

PHILLIPS, HAGER & NORTH FUNDS

2017 Pension Trusts Annual Report

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BALANCED FUND

**PHILLIPS, HAGER & NORTH
BALANCED PENSION TRUST***December 31, 2017***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth and income by investing primarily in a strategic asset mix of Canadian and foreign equities, Canadian fixed income securities and money market instruments. Its asset mix is adjusted periodically to reflect changing economic and market conditions. The magnitude and timing of all rebalancing decisions within the Fund are made by a team of investment professionals who focus on determining the best asset mix in any given economic environment. To achieve the Fund's investment objective, the portfolio manager invests a significant portion or even all of the net asset value of the Fund in other funds managed by RBC GAM where the investment is consistent with the investment objectives and strategies of the Fund.

Risk

The Fund has multiple risks associated with investing in various asset classes. These risks are similar to the risks of investing in the underlying funds. The Fund is suitable for investors who plan to hold their investments for the medium-to-long term and can tolerate low-to-medium investment risk.

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$1.3 billion as of December 31, 2017, from \$1.2 billion at the end of 2016. The increase was due mainly to investment returns.

Over the past year, the Fund's Series O units gained 10.3%, which outperformed the 8.5% rise in the benchmark. The broad-based index 1 rose 2.5% and the broad-based index 2 rose 9.1%. The Fund's return is after the deduction of expenses, while benchmark and broad-based

index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

Global economic growth surged to the highest in seven years in 2017 thanks to a confluence of factors. The expansion was highly synchronized, encompassing the bulk of developed and many emerging-market nations. In the U.S., measures of confidence and risk appetite were robust, benefiting from the macroeconomic strength and helping to sustain it. Economic growth in the Eurozone and Japan continued to impress with a persistence that would have been hard to fathom several years ago. Canadian growth was unexpectedly brisk, prompting the Bank of Canada to raise interest rates twice during the year, even as investors worried about Canadians' high household debts and the future of the North American Free Trade Agreement.

The Fund's overweight position in equities and underweight position in fixed income had a positive impact on performance. Bonds issued by national governments ended 2017 with modest returns as inflation remained subdued and most major central banks extended bond-buying programs aimed at holding down interest rates. Yields moved generally lower in the first eight months of the year due to escalating tension between the U.S. and North Korea and continued skepticism about the Trump administration's ability to enact its pro-growth policies. However, government-bond yields reversed higher in September as investors began anticipating efforts by central banks to scale back monetary stimulus and the likelihood of U.S. tax cuts increased. Canadian bonds underperformed U.S. fixed income given the faster-than-expected domestic growth. Returns were bolstered by exposure to the RBC Bond Fund and the RBC High Yield Bond Fund.

Stock markets rose in most of the world during 2017, driven by the tailwinds of rising corporate profits and the continued environment of relatively low global interest rates. Among the strongest-performing indexes were Japan, which benefited from the impact of structural reforms, and emerging markets, bolstered by a handful of technology stocks having large market capitalizations. In the U.S., equities were aided by expectations that the Republican-controlled Congress would work with President Trump to pass corporate and personal-income tax cuts, a hope that came to fruition at year end. European markets in local-currency terms and Canadian indexes had more modest gains because their indexes had minimal exposure to the strong returns delivered by the Information Technology sector. All of the Fund's equity holdings had a positive impact on performance, led by the RBC Global Equity Focus Fund.

Recent Developments

The portfolio manager expects bond yields to move higher at a gradual pace, supported by the improving economy and monetary tightening. Meanwhile, earnings have been coming through and analysts are optimistic that the trend can persist. U.S. corporate-tax cuts could provide an additional boost to profits. Against this backdrop, equities continue to offer superior total-return potential compared to fixed income and the portfolio manager has maintained a moderate overweight in stocks and underweight in bonds as a result.

Related-Party Transactions***Manager and Portfolio Manager***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	19.70	0.54	(0.12)	0.90	0.68	2.00	(0.17)	(0.27)	(0.63)	–	(1.07)	20.54
Dec. 31, 2016	19.01	0.54	(0.11)	0.64	0.42	1.49	(0.19)	(0.25)	(0.37)	–	(0.81)	19.70
Dec. 31, 2015	19.38	0.57	(0.12)	1.04	(0.48)	1.01	(0.20)	(0.27)	(0.90)	–	(1.37)	19.01
Dec. 31, 2014	18.46	0.51	(0.11)	1.76	0.04	2.20	(0.19)	(0.24)	(0.85)	–	(1.28)	19.38
Dec. 31, 2013	16.49	0.38	(0.10)	0.24	1.74	2.26	(0.16)	(0.14)	–	–	(0.30)	18.46
Series O												
Dec. 31, 2017	19.53	0.54	–	0.89	0.53	1.96	(0.21)	(0.32)	(0.63)	–	(1.16)	20.38
Dec. 31, 2016	18.86	0.53	–	0.64	0.42	1.59	(0.24)	(0.31)	(0.37)	–	(0.92)	19.53
Dec. 31, 2015	19.23	0.57	–	1.03	(0.48)	1.12	(0.25)	(0.34)	(0.89)	–	(1.48)	18.86
Dec. 31, 2014	18.30	0.51	–	1.75	0.04	2.30	(0.23)	(0.28)	(0.85)	–	(1.36)	19.23
Dec. 31, 2013	16.32	0.38	–	0.24	1.72	2.34	(0.19)	(0.17)	–	–	(0.36)	18.30

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	20.54	245 278	11 943	0.61	0.61	9.46	0.07
Dec. 31, 2016	19.70	382 349	19 414	0.60	0.60	13.63	0.08
Dec. 31, 2015	19.01	364 023	19 147	0.61	0.61	21.97	0.07
Dec. 31, 2014	19.38	357 027	18 425	0.60	0.60	40.26	0.07
Dec. 31, 2013	18.46	376 545	20 400	0.60	0.60	28.01	0.12
Series O							
Dec. 31, 2017	20.38	1 047 872	51 418	0.04	0.04	9.46	0.07
Dec. 31, 2016	19.53	814 076	41 684	0.04	0.04	13.63	0.08
Dec. 31, 2015	18.86	896 919	47 554	0.04	0.04	21.97	0.07
Dec. 31, 2014	19.23	956 262	49 722	0.04	0.04	40.26	0.07
Dec. 31, 2013	18.30	908 067	49 611	0.04	0.04	28.01	0.12

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund.

Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.50%	–	100%

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

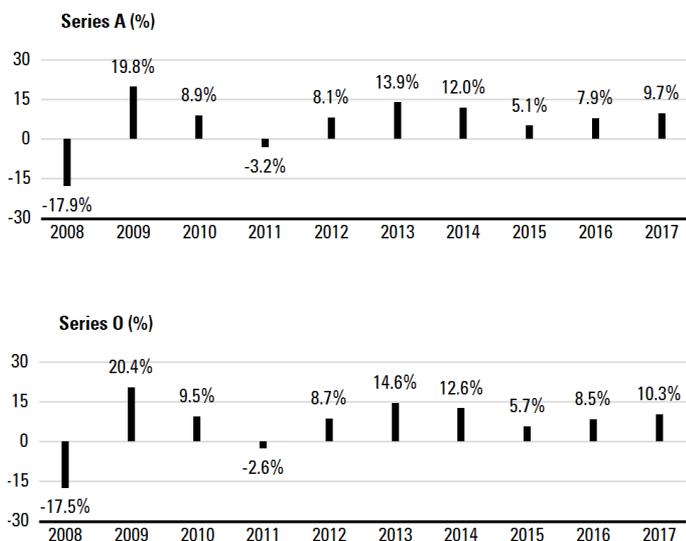
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- 38% FTSE TMX Canada Universe Bond Index
- 30% S&P/TSX Capped Composite Total Return Index
- 26% MSCI World Total Return Net Index (CAD)
- 4% MSCI Emerging Markets Total Return Net Index (CAD)
- 2% FTSE TMX Canada 30 Day TBill Index

The following are the broad-based indexes:

- Broad-based index 1 – FTSE TMX Canada Universe Bond Index
- Broad-based index 2 – S&P/TSX Capped Composite Total Return Index

In January 2018, the S&P/TSX Capped Composite Total Return Index was added as a second broad-based index to more closely reflect the Fund's composition. The existing broad-based index is the FTSE TMX Canada Universe Bond Index.

