

The accompanying financial statements have been prepared by RBC Global Asset Management Inc. ("RBC GAM"), as manager of the Phillips, Hager & North Investment Funds (the "Funds") and approved by the Board of Directors of RBC GAM. We are responsible for the information contained within these financial statements.

We have maintained appropriate procedures and controls to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (and they include certain amounts that are based on estimates and judgments). The significant accounting policies, which we believe are appropriate for the Funds, are described in Note 3 to the financial statements.

Although the Board of Directors of RBC GAM is solely responsible for approving the financial statements and overseeing management's financial reporting responsibilities, the Financial Advisory Committee of the Board of Governors provides advice to RBC GAM concerning financial reporting, the audit process and internal controls. Please see *The Role of the Board of Governors* at the end of this report.

Deloitte LLP, Independent Registered Chartered Accountants, have performed an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards. Their report is set out on the next page.



Chief Executive Officer
RBC Global Asset Management Inc.



Frank Lippa, CPA, CA
Chief Financial Officer and Chief Operating Officer
RBC Global Asset Management Inc.

March 1, 2013

To the Unitholders of:

Phillips, Hager & North Canadian Money Market Fund	Phillips, Hager & North Dividend Income Fund	Phillips, Hager & North Overseas Equity Fund
Phillips, Hager & North \$U.S. Money Market Fund	Phillips, Hager & North Canadian Equity Fund	Phillips, Hager & North Currency-Hedged Overseas Equity Fund
Phillips, Hager & North Short Term Bond & Mortgage Fund	Phillips, Hager & North Community Values Canadian Equity Fund	Phillips, Hager & North Global Equity Fund
Phillips, Hager & North Bond Fund	Phillips, Hager & North Canadian Equity Value Fund	Phillips, Hager & North Community Values Global Equity Fund
Phillips, Hager & North Community Values Bond Fund	Phillips, Hager & North Canadian Equity Underlying Fund	Phillips, Hager & North LifeTime 2015 Fund
Phillips, Hager & North Total Return Bond Fund	Phillips, Hager & North Canadian Growth Fund	Phillips, Hager & North LifeTime 2020 Fund
Phillips, Hager & North Inflation-Linked Bond Fund	Phillips, Hager & North Canadian Income Fund	Phillips, Hager & North LifeTime 2025 Fund
Phillips, Hager & North High Yield Bond Fund	Phillips, Hager & North Vintage Fund	Phillips, Hager & North LifeTime 2030 Fund
Phillips, Hager & North Short Inflation-linked Bond Fund	Phillips, Hager & North U.S. Dividend Income Fund	Phillips, Hager & North LifeTime 2035 Fund
Phillips, Hager & North Long Inflation-linked Bond Fund	Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund	Phillips, Hager & North LifeTime 2040 Fund
Phillips, Hager & North Monthly Income Fund	Phillips, Hager & North U.S. Equity Fund	Phillips, Hager & North LifeTime 2045 Fund
Phillips, Hager & North Balanced Fund	Phillips, Hager & North Currency-Hedged U.S. Equity Fund	BonaVista Global Balanced Fund
Phillips, Hager & North Community Values Balanced Fund	Phillips, Hager & North U.S. Growth Fund	BonaVista Canadian Equity Value Fund (collectively referred to as the "Funds")

We have audited the accompanying financial statements of each of the Funds, which comprise the statement of investment portfolio as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011 and the statements of operations and changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of each of the Funds as at December 31, 2012 and 2011 and the results of their operations and changes in their net assets for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

March 1, 2013

Toronto, Ontario

STATEMENT OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH HIGH YIELD BOND FUND

