

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.

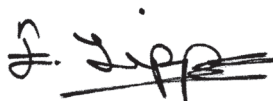
We have maintained appropriate procedures and controls to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (and they include certain amounts that are based on estimates 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 SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
AUSTRALIA BONDS						
\$ 3 397	Brookfield Infrastructure Finance Pty Ltd. CAD	3.455	10-Oct-17	\$ 3 397	\$ 3 411	
TOTAL AUSTRALIA BONDS				3 397	3 411	0.1
CANADIAN BONDS						
CORPORATE						
1 000	407 International Inc.	3.880	16-Jun-15	1 000	1 041	
21 216	AltaGas Ltd.	7.420	29-Apr-14	22 560	22 063	
1 380	AltaGas Ltd.	4.100	24-Mar-16	1 449	1 441	
1 437	AltaGas Ltd.	6.940	29-Jun-16	1 656	1 619	
2 463	AltaGas Ltd.	4.600	15-Jan-18	2 660	2 633	
714	AltaLink Investments LP	5.207	16-Dec-16	754	766	
6 080	AltaLink Investments LP	3.674	05-Jun-19	6 080	6 093	
4 000	AltaLink Investments LP	3.265	05-Jun-20	4 000	3 849	
2 920	AltaLink LP	5.243	29-May-18	3 373	3 254	
19 485	American Express Canada Credit Corp.	4.853	03-Oct-14	20 109	20 235	
11 061	Bank of Montreal	1.620	23-Mar-15	11 061	11 070	
8 000	Bank of Montreal	5.180	10-Jun-15	8 576	8 502	
18 330	Bank of Montreal	1.890	05-Oct-15	18 329	18 313	
34 760	Bank of Montreal	3.103	10-Mar-16	35 980	35 688	
18 260	Bank of Montreal	3.490	10-Jun-16	18 342	18 936	
35 914	Bank of Montreal	2.960	02-Aug-16	36 443	36 677	
14 871	Bank of Montreal	6.020	02-May-18	17 380	17 027	
2 490	Bank of Montreal	4.870	22-Apr-20	2 618	2 615	
10 955	Bank of Montreal	2.840	04-Jun-20	10 952	10 700	
3 950	Bank of Montreal	5.100	21-Apr-21	4 211	4 242	
14 300	Bank of Nova Scotia	2.250	08-May-15	14 419	14 402	
17 929	Bank of Nova Scotia	3.610	22-Feb-16	18 826	18 630	
33 420	Bank of Nova Scotia	1.800	09-May-16	33 398	33 089	
24 970	Bank of Nova Scotia	2.740	01-Dec-16	25 326	25 290	
18 790	Bank of Nova Scotia	4.100	08-Jun-17	20 248	19 895	
35 145	Bank of Nova Scotia	2.242	22-Mar-18	35 207	34 334	
9 325	Bank of Nova Scotia	6.000	03-Oct-18	9 788	9 427	
20 115	Bank of Nova Scotia	4.940	15-Apr-19	21 192	20 590	
18 776	bcIMC Realty Corp.	2.650	29-Jun-17	18 844	18 874	
2 457	bcIMC Realty Corp.	5.650	05-Jan-18	2 835	2 764	
3 962	Bell Aliant Regional Communications LP	6.290	17-Feb-15	4 254	4 216	
2 395	Bell Aliant Regional Communications LP	5.520	26-Feb-19	2 680	2 635	
4 930	Bell Aliant Regional Communications LP	3.540	12-Jun-20	4 930	4 830	
7 701	Bell Canada	4.850	30-Jun-14	8 048	7 926	
11 297	Bell Canada	4.400	16-Mar-18	11 506	11 981	
15 080	Bell Canada	3.250	17-Jun-20	15 069	14 746	
1 380	BMO Subordinated Notes Trust	5.750	26-Sep-22	1 505	1 541	
7 135	British Columbia Ferry Services Inc.	5.740	27-May-14	7 809	7 393	
20 183	Brookfield Asset Management Inc.	3.950	09-Apr-19	20 338	20 514	
5 476	Canada Safeway Ltd.	3.000	31-Mar-14	5 487	5 506	
29 065	Canadian Credit Card Trust	2.306	24-Apr-15	29 536	29 341	
5 688	Canadian Credit Card Trust	3.444	24-Jul-15	5 933	5 874	
11 570	Canadian Credit Card Trust	1.596	24-Sep-15	11 570	11 505	
300	Canadian Imperial Bank of Commerce	4.750	22-Dec-14	321	313	
1 161	Canadian Imperial Bank of Commerce	2.200	22-May-15	1 163	1 168	
23 490	Canadian Imperial Bank of Commerce	1.750	01-Jun-16	23 472	23 204	
42 931	Canadian Imperial Bank of Commerce	2.650	08-Nov-16	43 388	43 369	
332	Canadian Imperial Bank of Commerce	2.350	18-Oct-17	332	328	

