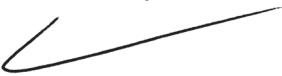


The accompanying financial statements have been prepared by RBC Global Asset Management Inc. ("RBC GAM") as manager of the RBC ETFs (the "ETFs") and approved by the Board of Directors of RBC GAM. We are responsible for the information contained within the financial statements.

We have maintained appropriate procedures and controls to ensure that timely and reliable financial information is produced. The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") (and they include certain amounts that are based on estimates and judgments). The significant accounting policies, which we believe are appropriate for the ETFs, are described in Note 3 to the financial statements.

PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, have performed an independent audit of the financial statements in accordance with IFRS. Their report is set out on the next page.



Damon G. Williams, FSA, FCIA, CFA
Chief Executive Officer
RBC Global Asset Management Inc.
March 8, 2018



Heidi Johnston, CPA, CA
Chief Financial Officer
RBC GAM Funds

To the Unitholders of:

RBC 1-5 Year Laddered Canadian Bond ETF	RBC BlueBay Global Diversified Income (CAD Hedged) ETF	RBC Quant EAFE Dividend Leaders ETF
RBC 1-5 Year Laddered Corporate Bond ETF	RBC Canadian Preferred Share ETF	RBC Quant EAFE Dividend Leaders (CAD Hedged) ETF
RBC 6-10 Year Laddered Canadian Corporate Bond ETF	RBC Quant Canadian Dividend Leaders ETF	RBC Quant EAFE Equity Leaders ETF
RBC Target 2018 Corporate Bond Index ETF	RBC Quant Canadian Equity Leaders ETF	RBC Quant EAFE Equity Leaders (CAD Hedged) ETF
RBC Target 2019 Corporate Bond Index ETF	RBC Canadian Equity Index ETF	RBC International Equity Index ETF
RBC Target 2020 Corporate Bond Index ETF	RBC Canadian Bank Yield Index ETF	RBC Quant Emerging Markets Dividend Leaders ETF
RBC Target 2021 Corporate Bond Index ETF	RBC Quant U.S. Dividend Leaders ETF	RBC Quant Emerging Markets Equity Leaders ETF
RBC Target 2022 Corporate Bond Index ETF	RBC Quant U.S. Dividend Leaders (CAD Hedged) ETF	RBC Emerging Markets Equity Index ETF
RBC Target 2023 Corporate Bond Index ETF	RBC Quant U.S. Equity Leaders ETF	RBC Strategic Global Dividend Leaders ETF
RBC PH&N Short Term Canadian Bond ETF	RBC Quant U.S. Equity Leaders (CAD Hedged) ETF	RBC Strategic Global Equity Leaders ETF
RBC Canadian Short Term Bond Index ETF	RBC U.S. Equity Index ETF	RBC Quant Global Infrastructure Leaders ETF
RBC Canadian Bond Index ETF	RBC Quant European Dividend Leaders ETF	RBC Quant Global Real Estate Leaders ETF
RBC Short Term U.S. Corporate Bond ETF	RBC Quant European Dividend Leaders (CAD Hedged) ETF	(collectively referred to as the "ETFs")
RBC Global Government Bond (CAD Hedged) Index ETF		

We have audited the accompanying financial statements of each of the Funds, which comprise the statements of financial position, comprehensive income, cash flows and changes in net assets attributable to holders of redeemable units as at and for the periods indicated in note 2, and the related notes, which comprise 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 the financial statements of each of the Funds in accordance with International Financial Reporting Standards, 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 the financial statements of each of the Funds 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 audits 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 each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position, financial performance and cash flows of each of the Funds as at and for the periods indicated in note 2, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 8, 2018



SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

RBC 1-5 YEAR LADDERED CANADIAN BOND ETF

December 31, 2017

Par Value (000s)	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
CANADIAN BONDS						
FEDERAL & PROVINCIAL						
13 973	Canada Housing Trust No. 1	1.450	15-Jun-2020	\$ 13 895	\$ 13 845	
13 507	Canadian Government Bond	3.750	01-Jun-2019	13 961	13 904	
7 114	Province of Alberta	1.350	01-Sep-2021	6 970	6 932	
6 554	Province of British Columbia	3.250	18-Dec-2021	7 037	6 845	
6 672	Province of Ontario	3.150	02-Jun-2022	7 111	6 942	
6 749	Province of Ontario	2.850	02-Jun-2023	6 991	6 936	
6 555	Province of Quebec	3.500	01-Dec-2022	6 993	6 940	
6 638	Province of Quebec	3.000	01-Sep-2023	6 941	6 881	
TOTAL CANADIAN BONDS				69 899	69 225	29.9
Number of Units	Security			Cost	Fair Value	% of Net Assets
ETF UNITS						
1 686	RBC Target 2019 Corporate Bond Index ETF*			\$ 33 482	\$ 32 390	
1 619	RBC Target 2020 Corporate Bond Index ETF*			33 222	32 495	
1 630	RBC Target 2021 Corporate Bond Index ETF*			33 188	32 414	
1 671	RBC Target 2022 Corporate Bond Index ETF*			33 002	32 449	
1 674	RBC Target 2023 Corporate Bond Index ETF*			32 585	32 236	
TOTAL ETF UNITS				165 479	161 984	70.0
Less: Transaction costs				(16)	—	—
TOTAL INVESTMENTS				\$ 235 362	231 209	99.9
OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS					298	0.1
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS					\$ 231 507	100.0

