

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.

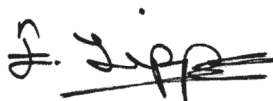
We have maintained appropriate procedures and controls to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (and they include certain amounts that are based on estimates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

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
CANADIAN BONDS						
\$ 33 925	Atlantic Power LP	5.950	23-Jun-36	\$ 23 513	\$ 24 116	
3 815	Baytex Energy Corp. USD	6.750	17-Feb-21	4 118	4 123	
56 000	Baytex Energy Corp.	6.625	19-Jul-22	56 453	58 708	
7 000	Brookfield Residential Properties Inc. USD	6.500	15-Dec-20	6 904	7 419	
10 000	Brookfield Residential Properties Inc. USD	6.125	01-Jul-22	10 209	10 322	
28 000	Canadian Energy Services & Technology Corp.	7.375	17-Apr-20	28 070	28 142	
25 000	CWB Capital Trust	6.199	31-Dec-56	25 000	26 139	
15 000	Eldorado Gold Corp. USD	6.125	15-Dec-20	14 801	15 226	
15 830	Extencicare Inc., Convertible	5.700	30-Jun-14	14 419	15 909	
10 500	Flint Energy Services Ltd.	7.500	15-Jun-19	11 668	11 624	
15 000	GFL Environmental Corp.	7.500	18-Jun-18	15 000	14 963	
28 000	Gibson Energy Inc.	7.000	15-Jul-20	27 617	28 070	
60 460	Great Canadian Gaming Corp.	6.625	25-Jul-22	61 735	61 832	
8 370	Harvest Operations Corp. USD	6.875	01-Oct-17	8 567	9 817	
5 539	InnVest Real Estate Investment Trust, Convertible	6.750	31-Mar-16	5 407	5 608	
10 000	Island Timberlands LP USD	6.160	30-Aug-25	12 122	12 334	
53 400	Kruger Products LP	8.000	09-Aug-18	54 199	57 138	
39 911	MI Developments Inc.	6.050	22-Dec-16	38 395	42 520	
40 000	MPL 2 Acquisition Canco Inc. USD	9.875	15-Aug-18	37 438	41 760	
55 865	Newalta Corp.	7.625	23-Nov-17	59 262	58 450	
37 060	Newalta Corp.	7.750	14-Nov-19	38 249	39 531	
15 333	Noranda Operating Trust	6.875	28-Dec-16	15 354	15 755	
23 000	Precision Drilling Corp.	6.500	15-Mar-19	23 000	23 537	
56 400	Quebecor Media Inc.	7.375	15-Jan-21	59 792	60 701	
176 500	Quebecor Media Inc.	6.625	15-Jan-23	178 230	180 560	
35 120	Retirement Residences Real Estate Investment Trust, Convertible	5.500	31-Mar-15	32 210	35 120	
13 000	Savanna Energy Services Corp.	7.000	25-May-18	13 050	13 238	
19 435	Superior Plus Corp.	8.250	27-Oct-16	19 779	20 528	
65 000	Trilogy Energy Corp.	7.250	13-Dec-19	66 603	67 194	
27 093	Vermilion Energy Inc.	6.500	10-Feb-16	27 777	27 831	
13 240	Videotron Ltd. USD	6.375	15-Dec-15	13 546	14 084	
30 910	Videotron Ltd. USD	9.125	15-Apr-18	35 097	34 099	
27 100	Videotron Ltd.	7.125	15-Jan-20	29 468	29 145	
31 500	Videotron Ltd.	6.875	15-Jul-21	34 037	33 824	
21 000	Videotron Ltd.	5.625	15-Jun-25	20 936	20 049	
34 870	Western Energy Services Corp.	7.875	30-Jan-19	35 258	35 502	
				1 157 283	1 184 918	36.7
LUXEMBOURG BONDS						
3 000	Intelsat Jackson Holdings S.A. USD	8.500	01-Nov-19	3 324	3 400	
84 401	Intelsat Jackson Holdings S.A. USD	7.250	15-Oct-20	94 930	93 220	
				98 254	96 620	3.0
NETHERLANDS BONDS						
16 402	Nielsen Finance LLC	7.750	15-Oct-18	18 215	18 547	
11 500	Schaeffler Finance BV USD	7.750	15-Feb-17	12 192	13 367	
12 500	Schaeffler Finance BV USD	8.500	15-Feb-19	14 162	14 661	
				44 569	46 575	1.4
UNITED KINGDOM BONDS						
4 303	Virgin Media Finance Plc. USD	8.375	15-Oct-19	4 951	4 911	
40 183	Virgin Media Secured Finance Plc. USD	6.500	15-Jan-18	44 214	43 431	
				49 165	48 342	1.5