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	9.7	7.6	9.7	5.9	–
Benchmark	8.5	6.7	8.5	5.6	–
Broad-based index 1	2.5	2.6	3.0	4.7	–
Broad-based index 2	9.1	6.6	8.6	4.7	–
Series O	10.3	8.2	10.3	6.5	–
Benchmark	8.5	6.7	8.5	5.6	–
Broad-based index 1	2.5	2.6	3.0	4.7	–
Broad-based index 2	9.1	6.6	8.6	4.7	–

The returns of each series may vary because of differences in management fees and expenses. The Benchmark and broad-based index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark and broad-based indexes.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTIONS

FTSE TMX Canada Universe Bond Index This index is designed as a broad measure of the Canadian investment-grade fixed-income market and includes bonds with maturities of at least one year.

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

MSCI World Total Return Net Index (CAD) This index is the capitalization-weighted index measuring the Canadian dollar performance of selected companies listed on stock exchanges in countries around the world. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI Emerging Markets Total Return Net Index (CAD) This index is a broad measure of the Canadian dollar performance of emerging-market equities. As of May 2010, the index consisted of the following 21 emerging-market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, South Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. The net total return index reinvests dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

FTSE TMX Canada 30 Day TBill Index This index is a measure of the performance of Canadian short-term cash investments.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Bonds	34.7
Global Equities	31.2
Canadian Equities	30.3
Cash/Other	3.8

Top 25 Holdings*

	% of Net Asset Value
Phillips, Hager & North Bond Fund	36.0
Phillips, Hager & North Canadian Equity Underlying Fund	30.8
RBC QUBE Global Equity Fund	13.7
RBC Global Equity Focus Fund	13.6
RBC Emerging Markets Equity Fund	4.1
Phillips, Hager & North Canadian Money Market Fund	1.4
Cash & Cash Equivalents	0.4
Total	100.0

* The Fund holds fewer than 25 holdings.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at www.rbcgam.com/reports.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CONSERVATIVE EQUITY INCOME FUND***December 31, 2017***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

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Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

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Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with a high and sustainable level of income by investing primarily in common shares of dividend paying Canadian companies. To achieve the Fund's investment objective, the portfolio manager invests in companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and the potential for strong earnings and dividend growth.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$1.7 billion as of December 31, 2017, from \$1.6 billion at the end of 2016. The increase was due to investment returns.

Over the past year, the Fund's Series O units gained 7.2%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Industrials and Consumer Discretionary sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Real Estate sector, a position in Boardwalk REIT held back the Fund's returns over the year. The Energy sector was the biggest detractor to performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by holdings in Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

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RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

**PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND*****Registrars***

RBC GAM, RBC IS and Royal Bank are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$71,000 (2016 – \$63,000), or 8% (2016 – 7%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series O												
Dec. 31, 2017	12.07	0.35	(0.01)	0.02	0.51	0.87	(0.01)	(0.34)	(0.02)	–	(0.37)	12.56
Dec. 31, 2016	10.21	0.36	(0.01)	0.38	1.85	2.58	–	(0.34)	(0.22)	–	(0.56)	12.07
Dec. 31, 2015	11.94	0.41	(0.01)	0.25	(1.50)	(0.85)	(0.01)	(0.45)	(0.45)	–	(0.91)	10.21
Dec. 31, 2014	12.05	0.39	(0.01)	1.16	0.13	1.67	–	(0.41)	(1.29)	–	(1.70)	11.94
Dec. 31, 2013	10.66	0.39	(0.01)	0.43	1.35	2.16	–	(0.34)	(0.38)	–	(0.72)	12.04

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series O							
Dec. 31, 2017	12.56	1 745 157	139 000	0.06	0.06	26.74	0.05
Dec. 31, 2016	12.07	1 576 375	130 572	0.06	0.06	52.18	0.11
Dec. 31, 2015	10.21	117 220	11 479	0.06	0.06	35.35	0.09
Dec. 31, 2014	11.94	214 256	17 951	0.06	0.06	60.46	0.08
Dec. 31, 2013	12.05	197 310	16 381	0.06	0.06	41.88	0.07

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series O units. Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

**PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND**
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series 0	7.2	—	—	—	8.6
Benchmark	9.1	—	—	—	6.1

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Although Series 0 units of the Fund were created in April 2012, units were not offered for sale under a simplified prospectus until June 2015.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Financials	36.6
Energy	20.6
Industrials	9.3
Consumer Discretionary	7.3
Real Estate	7.0
Information Technology	5.4
Utilities	3.4
Telecommunication Services	2.8
Materials	2.5
Consumer Staples	2.2
Cash/Other	2.9

Top 25 Holdings

	% of Net Asset Value
Toronto-Dominion Bank	6.3
Royal Bank of Canada	5.7
Enbridge Inc.	5.6
Bank of Nova Scotia	5.4
Brookfield Asset Management Inc., Class A	3.7
Bank of Montreal	2.8
Cash & Cash Equivalents	2.7
CGI Group Inc., Class A	2.5
Canadian Imperial Bank of Commerce	2.5
Shaw Communications Inc., Class B	2.5
Alimentation Couche-Tard Inc.	2.2
Thomson Corp.	2.2
Stantec Inc.	2.2
First Capital Realty Inc.	2.2
Keyera Corp.	2.2
Canadian National Railway Co.	2.1
TransCanada Corp.	2.1
Canadian Pacific Railway Ltd.	2.1
Open Text Corp.	2.0
Brookfield Infrastructure Partners LP	2.0
Waste Connections Inc.	2.0
Intact Financial Corp.	1.9
Quebecor Inc., Class B	1.8
Canadian Natural Resources Ltd.	1.8
Dollarama Inc.	1.7
Top 25 Holdings	70.2

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at www.rbcgam.com/reports.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY PENSION TRUST***December 31, 2017***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth by investing primarily in common shares of Canadian companies, which are chosen primarily for their growth potential. To achieve the Fund's investment objective, the portfolio manager invests in companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their peers, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$461 million as of December 31, 2017, from \$309 million at the end of 2016. The increase was due to net inflows.

Over the past year, the Fund's Series O units gained 6.5%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor to performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions**Manager and Portfolio Manager**

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$9,000 (2016 – \$22,000), or 5% (2016 – 10%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series N												
Dec. 31, 2017	10.41	0.28	–	0.23	0.07	0.58	(0.02)	(0.19)	(0.19)	–	(0.40)	10.69
Dec. 31, 2016 ³	10.00 [†]	0.09	–	0.01	0.82	0.92	(0.04)	(0.23)	(0.02)	–	(0.29)	10.41
Series O												
Dec. 31, 2017	8.22	0.22	–	0.18	0.18	0.58	(0.01)	(0.15)	(0.15)	–	(0.31)	8.44
Dec. 31, 2016	6.84	0.21	–	0.02	1.44	1.67	(0.03)	(0.18)	(0.02)	–	(0.23)	8.22
Dec. 31, 2015	7.53	0.22	–	(0.03)	(0.78)	(0.59)	(0.01)	(0.15)	(0.02)	–	(0.18)	6.84
Dec. 31, 2014	7.01	0.21	–	0.53	(0.02)	0.72	(0.01)	(0.10)	(0.24)	–	(0.35)	7.53
Dec. 31, 2013	6.00	0.17	–	0.17	0.84	1.18	(0.01)	(0.18)	–	–	(0.19)	7.01

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

³ From August 22, 2016.

[†] Initial offering net asset value per unit.