* Investment in related party (see note 9 in the generic notes).



Statements of Financial Position

(in \$000s except per unit amounts)

(see note 2 in the generic notes)	December 31 2017	December 31 2016
ASSETS		
Investments at fair value	\$ 231 209	\$ 124 665
Cash	223	254
Due from investment dealers	3 839	–
Subscriptions receivable	–	983
Dividends receivable, interest accrued and other assets	701	323
TOTAL ASSETS	235 972	126 225
LIABILITIES		
Due to investment dealers	–	982
Redemptions payable	3 842	–
Distributions payable	613	221
Accounts payable and accrued expenses	10	5
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	4 465	1 208
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")		
	\$ 231 507	\$ 125 017
Investments at cost	\$ 235 362	\$ 125 506
NAV PER UNIT	\$ 19.21	\$ 19.69

Statements of Comprehensive Income

(in \$000s except per unit amounts)

For the periods ended December 31 (see note 2 in the generic notes)	2017	2016
INCOME (see note 3 in the generic notes)		
Interest for distribution purposes	\$ 1 830	\$ 462
Income from investment trusts	4 342	1 223
Securities lending revenue (see note 8 in the generic notes)	8	4
Net realized gain (loss) on investments	(2 549)	(484)
Change in unrealized gain (loss) on investments	(3 312)	(841)
TOTAL INCOME (LOSS)	319	364
EXPENSES (see notes – ETF Specific Information)		
Management fees	88	23
GST/HST	9	3
Transaction costs	18	17
TOTAL EXPENSES	115	43
INCREASE (DECREASE) IN NAV	\$ 204	\$ 321
INCREASE (DECREASE) IN NAV PER UNIT	\$ 0.02	\$ 0.12



Statements of Cash Flow (in \$000s)

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ 204	\$ 321
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	–	–
Net unrealized foreign exchange (gain) loss on cash	–	–
Net realized loss (gain) on investments	2 549	505
Change in unrealized loss (gain) on investments	3 312	841
Non-cash distributions from underlying funds	–	(21)
(Increase) decrease in accrued receivables	(378)	(323)
Increase (decrease) in accrued payables	5	5
Cost of investments purchased*	(92 062)	(48 514)
Proceeds from sale and maturity of investments*	91 691	48 591
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	5 321	1 405
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units*	336	237
Cash paid on redemption of redeemable units*	(31)	–
Distributions paid to holders of redeemable units	(5 657)	(1 388)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ (5 352)	\$ (1 151)
Net unrealized foreign exchange gain (loss) on cash	–	–
Net increase (decrease) in cash for the period	(31)	254
Cash (bank overdraft), beginning of period	254	–
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 223	\$ 254
Interest received (paid)	\$ 1 452	\$ 139
Income received from investment trusts	\$ 4 342	\$ 1 223

* Excludes in-kind transactions.



Statements of Changes in NAV (in \$000s)

For the periods ended December 31 (see note 2 in the generic notes)	Total	
	2017	2016
NAV AT BEGINNING OF PERIOD	\$ 125 017	\$ —
INCREASE (DECREASE) IN NAV	204	321
Early redemption fees	—	—
Proceeds from redeemable units issued	147 114	126 305
Reinvestments of distributions to holders of redeemable units	—	—
Redemption of redeemable units	(34 779)	—
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	112 335	126 305
Distributions from net income	(5 909)	(1 584)
Distributions from net gains	(3)	—
Distributions from capital	(137)	(25)
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	(6 049)	(1 609)
NET INCREASE (DECREASE) IN NAV	106 490	125 017
NAV AT END OF PERIOD	\$ 231 507	\$ 125 017



December 31, 2017

General information (see note 1 in the generic notes)

The investment objective of the ETF is to provide unitholders with exposure primarily to the performance of a diversified portfolio of Canadian corporate and government bonds, divided (“laddered”) into five groupings with staggered maturities from one to five years, which will provide regular income while seeking to preserve capital.