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

PHILLIPS, HAGER & NORTH HIGH YIELD BOND FUND

June 30, 2013

Par Value	Security	Coupon Rate %	Maturity	Cost	Fair Value	% of Net Assets
UNITED STATES BONDS						
\$ 7 786	Cablevision Systems Corp.	8.625	15-Sep-17	\$ 9 087	\$ 9 296	
2 338	Cablevision Systems Corp.	7.750	15-Apr-18	2 591	2 644	
47 700	Cablevision Systems Corp.	5.875	15-Sep-22	46 484	48 545	
4 737	CB Richard Ellis Services Inc.	6.625	15-Oct-20	5 343	5 257	
96 288	CCO Holdings LLC	7.000	15-Jan-19	105 241	107 362	
48 912	CCO Holdings LLC	8.125	30-Apr-20	55 937	56 210	
65 250	CCO Holdings LLC	7.375	01-Jun-20	74 015	74 642	
38 000	Citigroup Inc. CAD	4.650	11-Oct-22	35 349	38 674	
130 611	Citigroup Inc. CAD	5.160	24-May-27	115 473	126 372	
30 398	CSC Holdings LLC	6.750	15-Nov-21	33 520	34 454	
24 700	DaVita HealthCare Partners Inc.	6.625	01-Nov-20	27 574	27 541	
14 190	Emergency Medical Services Corp.	8.125	01-Jun-19	16 125	15 859	
43 206	EP Energy LLC	6.875	01-May-19	45 377	48 630	
9 242	Equinix Inc.	7.000	15-Jul-21	10 689	10 548	
10 145	Frontier Oil Corp.	6.875	15-Nov-18	11 305	11 445	
46 500	Goldman Sachs Group Inc. CAD	5.200	19-Apr-22	44 716	46 701	
142 000	Hawk Acquisition Sub Inc.	4.250	15-Oct-20	144 372	142 835	
19 061	HCA Inc.	8.500	15-Apr-19	21 360	21 516	
20 580	HCA Inc.	7.875	15-Feb-20	23 400	23 312	
52 773	HCA Inc.	7.250	15-Sep-20	59 525	59 606	
19 275	Holly Energy Finance Corp.	8.250	15-Mar-18	21 091	21 441	
16 000	Hornbeck Offshore Services Inc.	5.000	01-Mar-21	16 373	15 610	
43 688	Host Hotels & Resorts LP	6.750	01-Jun-16	45 091	46 635	
7 000	Hot Topic Inc.	9.250	15-Jun-21	7 083	7 455	
18 314	Icahn Enterprises LP	8.000	15-Jan-18	19 695	20 228	
16 313	Lynx II Corp.	6.375	15-Apr-23	17 389	17 288	
171 860	Merrill Lynch & Co. Inc. CAD	5.290	30-May-22	167 898	174 132	
7 198	MetroPCS Wireless Inc.	7.875	01-Sep-18	8 035	8 064	
32 000	MetroPCS Wireless Inc.	6.250	01-Apr-21	33 045	34 250	
98 945	MetroPCS Wireless Inc.	6.625	01-Apr-23	104 196	105 902	
24 680	NOVA Chemicals Corp. USD	8.375	01-Nov-16	26 925	27 454	
8 280	Petrohawk Energy Corp.	10.500	01-Aug-14	8 769	9 154	
61 209	Petrohawk Energy Corp.	7.875	01-Jun-15	64 006	65 770	
32 100	QVC Inc.	7.375	15-Oct-20	36 223	36 828	
6 000	Regal Entertainment Group	5.750	15-Jun-23	6 211	6 106	
22 000	Resolute Forest Products Inc.	5.875	15-May-23	22 162	20 654	
48 459	Reynolds Group Issuer Inc.	7.125	15-Apr-19	51 450	53 841	
9 630	Reynolds Group Issuer Inc.	7.875	15-Aug-19	10 813	11 041	
45 000	Reynolds Group Issuer Inc.	5.750	15-Oct-20	43 787	47 691	
60 820	Reynolds Group Issuer Inc.	6.875	15-Feb-21	66 224	67 175	
2 100	Sabine Pass Liquefaction LLC	5.625	01-Feb-21	2 134	2 143	
77 901	Sabine Pass Liquefaction LLC	5.625	15-Apr-23	79 016	77 437	
25 000	Sabine Pass LNG LP	6.500	01-Nov-20	24 989	26 560	
10 775	The Hertz Corp.	7.500	15-Oct-18	12 173	12 156	
4 000	Wells Enterprises Inc.	6.750	01-Feb-20	3 936	4 407	
8 881	Wynn Las Vegas LLC Corp.	7.875	01-May-20	9 781	10 253	
4 000	Wynn Las Vegas LLC Corp.	7.750	15-Aug-20	4 437	4 672	
				1 800 415	1 845 796	57.2
TOTAL INVESTMENTS				3 149 686	3 222 251	99.8
UNREALIZED GAIN (LOSS) ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)				-	(43 250)	(1.3)
TOTAL PORTFOLIO				<u>\$ 3 149 686</u>	<u>3 179 001</u>	<u>98.5</u>
OTHER NET ASSETS					49 390	1.5
NET ASSETS					<u>\$ 3 228 391</u>	<u>100.0</u>

