
Distributions payable to unitholders	6,284	6,284
Current portion of disbursement obligations on customer contracts (note 8)	2,212	2,962
	<u>38,491</u>	<u>49,116</u>
Disbursement obligations on customer contracts (note 8)	–	767
Long-term indebtedness (note 9)	129,123	129,054
Interest-rate swaps (note 10)	3,412	1,173
Other long-term liabilities (note 11)	2,414	2,558
Future income taxes (note 12)	1,591	1,591
Minority interest	–	200
	<u>175,031</u>	<u>184,459</u>

### Unitholders' equity:

Trust units (note 13)	474,585	474,585
Deficit	(26,384)	(23,371)
Accumulated other comprehensive income (loss)	(1,414)	(1,521)
	<u>446,787</u>	<u>449,693</u>

### Commitments (note 14)

\$ 621,818    \$ 634,152

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



Paul Damp  
Trustee and Chair of the Board of Trustees



Brad Nullmeyer  
Trustee and Chair of the Audit Committee

## CONSOLIDATED STATEMENTS OF INCOME

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

	Three months ended	
	March 31, 2008	March 31, 2007
Revenue	\$ 89,088	\$ 91,149
Cost of sales and operating expenses (note 3)	62,206	64,278
Amortization of capital and other assets	3,387	3,341
	23,495	23,530
Interest expense	1,863	2,230
Net unrealized loss (gain) on interest-rate swaps	2,344	(324)
Amortization of intangible assets	3,448	3,294
Minority interest	–	109
Net income	\$ 15,840	\$ 18,221
Net income per unit, basic and diluted	\$ 0.3604	\$ 0.4146

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	
	March 31, 2008	March 31, 2007
Net income	\$ 15,840	\$ 18,221
Other comprehensive income:		
Amortization of mark-to-market adjustment of interest-rate swaps	107	176
Total comprehensive income	\$ 15,947	\$ 18,397

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	
	March 31, 2008	March 31, 2007
<b>Deficit</b>		
Deficit, beginning of period	\$ (23,371)	\$ (26,710)
Mark-to-market adjustment of interest-rate swaps	–	116
Net income	15,840	18,221
Distributions	(18,853)	(17,051)
Deficit, end of period	(26,384)	(25,424)
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Accumulated other comprehensive income (loss), beginning of period	(1,521)	–
Mark-to-market adjustment of interest-rate swaps	–	(2,199)
Other comprehensive income:		
Amortization of market-to-market adjustment of interest-rate swaps	107	176
Accumulated other comprehensive income (loss), end of period <sup>1</sup>	(1,414)	(2,023)
Deficit and accumulated other comprehensive income (loss), end of period	\$ (27,798)	\$ (27,447)

<sup>1</sup> Accumulated other comprehensive income (loss) consists of cumulative net gains and losses that were deferred prior to January 1, 2007 when hedge accounting was used by the Fund.

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	
	March 31, 2008	March 31, 2007
Cash and cash equivalents provided by (used in):		
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 15,840	\$ 18,221
Add:		
Amortization of capital assets	2,466	2,673
Amortization of capital assets included in cost of sales	434	365
Amortization of other assets	921	668
Amortization of intangible assets	3,448	3,294
Amortization of mark-to-market adjustment of interest-rate swaps	107	176
Net unrealized loss (gain) on interest-rate swaps	2,344	(324)
Minority interest	-	109
	25,560	25,182
Increase in non-cash working capital items	(9,092)	(3,526)
Changes in other operating assets and liabilities	55	18
	16,523	21,674
<b>FINANCING ACTIVITIES</b>		
Distributions paid to unitholders	(18,853)	(16,875)
	(18,853)	(16,875)
<b>INVESTING ACTIVITIES</b>		
Expenditures on capital assets	(1,017)	(2,072)
Payments pursuant to long-term supply contracts	(1,517)	(1,517)
Acquisition of businesses (note 2)	(4,250)	91
	(6,784)	(3,498)
Increase (decrease) in cash and cash equivalents for the period	(9,114)	1,301
Cash and cash equivalents, beginning of period	13,148	5,788
Cash and cash equivalents, end of period	\$ 4,034	\$ 7,089
Supplementary information:		
Cash interest paid	\$ 1,568	\$ 2,072

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

# DAVIS + HENDERSON INCOME FUND

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2008 and 2007

*(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.”), Filogix Inc. and Advanced Validation System Limited Partnership (“AVS L.P.”).

