

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 CURRENCY-HEDGED OVERSEAS EQUITY FUND

June 30, 2013

Holdings	Security	Cost	Fair Value	% of Net Assets
MUTUAL FUND UNITS				
23 568 941	Phillips, Hager & North Overseas Equity Fund*	\$ 220 347	\$ 226 274	101.7
TOTAL INVESTMENTS		220 347	226 274	101.7
UNREALIZED GAIN (LOSS) ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)		–	(4 485)	(2.0)
TOTAL PORTFOLIO		\$ 220 347	221 789	99.7
OTHER NET ASSETS			587	0.3
NET ASSETS			\$ 222 376	100.0

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

SCHEDULE A

Foreign Exchange Contracts

Contracts	Maturity Date	Unrealized Gain (Loss)
Bought CAD 12 162 Sold EUR 9 307 @ 1.3068	02-Jul-13	\$ (579)
Bought CAD 2 737 Sold EUR 2 000 @ 1.3687	02-Jul-13	(1)
Bought CAD 3 551 Sold EUR 2 600 @ 1.3656	02-Jul-13	(9)
Bought CAD 848 Sold EUR 640 @ 1.3255	02-Jul-13	(28)
Bought EUR 1 780 Sold CAD 2 425 @ 1.3623	02-Jul-13	12
Bought EUR 10 167 Sold CAD 13 858 @ 1.3630	02-Jul-13	63
Bought EUR 2 600 Sold CAD 3 542 @ 1.3623	02-Jul-13	17
Bought CAD 317 Sold CHF 300 @ 1.0576	05-Jul-13	(17)
Bought CAD 422 Sold CHF 400 @ 1.0550	05-Jul-13	(24)
Bought CAD 455 Sold CHF 420 @ 1.0844	05-Jul-13	(12)
Bought CAD 631 Sold CHF 579 @ 1.0906	05-Jul-13	(13)
Bought CAD 8 784 Sold CHF 8 053 @ 1.0908	05-Jul-13	(185)
Bought CHF 350 Sold CAD 382 @ 1.0914	05-Jul-13	8
Bought CHF 375 Sold CAD 420 @ 1.1200	05-Jul-13	(2)
Bought CHF 550 Sold CAD 615 @ 1.1188	05-Jul-13	(3)
Bought CHF 750 Sold CAD 829 @ 1.1052	05-Jul-13	6
Bought CAD 1 090 Sold GBP 700 @ 1.5577	08-Jul-13	(30)
Bought CAD 1 422 Sold USD 1 395 @ 1.0192	08-Jul-13	(46)
Bought CAD 1 557 Sold JPY 150 000 @ 0.0104	08-Jul-13	(34)
Bought CAD 10 674 Sold USD 10 510 @ 1.0156	08-Jul-13	(382)
Bought CAD 11 361 Sold JPY 1 038 149 @ 0.0109	08-Jul-13	348
Bought CAD 126 Sold USD 125 @ 1.0062	08-Jul-13	(6)
Bought CAD 153 Sold USD 150 @ 1.0225	08-Jul-13	(4)
Bought CAD 8 924 Sold GBP 5 802 @ 1.5380	08-Jul-13	(360)
Bought CAD 815 Sold JPY 80 000 @ 0.0102	08-Jul-13	(34)
Bought GBP 200 Sold CAD 320 @ 1.5978	08-Jul-13	–
Bought GBP 200 Sold CAD 324 @ 1.6199	08-Jul-13	(4)
Bought JPY 239 000 Sold CAD 2 453 @ 0.0103	08-Jul-13	82
Bought USD 1 200 Sold CAD 1 264 @ 1.0537	08-Jul-13	(2)
Bought USD 1 375 Sold CAD 1 407 @ 1.0231	08-Jul-13	40
Bought USD 455 Sold CAD 464 @ 1.0196	08-Jul-13	15

SCHEDULE A (cont.)