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
CORPORATE (cont.)						
\$ 38 984	Canadian Imperial Bank of Commerce	2.220	07-Mar-18	\$ 38 606	\$ 38 058	
47 265	Canadian Imperial Bank of Commerce	4.110	30-Apr-20	48 603	49 042	
3 901	Canadian Natural Resources Ltd.	2.890	14-Aug-20	3 901	3 783	
6 200	Capital Desjardins Inc.	5.541	01-Jun-21	6 659	6 741	
13 460	Cards II Trust	3.096	15-Sep-15	13 949	13 832	
64 671	Cards II Trust	1.984	15-Jan-16	64 964	64 734	
5 366	Caterpillar Financial Services Ltd.	2.630	01-Jun-17	5 369	5 385	
6 250	Caterpillar Financial Services Ltd.	2.290	01-Jun-18	6 249	6 096	
2 400	Central 1 Credit Union	4.000	09-Oct-19	2 397	2 446	
5 000	CU Inc.	6.145	22-Nov-17	5 954	5 746	
940	Data Centres Trust	7.233	10-Sep-14	969	968	
6 825	Emera Inc.	4.100	20-Oct-14	7 085	7 020	
6 435	Emera Inc.	2.960	13-Dec-16	6 432	6 542	
11 922	Empire Life Insurance	6.730	20-May-19	12 452	12 392	
3 475	Enbridge Gas Distribution Inc.	5.570	29-Jan-14	3 792	3 552	
9 240	Enbridge Inc.	5.170	19-May-16	10 082	9 995	
14 104	Enbridge Inc.	5.000	09-Aug-16	15 491	15 253	
5 925	Enbridge Inc.	4.530	09-Mar-20	6 563	6 368	
7 440	Enbridge Income Fund Holdings Inc.	2.920	14-Dec-17	7 507	7 406	
9 236	Enmax Corp.	6.150	19-Jun-18	10 538	10 355	
150	EPCOR Utilities Inc.	6.750	22-Mar-16	177	168	
3 435	EPCOR Utilities Inc.	5.800	31-Jan-18	3 950	3 890	
1 312	Finning International Inc.	6.020	01-Jun-18	1 532	1 492	
3 460	Finning International Inc.	3.232	03-Jul-20	3 460	3 399	
24 408	FortisBC Holdings Inc.	5.560	15-Sep-14	26 450	25 429	
22 001	George Weston Ltd.	5.050	10-Mar-14	22 941	22 467	
1 573	Gloucester Credit Card Trust	5.376	15-May-14	1 635	1 623	
9 789	Golden Credit Card Trust	3.824	15-May-15	10 274	10 158	
28 000	HSBC Bank Canada	2.572	23-Nov-15	28 159	28 344	
26 184	HSBC Bank Canada	2.901	13-Jan-17	26 495	26 597	
11 037	HSBC Bank Canada	2.938	14-Jan-20	11 037	10 830	
1 456	Hydro One Inc.	5.000	12-Nov-13	1 556	1 474	
2 265	Hydro One Inc.	4.640	03-Mar-16	2 462	2 424	
4 550	Hydro One Inc.	4.400	01-Jun-20	5 092	4 935	
1 500	Inter Pipeline Fund	3.839	30-Jul-18	1 500	1 557	
3 917	John Deere Canada Funding Inc.	1.950	14-Jan-16	3 911	3 910	
7 499	John Deere Canada Funding Inc.	2.300	05-Jul-16	7 604	7 535	
2 863	John Deere Canada Funding Inc.	1.950	12-Apr-17	2 855	2 817	
2 550	John Deere Credit Inc.	3.900	29-Jul-13	2 547	2 555	
4 442	John Deere Financial Inc.	2.250	14-Oct-14	4 488	4 473	
1 155	Loblaw Companies Ltd.	5.400	20-Nov-13	1 196	1 172	
1 190	Loblaw Companies Ltd.	6.000	03-Mar-14	1 283	1 223	
3 815	Loblaw Companies Ltd.	4.850	08-May-14	3 999	3 909	
4 400	Lower Mattagami Energy LP	2.228	23-Oct-17	4 400	4 344	
5 810	Manulife Financial Corporation	4.896	02-Jun-14	6 054	5 974	
8 351	Molson Coors Capital Finance ULC	5.000	22-Sep-15	8 883	8 842	
39 810	National Bank of Canada	2.231	30-Jan-15	40 231	40 064	
4 210	National Bank of Canada	4.030	26-May-15	4 210	4 376	
21 431	National Bank of Canada	2.050	11-Jan-16	21 436	21 414	
5 851	National Bank of Canada	2.689	21-Aug-17	5 851	5 865	
500	National Bank of Canada	4.926	22-Dec-19	528	521	
18 606	National Bank of Canada	4.700	02-Nov-20	19 853	19 635	
6 640	NAV Canada	1.949	19-Apr-18	6 640	6 456	
686	Newfoundland Power Inc.	10.550	01-Aug-14	796	748	
3 059	Nova Gas Transmission Ltd.	11.200	01-Jun-14	3 525	3 309	
2 670	Nova Gas Transmission Ltd.	12.200	28-Feb-16	3 569	3 336	
24 295	Nova Scotia Power Inc.	5.750	01-Oct-13	26 219	24 546	