December 31, 2012

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
CANADIAN BONDS						
\$ 14 000	Algonquin Power Co.	5.500	25-Jul-18	\$ 13 975	\$ 14 831	
10 000	Algonquin Power Co.	4.820	15-Feb-21	9 993	10 015	
29 180	Atlantic Power LP	5.950	23-Jun-36	20 174	21 008	
51 500	Baytex Energy Corp.	6.625	19-Jul-22	51 601	54 932	
12 000	Brookfield Residential Properties Inc. USD	6.500	15-Dec-20	11 836	12 254	
28 000	Cogeco Cable Inc.	4.925	14-Feb-22	28 121	28 863	
129 031	Corus Entertainment Inc.	7.250	10-Feb-17	134 102	134 407	
25 000	CWB Capital Trust	6.199	31-Dec-56	25 000	26 652	
15 000	Eldorado Gold Corp. USD	6.125	15-Dec-20	14 801	15 159	
15 830	Extencicare Inc., Convertible	5.700	30-Jun-14	14 419	16 067	
6 500	Fairfax Financial Holdings Ltd.	6.400	25-May-21	6 946	7 070	
33 000	Fairfax Financial Holdings Ltd.	5.840	14-Oct-22	32 988	34 446	
96 000	Ford Credit Canada Ltd.	4.875	17-Mar-14	95 941	99 022	
65 000	Ford Credit Canada Ltd.	7.500	18-Aug-15	65 696	72 742	
38 000	Ford Credit Canada Ltd.	4.875	08-Feb-17	38 000	40 388	
39 000	Great Canadian Gaming Corp.	6.625	25-Jul-22	39 263	40 450	
14 000	H&R Real Estate Investment Trust	4.778	27-Jul-16	14 028	14 784	
84 697	Harvest Operations Corp., Convertible	7.250	30-Sep-13	86 358	85 756	
4 009	Harvest Operations Corp., Convertible	7.250	28-Feb-14	4 097	4 089	
90 765	Harvest Operations Corp., Convertible	7.500	31-May-15	94 010	94 759	
8 370	Harvest Operations Corp. USD	6.875	01-Oct-17	8 567	9 228	
5 539	InnVest Real Estate Investment Trust, Convertible	6.750	31-Mar-16	5 407	5 567	
10 000	Island Timberlands LP USD	6.160	30-Aug-25	12 122	12 067	
46 760	Kruger Products LP	8.000	09-Aug-18	46 990	49 994	
39 911	MI Developments Inc.	6.050	22-Dec-16	38 395	41 375	
45 520	MPL 2 Acquisition Canco Inc. USD	9.875	15-Aug-18	42 605	42 272	
22 940	Newalta Corp.	7.625	23-Nov-17	23 989	24 646	
25 000	Newalta Corp.	7.750	14-Nov-19	25 060	27 281	
17 250	Noranda Operating Trust	6.875	28-Dec-16	17 273	17 681	
23 000	Precision Drilling Corp.	6.500	15-Mar-19	23 000	23 748	
52 400	Quebecor Media Inc.	7.375	15-Jan-21	55 372	56 872	
147 500	Quebecor Media Inc.	6.625	15-Jan-23	147 895	150 855	
35 120	Retirement Residences Real Estate Investment Trust, Convertible	5.500	31-Mar-15	32 210	35 120	
13 000	Savanna Energy Services Corp.	7.000	25-May-18	13 050	13 303	
18 435	Superior Plus Corp.	8.250	27-Oct-16	18 706	19 702	
35 000	Trilogy Energy Corp.	7.250	13-Dec-19	35 070	35 689	
16 500	Vermilion Energy Inc.	6.500	10-Feb-16	16 555	17 474	
13 240	Videotron Ltd. USD	6.375	15-Dec-15	13 546	13 324	
30 910	Videotron Ltd. USD	9.125	15-Apr-18	35 097	32 695	
3 200	Videotron Ltd.	7.125	15-Jan-20	3 460	3 497	
16 000	Videotron Ltd.	6.875	15-Jul-21	16 095	17 605	
23 000	Western Energy Services Corp.	7.875	30-Jan-19	23 000	23 748	
				1 454 813	1 501 437	45.6
NETHERLANDS BONDS						
14 402	Nielsen Finance LLC	7.750	15-Oct-18	15 940	15 985	
17 000	Schaeffler Finance BV USD	7.750	15-Feb-17	18 023	18 742	
5 000	Schaeffler Finance BV USD	8.500	15-Feb-19	5 409	5 612	
				39 372	40 339	1.2

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

PHILLIPS, HAGER & NORTH HIGH YIELD BOND FUND

December 31, 2012

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
UNITED STATES BONDS						
\$ 22 600	Cablevision Systems Corp.	5.875	15-Sep-22	\$ 21 549	\$ 22 474	
41 769	CB Richard Ellis Services Inc.	11.625	15-Jun-17	47 699	45 633	
22 000	CCO Holdings LLC	7.000	15-Jan-19	23 482	23 571	
28 000	CenturyLink Inc.	5.800	15-Mar-22	27 795	29 369	
19 674	Cinemark USA Inc.	8.625	15-Jun-19	21 466	21 641	
7 000	CIT Group Inc.	5.500	15-Feb-19	7 323	7 578	
114 327	Citigroup Inc. CAD	4.650	11-Oct-22	102 248	115 463	
117 336	Citigroup Inc. CAD	5.160	24-May-27	101 661	115 818	
18 589	Corrections Corporation of America	7.750	01-Jun-17	19 524	19 617	
18 000	Denbury Resources Inc.	8.250	15-Feb-20	20 133	20 112	
7 050	Dole Food Co Inc.	13.875	15-Mar-14	8 365	7 755	
13 290	Dole Food Co Inc.	8.000	01-Oct-16	13 676	13 728	
82 730	EchoStar DBS Corp.	7.750	31-May-15	88 874	91 925	
43 206	EP Energy LLC	6.875	01-May-19	45 377	46 560	
25 000	EP Energy LLC	9.375	01-May-20	27 091	27 996	
21 000	Goldman Sachs Group Inc. CAD	5.250	01-Jun-16	22 447	22 417	
63 962	Goldman Sachs Group Inc. CAD	5.200	19-Apr-22	61 509	64 497	
10 878	HCA Inc.	6.250	15-Feb-13	11 150	10 858	
12 500	HCA Inc.	6.500	15-Feb-16	13 452	13 501	
11 450	HCA Inc.	8.500	15-Apr-19	12 757	12 680	
20 000	HCA Inc.	4.750	01-May-23	19 734	20 212	
3 785	HollyFrontier Corp.	9.875	15-Jun-17	4 161	4 069	
68 597	Host Hotels & Resorts LP	6.750	01-Jun-16	70 800	69 663	
1 000	IAC/InterActiveCorp.	4.750	15-Dec-22	986	988	
112 860	Merrill Lynch & Co. Inc. CAD	5.290	30-May-22	107 241	114 788	
50 500	Morgan Stanley CAD	4.900	23-Feb-17	49 288	52 946	
8 000	Petrohawk Energy Corp.	10.500	01-Aug-14	8 462	8 462	
61 209	Petrohawk Energy Corp.	7.875	01-Jun-15	64 006	63 476	
79 986	QVC Inc.	7.125	15-Apr-17	82 685	83 308	
32 100	QVC Inc.	7.375	15-Oct-20	36 223	35 460	
49 500	Resolute Forest Products	10.250	15-Oct-18	55 608	56 292	
26 250	Reynolds Group Issuer Inc.	7.125	15-Apr-19	27 332	28 027	
45 000	Reynolds Group Issuer Inc.	5.750	15-Oct-20	43 787	46 147	
25 000	Sabine Pass LNG LP	6.500	01-Nov-20	24 989	25 265	
27 600	Six Flags Entertainment Corp.	5.250	15-Jan-21	27 246	27 412	
84 000	Sprint Nextel Corp.	6.000	15-Nov-22	83 990	85 723	
68 444	Wynn Las Vegas LLC Corp.	7.875	01-Nov-17	72 836	73 757	
8 881	Wynn Las Vegas LLC Corp.	7.875	01-May-20	9 781	9 989	
19 000	Wynn Las Vegas LLC Corp.	7.750	15-Aug-20	20 919	21 513	
				1 507 652	1 560 690	47.4
TOTAL BONDS				3 001 837	3 102 466	94.2
SHORT-TERM INVESTMENTS*				56 380	56 380	1.7
TOTAL INVESTMENTS				3 058 217	3 158 846	95.9
UNREALIZED GAIN ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)				-	2 340	0.1
TOTAL PORTFOLIO				\$ 3 058 217	3 161 186	96.0
OTHER NET ASSETS					130 036	4.0
NET ASSETS					\$ 3 291 222	100.0

* Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 1.00% to 1.21% and mature between January 2, 2013 and March 21, 2013.

December 31, 2012

SCHEDULE A**Foreign Exchange Contracts**

Contracts	Maturity Date	Unrealized Gain (Loss)
Bought CAD 107 854 Sold USD 110 000 @ 0.9805	09-Jan-13	\$ (1 417)
Bought CAD 68 651 Sold USD 70 000 @ 0.9807	18-Jan-13	(903)
Bought CAD 109 481 Sold USD 110 000 @ 0.9953	22-Jan-13	169
Bought CAD 155 569 Sold USD 155 000 @ 1.0037	14-Feb-13	1 457
Bought CAD 110 418 Sold USD 110 000 @ 1.0038	19-Feb-13	1 036
Bought CAD 124 871 Sold USD 125 000 @ 0.9990	21-Feb-13	567
Bought CAD 239 851 Sold USD 240 000 @ 0.9994	25-Feb-13	1 169
Bought CAD 198 972 Sold USD 200 000 @ 0.9949	28-Feb-13	58
Bought CAD 248 868 Sold USD 250 000 @ 0.9955	04-Mar-13	204
TOTAL FOREIGN EXCHANGE		\$ 2 340

All counterparties have a credit rating of at least A.

Statements of Net Assets (in \$000s except per unit amounts)

December 31 (see note 2 in the generic notes)	2012	2011
ASSETS		
Investments at fair value	\$ 3 158 846	\$ 2 734 079
Cash	84 150	149 365
Due from investment dealers	7 595	–
Subscriptions receivable	1 517	8 092
Unrealized gain on foreign exchange contracts	2 340	13 633
Dividends receivable, interest accrued and other assets	40 363	46 487
TOTAL ASSETS	3 294 811	2 951 656
LIABILITIES		
Redemptions payable	2 119	986
Accounts payable and accrued expenses	1 470	1 436
TOTAL LIABILITIES	3 589	2 422
NET ASSETS	\$ 3 291 222	\$ 2 949 234
Investments at cost	\$ 3 058 217	\$ 2 730 670
NET ASSETS, END OF PERIOD		
SERIES C	\$ 466 847	\$ 451 585
ADVISOR SERIES	\$ 14 308	\$ 10 717
SERIES B*	\$ –	\$ 7 349
SERIES D	\$ 771 631	\$ 738 334
SERIES F	\$ 334 286	\$ 352 865
SERIES O	\$ 1 704 150	\$ 1 388 384
NET ASSETS PER UNIT, END OF PERIOD		
SERIES C	\$ 12.19	\$ 11.75
ADVISOR SERIES	\$ 12.19	\$ 11.75
SERIES B*	\$ –	\$ 11.84
SERIES D	\$ 12.07	\$ 11.64
SERIES F	\$ 12.14	\$ 11.70
SERIES O	\$ 11.66	\$ 11.24
NET ASSET VALUE (TRANSACTIONAL NAV) PER UNIT, END OF PERIOD (see note 3 in the generic notes)		
SERIES C	\$ 12.22	\$ 11.79
ADVISOR SERIES	\$ 12.22	\$ 11.79
SERIES B*	\$ –	\$ 11.88
SERIES D	\$ 12.11	\$ 11.68
SERIES F	\$ 12.17	\$ 11.74
SERIES O	\$ 11.69	\$ 11.29

Statements of Operations (in \$000s except per unit amounts)

