

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 compliance with International Financial Reporting Standards ("IFRS") (and they include certain amounts that are based on estimates and judgments). The significant accounting policies, which we believe are appropriate for the Funds, are described in Note 3 to the financial statements.



Damon G. Williams, FSA, FCIA, CFA

Chief Executive Officer
RBC Global Asset Management Inc.

August 10, 2016



Frank Lippa, CPA, CA

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

Unaudited Interim Financial Statements

The accompanying interim 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.

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

BONAVISTA GLOBAL BALANCED FUND

June 30, 2016

Holdings	Security	Cost	Fair Value	% of Net Assets
CANADIAN EQUITIES				
Consumer Discretionary				
300	AutoCanada Inc.	\$ 10	\$ 7	
190	Canadian Tire Corp. Ltd., Class A	12	27	
830	Gildan Activewear Inc., Class A	5	31	
660	Magna International Inc., Class A	12	30	
720	Quebecor Inc., Class B	11	27	
200	Restaurant Brands International Inc.	10	11	
237	Spin Master Corp.	4	6	
360	Thomson Corp.	18	19	
		82	158	4.4
Consumer Staples				
710	Alimentation Couche-Tard Inc.	20	39	
297	Loblaw Companies Ltd.	14	21	
660	Saputo Group Inc.	7	25	
		41	85	2.4
Energy				
1 420	Canadian Natural Resources Ltd.	50	57	
900	Cenovus Energy Inc.	28	16	
260	Crescent Point Energy Corp.	5	4	
830	Encana Corp.	28	8	
817	Husky Energy Inc.	31	13	
830	MEG Energy Corp.	13	6	
28	PrairieSky Royalty Ltd.	1	1	
1 100	Precision Drilling Corp.	7	8	
1 680	Suncor Energy Inc.	64	60	
		227	173	4.8
Financials				
705	Bank of Montreal	40	58	
1 125	Bank of Nova Scotia	57	71	
710	Canadian Imperial Bank of Commerce	57	69	
880	Element Financial Corp.	11	12	
410	Genworth MI Canada Inc.	15	14	
710	Home Capital Group Inc.	22	23	
140	Intact Financial Corp.	10	13	
1 910	Manulife Financial Corporation	49	34	
640	National Bank of Canada	13	28	
840	Royal Bank of Canada*	47	64	
730	Sun Life Financial Inc.	30	31	
1 810	Toronto-Dominion Bank	68	100	
		419	517	14.5
Industrials				
890	CAE Inc.	10	14	
740	Canadian National Railway Co.	28	56	
180	Canadian Pacific Railway Ltd.	12	30	
660	Finning International Inc.	18	14	
276	MacDonald Dettwiler & Associates Ltd.	16	23	
300	Russel Metals Inc.	8	7	
440	SNC-Lavalin Group Inc.	17	24	
420	Stantec Inc.	14	13	
		123	181	5.1

Holdings	Security	Cost	Fair Value	% of Net Assets
Information Technology				
440	CGI Group Inc., Class A	\$ 15	\$ 24	
2 376	Mitel Networks Corp.	22	19	
410	Open Text Corp.	6	31	
		43	74	2.1
Materials				
280	Agrium Inc.	17	33	
30	CCL Industries, Class B	7	7	
978	First Quantum Minerals Ltd.	16	9	
465	Goldcorp Inc.	14	11	
1 100	HudBay Minerals Inc.	10	7	
1 600	Lundin Mining Corp.	7	7	
320	Methanex Corp.	9	12	
1 556	Teck Resources Ltd., Class B	48	26	
210	West Fraser Timber Co. Ltd.	10	8	
		138	120	3.4
Telecommunication Services				
340	Rogers Communications Inc., Class B	13	18	
370	TELUS Corp.	14	15	
		27	33	0.9
TOTAL CANADIAN EQUITIES				
		1 100	1 341	37.6
MUTUAL FUND UNITS				
98 807	Phillips, Hager & North Bond Fund*	\$ 1 082	\$ 1 061	
43 764	Phillips, Hager & North Overseas Equity Fund*	489	556	
10 197	Phillips, Hager & North U.S. Equity Fund*	584	549	
TOTAL MUTUAL FUND UNITS				
		2 155	2 166	60.8
TOTAL INVESTMENTS				
		\$ 3 255	3 507	98.4
OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
			57	1.6
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
		\$ 3 564		100.0

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

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

Statements of Financial Position (unaudited)