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
CORPORATE (cont.)						
\$ 2 060	Nova Scotia Power Inc.	9.750	02-Aug-19	\$ 2 873	\$ 2 792	
29 345	OMERS Realty Corp.	2.498	05-Jun-18	29 350	28 955	
3 985	OMERS Realty CTT Holdings Inc.	4.750	05-May-16	4 330	4 270	
2 913	Ontrea Inc.	4.619	09-Apr-18	2 913	3 120	
4 570	Plenary Health Hamilton LP	3.157	13-Dec-13	4 570	4 598	
3 131	Plenary Properties LTAP LP	3.801	18-Aug-14	3 194	3 181	
22 425	Rogers Communications Inc.	5.800	26-May-16	24 825	24 515	
3 432	Rogers Communications Inc.	3.000	06-Jun-17	3 429	3 462	
657	Royal Bank of Canada*	3.360	11-Jan-16	672	678	
23 499	Royal Bank of Canada*	2.070	17-Jun-16	23 494	23 425	
18 874	Royal Bank of Canada*	3.030	26-Jul-16	19 469	19 305	
24 305	Royal Bank of Canada*	2.680	08-Dec-16	24 426	24 562	
4 500	Royal Bank of Canada*	3.660	25-Jan-17	4 626	4 692	
19 840	Royal Bank of Canada*	2.580	13-Apr-17	20 151	19 927	
9 375	Royal Bank of Canada*	2.364	21-Sep-17	9 407	9 274	
55 895	Royal Bank of Canada*	2.260	12-Mar-18	55 547	54 671	
25 308	Shaw Communications Inc.	7.500	20-Nov-13	27 650	25 857	
5 645	Shaw Communications Inc.	5.700	02-Mar-17	6 150	6 192	
2 910	Shoppers Drug Mart Corp.	2.010	24-May-16	2 909	2 893	
1 260	Shoppers Drug Mart Corp.	2.360	24-May-18	1 260	1 236	
10 000	TELUS Corp.	5.950	15-Apr-15	10 859	10 693	
8 460	TELUS Corp.	3.650	25-May-16	8 457	8 779	
2 992	TELUS Corp.	4.950	15-Mar-17	3 325	3 236	
27 435	Teranet Holdings LP	3.531	16-Dec-15	27 684	28 288	
1 423	Terasen Gas Inc.	11.800	30-Sep-15	1 851	1 722	
1 575	Terasen Gas Inc.	10.300	30-Sep-16	2 082	1 954	
5 835	Thomson Reuters Corp.	5.200	01-Dec-14	6 173	6 106	
419	Toronto Hydro Corp.	5.150	14-Nov-17	478	465	
1 070	Toronto-Dominion Bank	2.948	02-Aug-16	1 086	1 096	
10 760	Toronto-Dominion Bank	2.171	02-Apr-18	10 760	10 526	
6 000	Toronto-Dominion Bank	5.480	02-Apr-20	6 438	6 362	
3 830	TransAlta Corp.	6.450	29-May-14	4 150	3 968	
6 615	TransCanada PipeLines Ltd.	5.050	20-Aug-13	7 005	6 647	
2 101	TransCanada PipeLines Ltd.	5.650	15-Jan-14	2 272	2 148	
6 186	TransCanada PipeLines Ltd.	11.100	20-Jun-14	7 356	6 701	
10 411	TransCanada PipeLines Ltd.	9.450	20-Mar-18	13 808	13 300	
12 433	Union Gas Ltd.	7.900	24-Feb-14	13 698	12 925	
11 037	Union Gas Ltd.	11.500	28-Aug-15	13 400	13 203	
3 170	Union Gas Ltd.	4.640	30-Jun-16	3 420	3 397	
4 574	Union Gas Ltd.	9.700	06-Nov-17	5 823	5 841	
3 538	Veresen Inc.	3.950	14-Mar-17	3 536	3 633	
3 660	Veresen Inc.	4.000	22-Nov-18	3 650	3 724	
15 788	Wells Fargo Financial Canada Corp.	3.970	03-Nov-14	16 535	16 244	
5 914	Westcoast Energy Inc.	8.300	30-Dec-13	6 400	6 102	
10 071	Westcoast Energy Inc.	8.500	23-Nov-15	12 269	11 497	
4 737	Westcoast Energy Inc.	3.280	15-Jan-16	4 804	4 870	
				1 697 881	1 679 006	47.0