Foreign Exchange Contracts

Contracts	Maturity Date	Unrealized Gain (Loss)
Bought USD 700 Sold CAD 725 @ 1.0362	08-Jul-13	\$ 11
Bought CAD 663 Sold MXN 8 173 @ 0.0812	12-Jul-13	–
Bought CAD 1 318 Sold EUR 1 000 @ 1.3181	16-Jul-13	(51)
Bought CAD 23 112 Sold EUR 17 158 @ 1.3470	16-Jul-13	(388)
Bought CAD 3 659 Sold EUR 2 750 @ 1.3304	16-Jul-13	(108)
Bought CAD 657 Sold EUR 500 @ 1.3148	16-Jul-13	(27)
Bought CAD 996 Sold EUR 750 @ 1.3280	16-Jul-13	(31)
Bought EUR 2 700 Sold CAD 3 711 @ 1.3746	16-Jul-13	(14)
Bought EUR 682 Sold CAD 912 @ 1.3372	16-Jul-13	22
Bought EUR 750 Sold CAD 1 021 @ 1.3615	16-Jul-13	6
Bought AUD 1 100 Sold CAD 1 062 @ 0.9658	17-Jul-13	(5)
Bought AUD 100 Sold CAD 97 @ 0.9679	17-Jul-13	(1)
Bought AUD 100 Sold CAD 99 @ 0.9862	17-Jul-13	(3)
Bought AUD 170 Sold CAD 166 @ 0.9746	17-Jul-13	(2)
Bought AUD 320 Sold CAD 310 @ 0.9676	17-Jul-13	(2)
Bought AUD 90 Sold CAD 89 @ 0.9849	17-Jul-13	(2)
Bought CAD 6 160 Sold AUD 6 197 @ 0.9941	17-Jul-13	205
Bought CAD 1 601 Sold SGD 1 955 @ 0.8187	18-Jul-13	(22)
Bought CAD 121 Sold USD 120 @ 1.0104	18-Jul-13	(5)
Bought CAD 14 134 Sold USD 13 759 @ 1.0273	18-Jul-13	(344)
Bought CAD 179 Sold SGD 220 @ 0.8149	18-Jul-13	(3)
Bought CAD 2 523 Sold AUD 2 502 @ 1.0083	18-Jul-13	118
Bought CAD 203 Sold USD 200 @ 1.0157	18-Jul-13	(7)
Bought CAD 3 774 Sold SGD 4 610 @ 0.8187	18-Jul-13	(53)
Bought CAD 324 Sold SGD 400 @ 0.8093	18-Jul-13	(8)
Bought CAD 7 603 Sold CHF 7 180 @ 1.0589	18-Jul-13	(398)
Bought CHF 1 300 Sold CAD 1 403 @ 1.0792	18-Jul-13	46
Bought SGD 150 Sold CAD 124 @ 0.8235	18-Jul-13	1
Bought SGD 200 Sold CAD 163 @ 0.8138	18-Jul-13	3
Bought SGD 200 Sold CAD 166 @ 0.8308	18-Jul-13	–
Bought USD 1 677 Sold CAD 1 736 @ 1.0354	18-Jul-13	28

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

PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND

June 30, 2013

SCHEDULE A (cont.)**Foreign Exchange Contracts**

Contracts	Maturity Date	Unrealized Gain (Loss)
Bought USD 135 Sold CAD 140 @ 1.0352	18-Jul-13	\$ 2
Bought CAD 10 948 Sold JPY 1 076 312 @ 0.0102	19-Jul-13	(473)
Bought CAD 504 Sold JPY 48 940 @ 0.0103	19-Jul-13	(15)
Bought CAD 515 Sold JPY 50 000 @ 0.0103	19-Jul-13	(16)
Bought CAD 609 Sold JPY 61 000 @ 0.0100	19-Jul-13	(39)
Bought JPY 30 000 Sold CAD 309 @ 0.0103	19-Jul-13	9
Bought CAD 13 985 Sold GBP 8 926 @ 1.5668	02-Aug-13	(302)
Bought GBP 215 Sold CAD 347 @ 1.6152	02-Aug-13	(3)
Bought GBP 300 Sold CAD 477 @ 1.5893	02-Aug-13	3
Bought GBP 400 Sold CAD 642 @ 1.6040	02-Aug-13	(1)
Bought CAD 13 029 Sold CHF 11 817 @ 1.1026	07-Aug-13	(147)
Bought CAD 27 507 Sold EUR 20 420 @ 1.3471	08-Aug-13	(481)
Bought CAD 1 212 Sold SGD 1 490 @ 0.8137	12-Aug-13	(25)
Bought CAD 10 997 Sold JPY 1 067 065 @ 0.0103	12-Aug-13	(334)
Bought CAD 2 513 Sold GBP 1 593 @ 1.5775	12-Aug-13	(37)
Bought CAD 2 525 Sold SGD 3 105 @ 0.8132	12-Aug-13	(54)
Bought CAD 3 999 Sold GBP 2 535 @ 1.5776	12-Aug-13	(59)
Bought SGD 300 Sold CAD 246 @ 0.8215	12-Aug-13	3
Bought CAD 5 738 Sold JPY 537 535 @ 0.0107	16-Aug-13	29
Bought CAD 5 979 Sold USD 5 852 @ 1.0217	10-Sep-13	(187)
Bought USD 270 Sold CAD 283 @ 1.0490	10-Sep-13	1
Bought USD 278 Sold CAD 292 @ 1.0499	10-Sep-13	1
Bought CAD 2 010 Sold USD 1 968 @ 1.0211	17-Sep-13	(64)
Bought USD 600 Sold CAD 629 @ 1.0477	17-Sep-13	4
Bought CAD 13 890 Sold EUR 10 167 @ 1.3662	26-Sep-13	(64)
Bought CAD 3 551 Sold EUR 2 600 @ 1.3656	26-Sep-13	(18)
TOTAL FOREIGN EXCHANGE		\$ (4 485)