(in \$000s except per unit amounts)

(see note 2 in the generic notes)	June 30 2016	December 31 2015
ASSETS		
Investments at fair value	\$ 3 507	\$ 3 763
Cash	49	136
Due from investment dealers	10	–
Subscriptions receivable	–	3
Dividends receivable, interest accrued and other assets	5	6
TOTAL ASSETS	3 571	3 908
LIABILITIES		
Due to investment dealers	2	–
Redemptions payable	–	51
Accounts payable and accrued expenses	5	3
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	7	54
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")	\$ 3 564	\$ 3 854
Investments at cost	\$ 3 255	\$ 3 474
NAV		
SERIES A	\$ 218	\$ 220
ADVISOR SERIES	\$ 14	\$ 19
SERIES D	\$ 3 039	\$ 3 320
SERIES F	\$ 18	\$ 18
SERIES O	\$ 275	\$ 277
NAV PER UNIT		
SERIES A	\$ 12.65	\$ 12.72
ADVISOR SERIES	\$ 12.65	\$ 12.72
SERIES D	\$ 12.61	\$ 12.66
SERIES F	\$ 12.86	\$ 12.91
SERIES O	\$ 12.36	\$ 12.40

Statements of Comprehensive Income (unaudited)

(in \$000s except per unit amounts)

For the periods ended June 30 (see note 2 in the generic notes)	2016	2015
INCOME (see note 3 in the generic notes)		
Dividends	\$ 19	\$ 27
Interest for distribution purposes	–	9
Other income received from underlying funds	18	9
Net realized gain (loss) on investments	17	147
Change in unrealized gain (loss) on investments	(37)	(54)
TOTAL INCOME (LOSS)	17	138
EXPENSES (see notes – Fund Specific Information)		
Management fees	18	21
Administration fees	2	3
Independent Review Committee costs	2	2
GST/HST	2	2
Withholding tax	–	1
Expenses reimbursed by manager	(2)	(2)
TOTAL EXPENSES	22	27
INCREASE (DECREASE) IN NAV	\$ (5)	\$ 111
INCREASE (DECREASE) IN NAV		
SERIES A	\$ (2)	\$ 4
ADVISOR SERIES	\$ (1)	\$ 1
SERIES D	\$ (4)	\$ 97
SERIES F	\$ –	\$ –
SERIES O	\$ 2	\$ 9
INCREASE (DECREASE) IN NAV PER REDEEMABLE UNIT		
SERIES A	\$ (0.09)	\$ 0.27
ADVISOR SERIES	\$ (0.09)	\$ 0.27
SERIES D	\$ (0.02)	\$ 0.35
SERIES F	\$ (0.01)	\$ 0.39
SERIES O	\$ 0.05	\$ 0.43

Statements of Cash Flow *(unaudited) (in \$000s)*

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ (5)	\$ 111
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	—	—
Net realized loss (gain) on investments	(17)	(146)
Change in unrealized loss (gain) on investments	37	54
(Increase) decrease in accrued receivables	1	17
Increase (decrease) in accrued payables	2	—
Cost of investments purchased	(190)	(7 870)
Proceeds on sales of investments	418	8 115
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	246	281
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units	246	392
Cash paid on redemption of redeemable units	(578)	(642)
Distributions paid to holders of redeemable units	(1)	(1)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ (333)	\$ (251)
Net increase (decrease) in cash for the period	(87)	30
Cash (bank overdraft), beginning of period	136	12
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 49	\$ 42
Interest received (paid)	\$ —	\$ 15
Dividends received, net of withholding taxes	\$ 19	\$ 27

Cash consists of cash and futures contracts margin receivable/payable, as applicable.

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

For the periods ended June 30 (see note 2 in the generic notes)	Series A		Advisor Series		Series D		Series F	
	2016	2015	2016	2015	2016	2015	2016	2015
NAV AT BEGINNING OF PERIOD	\$ 220	\$ 196	\$ 19	\$ 45	\$ 3 320	\$ 3 714	\$ 18	\$ 18
INCREASE (DECREASE) IN NAV	(2)	4	(1)	1	(4)	97	—	—
Early redemption fees	—	—	—	—	—	—	—	—
Proceeds from redeemable units issued	3	25	—	—	240	367	—	—
Reinvestments of distributions to holders of redeemable units	—	—	—	—	11	15	—	—
Redemption of redeemable units	(3)	—	(4)	(12)	(516)	(627)	—	—
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	—	25	(4)	(12)	(265)	(245)	—	—
Distributions from net income	—	—	—	—	(12)	(18)	—	—
Distributions from net gains	—	—	—	—	—	—	—	—
Distributions from capital	—	—	—	—	—	—	—	—
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	—	—	—	—	(12)	(18)	—	—
NET INCREASE (DECREASE) IN NAV	(2)	29	(5)	(11)	(281)	(166)	—	—
NAV AT END OF PERIOD	\$ 218	\$ 225	\$ 14	\$ 34	\$ 3 039	\$ 3 548	\$ 18	\$ 18