The ETF was started January 19, 2016.

Financial instrument risk and capital management (see note 5 in the generic notes)

Credit risk (%)

The table below summarizes the ETF’s credit risk exposure grouped by credit ratings as at:

Rating	December 31 2017	December 31 2016
AAA	15.0	16.3
AA	20.1	33.2
A	47.9	34.4
BBB	17.0	16.1
Total	100.0	100.0

Concentration risk (%)

The table below summarizes the ETF’s investment portfolio (after consideration of derivative products, if any) as at:

Investment mix	December 31 2017	December 31 2016
Corporate Bonds		
Financials	43.2	42.7
Communication	7.0	8.2
Energy	6.8	5.1
Industrials	4.9	3.4
Infrastructure	4.6	5.6
Real Estate	2.5	1.4
Government and Provincial Bonds	30.2	33.3
Other Net Assets	0.8	0.3
Total	100.0	100.0

Interest rate risk (%)

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

Term to maturity	December 31 2017	December 31 2016
Less than 1 year	–	–
1 – 5 years	84.2	80.0
5 – 10 years	15.8	20.0
> 10 years	–	–
Total	100.0	100.0

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

As at December 31, 2017, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the ETF’s NAV may have decreased or increased, respectively, by approximately 3.3% (December 31, 2016 – 3.3%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

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, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
ETF units	161 985	–	–	161 985
Fixed-income and debt securities	–	69 224	–	69 224
Total financial instruments	161 985	69 224	–	231 209
% of total portfolio	70.1	29.9	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
ETF units	87 138	–	–	87 138
Fixed-income and debt securities	–	37 527	–	37 527
Total financial instruments	87 138	37 527	–	124 665
% of total portfolio	69.9	30.1	–	100.0

For the periods ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

Management fees (see note 9 in the generic notes)

RBC GAM is the manager, trustee and portfolio manager of the ETF. A management fee is charged indirectly and directly to the ETF: indirectly as this ETF invests in the units of other RBC ETFs and the other RBC ETFs pay management fees; and directly for other portfolio manager activities. The total management fee will not exceed 0.22%, before GST/HST, of the daily NAV of the ETF.



December 31, 2017

Unconsolidated structured entities (%)
(see note 3 in the generic notes)

The table below summarizes the ETF's interest in the sponsored funds as a percentage of NAV, and the ETF's ownership interest as a percentage of NAV of the sponsored funds ("Ownership"). All sponsored funds are established and conduct business in Canada.

	December 31 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
RBC Target 2018 Corporate Bond Index ETF	–	–	14.0	15.6
RBC Target 2019 Corporate Bond Index ETF	14.0	19.8	14.0	13.7
RBC Target 2020 Corporate Bond Index ETF	14.0	25.1	14.0	18.5
RBC Target 2021 Corporate Bond Index ETF	14.0	26.5	14.0	19.3
RBC Target 2022 Corporate Bond Index ETF	14.0	31.2	14.0	28.1
RBC Target 2023 Corporate Bond Index ETF	14.0	34.5	–	–

Taxes (\$000s) (see note 7 in the generic notes)

The non-capital and capital losses as at December 31, 2017 for the ETF were approximately:

Capital losses	2 568
Non-capital losses	–

Redeemable units (000s)
(see note 6 in the generic notes)

The NAV per unit is arrived at by dividing the NAV of the ETF by the total number of units outstanding at the end of each trading day of the ETF.

For the periods ended December 31 (see note 2 in the generic notes)	2017	2016
Opening units	6 350	–
Issued number of units	7 500	6 350
Reinvested number of units	–	–
Redeemed number of units	(1 800)	–
Ending number of units	12 050	6 350

Transaction costs (\$000s except %)

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2017		December 31 2016	
	\$	%	\$	%
Total transaction costs	18	100	17	100
Related-party brokerage commissions*	18	100	17	100
Commission arrangements [†]	–	–	–	–

* See note 9 in the generic notes.

[†] Commission arrangements are part of commission amounts paid to dealers. The ETF uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

Securities lending revenue (\$000s except %)
(see note 8 in the generic notes)

Fair value of securities on loan and collateral received as at:

	December 31 2017	December 31 2016
Fair value of securities loaned	13 862	145
Fair value of collateral received	14 139	148

The table below provides a reconciliation of the gross revenue generated from the securities lending transactions of the ETF to the securities lending revenue disclosed in the Statements of Comprehensive Income.