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series N							
Dec. 31, 2017	10.69	6	1	0.02	0.02	28.65	0.06
Dec. 31, 2016 ⁴	10.41	11	1	0.02	0.02	48.86	0.09
Series O							
Dec. 31, 2017	8.44	460 564	54 545	0.02	0.02	28.65	0.06
Dec. 31, 2016	8.22	309 082	37 622	0.02	0.02	48.86	0.09
Dec. 31, 2015	6.84	193 017	28 224	0.03	0.03	39.46	0.09
Dec. 31, 2014	7.53	130 555	17 343	0.04	0.04	47.43	0.11
Dec. 31, 2013	7.01	48 746	6 951	0.04	0.04	35.43	0.08

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ From August 22, 2016.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

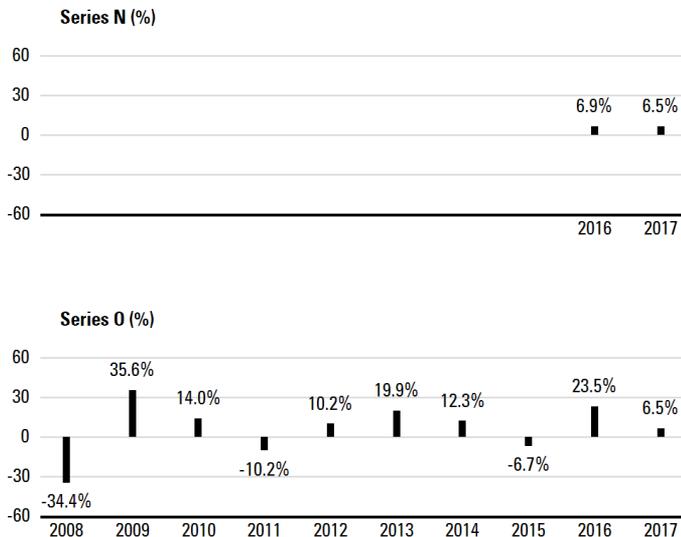
RBC GAM is the manager and portfolio manager of the Fund. No management fees are paid by the Fund with respect to Series N and Series O units. Series N and Series O unitholders pay a negotiated fee directly to RBC GAM for investment-counselling services.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series N	6.5	—	—	—	10.1
Benchmark	9.1	—	—	—	10.4
Series O	6.5	7.1	10.6	5.2	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Series N units have been available for sale to unitholders since August 22, 2016.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO*(after consideration of derivative products, if any)**As at December 31, 2017***Investment Mix**

	% of Net Asset Value
Financials	37.1
Energy	22.8
Industrials	8.7
Consumer Discretionary	8.7
Materials	8.0
Information Technology	4.6
Consumer Staples	3.2
Real Estate	2.5
Utilities	1.5
Telecommunication Services	0.9
Cash/Other	2.0

Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	10.8
Toronto-Dominion Bank	7.6
Royal Bank of Canada	7.0
Enbridge Inc.	5.6
Bank of Nova Scotia	5.1
Brookfield Asset Management Inc., Class A	3.9
Manulife Financial Corporation	3.3
TransCanada Corp.	2.7
Canadian National Railway Co.	2.6
Alimentation Couche-Tard Inc.	2.4
Canadian Imperial Bank of Commerce	2.4
Canadian Natural Resources Ltd.	2.2
Bank of Montreal	2.1
Dollarama Inc.	2.0
CGI Group Inc., Class A	1.8
Waste Connections Inc.	1.8
Suncor Energy Inc.	1.7
Encana Corp.	1.6
Fairfax Financial Holdings Ltd.	1.5
Open Text Corp.	1.5
Shaw Communications Inc., Class B	1.5
Cash & Cash Equivalents	1.4
ARC Resources Ltd.	1.3
Keyera Corp.	1.2
Tourmaline Oil Corp.	1.2
Top 25 Holdings	76.2

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at www.rbcgam.com/reports.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
SMALL FLOAT FUND***December 31, 2017***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The Fund seeks to provide investors with long-term capital growth by investing generally in a diversified portfolio of common stocks of small-float, high-quality Canadian companies. To achieve the Fund's investment objective, the portfolio manager generally invests in small capitalization growth companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their competitors, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value rose to \$296 million as of December 31, 2017, from \$292 million at the end of 2016. The increase was due to investment returns, partially offset by net redemptions.

Over the past year, the Fund's Series O units gained 7.0%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor from performance, with positions in Trinidad Drilling and Secure Energy Services having a large negative impact during the period.

In the Telecommunication Services sector, the Fund's overweight position in Quebecor Inc. added significantly to returns. Positions in the Consumer Discretionary sector also aided performance, with contributions from holdings in Great Canadian Gaming and Sleep Country Canada.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions

Manager and Portfolio Manager

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager and principal portfolio manager of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Registrars

RBC GAM and RBC IS are the registrars of the Fund and keep records of who owns units of the Fund. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$7,000 (2016 – \$23,000), or 3% (2016 – 12%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²					Net Assets End of Year/Period
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital	Total	
Series A												
Dec. 31, 2017	31.89	0.39	(0.36)	(0.83)	2.66	1.86	–	(0.04)	–	–	(0.04)	33.71
Dec. 31, 2016	25.43	0.37	(0.31)	2.09	4.34	6.49	–	(0.04)	–	–	(0.04)	31.89
Dec. 31, 2015	25.73	0.40	(0.29)	0.33	(0.57)	(0.13)	(0.01)	(0.14)	–	–	(0.15)	25.43
Dec. 31, 2014	24.26	0.37	(0.29)	7.96	(5.98)	2.06	(0.01)	(0.13)	–	–	(0.14)	25.73
Dec. 31, 2013	16.45	0.31	(0.21)	3.43	4.14	7.67	–	(0.10)	–	–	(0.10)	24.23
Series O												
Dec. 31, 2017	30.77	0.38	–	(0.80)	2.61	2.19	(0.04)	(0.34)	–	–	(0.38)	32.54
Dec. 31, 2016	24.55	0.35	–	2.03	4.13	6.51	(0.02)	(0.36)	–	–	(0.38)	30.77
Dec. 31, 2015	24.85	0.39	–	0.32	(0.55)	0.16	(0.02)	(0.40)	–	–	(0.42)	24.55
Dec. 31, 2014	23.42	0.35	–	7.66	(5.76)	2.25	(0.02)	(0.38)	–	–	(0.40)	24.85
Dec. 31, 2013	15.88	0.30	–	3.35	4.04	7.69	(0.01)	(0.34)	–	–	(0.35)	23.39

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

FINANCIAL HIGHLIGHTS (cont.)

Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	33.71	971	29	1.10	1.10	23.66	0.09
Dec. 31, 2016	31.89	917	29	1.10	1.10	24.75	0.07
Dec. 31, 2015	25.43	730	29	1.10	1.10	32.48	0.09
Dec. 31, 2014	25.73	813	32	1.09	1.09	55.46	0.13
Dec. 31, 2013	24.26	848	35	1.09	1.09	40.65	0.16
Series O							
Dec. 31, 2017	32.54	294 658	9 056	—	—	23.66	0.09
Dec. 31, 2016	30.77	290 835	9 453	—	—	24.75	0.07
Dec. 31, 2015	24.55	253 380	10 322	—	—	32.48	0.09
Dec. 31, 2014	24.85	261 900	10 540	—	—	55.46	0.13
Dec. 31, 2013	23.42	322 707	13 780	—	—	40.65	0.16

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager and portfolio manager of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	1.00%	—	100%

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

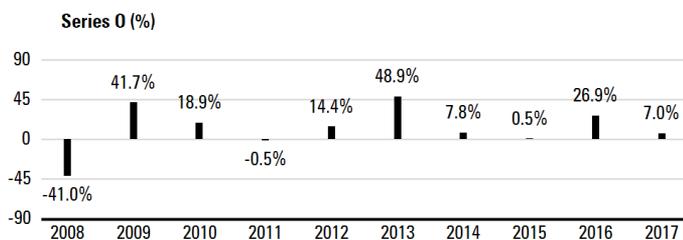
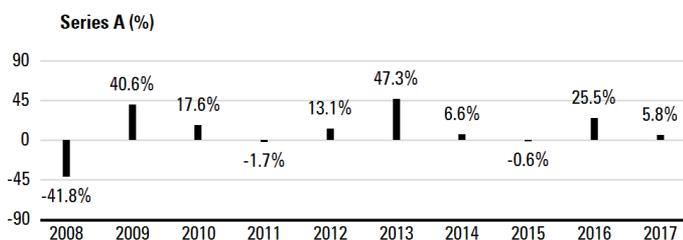
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.



Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	5.8	9.7	15.7	8.3	—
Benchmark	9.1	6.6	8.6	4.7	—
Series O	7.0	10.9	17.0	9.5	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2017

Investment Mix

	% of Net Asset Value
Consumer Discretionary	26.6
Industrials	26.5
Energy	8.1
Consumer Staples	7.8
Materials	7.8
Real Estate	7.0
Information Technology	6.8
Financials	5.9
Cash/Other	3.5

Top 25 Holdings

	% of Net Asset Value
Quebecor Inc., Class B	7.2
Boyd Group Income Fund	5.9
Stantec Inc.	5.9
Badger Daylighting Ltd.	5.7
CCL Industries, Class B	5.6
Sleep Country Canada Holdings Inc.	5.5
Raging River Exploration Inc.	5.0
Great Canadian Gaming Corp.	4.7
Kinaxis Inc.	4.6
Jamieson Wellness Inc.	3.9
Richelieu Hardware Ltd.	3.8
Cash & Cash Equivalents	3.3
Element Fleet Management Corp.	3.1
Secure Energy Services Inc.	3.1
Ritchie Bros. Auctioneers Inc.	2.9
The Westaim Corp.	2.8
FirstService Corp.	2.8
Maple Leaf Foods Inc.	2.7
Leon's Furniture Ltd.	2.7
Toromont Industries Ltd.	2.5
Cineplex Inc.	2.4
goeasy Ltd.	2.4
Stella-Jones Inc.	2.2
Blackline Safety Corp.	2.2
Mainstreet Equity Corp.	2.2
Top 25 Holdings	95.1

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at www.rbcgam.com/reports.