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
FEDERAL						
\$ 6 361	Canada Housing Trust No. 1	2.950	15-Mar-15	\$ 6 584	\$ 6 537	
151 882	Canada Housing Trust No. 1	1.700	15-Dec-17	150 429	149 782	
44 956	Canada Housing Trust No. 1	1.750	15-Jun-18	44 055	44 133	
21 726	Canada Housing Trust No. 1	4.100	15-Dec-18	24 377	23 775	
15 374	Government of Canada	2.500	01-Sep-13	15 420	15 409	
3 455	Government of Canada	3.000	01-Jun-14	3 518	3 513	
30	Government of Canada	3.000	01-Dec-15	32	31	
2 967	Government of Canada	2.000	01-Jun-16	3 016	3 017	
18 353	Government of Canada	1.500	01-Sep-17	18 214	18 177	
14 952	Government of Canada	1.250	01-Mar-18	14 602	14 585	
				280 247	278 959	7.8
PROVINCIAL/MUNICIPAL						
54 097	Cadillac Fairview Finance Trust	3.240	25-Jan-16	55 693	55 873	
3 000	Cadillac Fairview Finance Trust	3.640	09-May-18	3 146	3 138	
54 119	Province of Ontario	1.900	08-Sep-17	54 209	53 559	
13 926	Province of Ontario	4.200	08-Mar-18	15 438	15 101	
38 122	Province of Ontario	2.100	08-Sep-18	37 549	37 547	
				166 035	165 218	4.6
TOTAL CANADIAN BONDS						
				2 144 163	2 123 183	59.4
UNITED KINGDOM BONDS						
7 202	BAA Funding Ltd. CAD	4.000	03-Jul-19	7 156	7 399	
34 510	National Grid Electricity Transmission Plc. CAD	2.730	20-Sep-17	34 704	34 320	
14 915	National Grid Electricity Transmission Plc. CAD	2.900	26-Nov-19	14 948	14 620	
TOTAL UNITED KINGDOM BONDS						
				56 808	56 339	1.6
UNITED STATES BONDS						
10 351	Anheuser-Busch InBev Finance Inc. CAD	2.375	25-Jan-18	10 301	10 222	
30 638	Anheuser-Busch InBev Worldwide Inc. CAD	3.650	15-Jan-16	31 752	31 819	
4 600	Bank of America Corp. CAD	5.450	17-Sep-14	4 720	4 787	
22 615	Bank of America Corp. CAD	1.818	01-Jun-16	23 030	21 880	
865	John Deere Credit Inc.	5.450	16-Sep-15	945	931	
3 662	JPMorgan Chase & Co. CAD	2.920	19-Sep-17	3 671	3 635	
12 092	Molson Coors International LP CAD	3.950	06-Oct-17	12 190	12 402	
TOTAL UNITED STATES BONDS						
				86 609	85 676	2.4
TOTAL BONDS						
				2 290 977	2 268 609	63.5
MORTGAGE-BACKED SECURITIES						
13 921	Canadian Mortgage Pools	2.500	01-Jun-15	13 734	14 119	
11 137	Canadian Mortgage Pools	1.950	01-Sep-15	10 997	11 201	
7 334	Canadian Mortgage Pools	2.170	01-Sep-15	7 296	7 401	
10 321	Canadian Mortgage Pools	2.750	01-Nov-15	10 266	10 539	
14 823	Canadian Mortgage Pools	0.650	01-Jun-16	14 547	14 468	
23 502	Canadian Mortgage Pools	1.200	01-Aug-16	23 302	23 127	
8 009	Canadian Mortgage Pools	1.500	01-Sep-16	7 775	7 930	
1 618	Canadian Mortgage Pools	1.500	01-Dec-16	1 589	1 600	
11 771	Canadian Mortgage Pools	1.700	01-Aug-17	11 566	11 613	
14 185	Canadian Mortgage Pools	1.500	01-Sep-17	14 059	13 873	
13 547	Canadian Mortgage Pools	1.250	01-Dec-17	13 312	13 109	
20 664	Canadian Mortgage Pools	1.650	01-Apr-18	20 267	20 174	
20 770	Canadian Mortgage Pools	2.050	01-Jun-18	20 656	20 485	
TOTAL MORTGAGE-BACKED SECURITIES						
				169 366	169 639	4.7
MORTGAGES (SCHEDULE A)						
				565 036	563 002	15.8