	December 31 2017		December 31 2016	
	\$	%	\$	%
Gross revenue	11	100	6	100
RBC IS (paid)	(3)	(27)	(2)	(35)
Tax withheld	–	–	–	–
ETF revenue	8	73	4	65

December 31, 2017

1. The ETFs

The RBC ETFs, the exchange-traded funds (“ETF” or “ETFs”), are open-ended mutual fund trusts governed by the laws of the Province of Ontario and governed by a Master Declaration of Trust. RBC GAM is the manager, trustee and portfolio manager of the ETFs and its head office is located at 155 Wellington Street West, 22nd Floor, Toronto, Ontario. These financial statements were approved for issuance by the Board of Directors of RBC GAM on March 8, 2018.

The units of the ETFs are listed either on the Toronto Stock Exchange (the “TSX”) or on the Aequitas NEO Exchange (the “NEO Exchange”) as the case may be. The TSX and the NEO Exchange are each referred to herein as the “Exchange.” Investors may purchase or sell units on the applicable Exchange in the same way as other securities listed on the Exchange.

ETF	Exchange Ticker Symbol	Index*
RBC 1-5 Year Laddered Canadian Bond ETF	RLB	Not applicable
RBC 1-5 Year Laddered Corporate Bond ETF	RBO	Not applicable
RBC 6-10 Year Laddered Canadian Corporate Bond ETF	RMBO	Not applicable
RBC Target 2018 Corporate Bond Index ETF	RQF	FTSE TMX Canada 2018 Maturity Corporate Bond Index
RBC Target 2019 Corporate Bond Index ETF	RQG	FTSE TMX Canada 2019 Maturity Corporate Bond Index
RBC Target 2020 Corporate Bond Index ETF	RQH	FTSE TMX Canada 2020 Maturity Corporate Bond Index
RBC Target 2021 Corporate Bond Index ETF	RQI	FTSE TMX Canada 2021 Maturity Corporate Bond Index
RBC Target 2022 Corporate Bond Index ETF	RQJ	FTSE TMX Canada 2022 Maturity Corporate Bond Index
RBC Target 2023 Corporate Bond Index ETF	RQK	FTSE TMX Canada 2023 Maturity Corporate Bond Index
RBC PH&N Short Term Canadian Bond ETF	RPSB	Not applicable
RBC Canadian Short Term Bond Index ETF	RCSB	FTSE TMX Canada Universe + Maple Short Term Overall Bond Index
RBC Canadian Bond Index ETF	RCUB	FTSE TMX Canada Universe + Maple Bond Index

ETF	Exchange Ticker Symbol	Index*
RBC Short Term U.S. Corporate Bond ETF	RUSB RUSB.U	Not applicable
RBC Global Government Bond (CAD Hedged) Index ETF	RGGB	Citi World Government Bond Index (Currency-Hedged in CAD)
RBC BlueBay Global Diversified Income (CAD Hedged) ETF	RBDI	Not applicable
RBC Canadian Preferred Share ETF	RPF	Not applicable
RBC Quant Canadian Dividend Leaders ETF	RCD	Not applicable
RBC Quant Canadian Equity Leaders ETF	RCE	Not applicable
RBC Canadian Equity Index ETF	RCAN	FTSE Canada All Cap Domestic Index
RBC Canadian Bank Yield Index ETF	RBNK	Solactive Canada Bank Yield Index
RBC Quant U.S. Dividend Leaders ETF	RUD RUD.U	Not applicable
RBC Quant U.S. Dividend Leaders (CAD Hedged) ETF	RUDH	Not applicable
RBC Quant U.S. Equity Leaders ETF	RUE RUE.U	Not applicable
RBC Quant U.S. Equity Leaders (CAD Hedged) ETF	RUEH	Not applicable
RBC U.S. Equity Index ETF	RUSA	FTSE USA Index
RBC Quant European Dividend Leaders ETF	RPD RPD.U	Not applicable
RBC Quant European Dividend Leaders (CAD Hedged) ETF	RPDH	Not applicable
RBC Quant EAFE Dividend Leaders ETF	RID RID.U	Not applicable
RBC Quant EAFE Dividend Leaders (CAD Hedged) ETF	RIDH	Not applicable
RBC Quant EAFE Equity Leaders ETF	RIE RIE.U	Not applicable
RBC Quant EAFE Equity Leaders (CAD Hedged) ETF	RIEH	Not applicable
RBC International Equity Index ETF	RINT	FTSE Developed ex North America Index
RBC Quant Emerging Markets Dividend Leaders ETF	RXD RXD.U	Not applicable
RBC Quant Emerging Markets Equity Leaders ETF	RXE RXE.U	Not applicable
RBC Emerging Markets Equity Index ETF	REEM	FTSE Emerging Index
RBC Strategic Global Dividend Leaders ETF	RLD	Not applicable