For the periods ended December 31 (see note 2 in the generic notes)	2012	2011
INCOME (see note 3 in the generic notes)		
Interest	\$ 196 429	\$ 190 070
TOTAL INCOME (LOSS)	196 429	190 070
EXPENSES (see notes – Fund Specific Information)		
Management fees	14 323	14 265
Administration fees	1 259	1 167
Board of Governors costs	4	4
GST/HST	1 654	1 643
TOTAL EXPENSES	17 240	17 079
NET INVESTMENT INCOME (LOSS)	179 189	172 991
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on investments	11 527	(10 200)
Net gain (loss) on foreign currencies and other net assets	51 004	(6 751)
Change in unrealized gain (loss) on investments	85 927	(18 876)
NET GAIN (LOSS) ON INVESTMENTS	148 458	(35 827)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
	\$ 327 647	\$ 137 164
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
SERIES C	\$ 44 322	\$ 19 123
ADVISOR SERIES	\$ 1 233	\$ 374
SERIES B*	\$ –	\$ 349
SERIES D	\$ 78 098	\$ 34 381
SERIES F	\$ 34 641	\$ 16 596
SERIES O	\$ 169 353	\$ 66 341
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT		
SERIES C	\$ 1.16	\$ 0.50
ADVISOR SERIES	\$ 1.16	\$ 0.50
SERIES B*	\$ –	\$ 0.54
SERIES D	\$ 1.21	\$ 0.55
SERIES F	\$ 1.22	\$ 0.56
SERIES O	\$ 1.28	\$ 0.62

* All outstanding Series B units were redesignated as Series D units effective July 2012.

Approved by the Board of Directors of RBC Global Asset Management Inc.



John S. Montalbano
Director



Doug Coulter
Director

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

Statements of Changes in Net Assets (in \$000s)

For the periods ended December 31 (see note 2 in the generic notes)	Series C		Advisor Series		Series B*		Series D	
	2012	2011	2012	2011	2012	2011	2012	2011
NET ASSETS – BEGINNING OF PERIOD	\$ 451 585	\$ 462 103	\$ 10 717	\$ 6 958	\$ –	\$ 8 179	\$ 745 683	\$ 717 957
INCREASE (DECREASE) FROM OPERATIONS	44 322	19 123	1 233	374	–	349	78 098	34 381
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from units issued	60 417	82 348	3 701	4 673	–	7	118 583	134 181
Proceeds from reinvestment of distributions	23 401	20 399	497	314	–	376	45 025	38 582
Payments on redemption of units	(85 540)	(108 867)	(1 030)	(1 067)	–	(1 150)	(165 864)	(144 246)
TOTAL UNIT TRANSACTIONS	(1 722)	(6 120)	3 168	3 920	–	(767)	(2 256)	28 517
Distributions from net income	(21 943)	(23 521)	(644)	(535)	–	(412)	(40 934)	(42 521)
Distributions from net gains	(5 395)	–	(166)	–	–	–	(8 960)	–
Distributions from capital	–	–	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(27 338)	(23 521)	(810)	(535)	–	(412)	(49 894)	(42 521)
TOTAL INCREASE (DECREASE) IN NET ASSETS	15 262	(10 518)	3 591	3 759	–	(830)	25 948	20 377
NET ASSETS – END OF PERIOD	\$ 466 847	\$ 451 585	\$ 14 308	\$ 10 717	\$ –	\$ 7 349	\$ 771 631	\$ 738 334

For the periods ended December 31 (see note 2 in the generic notes)	Series F		Series O		Total	
	2012	2011	2012	2011	2012	2011
NET ASSETS – BEGINNING OF PERIOD	\$ 352 865	\$ 353 413	\$ 1 388 384	\$ 1 019 497	\$ 2 949 234	\$ 2 568 107
INCREASE (DECREASE) FROM OPERATIONS	34 641	16 596	169 353	66 341	327 647	137 164
Early redemption fees	–	–	–	–	–	–
Proceeds from units issued	47 016	77 892	404 124	495 062	633 841	794 163
Proceeds from reinvestment of distributions	16 406	14 269	73 502	47 767	158 831	121 707
Payments on redemption of units	(95 009)	(89 220)	(213 474)	(155 744)	(560 917)	(500 294)
TOTAL UNIT TRANSACTIONS	(31 587)	2 941	264 152	387 085	231 755	415 576
Distributions from net income	(17 738)	(20 085)	(97 678)	(84 539)	(178 937)	(171 613)
Distributions from net gains	(3 895)	–	(20 061)	–	(38 477)	–
Distributions from capital	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(21 633)	(20 085)	(117 739)	(84 539)	(217 414)	(171 613)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(18 579)	(548)	315 766	368 887	341 988	381 127
NET ASSETS – END OF PERIOD	\$ 334 286	\$ 352 865	\$ 1 704 150	\$ 1 388 384	\$ 3 291 222	\$ 2 949 234

* All outstanding Series B units were redesignated as Series D units effective July 2012.

December 31, 2012

The Fund was closed to new investors effective November 26, 2010. Existing investors who hold units of the Fund can continue to make additional investments into the Fund. In addition, RBC GAM may maintain capacity for certain investors, including other related funds, that may invest in the Fund.

**Financial instrument risk and capital management
 (see note 4 in the generic notes)**

Credit risk (%)

The table below summarizes the Fund's credit risk exposure grouped by credit ratings as at:

Rating	December 31 2012	December 31 2011
AA	–	0.5
A	9.2	–
BBB	24.5	17.1
BB	26.4	63.3
B	32.1	15.2
Unrated*	7.8	3.9
Total	100.0	100.0

* Unrated represents primarily income trusts which are not covered by rating agencies.