All counterparties have a credit rating of at least A.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY 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	\$ 226 274	\$ 224 530
Cash	41	21
Due from investment dealers	600	501
Subscriptions receivable	217	21
TOTAL ASSETS	227 132	225 073
LIABILITIES		
Due to investment dealers	181	21
Redemptions payable	36	61
Unrealized loss on foreign exchange contracts	4 485	541
Accounts payable and accrued expenses	54	68
TOTAL LIABILITIES	4 756	691
NET ASSETS	\$ 222 376	\$ 224 382
Investments at cost		
	\$ 220 347	\$ 226 031
NET ASSETS, END OF PERIOD		
SERIES C	\$ 656	\$ 774
ADVISOR SERIES	\$ 97	\$ 62
SERIES D	\$ 20 336	\$ 35 554
SERIES F	\$ 915	\$ 827
SERIES O	\$ 200 372	\$ 187 165
NET ASSETS PER UNIT, END OF PERIOD		
SERIES C	\$ 7.72	\$ 7.59
ADVISOR SERIES	\$ 7.72	\$ 7.59
SERIES D	\$ 7.54	\$ 7.37
SERIES F	\$ 7.62	\$ 7.44
SERIES O	\$ 7.68	\$ 7.47
NET ASSET VALUE (TRANSACTIONAL NAV) PER UNIT, END OF PERIOD (see note 3 in the generic notes)		
SERIES C	\$ 7.72	\$ 7.59
ADVISOR SERIES	\$ 7.72	\$ 7.59
SERIES D	\$ 7.54	\$ 7.37
SERIES F	\$ 7.62	\$ 7.44
SERIES O	\$ 7.68	\$ 7.47

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	\$ (1)	\$ –
TOTAL INCOME (LOSS)	(1)	–
EXPENSES (see notes – Fund Specific Information)		
Management fees	166	230
Administration fees	167	135
Board of Governors costs	2	2
GST/HST	32	41
TOTAL EXPENSES	367	408
NET INVESTMENT INCOME (LOSS)	(368)	(408)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on investments	1 146	(3 095)
Net gain (loss) on foreign currencies and other net assets	2 714	6 157
Change in unrealized gain (loss) on investments	3 484	13 945
NET GAIN (LOSS) ON INVESTMENTS	7 344	17 007
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
	\$ 6 976	\$ 16 599
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
SERIES C	\$ 7	\$ 37
ADVISOR SERIES	\$ 2	\$ –
SERIES D	\$ 993	\$ 3 288
SERIES F	\$ 16	\$ 64
SERIES O	\$ 5 958	\$ 13 210
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT		
SERIES C	\$ 0.15	\$ 0.56
ADVISOR SERIES	\$ 0.16	\$ 0.56
SERIES D	\$ 0.18	\$ 0.56
SERIES F	\$ 0.20	\$ 0.58
SERIES O	\$ 0.23	\$ 0.61

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.

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY 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 D		Series F	
	2013	2012	2013	2012	2013	2012	2013	2012
NET ASSETS – BEGINNING OF PERIOD	\$ 774	\$ 474	\$ 62	\$ 11	\$ 35 554	\$ 42 109	\$ 827	\$ 794
INCREASE (DECREASE) FROM OPERATIONS	7	37	2	–	993	3 288	16	64
Early redemption fees	–	–	–	–	–	–	–	–
Proceeds from units issued	66	362	250	10	3 628	7 888	204	336
Proceeds from reinvestment of distributions	–	–	–	–	–	–	–	–
Payments on redemption of units	(191)	(109)	(217)	–	(19 839)	(15 394)	(132)	(391)
TOTAL UNIT TRANSACTIONS	(125)	253	33	10	(16 211)	(7 506)	72	(55)
Distributions from net income	–	–	–	–	–	–	–	–
Distributions from net gains	–	–	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–	–	–
TOTAL DISTRIBUTIONS	–	–	–	–	–	–	–	–
TOTAL INCREASE (DECREASE) IN NET ASSETS	(118)	290	35	10	(15 218)	(4 218)	88	9
NET ASSETS – END OF PERIOD	\$ 656	\$ 764	\$ 97	\$ 21	\$ 20 336	\$ 37 891	\$ 915	\$ 803