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

Par Value	Security	Cost	Fair Value	% of Net Assets
SHORT-TERM INVESTMENTS†				
\$ 18 125	Brookfield Asset Management Inc., Class A	\$ 18 116	\$ 18 116	
17 025	Canadian Master Trust - Series A	16 944	16 944	
21 150	Clarity Trust	21 054	21 054	
51 025	Darwin Receivables Trust - Senior Notes	50 699	50 699	
80 975	Fusion Trust	80 528	80 528	
5 000	HSBC Bank Canada	4 996	4 996	
114 925	Inter Pipeline Fund	114 573	114 573	
38 225	King Street Funding Trust	38 112	38 112	
10 650	McCain Financial Canada	10 633	10 633	
41 015	Merit Trust - Senior Notes	40 755	40 755	
81 400	Prime Trust - Senior Notes	81 068	81 068	
41 050	Reliant Trust	40 788	40 788	
15 500	Ridge Trust	15 405	15 405	
11 525	TransCanada PipeLines Ltd.	11 515	11 515	
18 650	Zeus Receivables Trust - Senior Notes	18 534	18 534	
TOTAL SHORT-TERM INVESTMENTS		563 720	563 720	15.8
TOTAL INVESTMENTS		\$ 3 589 099	3 564 970	99.8
OTHER NET ASSETS			5 584	0.2
NET ASSETS			\$ 3 570 554	100.0

* Investment in related party (see note 7 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, and are grouped by issuer, earn interest at rates ranging from 1.16% to 1.40% and mature between July 2, 2013 and December 10, 2013.