CANADIAN EQUITY FUND

**PHILLIPS, HAGER & NORTH
CANADIAN EQUITY PLUS
PENSION TRUST***December 31, 2017***Portfolio Manager** *RBC Global Asset Management Inc. ("RBC GAM")*

The Board of Directors of RBC Global Asset Management Inc. approved this annual management report of fund performance on March 8, 2018.

A Note on Forward-looking Statements

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.

This annual management report of fund performance ("MRFP") contains financial highlights but does not contain the complete annual financial statements of the Fund. You can get a copy of the financial statements at your request, and at no cost, by calling 1-800-661-6141, by writing to us at RBC Global Asset Management Inc., Phillips, Hager & North Investment Management, Investment Funds Centre, 20th Floor, 200 Burrard Street, Vancouver, B.C., V6C 3N5, or by visiting our website at www.rbcgam.com/reports or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Phillips, Hager & North Investment Management is a division of RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly owned subsidiary of Royal Bank of Canada ("Royal Bank").

MANAGEMENT DISCUSSION OF FUND PERFORMANCE**Investment Objective and Strategies**

The Fund seeks to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks that are qualified investments for registered Canadian pension plans. The Fund may also invest a portion of its assets in U.S. and international securities. To achieve the Fund's investment objective, the portfolio manager invests primarily in large-capitalization companies that they believe have a superior management team, a leadership position in their industry, a high level of profitability compared to their competitors, and strong earnings potential.

Risk

There were no significant changes to the investment objective and strategies that affected the Fund's overall level of risk during the reporting period. The risks of investing in the Fund and the suitability of the Fund for investors remain as discussed in the Simplified Prospectus.

Effective June 30, 2017, RBC GAM adopted the risk classification methodology under National Instrument 81-102 – *Investment Funds* (the "new risk classification methodology"). Pursuant to the new risk classification methodology, certain funds' risk ratings were changed. RBC GAM reviews each fund's risk rating on an annual basis or if there has been a material change to a fund's investment objectives or investment strategies. Any changes to a fund's risk rating are the result of RBC GAM's annual review and the adoption of the new risk classification methodology.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Fund's net asset value fell to \$114 million as of December 31, 2017, from \$119 million at the end of 2016. The decrease was due to net redemptions, partially offset by investment returns.

Over the past year, the Fund's Series O units gained 8.9%, which underperformed the 9.1% rise in the benchmark. The Fund's return is after the deduction of expenses, while benchmark and broad-based index returns do not include any costs of investing. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of any other series, which may vary because of differences in management fees and expenses.

The Canadian equity market, as measured by the S&P/TSX Capped Composite Index, surged to record highs to close out 2017. Ten out of the 11 industry sectors posted gains during the year, with Energy being the only one to decline. A rise in oil prices in the latter half of 2017 muted some of the sector's negative impact. The Financials, Consumer Discretionary and Industrials sectors contributed the most to index returns after a slow start to the year, offsetting mid-year worries related to surging home prices and consumer debt.

In the Financials sector, a position in Home Capital Group held back the Fund's returns over the year. The Energy sector was the biggest detractor from performance, with positions in Cenovus Energy and Crescent Point Energy having a large negative impact during the period.

In the Consumer Discretionary sector, the Fund's overweight position in Dollarama added significantly to returns. The Fund's holdings in the Utilities sector aided returns, led by Brookfield Infrastructure Partners and Fortis.

Recent Developments

Economic momentum in developed and emerging markets has shown little sign of slowing, and low inflation and accommodative monetary policies remain supportive. Synchronized global growth continues to be led by the U.S., whose central bank will likely continue with interest-rate hikes in 2018. The recently enacted U.S. tax cuts have the potential to maintain corporate earnings momentum. A steady and sustained expansion continues globally but political tensions remain a risk on the horizon.

Related-Party Transactions***Manager, Portfolio Manager and Registrar***

RBC GAM is an indirect, wholly owned subsidiary of Royal Bank and is the manager, principal portfolio manager and registrar of the Fund. RBC GAM is responsible for the Fund's day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. RBC GAM, as registrar, also keeps the records of who owns the units of the Fund. The registrar earns a fee, which is paid by the manager from the fixed administration fee paid by the Fund. RBC GAM is paid a management fee by the Fund as compensation for its services. The Fund pays a fixed administration fee to RBC GAM, which, in turn, pays certain operating expenses of the Fund. Both the management fee and fixed administration fee are calculated and accrued daily as a percentage of the net asset value of each series of units of the Fund.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Fund, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Fund also maintains bank accounts and overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Fund in the course of their normal businesses are discussed below.

Distributor

RBC GAM is the principal distributor of the Fund.

Trustee and Custodian

RBC Investor Services Trust ("RBC IS") is the trustee and holds title to the Fund's property on behalf of unitholders. RBC IS is the custodian of the Fund and holds the assets of the Fund.

RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by the Fund.

Brokers and Dealers

The Fund has established standard brokerage and dealing agreements at market rates with related parties. These related-party commissions were \$3,000 (2016 – \$8,000), or 6% (2016 – 10%) of the total transaction costs paid for this Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund 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 Fund, (iii) is in compliance with RBC GAM policies and procedures, and (iv) achieves a fair and reasonable result for the Fund. RBC GAM policy requires that an investment decision in respect of Inter-Fund Trading is in the best interests of each Fund.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY
PLUS PENSION TRUST**
FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years or for the periods since inception. This information is derived from the Fund's audited annual financial statements. For financial years beginning on or after January 1, 2014, financial highlight information is derived from financial statements prepared in compliance with International Financial Reporting Standards ("IFRS"). For financial years prior to January 1, 2014, financial highlight information is derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). "Net Assets," for the periods prior to 2014, are calculated in accordance with GAAP, and "Net Asset Value" is derived from the valuation method disclosed in the Phillips, Hager & North Funds Annual Information Form and is used for transactional purposes (see Ratios and Supplemental Data). All other calculations for the purposes of this MRFP are made using Net Asset Value. There is no significant difference between "Net Assets" and "Net Asset Value" under IFRS.

Change in Net Assets Per Unit (\$)

For the Year/ Period Ended	Net Assets Beginning of Year/Period	Increase (Decrease) from Operations ¹					Annual Distributions ²				Net Assets End of Year/Period	
		Total Revenue (Loss)	Total Expenses	Realized Gains (Losses)	Unrealized Gains (Losses)	Total	From Income (Excluding Dividends)	From Dividends	From Capital Gains	Return of Capital		
Series A												
Dec. 31, 2017	83.30	2.08	(0.53)	6.59	(1.27)	6.87	(0.05)	(1.68)	–	–	(1.73)	88.46
Dec. 31, 2016	70.33	2.01	(0.47)	6.68	2.61	10.83	(0.07)	(1.66)	–	–	(1.73)	83.30
Dec. 31, 2015	77.00	2.04	(0.49)	3.03	(8.58)	(4.00)	(0.07)	(1.75)	–	–	(1.82)	70.33
Dec. 31, 2014	70.00	1.83	(0.48)	5.14	2.06	8.55	(0.06)	(1.39)	–	–	(1.45)	77.00
Dec. 31, 2013	58.94	1.60	(0.40)	1.43	9.64	12.27	(0.07)	(1.21)	–	–	(1.28)	69.99
Series O												
Dec. 31, 2017	102.33	2.56	(0.04)	8.12	(1.69)	8.95	(0.08)	(2.70)	–	–	(2.78)	108.66
Dec. 31, 2016	86.45	2.51	(0.03)	8.34	7.63	18.45	(0.11)	(2.69)	–	–	(2.80)	102.33
Dec. 31, 2015	94.65	2.52	(0.03)	3.73	(10.59)	(4.37)	(0.11)	(2.67)	–	–	(2.78)	86.45
Dec. 31, 2014	86.05	2.26	(0.03)	6.33	2.54	11.10	(0.09)	(2.26)	–	–	(2.35)	94.65
Dec. 31, 2013	72.48	1.97	(0.03)	1.76	11.88	15.58	(0.11)	(2.00)	–	–	(2.11)	86.03

