

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.



John S. Montalbano, CFA

Chief Executive Officer
RBC Global Asset Management Inc.



Frank Lippa, CPA, CA

Chief Financial Officer and Chief Operating Officer
RBC Global Asset Management Inc.

August 14, 2013

Unaudited Semi-Annual Financial Statements

The accompanying semi-annual financial statements have not been reviewed by the external auditors of the Funds. The external auditors will be auditing the annual financial statements of the Funds in accordance with Canadian generally accepted auditing standards.

STATEMENT OF INVESTMENT PORTFOLIO (unaudited) (in \$000s)

PHILLIPS, HAGER & NORTH CANADIAN MONEY MARKET FUND

June 30, 2013

Par Value	Security	Fair Value	% of Net Assets
BANKERS ACCEPTANCES AND BANK OBLIGATIONS			
\$ 118 245	Bank of Montreal	\$ 117 584	
10 000	Bank of Nova Scotia	10 000	
20 635	Canadian Imperial Bank of Commerce	20 569	
68 000	HSBC Bank Canada	67 791	
8 000	National Bank of Canada	8 000	
		223 944	16.1
COMMERCIAL PAPER			
38 000	AltaLink LP	37 991	
39 850	Bay Street Funding Trust - Class A	39 775	
40 475	Bell Canada International Inc.	40 423	
40 500	Brookfield Asset Management Inc., Class A	40 467	
59 200	Canadian Master Trust - Series A	58 902	
37 000	Canadian National Railway Co.	36 925	
53 350	Central 1 Credit Union	53 129	
56 500	Clarity Trust	56 211	
57 950	Darwin Receivables Trust - Senior Notes	57 638	
41 385	Enbridge Inc.	41 346	
68 500	Fusion Trust	68 073	
40 500	Inter Pipeline Fund	40 380	
67 450	King Street Funding Trust	67 281	
41 000	McCain Financial Canada	40 938	
68 150	Merit Trust - Senior Notes	67 835	
34 550	Nova Scotia Power Inc.	34 530	
51 245	Prime Trust - Senior Notes	50 954	
62 525	Reliant Trust	62 139	
61 099	Ridge Trust	60 758	
18 920	SAFE Trust - Series 1996-1	18 803	
17 000	SOUND Trust	16 895	
40 725	TransCanada PipeLines Ltd.	40 668	
66 150	Zeus Receivables Trust - Senior Notes	65 773	
		1 097 834	78.8
PROVINCIAL OBLIGATIONS			
21 000	Financement-Québec	21 007	
17 500	Province of Manitoba	17 533	
13 109	Province of Nova Scotia	13 190	
18 350	Province of Ontario	18 451	
		70 181	5.0
TOTAL INVESTMENTS*		1 391 959	99.9
OTHER NET ASSETS		1 281	0.1
NET ASSETS		\$ 1 393 240	100.0

* Investments, which are grouped by issuer, earn interest at rates ranging from 1.14% to 1.44% and mature between July 2, 2013 and December 3, 2014.

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

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

(see note 2 in the generic notes)	June 30 2013	December 31 2012
ASSETS		
Investments at fair value	\$ 1 391 959	\$ 1 254 006
Cash	54	17
Subscriptions receivable	3 574	7 422
Dividends receivable, interest accrued and other assets	2 670	2 336
TOTAL ASSETS	1 398 257	1 263 781
LIABILITIES		
Redemptions payable	4 840	5 779
Distributions payable	14	14
Accounts payable and accrued expenses	163	179
TOTAL LIABILITIES	5 017	5 972
NET ASSETS	\$ 1 393 240	\$ 1 257 809
Investments at cost	\$ 1 391 959	\$ 1 254 006
NET ASSETS, END OF PERIOD		
SERIES C	\$ 5 857	\$ 6 820
ADVISOR SERIES	\$ 2 231	\$ 1 412
SERIES B*	\$ –	\$ –
SERIES D	\$ 282 265	\$ 293 820
SERIES F	\$ 6 391	\$ 7 204
SERIES O	\$ 1 096 496	\$ 948 553
NET ASSETS PER UNIT, END OF PERIOD		
SERIES C	\$ 10.00	\$ 10.00
ADVISOR SERIES	\$ 10.00	\$ 10.00
SERIES B*	\$ –	\$ –
SERIES D	\$ 10.00	\$ 10.00
SERIES F	\$ 10.00	\$ 10.00
SERIES O	\$ 10.00	\$ 10.00
NET ASSET VALUE (TRANSACTIONAL NAV) PER UNIT, END OF PERIOD (see note 3 in the generic notes)		
SERIES C	\$ 10.00	\$ 10.00
ADVISOR SERIES	\$ 10.00	\$ 10.00
SERIES B*	\$ –	\$ –
SERIES D	\$ 10.00	\$ 10.00
SERIES F	\$ 10.00	\$ 10.00
SERIES O	\$ 10.00	\$ 10.00