### 1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared using the following accounting policies generally accepted in Canada and follow the same accounting policies and their method of application as the Fund’s consolidated financial statements for the year ended December 31, 2007, which are included in the 2007 Annual Report along with changes in accounting policies that became effective January 1, 2008 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, 2007.

#### 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., AVS L.P and AVS G.P. Inc. All inter-company transactions and accounts have been eliminated upon consolidation.

#### Changes in Accounting Policies

Effective January 1, 2008, the Fund adopted the following CICA Handbook sections: Section 3031, Inventories and Going Concern – Amendments to Section 1400, General Standards of Financial Statement Presentation.

Section 3031, Inventories, which has replaced Section 3030 with the same title, establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The impact of adoption of this new standard on the January 1, 2008 Fund’s consolidated financial statements was a nominal amount and therefore was charged to the income statement.

Going Concern – Amendments to Section 1400, General Standards of Financial Statement Presentation, was amended to require management, when preparing financial statements, to make an assessment of an entity’s ability to continue as a going concern. Any material uncertainties related to events or conditions that may cast doubt upon the entity’s ability to continue as a going concern must be disclosed. Management does not believe that there are any material uncertainties related to events or conditions that may cast significant doubt upon the Fund’s ability to continue as a going concern.

**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 can only invest its surplus cash in term deposits and bankers’ acceptances.

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 consists of raw materials, work-in-process and finished goods and is stated at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Costs consist of purchased component costs and manufacturing costs, which are comprised of direct material, labour costs and certain indirect costs.

**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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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 they are amortized over the term of the facilities using the effective interest method. 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

**Impairment of Long-lived Assets**

The carrying value of long-lived assets is tested for impairment whenever events or changes in circumstances indicate their carrying value may exceed the total undiscounted future cash

flows. The potential impairment is calculated by deducting the fair value of the assets from their carrying value.

The Fund's long-lived assets consist of intangibles and certain machinery and equipment.

### **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 for each transaction processed by 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. Revenue 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 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.

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. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangible assets and goodwill; valuation allowances for inventories and future income taxes; and valuation of derivative financial instruments. Actual results could differ from those estimates.

## **2. ACQUISITIONS**

### **a. Filogix Business**

On June 15, 2006, the Fund completed an agreement to indirectly acquire all the outstanding partnership units of Filogix L.P. through the acquisition of Filogix Holdings Inc. Filogix L.P. provides, among other offerings, processing services related to the origination and underwriting of mortgages in Canada.

This acquisition was made for a consideration of \$214.2 million of which \$128.1 million was allocated to intangible assets, \$71.9 million to goodwill, and the remaining balance to net assets. Intangible assets consist of proprietary software, brand names and customer relationships. The purchase price and related transaction costs were financed with net

proceeds of \$109.2 million from the issuance of Trust units and \$98.5 million from the drawdown of debt, net of financing fees, with the balance from cash on hand.

**b. AVS Business**

On April 28, 2005, the Fund entered into an agreement to acquire a 50% interest in AVS L.P. through a step-by-step acquisition over 20 months ending January 2007. On May 25, 2006, the Fund entered into an amending agreement to accelerate its remaining obligation as well as exercising its option to acquire a further 25% interest in the AVS business. Total consideration paid for 75% of interest in the AVS business was \$11.1 million of which \$3.5 million was allocated to intangible assets, \$7.2 million to goodwill and the remaining balance to net assets.

Effective January 2, 2008, the Fund acquired the remaining 25% of interest in the AVS business for a consideration of \$4.2 million of which \$1.4 million was allocated to intangible assets, \$2.7 million to goodwill, and the remaining balance to working capital.

The acquisition was made with available cash on hand.

**3. INVENTORY**

	March 31, 2008	December 31, 2007
Raw materials	\$ 1,936	\$ 2,202
Work-in-process	1,838	2,152
Finished goods	962	962
	<b>\$ 4,736</b>	<b>\$ 5,316</b>

Raw materials primarily consist of paper but also include foil, hologram and ink. Work-in-process consists of base stock which refers to sheets of cheque stock with non-personalized background print. Finished goods primarily consist of retail products, labels, accessories and security bags.