¹ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

² Distributions are reinvested in additional units of the Fund or paid in cash.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY
PLUS PENSION TRUST**
FINANCIAL HIGHLIGHTS (cont.)
Ratios and Supplemental Data

As at	Net Asset Value Per Unit (\$)	Net Asset Value (\$000s)	Number of Units Outstanding (000s)	Management Expense Ratio (%) ¹	MER Before Absorption (%) ¹	Portfolio Turnover Rate (%) ²	Trading Expense Ratio (%) ³
Series A							
Dec. 31, 2017	88.46	1 513	17	0.61	0.61	22.29	0.05
Dec. 31, 2016	83.30	1 456	17	0.63	0.63	36.50	0.07
Dec. 31, 2015	70.33	4 280	61	0.64	0.64	21.78	0.06
Dec. 31, 2014	77.00	5 994	78	0.63	0.63	26.75	0.07
Dec. 31, 2013	70.00	5 288	76	0.62	0.62	18.07	0.07
Series O							
Dec. 31, 2017	108.66	112 001	1 031	0.03	0.03	22.29	0.05
Dec. 31, 2016	102.33	117 394	1 147	0.03	0.03	36.50	0.07
Dec. 31, 2015	86.45	114 521	1 325	0.04	0.04	21.78	0.06
Dec. 31, 2014	94.65	149 694	1 582	0.03	0.03	26.75	0.07
Dec. 31, 2013	86.05	144 957	1 685	0.03	0.03	18.07	0.07

¹ The management expense ratio ("MER") is based on expenses for the stated period, excluding commissions and other portfolio transaction costs, and is expressed as an annualized percentage of the daily average net asset value during the period. RBC GAM may, at its discretion and without notice to unitholders, waive or absorb certain operating expenses. MER includes the waiver or absorption by RBC GAM of certain operating expenses, while the MER before absorption shows the MER prior to operating expenses being waived or absorbed by RBC GAM.

² The Fund's portfolio turnover rate gives an indication of the level of activity employed by the portfolio manager. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of the Fund. The portfolio turnover rate is not applicable to money market funds.

³ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

Management Fees

RBC GAM is the manager, portfolio manager and registrar of the Fund. Management fees of each series of the Fund are calculated at the annual percentages, before GST/HST, of the daily net asset value of each series of the Fund. The breakdown of the services received in consideration of the management fees for each series, as a percentage of the management fees, is as follows:

	Management Fees	Breakdown of Services	
		Distribution	Other*
Series A	0.50%	–	100%

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

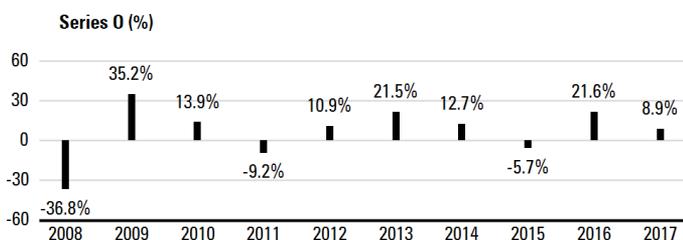
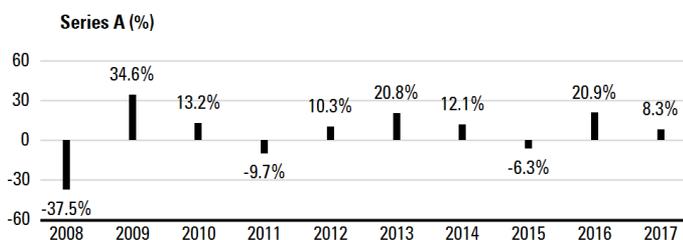
* Includes all costs related to management, investment advisory services, general administration and profit.

PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST
PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional charges or income taxes payable that would have reduced returns or performance. Past performance does not necessarily indicate how the Fund may perform in the future. A fund with more than 10 years of performance history is only permitted to disclose the past 10 years.

Year-by-Year Returns (%)

The bar chart indicates the Fund's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the end of the financial year.


Annual Compound Returns (%)

The table shows the annual compound returns for each series of the Fund and for each of the periods indicated ended on December 31, 2017, compared with the following benchmark:

S&P/TSX Capped Composite Total Return Index

	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception
Series A	8.3	7.1	10.7	4.7	—
Benchmark	9.1	6.6	8.6	4.7	—
Series O	8.9	7.7	11.3	5.3	—
Benchmark	9.1	6.6	8.6	4.7	—

The returns of each series may vary because of differences in management fees and expenses. The Benchmark index returns do not include any costs of investing. See Management Discussion of Fund Performance for a discussion of performance relative to the Benchmark index.

Inception dates are not provided for series that have been in existence for more than 10 years.

INDEX DESCRIPTION

S&P/TSX Capped Composite Total Return Index This index is the amended capitalization-weighted index measuring the performance of selected securities listed on the Toronto Stock Exchange, with no individual stock exceeding 10% of the overall weight.

PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST**SUMMARY OF INVESTMENT PORTFOLIO***(after consideration of derivative products, if any)**As at December 31, 2017***Investment Mix**

	% of Net Asset Value
Financials	34.2
Energy	19.4
Industrials	10.7
Information Technology	8.2
Consumer Discretionary	7.6
Materials	6.6
Consumer Staples	5.4
Health Care	2.2
Real Estate	2.2
Utilities	1.3
Telecommunication Services	0.8
Cash/Other	1.4

Top 25 Holdings

	% of Net Asset Value
Phillips, Hager & North Small Float Fund	9.3
Toronto-Dominion Bank	6.5
Royal Bank of Canada	6.1
Enbridge Inc.	4.7
Bank of Nova Scotia	4.4
Brookfield Asset Management Inc., Class A	3.4
Manulife Financial Corporation	2.9
PepsiCo Inc.	2.5
TransCanada Corp.	2.3
Canadian National Railway Co.	2.2
Microsoft Corp.	2.2
Alimentation Couche-Tard Inc.	2.1
Canadian Imperial Bank of Commerce	2.0
Wells Fargo & Company	2.0
Canadian Natural Resources Ltd.	1.9
Bank of Montreal	1.8
Dollarama Inc.	1.8
Emerson Electric Co.	1.6
CGI Group Inc., Class A	1.6
Waste Connections Inc.	1.6
Suncor Energy Inc.	1.4
Fairfax Financial Holdings Ltd.	1.4
Encana Corp.	1.4
Oracle Corporation	1.4
Open Text Corp.	1.3
Top 25 Holdings	69.8

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be viewed at www.rbcgam.com/reports.

The Simplified Prospectus and other information about the underlying funds are available on SEDAR website at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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.

PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, have performed an independent audit of the financial statements in accordance with IFRS. Their report is set out on the next page.



Damon G. Williams, FSA, FCIA, CFA
Chief Executive Officer
RBC Global Asset Management Inc.



Heidi Johnston, CPA, CA
Chief Financial Officer
RBC GAM Funds

March 8, 2018

To the Unitholders of:

Phillips, Hager & North Balanced Pension Trust
Phillips, Hager & North Conservative Equity Income Fund
Phillips, Hager & North Canadian Equity Pension Trust
Phillips, Hager & North Small Float Fund
Phillips, Hager & North Canadian Equity Plus Pension Trust
(collectively referred to as the "Funds")

We have audited the accompanying financial statements of each of the Funds, which comprise the statements of financial position, comprehensive income, cash flows and changes in net assets attributable to holders of redeemable units as at and for the periods indicated in note 2, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements of each of the Funds based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position, financial performance and cash flows of each of the Funds as at and for the periods indicated in note 2, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 8, 2018

SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH BALANCED PENSION TRUST

December 31, 2017

Number of Units	Security	Cost	Fair Value	% of Net Assets
MUTUAL FUND UNITS				
45 585 431	Phillips, Hager & North Bond Fund*	\$ 478 517	\$ 464 990	
32 790 773	Phillips, Hager & North Canadian Equity Underlying Fund*	347 413	397 815	
1 867 527	Phillips, Hager & North Canadian Money Market Fund*	18 675	18 675	
2 935 157	RBC Emerging Markets Equity Fund*	39 663	53 404	
10 826 830	RBC Global Equity Focus Fund*	124 823	175 912	
15 488 705	RBC QUBE Global Equity Fund*	179 474	177 352	
TOTAL MUTUAL FUND UNITS		1 188 565	1 288 148	99.6
SHORT-TERM INVESTMENTS†		5 595	5 595	0.4
TOTAL INVESTMENTS		<u>\$1 194 160</u>	<u>1 293 743</u>	100.0
OTHER NET ASSETS (LIABILITIES)				
ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
			(593)	–
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		<u>\$1 293 150</u>		100.0

* Investment in related party (see note 8 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 0.95% to 1.37% and mature between January 2, 2018 and January 30, 2018.