For the periods ended June 30 (see note 2 in the generic notes)	Series O		Total	
	2016	2015	2016	2015
NAV AT BEGINNING OF PERIOD	\$ 277	\$ 276	\$ 3 854	\$ 4 249
INCREASE (DECREASE) IN NAV	2	9	(5)	111
Early redemption fees	—	—	—	—
Proceeds from redeemable units issued	—	—	243	392
Reinvestments of distributions to holders of redeemable units	2	3	13	18
Redemption of redeemable units	(4)	(3)	(527)	(642)
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	(2)	—	(271)	(232)
Distributions from net income	(2)	(3)	(14)	(21)
Distributions from net gains	—	—	—	—
Distributions from capital	—	—	—	—
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	(2)	(3)	(14)	(21)
NET INCREASE (DECREASE) IN NAV	(2)	6	(290)	(142)
NAV AT END OF PERIOD	\$ 275	\$ 282	\$ 3 564	\$ 4 107

June 30, 2016

General information (see note 1 in the generic notes)

The investment objective of the Fund is to provide investors with long-term capital appreciation and income by primarily investing in a balanced global portfolio of Canadian and foreign equities, fixed-income securities and money market instruments.

All outstanding Series C units were renamed Series A units effective June 30, 2016.

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

Credit-exposed securities, excluding short-term investments, comprise 29.8% (December 31, 2015 – 26.8%) of the net assets of the Fund. The table below summarizes the Fund's credit risk exposure grouped by credit ratings as at:

Rating	June 30 2016	December 31 2015
AAA	28.4	27.5
AA	35.7	38.5
A	16.0	15.2
BBB	19.2	18.1
Unrated	0.7	0.7
Total	100.0	100.0

Concentration risk (%)

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

Investment mix	June 30 2016	December 31 2015
Canadian Equities	37.6	34.1
Bonds	29.8	25.3
Overseas Equities	15.5	17.2
United States Equities	15.3	16.4
Cash/Other	1.8	7.0
Total	100.0	100.0

Interest rate risk (%)

Fixed-income and debt securities, excluding short-term investments, comprise 29.8% (December 31, 2015 – 26.8%) of the net assets of the Fund. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

Term to maturity	June 30 2016	December 31 2015
Less than 1 year	3.6	4.0
1 – 5 years	33.6	32.1
5 – 10 years	29.5	27.5
> 10 years	33.3	36.4
Total	100.0	100.0

As at June 30, 2016, 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 2.2% (December 31, 2015 – 2.0%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

Currency risk (% of net assets)

The table below summarizes the Fund's net exposure (after hedging, if any) to currency risk as at:

Currency	June 30 2016	December 31 2015
United States dollar	16.5	18.1
Euro	4.1	4.8
Japanese yen	3.2	3.5
Pound sterling	2.7	3.3
Swiss franc	1.5	1.7
South African rand	0.7	0.7
Hong Kong dollar	0.6	0.6
Danish krone	0.6	–
Other currencies	1.0	0.8
Total	30.9	33.5

As at June 30, 2016, if the Canadian dollar had strengthened or weakened by 1% in relation to the above currencies, with all other factors kept constant, the Fund's net assets may have decreased or increased, respectively, by approximately 0.3% (December 31, 2015 – 0.3%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

BONAVISTA GLOBAL BALANCED FUND

June 30, 2016

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 2016	December 31 2015
S&P/TSX Capped Composite		
Total Return Index	+ or - 0.6	+ or - 0.6
S&P 500 Total Return		
Index (CAD)	+ or - 0.5	+ or - 0.5
MSCI EAFE Total Return		
Net Index (CAD)	+ or - 0.4	+ or - 0.4

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, 2016 and December 31, 2015.