Inventory that was recognized as cost of sales during the three months ended March 31, 2008 was \$12,488 (Q1 2007 – \$13,894).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. CAPITAL ASSETS

	March 31, 2008		
	Cost	Accumulated amortization	Net
Machinery and equipment	\$ 15,117	\$ 7,844	\$ 7,273
Computer equipment and software	42,112	21,491	20,621
Furniture, fixtures and leasehold improvements	8,462	6,040	2,422
	<b>\$ 65,691</b>	<b>\$ 35,375</b>	<b>\$ 30,316</b>

  

	December 31, 2007		
	Cost	Accumulated amortization	Net
Machinery and equipment	\$ 15,191	\$ 7,679	\$ 7,512
Computer equipment and software	47,044	24,887	22,157
Furniture, fixtures and leasehold improvements	8,324	5,794	2,530
	<b>\$ 70,559</b>	<b>\$ 38,360</b>	<b>\$ 32,199</b>

Amortization during the three months ended March 31, 2008 was \$2,900 (Q1 2007 – \$3,038), of which \$434 (Q1 2007 – \$365) is included in cost of sales. Fully amortized capital assets removed from the accounts during the three months ended March 31, 2008 were \$5,885 (Q1 2007 – nil).

5. OTHER ASSETS

	March 31, 2008	December 31, 2007
Cost:		
Long-term supply contracts	\$ 8,863	\$ 12,581
Other	370	370
	<b>9,233</b>	<b>12,951</b>
Accumulated amortization	<b>(4,320)</b>	<b>(6,987)</b>
	<b>\$ 4,913</b>	<b>\$ 5,964</b>

Amortization during the three months ended March 31, 2008 on long-term supply contracts was \$921 (Q1 2007 – \$668). Fully amortized assets removed from the accounts during the three months ended March 31, 2008 were \$3,588 (Q1 2007 – nil).

**6. INTANGIBLE ASSETS**

	March 31, 2008	December 31, 2007
Cost:		
Cheque supply outsourcing contracts	\$ 16,329	\$ 16,329
Customer service contracts	5,849	4,506
Proprietary software	41,993	41,993
Brand names	8,400	8,400
Customer relationships	77,887	77,887
	<u>150,458</u>	<u>149,115</u>
Accumulated amortization	(34,478)	(31,030)
	<u>\$ 115,980</u>	<u>\$ 118,085</u>

Amortization during the three months ended March 31, 2008 was \$3,448 (Q1 2007 – \$3,294).

**7. GOODWILL**

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 438,502	\$ 438,546
Goodwill acquired during the period:		
AVS acquisition	2,691	(44)
Balance, end of period	<u>\$ 441,193</u>	<u>\$ 438,502</u>

**8. DISBURSEMENT OBLIGATIONS ON CUSTOMER CONTRACTS**

	March 31, 2008	December 31, 2007
Current portion	\$ 2,212	\$ 2,962
Long-term portion	–	767
Total disbursement obligations on customer contracts	<u>\$ 2,212</u>	<u>\$ 3,729</u>

The Fund has fixed customer contract disbursement obligations payable as of March 31, 2008 as follows:

2008	\$ 1,445
2009	767
	<u>\$ 2,212</u>

**9. LONG-TERM INDEBTEDNESS**

	March 31, 2008	December 31, 2007
Non-revolving term loan	\$ 120,000	\$ 120,000
Revolving credit facility	10,000	10,000
	130,000	130,000
Deferred finance costs	(877)	(946)
	<b>\$ 129,123</b>	<b>\$ 129,054</b>

The Fund has \$170.0 million of available term credit facilities due June 15, 2011 (December 31, 2007 – \$170.0 million), consisting of a \$120.0 million non-revolving term loan and a \$50.0 million revolving credit facility. The credit facilities do not require the Fund to make any principal payments prior to their maturity. 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 interest in Davis + Henderson L.P. The carrying value of long-term indebtedness approximates its fair value as it bears interest at floating rates that reset in most cases within three months and in all cases within one year.

The Credit Agreement for the Fund contains a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. As at March 31, 2008, the Fund was in compliance with all of its financial covenants and financial condition tests.

Deferred finance costs relate to the renewal and amendment of long-term indebtedness on June 15, 2006. Amortization of deferred finance costs during the three months ended March 31, 2008 was \$69 (Q1 2007 – \$69). Amortization of deferred finance costs is recognized as interest expense using the effective interest method.

**10. 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.

*Market risk* The Fund is subject to interest rate risks as its credit 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 following table presents a sensitivity analysis to changes in market interest rates and their potential impact on the Fund for the three months ended March 31, 2008. As the sensitivity is hypothetical, it should be used with caution.