ETF	Exchange Ticker Symbol	Index*
RBC Strategic Global Equity Leaders ETF	RLE	Not applicable
RBC Quant Global Infrastructure Leaders ETF	RIG RIG.U	Not applicable
RBC Quant Global Real Estate Leaders ETF	RGRE RGRE.U	Not applicable

* These indices have been licensed for use for certain purposes to RBC GAM by FTSE TMX Global Debt Capital Markets Inc., FTSE International Limited, Citigroup Index LLC and Solactive AG (each an “Index Provider” and together, the “Index Providers”), as applicable. The ETFs are not sponsored, endorsed, sold or promoted by the Index Providers. The Index Providers make no warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the indices they have licensed to RBC GAM and/or the figures at which the indices they have licensed to RBC GAM stand at any particular time on any particular day or otherwise. The indices are compiled, calculated and published by the applicable Index Provider. The Index Providers shall not be liable (whether in negligence or otherwise) to any person for any error in the indices they have licensed to RBC GAM and the Index Providers shall not be under any obligation to advise any person of any error therein. The Index Providers make no representation regarding the advisability of investing in the ETFs.

“TMX” is a trademark of TSX Inc. and is used under licence.

“Citi” is a trademark and service mark of Citigroup Index LLC or its affiliates and is used under licence.

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, 2017 and 2016, as applicable. In the year an ETF 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 compliance with International Financial Reporting Standards (“IFRS”). The significant accounting policies of the ETFs, which are investment entities, are as follows:

Classification of Financial Assets and Liabilities The ETFs’ financial assets and financial liabilities, other than derivatives, are designated at fair value through profit or loss at inception, as those financial assets and liabilities are managed together and their performance evaluated on a fair value basis in accordance with the ETFs’ documented investment strategy. Derivatives are classified as held for trading and measured at fair value through profit or loss. Redemption units are measured at their respective redemption values. All other assets and liabilities are measured at amortized cost. Realized gains arising on derivatives during a period are included in the Statements of Comprehensive Income in “Net gain (loss) from futures contracts,” “Other derivatives” and “Net gain (loss) on foreign currencies and other net assets,” where applicable.

Classification of Redeemable Units The ETFs’ redeemable units, which are puttable instruments, are held by different types of unitholders that are entitled to different redemption rights. Consequently, the ETFs’ outstanding redeemable units are classified as financial liabilities in accordance with the requirements of IAS 32 Financial Instruments: Presentation.

Unconsolidated Structured Entities The ETFs may invest in other Funds and ETFs managed by the manager or an affiliate of the manager (“sponsored funds”) and may invest in other funds and ETFs managed by unaffiliated entities (“unsponsored funds”); collectively, “underlying funds.” The underlying funds are determined to be unconsolidated structured entities, as decision making in the underlying fund is not governed by the voting rights or other similar rights held by the ETF. The investments in underlying funds are subject to the terms and conditions of the offering documents of the respective underlying funds and are susceptible to market price risk arising from uncertainties about future values of those underlying funds. The underlying funds’ objectives are generally to achieve long-term capital appreciation and/or current income by investing in a portfolio of securities and other funds in line with each of their documented investment strategies. The underlying funds apply various investment strategies to accomplish their respective investment objectives.

The underlying funds finance their operations by issuing redeemable units which are puttable at the unitholder’s option, and entitle the unitholder to a proportional stake in the respective underlying funds’ NAV.

The ETFs do not consolidate their investment in underlying funds but account for these investments at fair value. The manager has determined that the ETFs are investment entities in accordance with IFRS 10 Consolidated Financial Statements, since the ETFs meet the following criteria:

- (i) The ETFs obtain capital from one or more investors for the purpose of providing those investors with investment management services,
- (ii) The ETFs commit to their investors that their business purpose is to invest funds solely for the returns from capital appreciation, investment income or both, and
- (iii) The ETFs measure and evaluate the performance of substantially all of their investments on a fair value basis.

Therefore, the fair value of investments in the underlying funds is included in the Schedule of Investment Portfolio and included in “Investments at fair value” in the ETFs’

December 31, 2017

Statements of Financial Position. The change in fair value of the investment held in the underlying funds is included in “Change in unrealized gain (loss) on investments” in the Statements of Comprehensive Income.

Certain ETFs may invest in mortgage-related or other asset-backed securities. These securities include commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are securitized by and payable from, mortgage loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans while asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans and student loans. The ETFs account for these investments at fair value. The fair value of such securities, as disclosed in the Schedule of Investment Portfolio, represents the maximum exposure to losses at that date.