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

June 30, 2013

SCHEDULE A**Foreign Exchange Contracts**

Contracts	Maturity Date	Unrealized Gain (Loss)
Bought CAD 61 143 Sold USD 60 000 @ 1.0191	02-Jul-13	\$ (1 971)
Bought USD 50 000 Sold CAD 52 520 @ 0.9520	02-Jul-13	75
Bought CAD 10 185 Sold USD 10 000 @ 1.0185	05-Jul-13	(335)
Bought CAD 20 558 Sold USD 20 000 @ 1.0279	05-Jul-13	(481)
Bought CAD 72 105 Sold USD 71 000 @ 1.0156	05-Jul-13	(2 583)
Bought CAD 92 527 Sold USD 90 000 @ 1.0281	22-Jul-13	(2 185)
Bought CAD 103 613 Sold USD 100 000 @ 1.0361	19-Aug-13	(1 695)
Bought CAD 122 300 Sold USD 120 000 @ 1.0192	19-Aug-13	(4 069)
Bought CAD 113 537 Sold USD 110 000 @ 1.0322	21-Aug-13	(2 308)
Bought CAD 92 519 Sold USD 90 000 @ 1.0280	21-Aug-13	(2 263)
Bought CAD 259 055 Sold USD 250 000 @ 1.0362	28-Aug-13	(4 275)
Bought CAD 258 298 Sold USD 250 000 @ 1.0332	30-Aug-13	(5 045)
Bought CAD 238 333 Sold USD 230 000 @ 1.0362	04-Sep-13	(3 971)
Bought CAD 71 981 Sold USD 70 000 @ 1.0283	09-Sep-13	(1 772)
Bought CAD 245 335 Sold USD 240 000 @ 1.0222	11-Sep-13	(7 545)
Bought CAD 82 529 Sold USD 81 000 @ 1.0189	16-Sep-13	(2 827)
TOTAL FOREIGN EXCHANGE		\$ (43 250)

All counterparties have a credit rating of at least A.

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	\$ 3 222 251	\$ 3 158 846
Cash	12 740	84 150
Due from investment dealers	6 087	7 595
Subscriptions receivable	1 909	1 517
Unrealized gain on foreign exchange contracts	–	2 340
Dividends receivable, interest accrued and other assets	41 089	40 363
TOTAL ASSETS	3 284 076	3 294 811
LIABILITIES		
Due to investment dealers	6 512	–
Redemptions payable	4 593	2 119
Unrealized loss on foreign exchange contracts	43 250	–
Distributions payable	1	–
Accounts payable and accrued expenses	1 329	1 470
TOTAL LIABILITIES	55 685	3 589
NET ASSETS	\$ 3 228 391	\$ 3 291 222
Investments at cost	\$ 3 149 686	\$ 3 058 217
NET ASSETS, END OF PERIOD		
SERIES C	\$ 443 757	\$ 466 847
ADVISOR SERIES	\$ 14 894	\$ 14 308
SERIES B*	\$ –	\$ –
SERIES D	\$ 690 816	\$ 771 631
SERIES F	\$ 287 298	\$ 334 286
SERIES O	\$ 1 791 626	\$ 1 704 150
NET ASSETS PER UNIT, END OF PERIOD		
SERIES C	\$ 12.02	\$ 12.19
ADVISOR SERIES	\$ 12.02	\$ 12.19
SERIES B*	\$ –	\$ –
SERIES D	\$ 11.90	\$ 12.07
SERIES F	\$ 11.96	\$ 12.14
SERIES O	\$ 11.49	\$ 11.66
NET ASSET VALUE (TRANSACTIONAL NAV) PER UNIT, END OF PERIOD (see note 3 in the generic notes)		
SERIES C	\$ 12.05	\$ 12.22
ADVISOR SERIES	\$ 12.05	\$ 12.22
SERIES B*	\$ –	\$ –
SERIES D	\$ 11.93	\$ 12.11
SERIES F	\$ 12.00	\$ 12.17
SERIES O	\$ 11.52	\$ 11.69