Interest rate risk (%)

The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

Term to maturity	December 31 2012	December 31 2011
Less than 1 year	8.2	2.6
1 – 5 years	46.1	59.1
5 – 10 years	38.3	29.8
> 10 years	7.4	8.5
Total	100.0	100.0

As at December 31, 2012, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 3.2% (December 31, 2011 – 2.3%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

Currency risk

Since the currency risk of the Fund has been hedged using foreign exchange contracts, the Fund has minimal sensitivity to changes in foreign exchange rates.

**Fair value hierarchy (\$000s except % amounts)
 (see note 3 in the generic notes)**

The following is a summary of the inputs used as of December 31, 2012 and 2011 in the valuation of the Fund's financial instruments carried at fair value.

December 31, 2012	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	3 102 466	–	3 102 466
Short-term investments	–	56 380	–	56 380
Derivatives – assets	–	2 340	–	2 340
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	3 161 186	–	3 161 186
% of total portfolio	–	100.0	–	100.0

December 31, 2011	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	2 671 978	–	2 671 978
Short-term investments	–	62 101	–	62 101
Derivatives – assets	–	13 633	–	13 633
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	2 747 712	–	2 747 712
% of total portfolio	–	100.0	–	100.0

For the periods ended December 31, 2012 and 2011, there were no transfers of financial instruments between Level 1 and Level 2.

December 31, 2012

Management fees (see note 7 in the generic notes)

No management fees are payable by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

Management fees of the other series of the Fund are calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series C	1.25%
Advisor Series	1.25%
Series B	1.00%
Series D	0.75%
Series F	0.75%

Operating expenses (see note 7 in the generic notes)

Administration fees payable by each series of the Fund are calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

Series C	0.05%
Advisor Series	0.05%
Series B	0.05%
Series D	0.05%
Series F	0.05%
Series O	0.03%

Initial investments (\$000s except unit amounts)

Royal Bank of Canada, or one of its subsidiaries, held the following investments in the Fund as at:

	December 31 2012	December 31 2011
Units held		
Series C	47	45
Advisor Series	94	89
Series B	–	45
Series D	48	–
Series F	48	45
Value of all units	\$ 3	\$ 3

Taxes (\$000s) (see note 5 in the generic notes)

The Fund had no capital or non-capital losses as at December 31, 2012.

Unitholders' equity (000s)

The unitholders' equity of the Fund includes amounts representing units, undistributed net income (loss), realized gain (loss) on investments and unrealized gain (loss) on investments. There is no limitation on the number of units available for issue. Units are purchased and redeemed at the transactional NAV per unit.

For the periods ended December 31
(see note 2 in the generic notes)

	2012	2011
Series C		
Opening units	38 439	38 920
Issued number of units	4 970	6 863
Reinvested number of units	1 924	1 722
Redeemed number of units	(7 022)	(9 066)
Ending number of units	38 311	38 439
Advisor Series		
Opening units	912	586
Issued number of units	305	388
Reinvested number of units	41	27
Redeemed number of units	(84)	(89)
Ending number of units	1 174	912
Series B		
Opening units	–	684
Issued number of units	–	1
Reinvested number of units	–	31
Redeemed number of units	–	(95)
Ending number of units	–	621
Series D		
Opening units	64 049	61 023
Issued number of units	9 853	11 259
Reinvested number of units	3 738	3 287
Redeemed number of units	(13 727)	(12 141)
Ending number of units	63 913	63 428
Series F		
Opening units	30 164	29 896
Issued number of units	3 886	6 508
Reinvested number of units	1 355	1 210
Redeemed number of units	(7 860)	(7 450)
Ending number of units	27 545	30 164
Series O		
Opening units	123 477	89 717
Issued number of units	34 702	43 135
Reinvested number of units	6 318	4 218
Redeemed number of units	(18 324)	(13 593)
Ending number of units	146 173	123 477

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**Investments by other related Investment Funds
 (000s) (see note 7 in the generic notes)**

The following outstanding units of the Fund were held by the following related Investment Funds as at:

	December 31 2012	December 31 2011
Series 0		
RBC Select Choices Balanced Portfolio	932	966
RBC Select Choices Growth Portfolio	664	698
Phillips, Hager & North Total Return Bond Fund	7 500	6 651
Phillips, Hager & North PRisM Balanced Fund	1 913	1 345
Phillips, Hager & North Enhanced Total Return Bond Fund	1 615	1 613
Phillips, Hager & North Monthly Income Fund	9 394	8 469
Phillips, Hager & North LifeTime 2015 Fund	15	3
Phillips, Hager & North LifeTime 2020 Fund	22	5
Phillips, Hager & North LifeTime 2025 Fund	34	9
Phillips, Hager & North LifeTime 2030 Fund	30	8
Phillips, Hager & North LifeTime 2035 Fund	37	6
Phillips, Hager & North LifeTime 2040 Fund	20	6
Phillips, Hager & North LifeTime 2045 Fund	15	2
Phillips, Hager & North Total Return Bond Trust	971	–
Total	23 162	19 781

Please see the generic notes at the back of the financial statements.

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1. The Funds

The mutual funds (“Fund” or “Funds”) are open-ended mutual fund trusts governed by the laws of the Province of British Columbia and governed by a Master Declaration of Trust. RBC GAM is the manager and portfolio advisor of the Funds.