Determination of Fair Value The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm’s-length transaction between knowledgeable and willing parties under no compulsion to act. In determining fair value, a three-tier hierarchy based on inputs is used to value the ETFs’ financial instruments. 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), including broker quotes, vendor prices and vendor fair value factors; 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.

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

Equities – Common shares, preferred shares and exchange-traded funds are valued at the closing price recorded by the security exchange on which the security is principally traded. In circumstances where the closing price is not within

the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

Fixed-Income and Debt Securities – Bonds and mortgage-backed securities are valued at the closing price quoted by major dealers or independent pricing vendors in such securities.

Short-Term Investments – Short-term investments are valued at fair value, which is approximated at cost plus accrued interest.

Warrants – Warrants are valued using a recognized option pricing model, which includes factors such as the terms of the warrant, time value of money and volatility inputs that are significant to such valuation.

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 unrealized gain or loss at the close of business on each valuation date is recorded as “Change in unrealized gain (loss) on investments” in the Statements of Comprehensive Income. The receivable/payable on forward contracts is recorded separately in the Statements of Financial Position. Realized gain (loss) on foreign exchange contracts is included in “Net gain (loss) on foreign currencies and other net assets” in the Statements of Comprehensive Income.

Fair Valuation of Investments – The ETFs have procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. Under these fair valuation procedures, the ETFs primarily employ a market-based approach, which may use related or comparable assets or liabilities, NAV per unit (for exchange-traded funds), recent transactions, market multiples, book values and other relevant information for the investment to determine its fair value. Management also has procedures in place to determine the fair value of foreign securities traded in countries outside of 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.

The ETFs may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments, but only if they arise as a feature of the instrument itself. Due to the inherent

December 31, 2017

uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

All security valuation techniques are periodically reviewed by the Valuation Committee (“VC”) of the manager and are approved by the manager. The VC provides oversight of the ETFs’ valuation policies and procedures.

Cash Cash is comprised of cash and deposits with banks and is recorded at fair value. The carrying amount of cash approximates its fair value because it is short-term in nature.

Foreign Exchange The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars 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 Comprehensive Income.

Functional Currency The ETFs have their subscriptions, redemptions and performance denominated in Canadian dollars and, consequently, the Canadian dollar is the functional currency for the ETFs.

Investment Transactions Investment transactions are accounted for as of the trade date. Transaction costs, such as brokerage commissions, incurred by the ETFs are recorded in the Statements of Comprehensive Income for the period. The unrealized gain and loss on investments is the difference between fair value and average cost for the period. The basis of determining the cost of portfolio assets, and realized and unrealized gains and losses on investments, is average cost which does not include amortization of premiums or discounts on fixed-income and debt securities with the exception of zero coupon bonds.

Income Recognition Dividend income is recognized on the ex-dividend date and interest for distribution purposes is coupon interest recognized on an accrual basis and/or imputed interest on zero coupon bonds. “Income from investment trusts” includes income from ETFs and income trusts.

Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit Increase (decrease) in net assets attributable to holders of redeemable units per unit in the Statements of Comprehensive Income represents the

increase (decrease) in net assets attributable to holders of redeemable units, divided by the average units outstanding during the period.

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

AUD – Australian dollar	MXN – Mexican peso
CAD – Canadian dollar	NOK – Norwegian krone
CHF – Swiss franc	NZD – New Zealand dollar
DKK – Danish krone	PLN – Polish zloty
EUR – Euro	SEK – Swedish krona
GBP – Pound sterling	SGD – Singapore dollar
HKD – Hong Kong dollar	USD – United States dollar
JPY – Japanese yen	ZAR – South African rand

4. Critical accounting judgments and estimates

The preparation of financial statements requires the use of judgment in applying the ETFs’ accounting policies and making estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that management has made in preparing the financial statements.

Classification and measurement of financial instruments and application of fair value option

In classifying and measuring financial instruments held by the ETFs, the manager is required to make significant judgments about whether or not the business of the ETFs is to invest on a total return basis for the purpose of applying the fair value option for financial assets.

Fair value measurement of securities not quoted in an active market

The ETFs have established policies and control procedures that are intended to ensure these estimates are well controlled, independently reviewed and consistently applied from period to period. The estimates of the value of the ETFs’ assets and liabilities are believed to be appropriate as at the reporting date.

The ETFs may hold financial instruments that are not quoted in active markets. Note 3 discusses the policies used by management for the estimates used in determining fair value.