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	\$ 101 887	\$ 100 087
TOTAL INCOME (LOSS)	101 887	100 087
EXPENSES (see notes – Fund Specific Information)		
Management fees	6 919	7 089
Administration fees	649	614
Board of Governors costs	2	2
GST/HST	820	817
TOTAL EXPENSES	8 390	8 522
NET INVESTMENT INCOME (LOSS)	93 497	91 565
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on investments	54 160	(482)
Net gain (loss) on foreign currencies and other net assets	(33 931)	31 768
Change in unrealized gain (loss) on investments	(73 654)	35 649
NET GAIN (LOSS) ON INVESTMENTS	(53 425)	66 935
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
	\$ 40 072	\$ 158 500
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
SERIES C	\$ 3 653	\$ 21 856
ADVISOR SERIES	\$ 99	\$ 560
SERIES B*	\$ –	\$ 353
SERIES D	\$ 8 248	\$ 38 353
SERIES F	\$ 3 796	\$ 17 408
SERIES O	\$ 24 276	\$ 79 970
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT		
SERIES C	\$ 0.08	\$ 0.57
ADVISOR SERIES	\$ 0.08	\$ 0.57
SERIES B*	\$ –	\$ 0.59
SERIES D	\$ 0.12	\$ 0.60
SERIES F	\$ 0.13	\$ 0.60
SERIES O	\$ 0.17	\$ 0.63

* 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	\$ 466 847	\$ 451 585	\$ 14 308	\$ 10 717	\$ –	\$ 7 349	\$ 771 631	\$ 738 334
INCREASE (DECREASE) FROM OPERATIONS	3 653	21 856	99	560	–	353	8 248	38 353
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from units issued	24 239	32 841	1 941	2 277	–	8	67 836	65 644
Proceeds from reinvestment of distributions	8 248	8 119	200	159	–	139	16 032	16 217
Payments on redemption of units	(49 568)	(46 063)	(1 337)	(328)	–	(1 175)	(155 141)	(64 965)
TOTAL UNIT TRANSACTIONS	(17 081)	(5 103)	804	2 108	–	(1 028)	(71 273)	16 896
Distributions from net income	(9 662)	(9 433)	(317)	(260)	–	(151)	(17 790)	(17 952)
Distributions from net gains	–	–	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(9 662)	(9 433)	(317)	(260)	–	(151)	(17 790)	(17 952)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(23 090)	7 320	586	2 408	–	(826)	(80 815)	37 297
NET ASSETS – END OF PERIOD	\$ 443 757	\$ 458 905	\$ 14 894	\$ 13 125	\$ –	\$ 6 523	\$ 690 816	\$ 775 631

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	\$ 334 286	\$ 352 865	\$ 1 704 150	\$ 1 388 384	\$ 3 291 222	\$ 2 949 234
INCREASE (DECREASE) FROM OPERATIONS	3 796	17 408	24 276	79 970	40 072	158 500
Early redemption fees	–	–	–	–	–	–
Proceeds from units issued	17 745	28 347	266 452	201 600	378 213	330 717
Proceeds from reinvestment of distributions	5 685	5 975	33 290	25 389	63 455	55 998
Payments on redemption of units	(66 634)	(59 483)	(185 017)	(141 242)	(457 697)	(313 256)
TOTAL UNIT TRANSACTIONS	(43 204)	(25 161)	114 725	85 747	(16 029)	73 459
Distributions from net income	(7 580)	(7 818)	(51 525)	(41 128)	(86 874)	(76 742)
Distributions from net gains	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	(7 580)	(7 818)	(51 525)	(41 128)	(86 874)	(76 742)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(46 988)	(15 571)	87 476	124 589	(62 831)	155 217
NET ASSETS – END OF PERIOD	\$ 287 298	\$ 337 294	\$ 1 791 626	\$ 1 512 973	\$ 3 228 391	\$ 3 104 451