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

For the periods ended June 30 (see note 2 in the generic notes)	2013	2012
INCOME (see note 3 in the generic notes)		
Interest	\$ 7 766	\$ 9 332
TOTAL INCOME (LOSS)	7 766	9 332
EXPENSES (see notes – Fund Specific Information)		
Management fees	679	1 000
Administration fees	218	284
Board of Governors costs	2	2
GST/HST	83	149
TOTAL EXPENSES	982	1 435
NET INVESTMENT INCOME (LOSS)	6 784	7 897
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
	\$ 6 784	\$ 7 897
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
SERIES C	\$ 21	\$ 30
ADVISOR SERIES	\$ 5	\$ 20
SERIES B*	\$ –	\$ 2
SERIES D	\$ 924	\$ 1 377
SERIES F	\$ 25	\$ 26
SERIES O	\$ 5 809	\$ 6 442
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT		
SERIES C	\$ 0.03	\$ 0.03
ADVISOR SERIES	\$ 0.03	\$ 0.03
SERIES B*	\$ –	\$ 0.03
SERIES D	\$ 0.03	\$ 0.03
SERIES F	\$ 0.04	\$ 0.03
SERIES O	\$ 0.06	\$ 0.06

* 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 (unaudited) (in \$000s)

For the periods ended June 30 (see note 2 in the generic notes)	Series C		Advisor Series		Series B*		Series D	
	2013	2012	2013	2012	2013	2012	2013	2012
NET ASSETS – BEGINNING OF PERIOD	\$ 6 820	\$ 11 674	\$ 1 412	\$ 8 497	\$ –	\$ 678	\$ 293 820	\$ 432 080
INCREASE (DECREASE) FROM OPERATIONS	21	30	5	20	–	2	924	1 377
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from units issued	2 086	2 425	1 157	1 223	–	–	157 702	214 681
Proceeds from reinvestment of distributions	21	33	5	17	–	2	909	1 353
Payments on redemption of units	(3 070)	(5 838)	(343)	(8 426)	–	(39)	(170 165)	(233 269)
TOTAL UNIT TRANSACTIONS	(963)	(3 380)	819	(7 186)	–	(37)	(11 554)	(17 235)
Distributions from net income	(21)	(30)	(5)	(20)	–	(2)	(925)	(1 377)
Distributions from net gains	–	–	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(21)	(30)	(5)	(20)	–	(2)	(925)	(1 377)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(963)	(3 380)	819	(7 186)	–	(37)	(11 555)	(17 235)
NET ASSETS – END OF PERIOD	\$ 5 857	\$ 8 294	\$ 2 231	\$ 1 311	\$ –	\$ 641	\$ 282 265	\$ 414 845

For the periods ended June 30 (see note 2 in the generic notes)	Series F		Series O		Total	
	2013	2012	2013	2012	2013	2012
NET ASSETS – BEGINNING OF PERIOD	\$ 7 204	\$ 8 664	\$ 948 553	\$ 1 115 361	\$ 1 257 809	\$ 1 576 954
INCREASE (DECREASE) FROM OPERATIONS	25	26	5 809	6 442	6 784	7 897
Early redemption fees	–	–	–	–	–	–
Proceeds from units issued	1 835	3 445	807 229	717 733	970 009	939 507
Proceeds from reinvestment of distributions	26	26	5 738	6 366	6 699	7 797
Payments on redemption of units	(2 673)	(5 171)	(665 023)	(612 710)	(841 274)	(865 453)
TOTAL UNIT TRANSACTIONS	(812)	(1 700)	147 944	111 389	135 434	81 851
Distributions from net income	(26)	(26)	(5 810)	(6 442)	(6 787)	(7 897)
Distributions from net gains	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(26)	(26)	(5 810)	(6 442)	(6 787)	(7 897)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(813)	(1 700)	147 943	111 389	135 431	81 851
NET ASSETS – END OF PERIOD	\$ 6 391	\$ 6 964	\$ 1 096 496	\$ 1 226 750	\$ 1 393 240	\$ 1 658 805