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	\$ 187 165	\$ 142 835	\$ 224 382	\$ 186 223
INCREASE (DECREASE) FROM OPERATIONS	5 958	13 210	6 976	16 599
Early redemption fees	–	–	–	–
Proceeds from units issued	37 737	29 204	41 885	37 800
Proceeds from reinvestment of distributions	–	–	–	–
Payments on redemption of units	(30 488)	(33 763)	(50 867)	(49 657)
TOTAL UNIT TRANSACTIONS	7 249	(4 559)	(8 982)	(11 857)
Distributions from net income	–	–	–	–
Distributions from net gains	–	–	–	–
Distributions from capital	–	–	–	–
TOTAL DISTRIBUTIONS	–	–	–	–
TOTAL INCREASE (DECREASE) IN NET ASSETS	13 207	8 651	(2 006)	4 742
NET ASSETS – END OF PERIOD	\$ 200 372	\$ 151 486	\$ 222 376	\$ 190 965

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**

June 30, 2013

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

The Fund invests in the Phillips, Hager & North Overseas Equity Fund. The Fund's exposure to financial instrument risk is based on the underlying mutual fund asset mix.

Credit risk

The Fund is exposed to credit risk from entering into over-the-counter derivative contracts and from investments in underlying mutual funds. These underlying funds could invest in debt securities and could enter into over-the-counter derivative contracts.

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.

Other price risk (% impact on net assets)

The table below shows the impact of a 1% change in the broad-based index (noted below) on the Fund's net assets, using a 36-month historical correlation of data of the Fund's return and the index, with all other factors kept constant, as at:

	June 30 2013	December 31 2012
MSCI EAFE Total Return Net Index (hedged to CAD)	+ or - 1.1	+ or - 1.1

Since historical correlation may not be representative of future correlation, 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	226 274	–	–	226 274
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	–	–	–
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	(4 485)	–	(4 485)
Total financial instruments	226 274	(4 485)	–	221 789
% of total portfolio	102.0	(2.0)	–	100.0

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

December 31, 2012	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	224 530	–	–	224 530
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	–	–	–
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	(541)	–	(541)
Total financial instruments	224 530	(541)	–	223 989
% of total portfolio	100.2	(0.2)	–	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	1.85%
Advisor Series	1.85%
Series D	1.10%
Series F	0.85%

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	0.15%
Advisor Series	0.15%
Series D	0.15%
Series F	0.15%
Series O	0.14%

**PHILLIPS, HAGER & NORTH CURRENCY-HEDGED
OVERSEAS EQUITY FUND**

June 30, 2013

Initial investments (\$000s except unit amounts)

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

	June 30 2013	December 31 2012
Units held		
Series C	64	64
Advisor Series	125	125
Series D	67	67
Series F	67	67
Series O	68	68
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.

	June 30 2013	December 31 2012
For the periods ended June 30 (see note 2 in the generic notes)		
Series C		
Opening units	102	72
Issued number of units	7	51
Reinvested number of units	–	–
Redeemed number of units	(24)	(15)
Ending number of units	85	108
Advisor Series		
Opening units	8	2
Issued number of units	33	1
Reinvested number of units	–	–
Redeemed number of units	(28)	–
Ending number of units	13	3
Series D		
Opening units	4 822	6 573
Issued number of units	475	1 141
Reinvested number of units	–	–
Redeemed number of units	(2 599)	(2 244)
Ending number of units	2 698	5 470

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

	2013	2012
Series F		
Opening units	111	123
Issued number of units	26	46
Reinvested number of units	–	–
Redeemed number of units	(17)	(54)
Ending number of units	120	115
Series O		
Opening units	25 054	22 010
Issued number of units	4 869	4 188
Reinvested number of units	–	–
Redeemed number of units	(3 840)	(4 738)
Ending number of units	26 083	21 460

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

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

	June 30 2013	December 31 2012
Series O		
Phillips, Hager & North PRisM Balanced Fund	1 247	1 422

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.