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

Statements of Financial Position*(in \$000s except per unit amounts)*

(see note 2 in the generic notes)	December 31 2017	December 31 2016
ASSETS		
Investments at fair value	\$ 1 293 743	\$ 1 197 714
Cash	128	127
Subscriptions receivable	713	340
Dividends receivable, interest accrued and other assets	8	7
TOTAL ASSETS	1 294 592	1 198 188
LIABILITIES		
Redemptions payable	1 312	1 572
Accounts payable and accrued expenses	130	191
TOTAL LIABILITIES EXCLUDING NET ASSETS		
ATTRIBUTABLE TO HOLDERS		
OF REDEEMABLE UNITS	1 442	1 763
NET ASSETS ATTRIBUTABLE TO HOLDERS		
OF REDEEMABLE UNITS ("NAV")	\$ 1 293 150	\$ 1 196 425
Investments at cost	\$ 1 194 160	\$ 1 132 318
NAV		
SERIES A	\$ 245 278	\$ 382 349
SERIES O	\$ 1 047 872	\$ 814 076
NAV PER UNIT		
SERIES A	\$ 20.54	\$ 19.70
SERIES O	\$ 20.38	\$ 19.53

Statements of Comprehensive Income*(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2017	2016
INCOME (see note 3 in the generic notes)		
Interest for distribution purposes	\$ 46	\$ 36
Other income received from underlying funds	32 482	33 934
Capital gains received from underlying funds	37 415	26 709
Net realized gain (loss) on investments	16 417	13 977
Change in unrealized gain (loss) on investments	34 187	26 562
TOTAL INCOME (LOSS)	120 547	101 218
EXPENSES (see notes – Fund Specific Information)		
Management fees	1 585	1 848
Administration fees	124	123
Independent Review Committee costs	3	2
GST/HST	217	226
TOTAL EXPENSES	1 929	2 199
INCREASE (DECREASE) IN NAV	\$ 118 618	\$ 99 019
INCREASE (DECREASE) IN NAV		
SERIES A	\$ 31 034	\$ 28 167
SERIES O	\$ 87 584	\$ 70 852
INCREASE (DECREASE) IN NAV PER UNIT		
SERIES A	\$ 2.00	\$ 1.49
SERIES O	\$ 1.96	\$ 1.59

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

Statements of Cash Flow (in \$000s)For the periods ended December 31
(see note 2 in the generic notes)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ 118 618	\$ 99 019
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	(69 897)	(60 643)
Net realized loss (gain) on investments	(16 417)	(13 977)
Change in unrealized loss (gain) on investments	(34 187)	(26 562)
(Increase) decrease in accrued receivables	(1)	1
Increase (decrease) in accrued payables	(61)	5
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(350 413)	(418 853)
Proceeds from sale and maturity of investments	374 885	583 992
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	22 527	162 982
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units	108 327	66 039
Cash paid on redemption of redeemable units	(130 609)	(228 718)
Distributions paid to holders of redeemable units	(244)	(182)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	\$ (22 526)	\$ (162 861)
Net increase (decrease) in cash for the period	1	121
Cash (bank overdraft), beginning of period	127	6
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 128	\$ 127
Interest received (paid)	\$ 44	\$ 38
Dividends received, net of withholding taxes	\$ –	\$ –

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

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

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series O		Total	
	2017	2016	2017	2016	2017	2016
NAV AT BEGINNING OF PERIOD	\$ 382 349	\$ 364 023	\$ 814 076	\$ 896 919	\$ 1 196 425	\$ 1 260 942
INCREASE (DECREASE) IN NAV	31 034	28 167	87 584	70 852	118 618	99 019
Early redemption fees	—	—	—	—	—	—
Proceeds from redeemable units issued	7 590	8 660	258 746	56 862	266 336	65 522
Reinvestments of distributions to holders of redeemable units	12 504	15 233	56 020	37 831	68 524	53 064
Redemption of redeemable units	(175 691)	(18 501)	(112 294)	(210 375)	(287 985)	(228 876)
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	(155 597)	5 392	202 472	(115 682)	46 875	(110 290)
Distributions from net income	(5 288)	(8 389)	(25 484)	(23 342)	(30 772)	(31 731)
Distributions from net gains	(7 220)	(6 844)	(30 776)	(14 671)	(37 996)	(21 515)
Distributions from capital	—	—	—	—	—	—
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	(12 508)	(15 233)	(56 260)	(38 013)	(68 768)	(53 246)
NET INCREASE (DECREASE) IN NAV	(137 071)	18 326	233 796	(82 843)	96 725	(64 517)
NAV AT END OF PERIOD	\$ 245 278	\$ 382 349	\$ 1 047 872	\$ 814 076	\$ 1 293 150	\$ 1 196 425

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

December 31, 2017

General information (see note 1 in the generic notes)

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

Financial instrument risk and capital management (see note 5 in the generic notes)

The Fund invests primarily in other mutual funds. The Fund's exposure to financial instrument risk is based on the underlying mutual fund asset mix. The following tables present the Fund's direct risks and pro rata exposure to the risks of the underlying funds.

Credit risk (%)

Credit-exposed securities, excluding short-term investments, comprise 36.0% (December 31, 2016 – 37.1%) of the NAV of the Fund. The table below summarizes the Fund's credit risk exposure grouped by credit ratings as at:

Rating	December 31 2017	December 31 2016
AAA	44.8	32.5
AA	28.9	32.3
A	15.8	15.3
BBB	9.3	15.9
BB	0.5	1.5
B	–	1.5
CCC	–	0.3
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	December 31 2017	December 31 2016
Bonds	34.7	37.1
Global Equities	31.2	30.9
Canadian Equities	30.3	31.1
Cash/Other	3.8	0.9
Total	100.0	100.0

Interest rate risk (%)

Fixed-income and debt securities, excluding short-term investments, comprise 35.9% (December 31, 2016 – 37.1%) of the NAV of the Fund. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity as at:

	December 31 2017	December 31 2016
Term to maturity		
Less than 1 year	2.8	3.7
1 – 5 years	37.0	30.2
5 – 10 years	29.3	33.6
> 10 years	30.9	32.5
Total	100.0	100.0

As at December 31, 2017, had prevailing interest rates risen or lowered by 1%, with all other factors kept constant, the Fund's NAV may have decreased or increased, respectively, by approximately 2.6% (December 31, 2016 – 2.7%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

Currency risk (% of NAV)

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

Currency	December 31 2017	December 31 2016
United States dollar	17.4	17.5
Euro	2.7	3.8
Pound sterling	2.0	2.0
Swiss franc	1.4	1.1
Japanese yen	1.4	1.3
Hong Kong dollar	1.3	0.8
South African rand	1.0	0.8
Australian dollar	0.7	–
Danish krone	0.7	0.7
Indian rupee	0.6	–
Other currencies	2.1	2.1
Total	31.3	30.1

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to the above currencies, with all other factors kept constant, the Fund's NAV may have decreased or increased, respectively, by approximately 1.6% (December 31, 2016 – 1.5%). In practice, actual results could differ from this sensitivity analysis and the difference could be material.

December 31, 2017

Other price risk (% impact on NAV)

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

	December 31 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 0.5	+ or - 0.5

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 December 31, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	1 288 148	–	–	1 288 148
Fixed-income				
and debt securities	–	–	–	–
Short-term investments	–	5 595	–	5 595
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	1 288 148	5 595	–	1 293 743
% of total portfolio	99.6	0.4	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	–	–	–	–
Mutual fund units	1 191 886	–	–	1 191 886
Fixed-income				
and debt securities	–	–	–	–
Short-term investments	–	5 828	–	5 828
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	1 191 886	5 828	–	1 197 714
% of total portfolio	99.5	0.5	–	100.0

For the periods ended December 31, 2017 and 2016, 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 8 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 NAV of each series of the Fund.

	Management fees	Operating expenses
Series A	0.50%	0.01%
Series O	n/a*	0.01%

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

**Unconsolidated structured entities (%)
 (see note 3 in the generic notes)**

The table below summarizes the Fund's interest in the sponsored funds as a percentage of NAV, and the Fund's ownership interest as a percentage of NAV of the sponsored funds ("Ownership"). All sponsored funds are established and conduct business in Canada.