The Funds may issue an unlimited number of units in some or all of Series C, Advisor Series, Series H, Series B, Series D, Series F, Series I and Series O.

Series C units are available to investors who purchase units from authorized third-party dealers.

Advisor Series units are available to all investors with an initial sales charge or low-load sales charge option. Under the initial sales charge option, investors pay a sales commission ranging from 0% to 5% of the amount invested. Under the low-load sales charge option, investors do not pay a commission.

Series H units have lower fees than Series C units and are only available to investors who invest and maintain the required minimum balance.

Series B units were previously available to investors who purchased units from authorized third-party dealers. All outstanding Series B units were redesignated as Series D units effective July 2012.

Series D units are available to all investors and may be purchased, switched or redeemed through Phillips, Hager & North Investment Funds Ltd. (“PH&N IF”) or certain other authorized dealers (primarily discount brokers).

Series F units are available to investors who have fee-based accounts with their dealer.

Series I units have lower fees than Series F units and are only available to investors who invest and maintain the required minimum balance and who have accounts with dealers who have signed a fee-based agreement with RBC GAM.

Series O units are only available to large private or institutional investors as may be determined from time to time on a case-by-case basis. Series O units may only be purchased, switched or redeemed through RBC GAM or, in certain circumstances, PH&N IF.

2. Financial year/period

The information provided in these financial statements and notes thereto is for the 12-month periods ended or as at December 31, 2012 and 2011. In the year a Fund or series is

established, “period” represents the period from inception to December 31 of that fiscal year.

3. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), which include estimates and assumptions made by management that may affect the reported amounts of assets (primarily valuation of investments), liabilities, income and expenses during the reported periods. Actual results may differ from estimates. The significant accounting policies of the Funds are as follows:

Valuation of Investments The valuation methods used to calculate the daily net asset value to transact units of the Funds (“transactional NAV”), as described in the Funds’ Annual Information Form, are not identical to the GAAP valuation methods used to determine the financial statement net assets (“net assets”) described below. The primary difference between net assets and transactional NAV relates to valuation of actively traded securities at bid prices for net assets and at last sale prices for transactional NAV.

In accordance with the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, *Financial Instruments – Disclosures*, the Funds’ financial instruments are measured at fair value using a three-tier hierarchy based on inputs used to value the Funds’ investments and derivatives. The hierarchy of inputs is summarized below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment’s assigned level.

The three-tier hierarchy of investments and derivatives is included in “Notes to Financial Statements – Fund Specific Information.”

Investments are recorded at fair value, which is determined as follows:

Equities – Common shares, preferred shares and exchange-traded funds are valued at the closing bid price recorded by the security exchange on which the security is principally traded.

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Fixed-Income and Debt Securities – Bonds, mortgage-backed securities and debentures are valued at the closing bid price quoted by major dealers in such securities.

Mortgages are valued at a principal amount, which produces a yield equivalent to the prevailing rate of return on mortgages of similar type and term.

Short-Term Investments – Short-term investments are valued at their cost including applicable foreign exchange translations. This value, together with accrued interest, approximates fair value using closing bid prices.

Options – Listed options are valued at the closing bid price on the recognized exchange on which the option is traded for the long positions and the ask price for the short positions. The premium received for written options is recorded as a credit in the Statement of Investment Portfolio and adjusted daily to the fair value of the written option.

Forward Contracts – Forward contracts are valued at the gain or loss that would arise as a result of closing the position at the valuation date. Any gain or loss at the close of business on each valuation date is recorded in the Statements of Operations. The net receivable/payable on forward contracts is recorded separately in the Statements of Net Assets. Realized gain (loss) on foreign exchange contracts is included in “Net gain (loss) on foreign currencies and other net assets” in the Statements of Operations.

Futures Contracts – Futures contracts entered into by the Funds are financial agreements to purchase or sell a financial instrument at a contracted price on a specified future date. However, the Funds do not intend to purchase or sell the financial instrument on the settlement date; rather, they intend to close out each futures contract before settlement by entering into equal, but offsetting, futures contracts. Futures contracts are valued at the gain or loss that would arise as a result of closing the position at the valuation date. Any gain or loss at the close of business on each valuation date is recorded as “Net gain (loss) from futures contracts” in the Statements of Operations. The net receivable/payable on futures contracts is recorded separately in the Statements of Net Assets.

Mutual Fund Unit Valuation – Units of Funds are valued at their respective transactional NAV per unit received from fund companies on the relevant valuation dates.

Fair Valuation of Investments (including unlisted securities) – If the valuation methods described above are not appropriate, RBC GAM will estimate the fair value of an investment using established fair valuation procedures, such as consideration of public information, broker quotes, valuation models, fundamental analysis, matrix pricing, discounts from market prices of similar securities or discounts applied due to restrictions on the disposition of securities, and external fair value service providers.

Procedures are in place to determine the fair value of foreign securities traded in countries outside North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market. This fair valuation process takes into account the last quoted price of the security and adjusts the price based on inputs such as related indices, changes in foreign markets and American Depository Receipts (“ADR”) prices. These securities are classified as Level 2.

Foreign Exchange The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars (U.S. dollars in the case of the Phillips, Hager & North \$U.S. Money Market Fund) at the rate of exchange on each valuation date. Purchases and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. Realized foreign exchange gains/losses are included in “Net gain (loss) on foreign currencies and other net assets” in the Statements of Operations.