	+ 100 bps	- 100 bps
Increase (decrease) in interest expense	\$ 25	\$ (25)
Change to net unrealized (gain) loss on interest-rate swaps	(2,500)	2,500
Increase (decrease) in net income	\$ 2,475	(2,475)
Increase (decrease) in total comprehensive income	\$ 2,475	\$ (2,475)

The Fund manages its interest rate risks through the use of interest-rate swaps for most of its outstanding long-term indebtedness. As of March 31, 2008, the Fund has entered into interest-rate swap contracts with its lenders, such that the borrowing rates on \$120.0 million, or 92.3%, of its outstanding term indebtedness are effectively fixed at interest rates and for periods shown in the following table:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Maturity Date	Notional Amount	Fair value of interest-rate swaps			Interest Rate <sup>1</sup>
		Asset	Liability		
June 30, 2008	\$ 12,000	\$ –	\$ 16		5.035%
January 4, 2009	10,000	–	14		4.505%
July 15, 2009	20,000	–	455		5.688%
July 15, 2010	33,000	–	1,161		5.690%
June 15, 2011	20,000	–	981		5.560%
June 15, 2011	25,000	–	785		5.560%
	\$ 120,000	\$ –	\$ 3,412		

<sup>1</sup> The listed interest rates are inclusive of bankers' 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.

*Liquidity risk* The Fund has long-term indebtedness with a maturity date of June 15, 2011. The degree to which the Fund is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Fund may be unable to extend the maturity date of the credit facilities or to refinance outstanding indebtedness.

Management, to reduce liquidity risk, has historically renewed the terms of the Fund's long-term indebtedness in advance of its maturity dates and the Fund has maintained financial ratios that are conservative compared to financial covenants applicable to the credit facilities. Further, the Fund has made numerous voluntary payments on its outstanding long-term indebtedness and a portion of its committed term credit facilities remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the Credit Agreement.

*Hedge Accounting* Where derivatives are held for risk management purposes or when transactions meet the criteria, including documentation requirements, specified in the CICA Handbook 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 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)* When applicable, 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 unitholders' equity.

## 11. OTHER LONG-TERM LIABILITIES

	March 31, 2008	December 31, 2007
Deferred compensation program	\$ 1,928	\$ 1,997
Employee future benefits	486	561
	<b>\$ 2,414</b>	<b>2,558</b>

The deferred compensation program, which commenced in 2003, is a five-year long-term incentive plan for management, subject to certain performance criteria and vesting terms, payable after December 31, 2008.

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

The Fund's principal pension plans are defined contribution pension plans that provide pensions to substantially all eligible employees. Total expense for the Fund's defined contribution pension plan for the three months ended March 31, 2008 was \$0.6 million (Q1 2007 – \$0.5 million).

## 12. 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.

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

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, assuming transitional rules apply.

Certain distributions of a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on its income distributed 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, and under the existing SIFT Rules certain flow-through subsidiaries of the Fund themselves may also be within the definition of a SIFT. Even if it is determined that these flow-through subsidiaries of the Fund meet the definition of a SIFT, there would be no impact on the future tax assets and liabilities of the Fund. On December 20, 2007, the Minister of Finance announced his intention to introduce technical amendments to the SIFT Rules under which certain flow-through subsidiaries of a SIFT, which would include those of the Fund, will not themselves be SIFTs.

Commencing January 1, 2011, the Fund will be subject to tax on its income distributed. 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 flow-through subsidiaries that are expected to reverse in or after 2011. The Fund expects that its income distributed 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 2011.

Significant components of the Fund's future tax liabilities and assets with respect to the consolidated carrying values related to its investments in certain partnership and trust subsidiaries that are expected to reverse after 2010 are as follows:

	March 31, 2008	December 31, 2007
Future income tax assets:		
Intangible assets less than tax values	\$ 11,043	\$ 10,854
Loss carryforwards	1,636	1,636
Valuation allowance	(12,679)	(12,490)
Total future tax assets	\$ -	\$ -

Future income tax liabilities:

Capital assets greater than tax values	\$ 1,591	\$ 1,591
Total future tax liabilities	1,591	1,591
Net future income tax liabilities	\$ 1,591	\$ 1,591

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 future income tax asset by a valuation allowance for the full amount. A corporate subsidiary of the Fund has losses available for carry forward. The Fund does not expect to realize the benefit of these losses in the foreseeable future and accordingly has reduced the future income tax 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.