	December 31 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North Bond Fund	36.0	4.8	35.6	4.1
Phillips, Hager & North Canadian Equity Underlying Fund	30.8	14.7	31.1	14.9
Phillips, Hager & North Canadian Money Market Fund	1.4	1.1	0.5	0.5
RBC Emerging Markets Equity Fund	4.1	1.4	3.8	1.8
RBC Global Equity Focus Fund	13.6	6.0	13.5	7.5
RBC High Yield Bond Fund	–	–	1.5	0.9
RBC QUBE Global Equity Fund	13.7	60.4	13.6	46.2

Taxes (\$000s) (see note 6 in the generic notes)

The Fund had no capital or non-capital losses as at December 31, 2017.

December 31, 2017

Redeemable units (000s)

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 December 31
 (see note 2 in the generic notes)

	2017	2016
Series A		
Opening units	19 414	19 147
Issued number of units	369	447
Reinvested number of units	608	773
Redeemed number of units	(8 448)	(953)
Ending number of units	11 943	19 414
Series 0		
Opening units	41 684	47 554
Issued number of units	12 530	2 963
Reinvested number of units	2 746	1 939
Redeemed number of units	(5 542)	(10 772)
Ending number of units	51 418	41 684

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

SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND

December 31, 2017

Holdings	Security	Cost	Fair Value	% of Net Assets
CANADIAN EQUITIES				
Consumer Discretionary				
193 400	Dollarama Inc.	\$ 19 200	\$ 30 373	
532 300	Gildan Activewear Inc., Class A	20 759	21 617	
1 334 200	Quebecor Inc., Class B	25 202	31 621	
1 503 500	Shaw Communications Inc., Class B	43 985	43 135	
		109 146	126 746	7.3
Consumer Staples				
595 000	Alimentation Couche-Tard Inc.	33 594	39 026	
		33 594	39 026	2.2
Energy				
1 982 400	ARC Resources Ltd.	39 972	29 240	
688 900	Canadian Natural Resources Ltd.	27 665	30 945	
1 485 400	Cenovus Energy Inc.	26 572	17 052	
1 974 900	Enbridge Inc.	105 688	97 086	
806 700	Encana Corp.	11 664	13 528	
1 072 515	Keyera Corp.	41 113	37 989	
591 600	Pembina Pipeline Corp.	23 085	26 925	
728 010	PrairieSky Royalty Ltd.	18 352	23 341	
648 600	Tourmaline Oil Corp.	16 985	14 776	
590 100	TransCanada Corp.	37 253	36 102	
408 400	Vermilion Energy Inc.	16 975	18 656	
1 629 800	Whitecap Resources Inc.	14 289	14 587	
		379 613	360 227	20.6
Financials				
479 100	Bank of Montreal	44 285	48 193	
1 162 800	Bank of Nova Scotia	76 114	94 326	
1 164 750	Brookfield Asset Management Inc., Class A	51 452	63 735	
358 300	Canadian Imperial Bank of Commerce	37 086	43 906	
1 475 500	Element Fleet Management Corp.	17 205	14 017	
45 200	Fairfax Financial Holdings Ltd.	26 866	30 254	
148 400	Industrial Alliance Insurance & Financial Services Inc.	8 659	8 877	
312 134	Intact Financial Corp.	30 028	32 771	
1 119 200	Manulife Financial Corporation	19 466	29 345	
974 800	Royal Bank of Canada*	76 211	100 063	
465 200	Sun Life Financial Inc.	19 575	24 135	
702 800	Thomson Corp.	37 599	38 506	
1 498 200	Toronto-Dominion Bank	83 271	110 342	
		527 817	638 470	36.6
Industrials				
350 800	Canadian National Railway Co.	27 162	36 360	
155 700	Canadian Pacific Railway Ltd.	27 684	35 758	
449 300	Finning International Inc.	9 889	14 252	
100 506	Ritchie Bros. Auctioneers Inc.	3 717	3 783	
1 094 191	Stantec Inc.	35 556	38 472	
386 300	Waste Connections Inc.	25 233	34 443	
		129 241	163 068	9.3

Holdings	Security	Cost	Fair Value	% of Net Assets
Information Technology				
646 500	CGI Group Inc., Class A	\$ 36 683	\$ 44 156	
19 900	Constellation Software Inc.	10 819	15 164	
797 720	Open Text Corp.	32 217	35 666	
		79 719	94 986	5.4
Materials				
115 800	Agrium Inc.	14 631	16 742	
469 700	CCL Industries, Class B	22 305	27 280	
		36 936	44 022	2.5
Real Estate				
646 000	Allied Properties Real Estate Investment Trust	22 681	27 184	
1 056 527	Brookfield Property Partners LP	31 183	29 424	
581 000	Canadian Real Estate Investment Trust	26 943	26 900	
1 848 000	First Capital Realty Inc.	37 066	38 291	
		117 873	121 799	7.0
Telecommunication Services				
414 700	Rogers Communications Inc., Class B	22 021	26 562	
447 300	TELUS Corp.	18 982	21 300	
		41 003	47 862	2.8
Utilities				
618 400	Brookfield Infrastructure Partners LP	25 579	34 865	
517 200	Fortis Inc.	21 813	23 848	
		47 392	58 713	3.4
TOTAL CANADIAN EQUITIES		1 502 334	1 694 919	97.1
SHORT-TERM INVESTMENTS†		43 142	43 142	2.5
TOTAL INVESTMENTS		\$1 545 476	1 738 061	99.6
OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			7 096	0.4
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			\$1 745 157	100.0

* Investment in related party (see note 8 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 0.86% to 0.99% and mature between January 4, 2018 and March 8, 2018.

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

**PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND**
Statements of Financial Position

(in \$000s except per unit amounts)

(see note 2 in the generic notes)	December 31 2017	December 31 2016
ASSETS		
Investments at fair value	\$ 1 738 061	\$ 1 567 182
Cash	1 666	1 944
Due from investment dealers	1 899	3 682
Subscriptions receivable	23	33
Dividends receivable, interest accrued and other assets	4 010	3 863
TOTAL ASSETS	1 745 659	1 576 704
LIABILITIES		
Due to investment dealers	396	253
Redemptions payable	25	–
Accounts payable and accrued expenses	81	76
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	502	329
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")	\$ 1 745 157	\$ 1 576 375
Investments at cost	\$ 1 545 476	\$ 1 442 865
NAV		
SERIES 0	\$ 1 745 157	\$ 1 576 375
NAV PER UNIT		
SERIES 0	\$ 12.56	\$ 12.07

Statements of Comprehensive Income

(in \$000s except per unit amounts)

For the periods ended December 31 (see note 2 in the generic notes)	2017	2016
INCOME (see note 3 in the generic notes)		
Dividends	\$ 45 635	\$ 23 440
Interest for distribution purposes	208	49
Other income (loss)	1 471	583
Securities lending revenue (see note 7 in the generic notes)	12	–
Net realized gain (loss) on investments	2 962	25 929
Net gain (loss) on foreign currencies and other net assets	50	36
Change in unrealized gain (loss) on investments	68 268	123 476
TOTAL INCOME (LOSS)	118 606	173 513
EXPENSES (see notes – Fund Specific Information)		
Administration fees	821	387
Independent Review Committee costs	1	1
GST/HST	83	51
Transaction costs	852	873
TOTAL EXPENSES	1 757	1 312
INCREASE (DECREASE) IN NAV	\$ 116 849	\$ 172 201
INCREASE (DECREASE) IN NAV SERIES 0	\$ 116 849	\$ 172 201
INCREASE (DECREASE) IN NAV PER UNIT SERIES 0	\$ 0.87	\$ 2.58

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

**PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND**
Statements of Cash Flow *(in \$000s)*

 For the periods ended December 31
 (see note 2 in the generic notes)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ 116 849	\$ 172 201
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	–	–
Net realized loss (gain) on investments	(2 320)	(25 407)
Change in unrealized loss (gain) on investments	(68 268)	(123 476)
(Increase) decrease in accrued receivables	(147)	(3 443)
Increase (decrease) in accrued payables	5	70
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(816 159)	(1 870 411)
Proceeds from sale and maturity of investments	717 794	565 333
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(52 246)	(1 285 133)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units	76 121	1 344 895
Cash paid on redemption of redeemable units	(24 153)	(57 973)
Distributions paid to holders of redeemable units	–	(1)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ 51 968	\$ 1 286 921
Net increase (decrease) in cash for the period	(278)	1 788
Cash (bank overdraft), beginning of period	1 944	156
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 1 666	\$ 1 944
Interest received (paid)	\$ 182	\$ 47
Dividends received, net of withholding taxes	\$ 46 985	\$ 20 582