5. Financial instrument risk and capital management

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

An ETF’s investment activities expose it to a variety of financial risks. RBC GAM seeks to minimize potential adverse effects of these risks on an ETF’s performance by employing

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professional, experienced portfolio managers, daily monitoring of the ETF's holdings and market events and diversifying its investment portfolio within the constraints of its investment objectives. To assist in managing risks, RBC GAM also uses internal guidelines, maintains a governance structure that oversees each ETF's investment activities and monitors compliance with the ETF's investment strategies, internal guidelines and securities regulations.

Financial instrument risk, as applicable to an ETF, is disclosed in its Notes to Financial Statements – ETF Specific Information. These risks include an ETF's direct risks and pro rata exposure to the risks of underlying funds, as applicable.

Liquidity risk

Liquidity risk is the possibility that investments in an ETF cannot be readily converted into cash when required. An ETF is exposed to liquidity risk to the extent that it is subject to daily redemptions of redeemable units. Since the delivery of redemptions is in the form of securities, an ETF is not exposed to any significant liquidity risk. Liquidity risk is managed by investing the majority of an ETF's assets in investments that are traded in an active market and that can be readily disposed. In accordance with securities regulation, an ETF must maintain at least 90% of its assets in liquid investments. In addition, an ETF aims to retain sufficient cash and cash equivalent positions to maintain liquidity, and has the ability to borrow up to 5% of its NAV. All non-derivative financial liabilities, other than redeemable units, are due within 90 days.

Any securities deemed to be illiquid are identified in the Schedules of Investment Portfolio.

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 an ETF's Statements of Financial Position. The fair value of fixed-income securities includes a consideration of the creditworthiness of the debt issuer. Credit risk exposure is mitigated for those ETFs participating in a securities lending program (see note 8). RBC GAM monitors each ETF's credit exposure and counterparty ratings daily. Rating data is provided by the Licensor Parties.

Concentration risk

Concentration risk arises as a result of net financial instrument exposures to the same category, such as

geographical region, asset type, industry sector or market segment. Financial instruments in the same category have similar characteristics and may be affected similarly by changes in economic or other conditions.

Interest rate risk

Interest rate risk is the risk that the fair value of an ETF's interest-bearing investments will fluctuate due to changes in market interest rates. The value of fixed-income and debt securities, such as bonds, is affected by interest rates. Generally, the value of these securities increases if interest rates fall and decreases if interest rates rise.

Securities with a stated maturity date beyond the target maturity year of the ETF have an effective maturity date in the target year of the ETF, as determined with the rules based on methodology developed by the Licensor Parties.

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 the functional currency is affected by changes in the value of the functional currency in relation to the value of the currency in which the investment is denominated. When the value of the functional currency falls in relation to foreign currencies, then the value of the foreign investments rises. When the value of the functional currency rises, the value of the 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.

6. Redeemable units

The beneficial interest in the ETFs is divided into equal interests of one class referred to as outstanding units. Each ETF is authorized to issue an unlimited number of redeemable and transferable units, each of which represents an equal, undivided interest in the net asset value of the ETF. Each unit outstanding shall participate pro rata in any distributions made, other than management fee distributions, and in the event of termination of the ETF, in the net assets of the ETF.

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On any trading day, an underwriter or designated broker may place a subscription or redemption order for an integral multiple of the prescribed number of units of an ETF. If the order is accepted, the ETF will issue or redeem units to or from the underwriter or designated broker within two trading days thereafter. For each prescribed number of units issued or redeemed, the underwriter or designated broker must deliver or receive payment consisting of:

- a) a basket of applicable securities for each prescribed number of units; and
- b) cash in an amount sufficient so that the value of the basket of the applicable securities and cash delivered is equal to the net asset value of the prescribed number of units plus the distribution price adjustment, if applicable, of the ETF.

The distribution price adjustment is a distribution that has been declared by the ETF and has reduced the net asset value but has not yet been reflected in the market price. A trading day is each day on which the TSX is open for trading.

A unitholder is entitled on any trading day to redeem units for cash at a redemption price of 95% of net asset value per unit of the ETF's units at the next valuation following receipt of the cash redemption request. To be effective on a particular trading day, a cash redemption request must be received by such time as RBC GAM may, from time to time, determine on that trading day. If a cash redemption request is received later than the prescribed time on a trading day or a day which is not a trading day, the cash redemption request shall be deemed to be received as of the next trading day.

The net asset value per unit is arrived at by dividing the net asset value of the ETF by the total number of units outstanding at the end of each trading day of the ETF. The capital of the ETFs is managed in accordance with the investment objective as outlined in the Prospectus.