### 13. TRUST UNITS

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's Declaration of Trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders and a pro rata share of distributions declared by the Fund. The Fund intends to make monthly cash distributions of its distributable cash, as defined in the Fund's Declaration of Trust, subject to working capital requirements and other reserves. The net proceeds from the issuance of trust units and the number of units outstanding are as follows:

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 474,585	\$ 474,585
Units issued	-	-
Balance, end of period	\$ 474,585	\$ 474,585
Units outstanding, end of period	43,946,792	43,946,792

The weighted average number of units outstanding during the three months ended March 31, 2008 was 43,946,792 (Q1 2007 – 43,946,792).

**14. COMMITMENTS**

As of March 31, 2008, the Fund has annual lease obligations with respect to real estate, vehicles and equipment as follows:

2008	\$ 3,744
2009	3,183
2010	3,040
2011	1,523
2012	796
Thereafter	305
	<b>\$ 12,591</b>

**15. CAPITAL**

The Fund views its capital as the combination of its indebtedness and equity balances. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives and its strategic plan.

While the Fund carries a level of cash on hand, this amount is modest in relation to its overall capital and is generally in an amount determined in reference to its pending distribution obligations and short-term changes in non-cash working capital balances.

With respect to its level of indebtedness, the Fund determines the appropriate level in the context of its cash flow and overall business risks. Generally, the Fund has maintained a low level of indebtedness relative to cash flow (as compared to many corporate entities) in order to provide increased financial flexibility and to provide increased protection for unitholders relative to their expectation of distributions. Additionally, the Fund has historically generated cash flow in excess of distributions and has used a portion of such excess to pay down indebtedness. The Fund would consider increasing its level of indebtedness relative to cash flow to assist in the financing of an acquisition. As well, the Fund will review its level of indebtedness in the context of the change in taxation impacting the Fund commencing 2011.

The Fund's indebtedness is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests at a subsidiary level. One such ratio is the "Total Funded Debt / EBITDA Ratio" as defined in the Credit Agreement. The maximum ratio allowed for a 12-month trailing period is 2.50. For the three months ended March 31, 2008, this ratio was calculated at 1.11 (Q1 2007 – 1.40). Management also uses this ratio as a key indicator in managing the Fund's capital.

With respect to its equity, the current level of capital is considered adequate in the context of current operations and the present strategic plan of the Fund. The equity component of capital increases primarily based upon the income of the business less the distribution paid. Any major acquisition would be financed in part with additional equity. The Fund will also review its level of equity in the context of the change in taxation impacting the Fund commencing in 2011.

## **16. SIGNIFICANT CUSTOMERS**

For the three months ended March 31, 2008, the Fund earned 80% (Q1 2007 – 78%) of its consolidated revenue from its seven largest customers. For the three months ended March 31, 2008, four of these customers individually accounted for greater than 10%, but not more than 17% of the Fund's total revenue (for the three months ended March 31, 2007, five of these customers individually accounted for greater than 10%, but not more than 17% of the Fund's total revenue).

## **17. 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 and eSwitch®, among other offerings. The Filogix Segment includes services related to the origination and underwriting of mortgages in Canada and the personal property search and registration programs, among other offerings.

Segment assets include goodwill and intangible assets recognized with the acquisition of businesses included with each respective Segment.

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

Prior to January 1, 2008, the personal property, search and registration programs were operated and reported as part of the Davis + Henderson Segment. Effective January 1, 2008, these programs are operated and reported as part of the Filogix Segment.

In circumstances where there is a change in the composition of reportable segments, CICA Handbook Section 1701, Segment Disclosures, requires restatement of corresponding information for earlier periods if practical. If information is not restated, the entity is required to disclose the results for the current period under both the old basis and the new basis of segmentation. As it is not practical to extract costs relating to the personal property,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

search and registration programs for periods prior to January 1, 2008, in accordance with the CICA Handbook Section 1701, Segment Disclosures, the Fund has presented the segment information for the current period both under the old basis and the new basis of segmentation.