June 30, 2016	Level 1	Level 2	Level 3	Total
Equities	1 341	—	—	1 341
Mutual fund units	2 166	—	—	2 166
Fixed-income				
and debt securities	—	—	—	—
Short-term investments	—	—	—	—
Derivatives – assets	—	—	—	—
Derivatives – liabilities	—	—	—	—
Total financial instruments	3 507	—	—	3 507
% of total portfolio	100.0	—	—	100.0

December 31, 2015	Level 1	Level 2	Level 3	Total
Equities	1 314	—	—	1 314
Mutual fund units	2 449	—	—	2 449
Fixed-income				
and debt securities	—	—	—	—
Short-term investments	—	—	—	—
Derivatives – assets	—	—	—	—
Derivatives – liabilities	—	—	—	—
Total financial instruments	3 763	—	—	3 763
% of total portfolio	100.0	—	—	100.0

For the periods ended June 30, 2016 and December 31, 2015, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

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

Management fees and operating expenses
(see note 7 in the generic notes)

Management fees and administration fees of each series of the Fund are payable to RBC GAM and calculated at the following annual percentages, before GST/HST, of the daily net asset value of each series of the Fund.

	Management fees*	Operating expenses
Series A	1.75%	0.10%
Advisor Series	1.75%	0.10%
Series D	1.00%	0.10%
Series F	0.75%	0.10%
Series O	n/a [†]	0.10%

* Effective June 30, 2016, the management fees for Series A and Advisor Series units were reduced to 1.75% from 2.00%.

[†] Series O unitholders pay a negotiated management fee directly to RBC GAM for investment-counselling services.

Investments by related parties
(\$000s except unit amounts)

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

	June 30 2016	December 31 2015
Units held		
Series A	52	52
Advisor Series	101	101
Series D	111	110
Series F	56	56
Series O	60	60
Value of all units	5	5

Underlying mutual fund ownership interest (%)

The table below summarizes the Fund's interest in the underlying mutual funds as a percentage of NAV, and the Fund's ownership interest as a percentage of the net assets of the underlying funds ("Ownership"). All underlying funds are established and conduct business in Canada, and have an associate relationship to the Fund.

	June 30 2016 NAV	June 30 2016 Ownership	December 31 2015 NAV	December 31 2015 Ownership
Phillips, Hager & North Bond Fund	29.8	—	26.8	—
Phillips, Hager & North Canadian Money Market Fund	—	—	2.6	—
Phillips, Hager & North Overseas Equity Fund	15.6	0.1	17.4	0.1
Phillips, Hager & North U.S. Equity Fund	15.4	0.1	16.7	0.1

BONAVISTA GLOBAL BALANCED FUND

June 30, 2016

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

The Fund had no capital or non-capital losses as at December 31, 2015.

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 NAV per unit.

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

	2016	2015
Series A		
Opening units	17	15
Issued number of units	–	1
Reinvested number of units	–	–
Redeemed number of units	–	–
Ending number of units	17	16
Advisor Series		
Opening units	1	3
Issued number of units	–	–
Reinvested number of units	–	–
Redeemed number of units	–	(1)
Ending number of units	1	2
Series D		
Opening units	262	277
Issued number of units	19	27
Reinvested number of units	1	1
Redeemed number of units	(41)	(46)
Ending number of units	241	259
Series F		
Opening units	1	1
Issued number of units	–	–
Reinvested number of units	–	–
Redeemed number of units	–	–
Ending number of units	1	1
Series O		
Opening units	22	21
Issued number of units	–	–
Reinvested number of units	–	–
Redeemed number of units	–	–
Ending number of units	22	21

1. The Funds

The Funds (“Fund” or “Funds”) are open-ended mutual fund trusts governed by the laws of the Province of Ontario or British Columbia. RBC GAM is the manager and portfolio manager of the Funds and its head office is located at 155 Wellington Street West, 22nd Floor, Toronto, Ontario. RBC GAM is also the trustee of those Funds governed by the laws of the Province of Ontario. These financial statements were approved for issuance by the Board of Directors of RBC GAM on August 10, 2016.

The Funds may issue an unlimited number of units in some or all of Series A, Advisor Series, Advisor T5 Series, Series T5, Series T8, Series H, Series D, Series F, Series FT5, Series I and Series O.

Series A units have no sales charges and are available to all investors through authorized dealers.

Advisor Series units and Advisor T5 Series units are available to all investors through authorized dealers with an initial sales charge or low-load sales charge option. For certain of the Funds, Advisor Series units and Advisor T5 Series units are available with a deferred sales charge option. Under the initial sales charge option, investors pay a sales charge ranging from 0% to 5% of the amount invested. Under the deferred sales charge or low-load sales charge option, sales charges may be applicable, as described in the Simplified Prospectus.