Valuation of Series A different net asset value is calculated for each series of units of a Fund. The net asset value of a particular series of units is computed by calculating the value of the series’ proportionate share of the assets and liabilities of the Fund common to all series less the liabilities of the Fund attributable only to that series. Expenses directly attributable to a series are charged to that series. Other expenses are allocated proportionately to each series based upon the relative net asset value of each series. Expenses are accrued daily.

Investment Transactions Investment transactions are accounted for as of the trade date. Transaction costs, such as brokerage commissions, incurred by the Funds are recorded in the Statements of Operations for the period. The period change in the difference between fair value and average cost of securities represents unrealized gains and losses. The basis of determining the cost of portfolio assets, and realized and unrealized gains and losses on investments, is average cost.

Income Recognition Dividend income is recognized on the ex-dividend date and interest income is recognized on an accrual basis. “Other income (loss)” includes income from income trusts. Distributions received from income trusts are recognized based on the nature of the underlying components, such as income, capital gains and return of capital. “Other revenue” includes income earned by a Fund from investments in underlying funds.

Increase (Decrease) in Net Assets from Operations

Per Unit Increase (decrease) in net assets from operations per unit in the Statements of Operations represents the increase (decrease) in net assets from operations by series, divided by the average units outstanding per series during the period.

Early Redemption Fees Early redemption fees (short-term trading fees) are paid directly to the Fund and are designed to deter excessive trading and its associated costs. With the exception of money market funds, a Fund may apply a fee of 2% of the current value of units if the unitholder redeems or switches out units within seven days of purchasing or previously switching into a Fund.

Foreign Currencies The following is a list of abbreviations used in the Statement of Investment Portfolio:

AUD – Australian Dollar	JPY – Japanese Yen
CAD – Canadian Dollar	NOK – Norwegian Krone
CHF – Swiss Franc	SGD – Singapore Dollar
EUR – Euro	USD – United States Dollar
GBP – Pound Sterling	

4. Financial instrument risk and capital management

RBC GAM is responsible for managing each Fund’s capital, which is its net assets and consists primarily of its financial instruments.

A Fund’s investment activities expose it to a variety of financial risks. RBC GAM seeks to minimize potential adverse effects of these risks on a Fund’s performance by employing professional, experienced portfolio advisors, daily monitoring of the Fund’s holdings and market events, diversifying its investment portfolio within the constraints of its investment objectives, and, in some cases, periodically hedging certain risk exposures through the use of derivatives. To assist in managing risks, RBC GAM also uses internal guidelines, maintains a governance structure that oversees each Fund’s investment activities and monitors compliance with the Fund’s investment strategies, internal guidelines and securities regulations.

Liquidity risk

Liquidity risk is the possibility that investments in a Fund cannot be readily converted into cash when required. A Fund is exposed to daily cash redemptions of redeemable units. Liquidity risk is managed by investing the majority of a Fund’s assets in investments that are traded in an active market and that can be readily disposed. In accordance with securities regulations, a Fund must maintain at least 90% of its assets in liquid investments. In addition, a Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity, and has the ability to borrow up to 5% of its net assets for the purpose of funding redemptions.

Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty not being able to meet its financial obligations. The carrying amount of investments and other assets represents the maximum credit risk exposure as disclosed in a Fund’s Statements of Net Assets. The fair value of fixed-income and debt securities includes a consideration of the credit worthiness of the debt issuer. Credit risk exposure to over-the-counter derivative instruments is based on a Fund’s unrealized gain on the contractual obligations with the counterparty. Credit risk exposure is mitigated for those Funds participating in a securities lending program (see note 6). RBC GAM monitors each Fund’s credit exposure and counterparty ratings daily.

Interest rate risk

Interest rate risk is the risk that the fair value of a Fund’s interest-bearing investments will fluctuate due to changes in market interest rates. The value of fixed-income and debt securities, such as bonds, debentures, mortgages or other income-producing securities, is affected by interest rates. Generally, the value of these securities increases if interest rates fall and decreases if interest rates rise.

Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of a Fund, will fluctuate due to changes in foreign exchange rates. The value of investments denominated in a currency other than Canadian dollars is affected by changes in the value of the Canadian dollar or a Fund’s functional currency, in relation to the value of the currency in which the investment is denominated. When the value of the Canadian dollar falls in relation to foreign currencies, then the value of foreign investments rises. When the value of the Canadian dollar rises, the value of foreign investments falls.

Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

5. Taxes

The Funds qualify as open-ended mutual fund trusts or unit trusts under the *Income Tax Act* (Canada). In general, the Funds are subject to income tax, however, no income tax is payable on net income and/or net realized capital gains which are distributed to unitholders. In addition, for mutual fund trusts, income taxes payable on net realized capital gains are refundable on a formula basis when units of the Funds are redeemed.

Capital losses are available to be carried forward indefinitely and applied against future capital gains. Non-capital losses may be carried forward to reduce future taxable income for up to 10 years, with the exception of non-capital losses realized in 2006 and later years, which may be carried forward up to 20 years.