Summarized financial information for the three months ended March 31, 2008 are as follows:

	Three months ended March 31,							
	Davis + Henderson Segment		Filogix Segment		Corporate		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	\$ 74,724	\$ 78,497	\$ 14,364	\$ 12,652	\$ -	\$ -	\$ 89,088	\$ 91,149
Cost of sales and operating expenses	50,543	54,851	11,071	8,748	592	679	62,206	64,278
Amortization of capital and other assets	2,150	2,012	1,237	1,329	-	-	3,387	3,341
	22,031	21,634	2,056	2,575	(592)	(679)	23,495	23,530
Interest expense	-	-	-	-	1,863	2,230	1,863	2,230
Net unrealized loss (gain) on interest-rate swaps	-	-	-	-	2,344	(324)	2,344	(324)
Amortization of intangible assets	724	811	2,724	2,483	-	-	3,448	3,294
Minority interest	-	-	-	-	-	109	-	109
Net income	\$ 21,307	\$ 20,823	\$ (668)	\$ 92	\$ (4,799)	\$ (2,694)	\$ 15,840	\$ 18,221
Capital and other asset expenditures	\$ 2,465	\$ 2,095	\$ 69	\$ 1,494	\$ -	\$ -	\$ 2,534	\$ 3,589
Intangible assets	\$ 4,559	\$ 7,000	\$ 111,421	\$ 120,252	\$ -	\$ -	\$ 115,980	\$ 127,252
Goodwill	\$ 359,385	\$ 366,562	\$ 81,808	\$ 71,940	\$ -	\$ -	\$ 441,193	\$ 438,502
Total assets	\$ 428,015	\$ 444,533	\$ 190,290	\$ 187,085	\$ 4,034	\$ 7,089	\$ 621,818	\$ 638,707

Effective January 1, 2008, the results of the personal property, search and registration programs are included as part of the results of the Filogix Segment. Prior to this date, the results were included as part of the Davis + Henderson Segment. Please refer to the table on the following page for presentation of current period results under both the new and old basis of segmentation.

The following table illustrates the reporting under the new and old basis of segmentation for the three months ended March 31, 2008.

	Three months ended March 31,							
	Davis + Henderson Segment		Filogix Segment		Corporate		Consolidated	
	New Basis	Old Basis	New Basis	Old Basis	New Basis	Old Basis	New Basis	Old Basis
	2008	2008	2008	2008	2008	2008	2008	2008
Revenue	\$ 74,724	\$ 75,649	\$ 14,364	\$ 13,439	\$ -	\$ -	\$ 89,088	\$ 89,088
Cost of sales and operating expenses	50,543	51,336	11,071	10,278	592	592	62,206	62,206
Amortization of capital and other assets	2,150	2,150	1,237	1,237	-	-	3,387	3,387
	22,031	22,163	2,056	1,924	(592)	(592)	23,495	23,495
Interest expense	-	-	-	-	1,863	1,863	1,863	1,863
Net unrealized loss (gain) on interest-rate swaps	-	-	-	-	2,344	2,344	2,344	2,344
Amortization of intangible assets	724	965	2,724	2,483	-	-	3,448	3,448
Minority interest	-	-	-	-	-	-	-	-
Net income	\$ 21,307	\$ 21,198	\$ (668)	\$ (559)	\$ (4,799)	\$ (4,799)	\$ 15,840	\$ 15,840
Capital and other asset expenditures	\$ 2,465	\$ 2,465	\$ 69	\$ 69	\$ -	\$ -	\$ 2,534	\$ 2,534
Intangible assets	\$ 4,559	\$ 5,660	\$ 111,421	\$ 110,320	\$ -	\$ -	\$ 115,980	\$ 115,980
Goodwill	\$ 359,385	\$ 369,253	\$ 81,808	\$ 71,940	\$ -	\$ -	\$ 441,193	\$ 441,193
Total assets	\$ 427,494	\$ 449,356	\$ 190,290	\$ 168,428	\$ 4,034	\$ 4,034	\$ 621,818	\$ 621,818

The results presented under the old basis for the Davis + Henderson and Filogix Segments remove from the current period results, the impact of the change in the reporting of the personal property, search and registration programs.

For the three months ended March 31, 2008, the Davis + Henderson Segment had six customers that individually accounted for greater than 10% but not more than 20% of the Davis + Henderson Segment revenue and the Filogix Segment had three customers that individually accounted for greater than 10% but not more than 19% of the Filogix Segment revenue (for the three months ended March 31, 2007, the Davis + Henderson Segment had five customers that individually accounted for greater than 10% but not more than 19% of the Davis + Henderson Segment revenue and the Filogix Segment had three customers that individually accounted for greater than 10% but not more than 16% of the Filogix Segment revenue).