Series T5 units and Series T8 units have no sales charges and are available to all investors through authorized dealers.

Series H units have no sales charges, have lower fees than Series A units and are only available to investors who invest and maintain the required minimum balance through authorized dealers.

Series D units have no sales charges and have lower fees than Series A units. Series D units may be available to investors who have accounts with RBC Direct Investing Inc., Phillips, Hager & North Investment Funds Ltd. (“PH&N IF”) or certain other authorized dealers (primarily discount brokers).

Series F units and Series FT5 units have no sales charges and have lower fees than Series A units. Series F units and Series FT5 units are only available to investors who have fee-based accounts with their dealers.

Series I units have no sales charges, have lower fees than Series F units and Series FT5 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 or dealers. No management fees are payable by the Funds in respect to Series O units. Unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

2. Financial year/period

The information provided in these financial statements and notes thereto is for the six-month periods ended June 30, 2016 and 2015, or as at June 30, 2016 and December 31, 2015. 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 compliance with International Financial Reporting Standards (“IFRS”), 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, which are investment entities, are as follows:

Fair Value Option Financial instruments are designated as fair value through profit and loss (“FVTPL”) on their initial recognition (the fair value option). Derivative financial instruments are held for trading (“HFT”) and are required to be classified as FVTPL by nature. Other non-derivative financial instruments can be designated as FVTPL if they have a reliably measurable fair value and satisfy some criteria such as (i) it eliminates or significantly reduces an accounting mismatch and (ii) it is part of a portfolio that is managed and its performance is evaluated on a fair value basis. Management’s judgment is that all non-derivative financial instruments are designated as FVTPL since all Funds satisfy the above criteria. The Funds’ financial assets and liabilities are not offset, as there is currently no legally enforceable right to offset the recognized amounts, and the gross amounts are reported in the Statements of Financial Position. The Funds may enter into various master netting or similar agreements with counterparties.

June 30, 2016

Redeemable units are measured at their respective redemption values. All other assets and liabilities are measured at amortized cost.

Determination of Fair Value The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length transaction between knowledgeable and willing parties under no compulsion to act. In determining fair value, a three-tier hierarchy based on inputs is used to value the Funds' financial instruments. The hierarchy of inputs is summarized below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), including broker quotes, vendor prices and vendor fair value factors; and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

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 price recorded by the security exchange on which the security is principally traded. In circumstances where the closing price is not within the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

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

NHA-approved 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 fair value, which is approximated at cost plus accrued interest.

Options – Listed options are valued at the closing price on the recognized exchange on which the option is traded. In circumstances where the closing price is not within the bid-ask spread, management will determine the points within the bid-ask spread that are most representative of the fair value.

The premium received for written options is recorded as a credit in the Schedule 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 as "Change in unrealized gain (loss) on investments" in the Statements of Comprehensive Income. The receivable/payable on forward contracts is recorded separately in the Statements of Financial Position. Realized gain (loss) on foreign exchange contracts is included in "Net gain (loss) on foreign currencies and other net assets" in the Statements of Comprehensive Income.

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 Comprehensive Income. The receivable/payable on futures contracts is recorded separately in the Statements of Financial Position.

Mutual Fund Unit Valuation – Units of Funds are valued at their respective net asset value per unit 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 Depositary 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, RBC \$U.S. Money Market Fund, RBC Premium \$U.S. Money Market Fund, RBC \$U.S. Investment Grade Corporate Bond Fund, RBC \$U.S. High Yield Bond Fund, BlueBay Emerging Markets Corporate Bond Fund, BlueBay \$U.S. Global Convertible Bond Fund (Canada) and RBC U.S. Monthly Income 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 Comprehensive Income.

Functional Currency The Funds, with the exceptions below, have their subscriptions, redemptions and performance denominated in Canadian dollars and, consequently, the Canadian dollar is the functional currency for the Funds. Phillips, Hager & North \$U.S. Money Market Fund, RBC \$U.S. Money Market Fund, RBC Premium \$U.S. Money Market Fund, RBC \$U.S. Investment Grade Corporate Bond Fund, RBC \$U.S. High Yield Bond Fund, BlueBay Emerging Markets Corporate Bond Fund, BlueBay \$U.S. Global Convertible Bond Fund (Canada) and RBC U.S. Monthly Income Fund have their subscriptions, redemptions and performance denominated in U.S. dollars and, consequently, the U.S. dollar is the functional currency for these Funds.