**SCHEDULE A
MORTGAGES**

Number of Loans	Interest Rate (%)	Principal 2013	2014	2015	2016	2017	2018	2019	Cost	Fair Value	% of Net Assets
1	1.75-1.99	\$ 1 787	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1 787	\$ 1 787	
1	2.00-2.24	—	—	623	—	—	—	—	623	626	
17	3.00-3.24	8 655	23 781	49 150	—	20 058	423	—	102 274	101 577	
21	3.25-3.49	425	5 246	21 063	16 307	20 718	26 419	19 752	110 316	108 159	
38	3.50-3.74	3 140	—	2 524	8 303	48 652	18 616	49 653	131 344	128 514	
36	3.75-3.99	14 111	15 320	4 777	345	—	15 271	—	52 763	52 598	
16	4.00-4.24	439	5 603	12 113	9 283	—	—	210	27 753	28 084	
18	4.25-4.49	—	—	50 734	7 152	3 833	—	—	61 982	63 094	
16	4.50-4.74	—	775	12 510	4 484	8 120	5 600	—	31 700	32 697	
13	4.75-4.99	743	2 367	4 235	1 051	5 365	5 660	—	19 506	20 002	
4	5.00-5.24	—	—	4 365	—	—	—	—	4 388	4 542	
2	5.25-5.49	5 677	—	—	—	—	1 431	—	7 145	7 181	
5	5.50-5.74	—	1 125	—	7 718	—	—	—	8 890	9 426	
2	5.75-5.99	—	2 023	—	—	—	—	—	2 031	2 087	
3	6.00-6.24	—	2 000	—	—	519	—	—	2 534	2 628	
193		\$ 34 977	\$ 58 240	\$ 162 094	\$ 54 643	\$ 107 265	\$ 73 420	\$ 69 615	\$ 565 036	\$ 563 002	15.8

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

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	\$ 3 564 970	\$ 3 475 977
Cash	1 180	377
Due from investment dealers	259 706	–
Subscriptions receivable	2 184	4 112
Dividends receivable, interest accrued and other assets	20 489	18 207
TOTAL ASSETS	3 848 529	3 498 673
LIABILITIES		
Due to investment dealers	269 490	3 129
Redemptions payable	7 840	1 380
Accounts payable and accrued expenses	645	718
TOTAL LIABILITIES	277 975	5 227
NET ASSETS	\$ 3 570 554	\$ 3 493 446
Investments at cost	\$ 3 589 099	\$ 3 469 116
NET ASSETS, END OF PERIOD		
SERIES C	\$ 275 989	\$ 317 878
ADVISOR SERIES	\$ 32 198	\$ 36 641
SERIES H	\$ 39 895	\$ 42 654
SERIES B†	\$ –	\$ –
SERIES D	\$ 234 419	\$ 269 989
SERIES F	\$ 107 011	\$ 114 991
SERIES I	\$ 20 325	\$ 19 529
SERIES O	\$ 2 860 717	\$ 2 691 764
NET ASSETS PER UNIT, END OF PERIOD		
SERIES C	\$ 10.41	\$ 10.50
ADVISOR SERIES	\$ 10.41	\$ 10.50
SERIES H	\$ 10.41	\$ 10.51
SERIES B†	\$ –	\$ –
SERIES D	\$ 10.37	\$ 10.47
SERIES F	\$ 10.35	\$ 10.45
SERIES I	\$ 10.34	\$ 10.45
SERIES O	\$ 10.08	\$ 10.17
NET ASSET VALUE (TRANSACTIONAL NAV) PER UNIT, END OF PERIOD (see note 3 in the generic notes)		
SERIES C	\$ 10.42	\$ 10.51
ADVISOR SERIES	\$ 10.42	\$ 10.51
SERIES H	\$ 10.42	\$ 10.52
SERIES B†	\$ –	\$ –
SERIES D	\$ 10.38	\$ 10.47
SERIES F	\$ 10.36	\$ 10.46
SERIES I	\$ 10.35	\$ 10.45
SERIES O	\$ 10.09	\$ 10.17

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 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	\$ 54 635	\$ 44 693
TOTAL INCOME (LOSS)	54 635	44 693
EXPENSES (see notes – Fund Specific Information)		
Management fees	2 768	2 955
Administration fees	901	734
Board of Governors costs	2	2
GST/HST	385	377
TOTAL EXPENSES	4 056	4 068
NET INVESTMENT INCOME (LOSS)	50 579	40 625
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on investments	(4 515)	(6 180)
Change in unrealized gain (loss) on investments	(30 990)	1 673
NET GAIN (LOSS) ON INVESTMENTS	(35 505)	(4 507)
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
	\$ 15 074	\$ 36 118
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
SERIES C	\$ 99	\$ 2 708
ADVISOR SERIES	\$ 10	\$ 296
SERIES H	\$ 19	\$ –
SERIES B†	\$ –	\$ 4
SERIES D	\$ 777	\$ 3 053
SERIES F	\$ 290	\$ 1 336
SERIES I	\$ 50	\$ –
SERIES O	\$ 13 829	\$ 28 721
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT		
SERIES C	\$ –	\$ 0.09
ADVISOR SERIES	\$ –	\$ 0.09
SERIES H	\$ 0.01	\$ –
SERIES B†	\$ –	\$ 0.11
SERIES D	\$ 0.03	\$ 0.12
SERIES F	\$ 0.03	\$ 0.12
SERIES I	\$ 0.03	\$ –
SERIES O	\$ 0.05	\$ 0.14

* Series H and Series I launched July 2012.