## 18. COMPARATIVE FIGURES

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

## SUPPLEMENTARY FINANCIAL INFORMATION

### Consolidated Operating Results by Period

(in thousands of Canadian dollars, except per unit amounts, unaudited)	Three months	Three months	Three months	Three months	Three months
	ended March 31, 2008	ended December 31, 2007 <sup>2</sup>	ended September 30, 2007 <sup>2</sup>	ended June 30, 2007 <sup>2</sup>	ended March 30, 2007 <sup>2</sup>
Revenue	\$ 89,088	\$ 90,934	\$ 94,676	\$ 101,992	\$ 91,149
Cost of sales and operating expenses	62,206	64,582	63,813	67,250	64,278
Amortization of capital and other assets	3,387	3,647	3,496	3,368	3,341
	23,495	22,705	27,367	31,374	23,530
Interest expense	1,863	1,876	1,982	2,121	2,230
Net unrealized loss (gain) on interest-rate swaps	2,344	823	957	(2,196)	(324)
Amortization of intangible assets	3,448	3,386	3,347	3,271	3,294
Future income taxes expense (recovery)	–	137	–	1,454	–
Minority interest	–	(139)	205	204	109
Net income	\$ 15,840	\$ 16,622	\$ 20,876	\$ 26,520	\$ 18,221
Cash flows from operating activities	\$ 16,523	32,141	\$ 28,802	\$ 34,784	\$ 21,674
Changes in non-cash working capital and other items <sup>1</sup>	9,037	(6,959)	425	(1,814)	3,399
Adjusted cash flows from operating activities	25,560	25,182	29,227	32,970	25,073
Less:					
Capital asset expenditures and contract payments	2,534	4,354	4,598	2,955	3,589
Adjusted cash flows after capital asset expenditures and contract payments	23,026	20,828	24,629	30,015	21,484
Distributions paid to unitholders	18,853	26,676	17,403	17,403	16,875
	4,173	(5,848)	7,226	12,612	4,609
Cash flows provided by (used in) other financing activities	–	–	(5,000)	(10,000)	–
Cash flows used in acquisition of businesses and customer service contracts	(4,250)	–	(837)	–	91
Changes in non-cash working capital and other items <sup>1</sup>	(9,037)	6,959	(425)	1,814	(3,399)
Distributions paid to minority interest	–	(187)	(255)	–	–
Increase (decrease) in cash and cash equivalents for the period	\$ (9,114)	924	\$ 709	\$ 4,426	\$ 1,301

<sup>1</sup> Changes in non-cash working capital and certain other balance sheet items have been excluded from adjusted 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 to arrive at adjusted cash flows.

<sup>2</sup> Certain comparative figures have been reclassified to conform to the current period's presentation.

## Summary of Cash Flows Per Unit

(in Canadian dollars, unaudited)	Three months	Three months	Three months	Three months	Three months
	ended March 31, 2008	ended December 31, 2007	ended September 30, 2007	ended June 30, 2007	ended March 31, 2007
Adjusted cash flows from operating activities	\$ 0.5816	\$ 0.5730	\$ 0.6651	\$ 0.7502	\$ 0.5705
Adjusted cash flows after capital asset expenditures and contract payments	\$ 0.5240	\$ 0.4739	\$ 0.5604	\$ 0.6830	\$ 0.4889
Distributions paid to unitholders	\$ 0.4290	\$ 0.6070	\$ 0.3960	\$ 0.3960	\$ 0.3840
Distributions declared during period	\$ 0.4290	\$ 0.6180	\$ 0.3960	\$ 0.3960	\$ 0.3880

## Condensed Consolidated Balance Sheet

(in thousands of Canadian dollars, unaudited)	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Cash and cash equivalents	\$ 4,034	\$ 13,148	\$ 12,224	\$ 11,515	\$ 7,089
Other current assets	25,382	26,149	29,644	29,772	26,332
Capital and other assets	35,229	38,268	38,049	39,303	39,532
Goodwill and other intangible assets	557,173	556,587	559,973	562,483	565,754
	<b>\$621,818</b>	<b>\$634,152</b>	<b>\$639,890</b>	<b>\$643,073</b>	<b>\$638,707</b>
Payables and other current liabilities	\$ 38,491	\$ 49,116	\$ 45,165	\$ 45,994	\$ 41,034
Other long-term liabilities	7,417	6,289	5,673	6,732	6,688
Long-term indebtedness	129,123	129,054	128,985	133,916	143,847
Unitholders' equity	446,787	449,693	460,067	456,431	447,138
	<b>\$621,818</b>	<b>\$634,152</b>	<b>\$639,890</b>	<b>\$643,073</b>	<b>\$638,707</b>