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 Comprehensive Income for the period. The unrealized gain and loss on investments is the difference between fair value and average cost for the period. The basis of determining the cost of portfolio assets, and realized and unrealized gains and losses on investments, is average cost which does not include amortization of premiums or discounts on fixed-income and debt securities with the exception of zero coupon bonds.

Income Recognition Dividend income is recognized on the ex-dividend date and interest for distribution purposes is coupon interest recognized on an accrual basis and/or imputed interest on zero coupon bonds. “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 income received from underlying funds” includes income earned by a Fund from investments in underlying funds. Any premiums paid or discounts received on the purchase of zero coupon bonds are amortized on a straight line basis.

Increase (Decrease) in NAV per Redeemable Unit Increase (decrease) in NAV per redeemable unit in the Statements of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units 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 a 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. These amounts are included in the Statements of Changes in NAV.

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

AUD – Australian dollar	INR – Indian rupee
CAD – Canadian dollar	JPY – Japanese yen
CHF – Swiss franc	PHP – Philippine peso
DKK – Danish krone	SEK – Swedish krona
EUR – Euro	USD – United States dollar
GBP – Pound sterling	ZAR – South African rand
HKD – Hong Kong 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 managers, 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.

Financial instrument risk, as applicable to a Fund, is disclosed in its "Notes to Financial Statements – Fund Specific Information."

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. All non-derivative financial liabilities, other than redeemable units, are due within 90 days.

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 Financial Position. The fair value of fixed-income and debt securities includes a consideration of the creditworthiness 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.

Concentration risk

Concentration risk arises as a result of net financial instrument exposures to the same category, such as geographical region, asset type, industry sector or market segment. Financial instruments in the same category have similar characteristics and may be affected similarly by changes in economic or other conditions.

Interest rate risk

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

Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment.

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 Comprehensive Income 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 Portfolio Manager

RBC GAM is an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

RBC GAM is the manager and portfolio manager 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 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. Unitholders of Series O units 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 interim 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 Independent Review Committee 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 ("underlying mutual funds"). The Fund's ownership interest in underlying mutual funds is disclosed in the Notes to Financial Statements – Fund Specific Information.

Affiliates of RBC GAM that provide services to the Funds in the course of their normal businesses are discussed below.

Sub-Advisors

RBC Global Asset Management (U.S.) Inc., a wholly owned subsidiary of Royal Bank, is the sub-advisor for the Phillips, Hager & North U.S. Multi-Style All-Cap Equity Fund, the Phillips, Hager & North U.S. Equity Fund and the Phillips, Hager & North U.S. Growth Fund. RBC Global Asset Management (UK) Limited, a wholly owned subsidiary of Royal Bank, is the sub-advisor for the Phillips, Hager & North Overseas Equity Fund, the Phillips, Hager & North Global Equity Fund and the Phillips, Hager & North Community Values Global Equity Fund.

Trustee

RBC GAM is the trustee for the Funds governed by the laws of the Province of Ontario. RBC IS is the trustee for the Funds governed by the laws of the Province of British Columbia. The trustee holds title to the Funds' property on behalf of the unitholders.

Distributors

RBC GAM, Royal Mutual Funds Inc., RBC Direct Investing Inc., RBC Dominion Securities Inc. and PH&N IF are 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 A, Advisor Series, Advisor T5 Series, Series T5, Series T8, Series H and Series D units.

Custodian

RBC IS is the custodian and holds the assets of the Funds.

Registrars

Royal Bank, RBC IS and RBC GAM are the registrars of the Funds and keep records of who owns the units of the Funds. The registrars also process orders and issue account statements.

Brokerage

The Funds have established standard brokerage agreements at market rates with related-party brokerages.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Funds relied on the standing instructions from the Independent Review Committee with respect to one or more of the following 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 Independent Review Committee of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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

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

In July 2014, the International Accounting Standards Board finalized the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement in its entirety upon its effective date.

The new standard, which becomes effective for annual periods beginning on or after January 1, 2018, is not expected to have a significant impact on the Funds.

In December 2014, Disclosure Initiative was issued, which amends IAS 1 Presentation of Financial Statements. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying guidance on materiality, presentation and note structure. These amendments are effective for annual periods beginning on or after January 1, 2016. The Funds will amend disclosures if required in the 2016 Financial Statements.