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

PHILLIPS, HAGER & NORTH HIGH YIELD BOND FUND

June 30, 2013

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

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

Credit risk (%)

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

Rating	June 30 2013	December 31 2012
A	0.8	9.2
BBB	18.1	24.5
BB	28.7	26.4
B	50.6	32.1
Unrated*	1.8	7.8
Total	100.0	100.0

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

Interest rate risk (%)

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

Term to maturity	June 30 2013	December 31 2012
Less than 1 year	1.1	8.2
1 – 5 years	26.3	46.1
5 – 10 years	70.0	38.3
> 10 years	2.6	7.4
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 4.1% (December 31, 2012 – 3.2%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

Currency risk

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

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

The following is a summary of the inputs used as of 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	–	3 222 251	–	3 222 251
Short-term investments	–	–	–	–
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	(43 250)	–	(43 250)
Total financial instruments	–	3 179 001	–	3 179 001
% 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	–	3 102 466	–	3 102 466
Short-term investments	–	56 380	–	56 380
Derivatives – assets	–	2 340	–	2 340
Derivatives – liabilities	–	–	–	–
Total financial instruments	–	3 161 186	–	3 161 186
% of total portfolio	–	100.0	–	100.0

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

PHILLIPS, HAGER & NORTH HIGH YIELD BOND FUND

June 30, 2013

Management fees (see note 7 in the generic notes)

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

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

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

Operating expenses (see note 7 in the generic notes)

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

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

Initial investments (\$000s except unit amounts)

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

	June 30 2013	December 31 2012
Units held		
Series C	48	47
Advisor Series	96	94
Series D	49	48
Series F	49	48
Value of all units	\$ 3	\$ 3

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

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

Unitholders' equity (000s)

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

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

	2013	2012
Series C		
Opening units	38 311	38 439
Issued number of units	1 967	2 727
Reinvested number of units	678	674
Redeemed number of units	(4 022)	(3 822)
Ending number of units	36 934	38 018
Advisor Series		
Opening units	1 174	912
Issued number of units	158	189
Reinvested number of units	16	13
Redeemed number of units	(108)	(27)
Ending number of units	1 240	1 087
Series B		
Opening units	–	621
Issued number of units	–	1
Reinvested number of units	–	11
Redeemed number of units	–	(97)
Ending number of units	–	536
Series D		
Opening units	63 913	63 428
Issued number of units	5 552	5 507
Reinvested number of units	1 331	1 358
Redeemed number of units	(12 722)	(5 440)
Ending number of units	58 074	64 853
Series F		
Opening units	27 545	30 164
Issued number of units	1 445	2 364
Reinvested number of units	469	498
Redeemed number of units	(5 434)	(4 966)
Ending number of units	24 025	28 060
Series O		
Opening units	146 173	123 477
Issued number of units	22 584	17 501
Reinvested number of units	2 864	2 202
Redeemed number of units	(15 631)	(12 211)
Ending number of units	155 990	130 969

PHILLIPS, HAGER & NORTH HIGH YIELD BOND 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 Balanced Portfolio	1 033	932
RBC Select Choices Growth Portfolio	779	664
Phillips, Hager & North Total Return Bond Fund	9 501	7 500
Phillips, Hager & North PRisM Balanced Fund	2 307	1 913
Phillips, Hager & North Enhanced Total Return Bond Fund	2 075	1 615
Phillips, Hager & North Monthly Income Fund	9 671	9 394
Phillips, Hager & North LifeTime 2015 Fund	24	15
Phillips, Hager & North LifeTime 2020 Fund	34	22
Phillips, Hager & North LifeTime 2025 Fund	48	34
Phillips, Hager & North LifeTime 2030 Fund	52	30
Phillips, Hager & North LifeTime 2035 Fund	58	37
Phillips, Hager & North LifeTime 2040 Fund	37	20
Phillips, Hager & North LifeTime 2045 Fund	37	15
Phillips, Hager & North Total Return Bond Trust	1 087	971
Total	26 743	23 162

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

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.