## Distribution History

Month	2008	2007	2006	2005	2004	2003	Distributions per unit <sup>1</sup>	
							2002	2001
January	\$ 0.1430	\$ 0.1280	\$ 0.1220	\$ 0.1200	\$ 0.1150	\$ 0.1117	\$ 0.1083	\$ -
February	0.1430	0.1280	0.1220	0.1200	0.1150	0.1117	0.1083	-
March	0.1430	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	-	0.1320	0.1250	0.1200	0.1168	0.1133	0.1117	-
August	-	0.1320	0.1250	0.1220	0.1168	0.1133	0.1117	-
September	-	0.1320	0.1250	0.1220	0.1168	0.1133	0.1117	-
October	-	0.1320	0.1250	0.1220	0.1168	0.1150	0.1117	-
November <sup>2</sup>	-	0.3430	0.1280	0.1220	0.1200	0.1150	0.1117	-
December <sup>3</sup>	-	0.1430	0.1280	0.1220	0.1200	0.1150	0.1117	0.0427
	<b>\$ 0.4290</b>	<b>\$ 1.7980</b>	<b>\$ 1.5000</b>	<b>\$ 1.4500</b>	<b>\$ 1.4044</b>	<b>\$ 1.3599</b>	<b>\$ 1.3200</b>	<b>\$ 0.0427</b>

<sup>1</sup> Monthly distributions are made to unitholders of record on the last business day of each month and are paid within 31 days following each month end.

<sup>2</sup> November 2007 declared distributions included a special distribution of \$0.20 for unitholders of record on November 15, 2007 and was paid November 30, 2007.

<sup>3</sup> Distributions paid in 2001 are in respect of the 12 calendar days from December 20, 2001 to December 31, 2001.

SUPPLEMENTARY FINANCIAL INFORMATION *(continued)*

**Tax Allocation of Distributions**

	2008	2007	2006	2005	2004	2003	2002
Dividend income	0.0%	0.0%	0.0%	0.0%	15.0%	19.5%	16.9%
Other income	100.00%	100.0%	100.0%	91.6%	75.2%	69.5%	71.5%
Return of capital	0.0%	0.0%	0.0%	8.4%	9.8%	11.0%	11.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The above tax allocation of distributions for 2008 represents an estimate based on the total expected distributions for the year ended December 31, 2008.

**Other Statistics**

(in thousands, except per unit amounts)

Quarter ended	Trading price range of units (TSX: "DHF.UN")			Average daily volume	Number of units outstanding at quarter end	Market capitalization at quarter end
	High	Low	Close			
2008 Q1	\$ 21.75	\$ 15.77	\$ 17.19	107	43,947	\$ 755,445
2007 Q4	22.00	18.75	21.00	98	43,947	922,883
Q3	20.10	17.14	19.80	78	43,947	870,146
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

# DAVIS + HENDERSON INCOME FUND

## DIRECTORS, TRUSTEES AND OFFICERS

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

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

**Allan Gotlieb**<sup>2</sup>

Director and Trustee  
*Chairman, Sotheby's Canada*

**Bradley Nullmeyer**<sup>1</sup>

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

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

Director and Trustee  
*CEO, BankWorks Trading Inc.*

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

Director and Trustee  
*Corporate Director*

**Michael A. Foulkes**<sup>2</sup>

Director and Trustee  
*Corporate Director*

**Robert Cronin**

Director and Officer  
*Chief Executive Officer,*  
*Davis + Henderson,*  
*Limited Partnership*

**Catherine Martin**

Officer  
*Chief Financial Officer,*  
*Davis + Henderson,*  
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## 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 Mandroz**

Vice President,  
Human Resources

**Larry Mullins**

Vice President,  
Lending Solutions

**Serge Rivest**

Executive Vice President,  
Sales and Marketing

**Steve Rotz**

Vice President,  
Corporate Development

**Joanne Sisco**

Vice President,  
Privacy, Security and Compliance

## CORPORATE INFORMATION

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**Toronto Stock Exchange**

**Symbol:**

DHF.UN

### Submissions of Concerns

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

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

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

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

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