7. Taxes

The ETFs qualify as "mutual fund trusts" or "unit trusts" as defined in the *Income Tax Act* (Canada). In general, the ETFs 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. Since the ETFs do not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. In addition, for mutual fund trusts, income taxes payable on net realized capital gains are refundable on a formula basis when units of

the ETFs are redeemed. It is the intention of the ETFs to pay out all net income and realized capital gains each year so that the ETFs will not be subject to income taxes.

Accordingly, no provision for income taxes is recorded.

Net investment income and capital gains are distributable to the unitholders in amounts determined under the provisions of the Declaration of Trust on a monthly or quarterly basis. All distributions, other than management fee distributions, shall be credited to the unitholder pro rata in accordance with the number of units held by them on record date of the distribution. Management fee distributions shall be credited to the unitholder entitled thereto.

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 20 years.

8. Securities lending revenue

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

9. Administrative and other related-party transactions

Manager, Trustee and Portfolio Manager

RBC GAM is an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank"). RBC GAM is the manager, trustee and portfolio manager of the ETFs. RBC GAM is responsible for the ETFs' day-to-day operations, holds title to the ETFs' property on behalf of its unitholders, provides investment advice and portfolio management services to the ETFs and appoints underwriters or designated brokers for the ETFs. RBC GAM is paid a management fee by the ETFs as compensation for its services. The management fee is calculated and accrued on a daily basis and is based on a percentage of the NAV of the ETFs. The fee plus applicable taxes are accrued daily and paid monthly in arrears.

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RBC GAM in turn pays certain operating expenses of the ETFs. 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 cost of preparing and distributing annual and interim reports, prospectuses and investor communications. The ETFs also pay certain operating expenses directly, including the costs related to the Independent Review Committee of the ETFs 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).

Certain ETFs may invest in units of other Funds managed by RBC GAM or its affiliates (“underlying funds”). The ETF’s ownership interest in underlying funds is disclosed in the Notes to Financial Statements – ETF Specific Information. The fees and expenses payable by the underlying funds are in addition to the fees and expenses payable by the ETF.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the ETFs, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between ETFs denominated in different currencies. The ETFs also maintain bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the ETFs in the course of their normal business, all of which are wholly owned subsidiaries of Royal Bank of Canada, are discussed below.

Sub-Advisors

RBC Global Asset Management (U.S.) Inc. is the sub-advisor for the RBC Short Term U.S. Corporate Bond ETF. BlueBay Asset Management LLP is the sub-advisor for the RBC BlueBay Global Diversified Income (CAD Hedged) ETF.

The sub-advisors earn a fee which is calculated and accrued on a daily basis and is based on a percentage of the NAV of the ETFs. The sub-advisors are paid by the manager from the management fee paid by the ETFs.

Custodian and Valuation Agent

RBC IS is the custodian and valuation agent for the ETFs. RBC IS is responsible for certain aspects of day-to-day administration including holding the assets and the daily calculation of the net asset value of the ETFs. RBC IS earns a

variable fee based on the value of assets under custody and a fixed fee for other valuation and administrative services.

Designated Broker and Authorized Dealer

RBC Dominion Securities Inc. is a designated broker and/or an authorized dealer for the ETFs. As such, RBC Dominion Securities Inc. may subscribe or redeem units of the ETFs.

Broker and Dealer

The ETFs have established or may establish standard brokerage agreements and dealing agreements at market rates with related parties such as RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, NBC Securities Inc. and Royal Bank of Canada.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the ETFs relied on the standing instructions from the Independent Review Committee with respect to 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; and
- (c) purchases of debt securities from or sales of debt securities to a related-party dealer, where it acted as principal.

The applicable standing instructions require that Related-Party Trading Activities be conducted in accordance with RBC GAM policy and that RBC GAM advise the Independent Review Committee 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 ETFs, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the ETFs.

10. Revision of comparative information

Where applicable, certain comparative figures on the Statements of Cash Flow have been revised.

Amounts reclassified to “Non-cash distributions from underlying funds” have been presented separately from amounts related to “Cost of investments purchased” to appropriately reflect the non-cash components of investments purchased. The impact on the “Net cash provided by (used in) operating activities” is nil. “Cost of investments purchased” and “Proceeds from issue of redeemable units” exclude in-kind subscription transactions. “Proceeds from sale and maturity of investments” and “Cash paid on redemption of redeemable units” exclude in-kind redemption transactions.

11. Future accounting changes

The following IFRS standard has been issued, but is not yet in effect:

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classifications and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018. Classification and measurement of debt assets will be driven by an entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

On adoption of IFRS 9 the ETFs’ investment portfolios will continue to be classified at fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortized cost with no material impact expected from application of the new impairment model introduced in IFRS 9. As a result, the adoption of IFRS 9 is not expected to have a material impact on the ETFs’ financial statements.