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

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 H		Series B [†]	
	2013	2012	2013	2012	2013	2012	2013	2012
NET ASSETS – BEGINNING OF PERIOD	\$ 317 878	\$ 334 238	\$ 36 641	\$ 27 675	\$ 42 654	\$ –	\$ –	\$ 358
INCREASE (DECREASE) FROM OPERATIONS	99	2 708	10	296	19	–	–	4
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from units issued	43 897	82 001	6 060	21 583	10 055	–	–	–
Proceeds from reinvestment of distributions	2 244	3 344	235	374	385	–	–	4
Payments on redemption of units	(85 666)	(67 592)	(10 459)	(4 677)	(12 822)	–	–	(11)
TOTAL UNIT TRANSACTIONS	(39 525)	17 753	(4 164)	17 280	(2 382)	–	–	(7)
Distributions from net income	(2 463)	(3 649)	(289)	(428)	(396)	–	–	(4)
Distributions from net gains	–	–	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(2 463)	(3 649)	(289)	(428)	(396)	–	–	(4)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(41 889)	16 812	(4 443)	17 148	(2 759)	–	–	(7)
NET ASSETS – END OF PERIOD	\$ 275 989	\$ 351 050	\$ 32 198	\$ 44 823	\$ 39 895	\$ –	\$ –	\$ 351

For the periods ended June 30 (see note 2 in the generic notes)*	Series D		Series F		Series I	
	2013	2012	2013	2012	2013	2012
NET ASSETS – BEGINNING OF PERIOD	\$ 269 989	\$ 290 420	\$ 114 991	\$ 121 077	\$ 19 529	\$ –
INCREASE (DECREASE) FROM OPERATIONS	777	3 053	290	1 336	50	–
Early redemption fees	–	2	–	–	–	–
Proceeds from units issued	35 444	43 290	23 769	40 893	4 143	–
Proceeds from reinvestment of distributions	2 535	3 469	857	1 288	146	–
Payments on redemption of units	(71 534)	(43 816)	(31 654)	(26 792)	(3 296)	–
TOTAL UNIT TRANSACTIONS	(33 555)	2 945	(7 028)	15 389	993	–
Distributions from net income	(2 792)	(3 890)	(1 242)	(1 732)	(247)	–
Distributions from net gains	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(2 792)	(3 890)	(1 242)	(1 732)	(247)	–
TOTAL INCREASE (DECREASE) IN NET ASSETS	(35 570)	2 108	(7 980)	14 993	796	–
NET ASSETS – END OF PERIOD	\$ 234 419	\$ 292 528	\$ 107 011	\$ 136 070	\$ 20 325	\$ –

For the periods ended June 30 (see note 2 in the generic notes)*	Series O		Total	
	2013	2012	2013	2012
NET ASSETS – BEGINNING OF PERIOD	\$ 2 691 764	\$ 2 005 149	\$ 3 493 446	\$ 2 778 917
INCREASE (DECREASE) FROM OPERATIONS	13 829	28 721	15 074	36 118
Early redemption fees	–	4	–	6
Proceeds from units issued	490 379	683 651	613 747	871 418
Proceeds from reinvestment of distributions	38 844	34 078	45 246	42 557
Payments on redemption of units	(334 504)	(392 928)	(549 935)	(535 816)
TOTAL UNIT TRANSACTIONS	194 719	324 805	109 058	378 165
Distributions from net income	(39 595)	(34 727)	(47 024)	(44 430)
Distributions from net gains	–	–	–	–
Distributions from capital	–	–	–	–
TOTAL DISTRIBUTIONS	(39 595)	(34 727)	(47 024)	(44 430)
TOTAL INCREASE (DECREASE) IN NET ASSETS	168 953	318 799	77 108	369 853
NET ASSETS – END OF PERIOD	\$ 2 860 717	\$ 2 323 948	\$ 3 570 554	\$ 3 148 770

* Series H and Series I launched July 2012.