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

June 30, 2013

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	June 30 2013	December 31 2012
R-1 (H)	63.3	78.7
R-1 (M)	9.4	7.6
R-1 (L)	27.3	13.7
Total	100.0	100.0

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	June 30 2013	December 31 2012
0 – 1 month	48.7	35.2
1 – 3 months	24.0	41.6
4 – 6 months	27.3	23.2
Total	100.0	100.0

Due to the short-term nature of the Fund's investments, the Fund has minimal sensitivity to changes in interest 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 June 30, 2013 and December 31, 2012 in the valuation of the Fund's financial instruments carried at fair value.

June 30, 2013	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	1 391 959	–	1 391 959
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	1 391 959	–	1 391 959
% of total portfolio	–	100.0	–	100.0

December 31, 2012	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	1 254 006	–	1 254 006
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	1 254 006	–	1 254 006
% of total portfolio	–	100.0	–	100.0

For the periods ended June 30, 2013 and December 31, 2012, there were no transfers of financial instruments between Level 1 and Level 2.

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	up to 0.65%
Advisor Series	up to 0.65%
Series B	up to 0.60%
Series D	Note 1
Series F	up to 0.40%

Note 1: 0.50% of the Series D net asset value up to \$200 000 000 and 0.40% of the Series D net asset value of the Fund in excess of \$200 000 000.

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%

June 30, 2013

Initial investments (\$000s except unit amounts)

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

	June 30 2013	December 31 2012
Units held		
Series C	51	51
Advisor Series	102	101
Series D	1 178 491	524 909
Series F	51	51
Value of all units	\$ 11 787	\$ 5 251

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 June 30
(see note 2 in the generic notes)

	2013	2012
Series C		
Opening units	682	1 167
Issued number of units	209	243
Reinvested number of units	2	3
Redeemed number of units	(307)	(584)
Ending number of units	586	829
Advisor Series		
Opening units	141	850
Issued number of units	115	122
Reinvested number of units	1	2
Redeemed number of units	(34)	(843)
Ending number of units	223	131

For the periods ended June 30
(see note 2 in the generic notes)

	2013	2012
Series B		
Opening units	–	68
Issued number of units	–	–
Reinvested number of units	–	–
Redeemed number of units	–	(4)
Ending number of units	–	64
Series D		
Opening units	29 382	43 208
Issued number of units	15 771	21 469
Reinvested number of units	91	135
Redeemed number of units	(17 017)	(23 327)
Ending number of units	28 227	41 485
Series F		
Opening units	720	866
Issued number of units	183	344
Reinvested number of units	3	3
Redeemed number of units	(267)	(517)
Ending number of units	639	696
Series O		
Opening units	94,855	111 536
Issued number of units	80,723	71 773
Reinvested number of units	574	637
Redeemed number of units	(66 502)	(61 271)
Ending number of units	109 650	122 675

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:

	June 30 2013	December 31 2012
Series O		
Phillips, Hager & North LifeTime 2015 Fund	2	1
Phillips, Hager & North LifeTime 2020 Fund	4	2
Phillips, Hager & North LifeTime 2025 Fund	4	2
Phillips, Hager & North LifeTime 2030 Fund	3	1
Phillips, Hager & North LifeTime 2035 Fund	4	2
Phillips, Hager & North LifeTime 2040 Fund	3	1
Phillips, Hager & North LifeTime 2045 Fund	4	1
Total	24	10

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 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 six-month periods ended June 30, 2013 and 2012, or as at June 30, 2013 and December 31, 2012. In the

year a Fund or series is established, “period” represents the period from inception to June 30 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.

June 30, 2013

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	HKD – Hong Kong Dollar
CAD – Canadian Dollar	JPY – Japanese Yen
CHF – Swiss Franc	MXN – Mexican Peso
EUR – Euro	SGD – Singapore Dollar
GBP – Pound Sterling	USD – United States Dollar

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. RBC Global Asset Management (U.S.) Inc. ("RBC GAM US"), a wholly owned subsidiary of Royal Bank, is the sub-advisor for the Phillips, Hager & North U.S. Multi-Style All-Cap Equity 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, RBC GAM US and Sky are paid by RBC GAM and not the Funds.

Distributors

RBC GAM, PH&N IF, 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.