6. Securities lending revenue

Certain of the Funds lend portfolio securities from time to time in order to earn additional income. Income from securities lending is included in the Statements of Operations of a Fund. Each such Fund will have entered into a securities lending program with its custodian, RBC Investor Services Trust ("RBC IS"). The aggregate market value of all securities loaned by a Fund cannot exceed 50% of the assets of a Fund. The Fund receives collateral, with an approved credit rating of at least A, of at least 102% of the value of securities on loan. The Fund is indemnified by RBC IS for any collateral credit or market loss. As such, the credit risk associated with securities lending is considered minimal.

7. Administrative and other related-party transactions**Manager and Registrar**

RBC GAM is an indirect wholly-owned subsidiary of Royal Bank of Canada ("Royal Bank"). RBC GAM is the manager and registrar of the Funds. RBC GAM is responsible for the Funds' day-to-day operations, provides investment advice and portfolio management services to the Funds and appoints distributors for the Funds. RBC GAM, as registrar,

also keeps records of who owns units of the Funds. RBC GAM is paid a management fee by the Funds as compensation for its services. No management fees are paid by the Funds with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

The Funds pay a fixed administration fee to RBC GAM. RBC GAM in turn pays certain operating expenses of the Funds. These expenses include regulatory filing fees and other day-to-day operating expenses including, but not limited to, recordkeeping, accounting and fund valuation costs, custody fees, audit and legal fees, and the costs of preparing and distributing annual and semi-annual reports, prospectuses, statements and investor communications.

Notwithstanding the fixed administration fee, the Funds also pay certain operating expenses directly, including the costs related to the Board of Governors ("BoG") of the Funds and the cost of any new government or regulatory requirements introduced and any borrowing costs (collectively, *other fund costs*), and taxes (including, but not limited to, GST/HST). Other Fund costs will be allocated among each series of units of a fund in accordance with the services used. RBC GAM may, in some years and in certain cases, absorb a portion of operating expenses. The decision to absorb the operating expenses is reviewed annually and determined at the discretion of RBC GAM, without notice to unitholders.

Certain Funds may invest in units of other Funds managed by RBC GAM or its affiliates.

Affiliates of RBC GAM that provide services to the Funds in the course of their normal businesses are discussed below.

Portfolio Advisor

With the exception of the BonaVista Global Balanced Fund and the BonaVista Canadian Equity Value Fund, RBC GAM is the principal portfolio advisor of the Funds. BonaVista Asset Management Ltd. ("BonaVista"), a subsidiary of RBC GAM, is the principal portfolio advisor for the BonaVista Global Balanced Fund and the BonaVista Canadian Equity Value Fund. Sky Investment Counsel Inc. ("Sky") is the sub-advisor for the Phillips, Hager & North Overseas Equity Fund and the non-North American equity assets of the Phillips, Hager & North Balanced Fund, the Phillips, Hager & North Global Equity Fund and the Phillips, Hager & North Community Values Global Equity Fund. RBC GAM has a non-controlling interest in Sky. The fees paid to BonaVista and Sky are paid by RBC GAM and not the Funds.

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Distributors

RBC GAM, PH&N IE, Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are the principal distributors of, or distribute certain series of units of, the Funds. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series, Series H, Series B or Series D units.

Brokerage

The Funds have established standard brokerage agreements at market rates with related-party dealers.

Trustee and Custodian

RBC IS is the trustee and custodian of the Funds. RBC IS is paid custodial fees for holding the assets of the Funds, and trustee fees for acting as the trustee. The fees paid to RBC IS are paid by RBC GAM and not the Funds.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Funds relied on the standing instructions from the BoG in its capacity as the Independent Review Committee with respect to one or more of the following related-party transactions:

Related-Party Trading Activities

- (a) trades in securities of Royal Bank;
- (b) investments in the securities of issuers for which a related-party dealer acted as an underwriter during the distribution of such securities and the 60-day period following the conclusion of such distribution of the underwritten securities to the public;
- (c) purchases of equity and debt securities from or sales of equity or debt securities to a related-party dealer, where it acted as principal; and

Inter-Fund Trading

- (d) purchases or sales of securities of an issuer from or to another investment fund or managed account managed by RBC GAM.

The applicable standing instructions require that Related-Party Trading Activities and Inter-Fund Trading be conducted in accordance with RBC GAM policy and that RBC GAM advise the BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities: (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates

or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Funds, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Funds. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

8. Future accounting changes**International Financial Reporting Standards**

The Funds will be required to adopt the International Financial Reporting Standards ("IFRS") beginning in their fiscal 2014 year. In preparation to meet the requirements, RBC GAM has taken the following steps in managing the transition to IFRS:

- (a) established a committee for the development and implementation of a transition plan and to provide oversight of the transition to IFRS;
- (b) commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS; and
- (c) initiated analysis to reconfigure accounting systems used by the Funds.

The key elements of the plan currently include disclosure of the quantitative impact, if any, in the comparative 2013 financial statements and the preparation of the 2014 financial statements in accordance with IFRS.

Since IFRS standards are constantly evolving, the major qualitative impacts based on standards approved to date are the addition of a cash flow statement and the impact of classification of puttable instruments, the units of the Fund, as a liability or as an equity.

Regardless of the financial statement impacts, RBC GAM has presently determined that there will be no quantitative impact to the transactional NAV of each series as a result of the changeover to IFRS.

9. Comparative figures

In the Statements of Operations, "Board of Governors costs" for certain funds, which were reimbursed by the manager for the prior period, have been reflected to conform with the presentation in the current year.