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

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

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

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
AAA	21.7	14.2
AA	28.1	34.7
A	15.8	17.1
BBB	15.6	15.0
Unrated*	18.8	19.0
Total	100.0	100.0

* Mortgages represent 100% (December 31, 2012 – 100%) of the unrated above. 6.6% (December 31, 2012 – 9.9%) of the mortgages are Canada Mortgage and Housing Corporation ("CMHC") guaranteed mortgages, and therefore have the backing of an AAA rated issuer. To manage the credit risk on the remaining 93.4% (December 31, 2012 – 90.1%), which are conventional mortgages, the Fund only purchases mortgages that are no more than 75% of the value of the property and the net income generated by the property must be at least 1.2x the income required to pay the monthly debt service requirements. These statistics are monitored on an ongoing basis both at the individual security level and on an aggregate level.

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
Less than 1 year	13.2	18.1
1 – 5 years	77.8	69.9
5 – 10 years	9.0	12.0
> 10 years	–	–
Total	100.0	100.0

As at June 30, 2013, 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 2.5% (December 31, 2012 – 2.1%). 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 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	–	3 001 250	–	3 001 250
Short-term investments	–	563 720	–	563 720
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	3 564 970	–	3 564 970
% 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	–	2 504 350	–	2 504 350
Short-term investments	–	971 627	–	971 627
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	3 475 977	–	3 475 977
% 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	1.00%
Advisor Series	1.00%
Series H	0.90%
Series B	0.75%
Series D	0.50%
Series F	0.50%
Series I	0.40%

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

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 H	0.05%
Series B	0.05%
Series D	0.05%
Series F	0.05%
Series I	0.05%
Series O	0.05%

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	50	50
Advisor Series	100	99
Series H	97	96
Series D	51	50
Series F	51	50
Series I	98	96
Value of all units	\$ 5	\$ 5

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

The capital losses as at December 31, 2012 for the Fund were \$4 858. The Fund had no non-capital losses.

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	30 262	31 740
Issued number of units	4 167	7 777
Reinvested number of units	214	318
Redeemed number of units	(8 135)	(6 412)
Ending number of units	26 508	33 423
Advisor Series		
Opening units	3 489	2 628
Issued number of units	574	2 048
Reinvested number of units	22	36
Redeemed number of units	(993)	(444)
Ending number of units	3 092	4 268
Series H		
Opening units	4 060	–
Issued number of units	953	–
Reinvested number of units	37	–
Redeemed number of units	(1 218)	–
Ending number of units	3 832	–
Series B		
Opening units	–	34
Issued number of units	–	–
Reinvested number of units	–	–
Redeemed number of units	–	(1)
Ending number of units	–	33
Series D		
Opening units	25 799	27 674
Issued number of units	3 378	4 119
Reinvested number of units	243	331
Redeemed number of units	(6 816)	(4 170)
Ending number of units	22 604	27 954
Series F		
Opening units	11 007	11 557
Issued number of units	2 268	3 897
Reinvested number of units	82	123
Redeemed number of units	(3 020)	(2 552)
Ending number of units	10 337	13 025
Series I		
Opening units	1 869	–
Issued number of units	395	–
Reinvested number of units	14	–
Redeemed number of units	(314)	–
Ending number of units	1 964	–
Series O		
Opening units	264 796	196 807
Issued number of units	48 040	66 935
Reinvested number of units	3 830	3 349
Redeemed number of units	(32 807)	(38 439)
Ending number of units	283 859	228 652

PHILLIPS, HAGER & NORTH SHORT TERM BOND & MORTGAGE FUND

June 30, 2013

**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 0		
RBC Select Choices Conservative Portfolio	2 364	2 190
RBC Select Choices Balanced Portfolio	2 379	2 132
Phillips, Hager & North PRisM Balanced Fund	42 476	44 945
RBC Monthly Income Bond Fund	46 775	43 953
RBC Select Very Conservative Portfolio	65 970	52 970
RBC Select Very Conservative Class	743	164
RBC Target 2015 Education Fund	1 895	–
Total	162 602	146 354

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.