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

**PHILLIPS, HAGER & NORTH CONSERVATIVE
EQUITY INCOME FUND**
Statements of Changes in NAV *(in \$000s)*

For the periods ended December 31 (see note 2 in the generic notes)	Series 0	
	2017	2016
NAV AT BEGINNING OF PERIOD	\$ 1 576 375	\$ 117 220
INCREASE (DECREASE) IN NAV	116 849	172 201
Early redemption fees	–	–
Proceeds from redeemable units issued	76 111	1 344 928
Reinvestments of distributions to holders of redeemable units	49 967	48 614
Redemption of redeemable units	(24 178)	(57 973)
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	101 900	1 335 569
Distributions from net income	(46 594)	(20 640)
Distributions from net gains	(3 373)	(27 975)
Distributions from capital	–	–
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	(49 967)	(48 615)
NET INCREASE (DECREASE) IN NAV	168 782	1 459 155
NAV AT END OF PERIOD	\$ 1 745 157	\$ 1 576 375

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

PHILLIPS, HAGER & NORTH CONSERVATIVE EQUITY INCOME FUND

December 31, 2017

General information (see note 1 in the generic notes)

The Fund seeks to provide a high and sustainable level of income, with the potential for capital appreciation and an emphasis on stable returns, by investing primarily in dividend-paying Canadian common shares and, to a lesser extent, preferred shares and bonds.

Financial instrument risk and capital management (see note 5 in the generic notes)**Concentration risk (%)**

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

	December 31 2017	December 31 2016
Investment mix		
Financials	36.6	37.6
Energy	20.6	21.2
Industrials	9.3	9.5
Consumer Discretionary	7.3	4.1
Real Estate	7.0	5.1
Information Technology	5.4	5.6
Utilities	3.4	5.9
Telecommunication Services	2.8	4.3
Materials	2.5	2.6
Consumer Staples	2.2	2.4
Cash/Other	2.9	1.7
Total	100.0	100.0

Other price risk (% impact on NAV)

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

	December 31 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 1.0	+ or - 0.9

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

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

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

The following is a summary of the inputs used as of December 31, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	1 694 919	–	–	1 694 919
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	43 142	–	43 142
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	1 694 919	43 142	–	1 738 061
% of total portfolio	97.5	2.5	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	1 550 145	–	–	1 550 145
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	17 037	–	17 037
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	1 550 145	17 037	–	1 567 182
% of total portfolio	98.9	1.1	–	100.0

For the periods ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

Management fees and operating expenses (see note 8 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 NAV of each series of the Fund.

	Management fees	Operating expenses
Series 0	n/a*	0.05%

* Series 0 unitholders pay a negotiated management fee directly to RBC GAM for investment-counselling services.

Taxes (\$000s) (see note 6 in the generic notes)

The Fund had no capital or non-capital losses as at December 31, 2017.

**PHILLIPS, HAGER & NORTH CONSERVATIVE
 EQUITY INCOME FUND**

December 31, 2017

Redeemable units (000s)

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 December 31
 (see note 2 in the generic notes)

	2017	2016
Series 0		
Opening units	130 572	11 479
Issued number of units	6 326	120 350
Reinvested number of units	4 066	4 062
Redeemed number of units	(1 964)	(5 319)
Ending number of units	139 000	130 572

Transaction costs (\$000s except %)

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2017		December 31 2016	
	\$	%	\$	%
Total transaction costs	852	100	873	100
Related-party brokerage commissions*	71	8	63	7
Commission arrangements†	89	10	118	14

* See note 8 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

**Securities lending revenue (\$000s except %)
 (see note 7 in the generic notes)**

Fair value of securities on loan and collateral received as at:

	December 31 2017	December 31 2016
Fair value of securities loaned	58 460	–
Fair value of collateral received	59 630	–

The table below provides a reconciliation of the gross revenue generated from the securities lending transactions of the Fund to the securities lending revenue disclosed in the Statements of Comprehensive Income.

	December 31 2017		December 31 2016	
	\$	%	\$	%
Gross revenue	16	100	–	–
RBC IS (paid)	(4)	(25)	–	–
Tax withheld	–	–	–	–
Fund revenue	12	75	–	–

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

**Investments by other related investment funds (%)
 (see note 8 in the generic notes)**

The table below summarizes, as a percentage, the NAV of the Fund owned by other related investment funds as at:

	December 31 2017	December 31 2016
Phillips, Hager & North LifeTime 2015 Fund	–	–
Phillips, Hager & North LifeTime 2020 Fund	0.1	0.1
Phillips, Hager & North LifeTime 2025 Fund	0.1	0.1
Phillips, Hager & North LifeTime 2030 Fund	–	–
RBC Retirement 2020 Portfolio	0.1	–
RBC Retirement 2025 Portfolio	0.1	–
RBC Retirement 2030 Portfolio	0.1	–
RBC Retirement 2035 Portfolio	–	–
RBC Retirement 2040 Portfolio	–	–
RBC Retirement 2045 Portfolio	–	–
RBC Retirement 2050 Portfolio	–	–
RBC Retirement Income Solution	–	–
RBC Select Conservative Portfolio	66.4	65.5
RBC Select Very Conservative Portfolio	26.1	27.1
RBC Total Return Growth Fund	–	–
Total	93.0	92.8

SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH CANADIAN EQUITY PENSION TRUST

December 31, 2017

Holdings	Security	Cost	Fair Value	% of Net Assets
CANADIAN EQUITIES				
Consumer Discretionary				
58 237	Dollarama Inc.	\$ 5 699	\$ 9 146	
113 097	Gildan Activewear Inc., Class A	4 246	4 593	
145 862	Quebecor Inc., Class B	2 985	3 457	
39 808	Restaurant Brands International Inc.	2 308	3 076	
232 470	Shaw Communications Inc., Class B	6 639	6 670	
		21 877	26 942	5.8
Consumer Staples				
166 045	Alimentation Couche-Tard Inc.	8 962	10 891	
		8 962	10 891	2.4
Energy				
415 553	ARC Resources Ltd.	7 391	6 129	
85 439	Cameco Corp.	1 414	992	
224 918	Canadian Natural Resources Ltd.	8 660	10 103	
381 805	Cenovus Energy Inc.	6 157	4 383	
29 673	Crescent Point Energy Corp.	451	285	
523 745	Enbridge Inc.	26 501	25 747	
440 151	Encana Corp.	6 416	7 381	
159 778	Keyera Corp.	5 944	5 659	
67 152	Pembina Pipeline Corp.	2 424	3 056	
259 419	Raging River Exploration Inc.	1 982	2 075	
309 137	Seven Generations Energy Ltd.	6 241	5 496	
168 178	Suncor Energy Inc.	6 671	7 761	
248 248	Tourmaline Oil Corp.	7 249	5 655	
199 676	TransCanada Corp.	11 859	12 216	
442 700	Whitecap Resources Inc.	3 884	3 962	
		103 244	100 900	21.9
Financials				
97 673	Bank of Montreal	8 769	9 825	
287 757	Bank of Nova Scotia	19 629	23 343	
325 095	Brookfield Asset Management Inc., Class A	14 291	17 789	
88 560	Canadian Imperial Bank of Commerce	9 603	10 852	
238 017	Element Fleet Management Corp.	2 778	2 261	
10 491	Fairfax Financial Holdings Ltd.	6 491	7 022	
34 400	Industrial Alliance Insurance & Financial Services Inc.	2 014	2 058	
37 171	Intact Financial Corp.	3 622	3 903	
579 049	Manulife Financial Corporation	12 631	15 183	
314 636	Royal Bank of Canada*	25 649	32 297	
75 115	Sun Life Financial Inc.	3 361	3 897	
89 214	Thomson Corp.	4 698	4 888	
471 370	Toronto-Dominion Bank	27 259	34 716	
		140 795	168 034	36.5

Holdings	Security	Cost	Fair Value	% of Net Assets
Industrials				
113 805	Canadian National Railway Co.	\$ 9 210	\$ 11 796	
23 750	Canadian Pacific Railway Ltd.	4 645	5 454	
52 420	Stantec Inc.	1 828	1 843	
91 070	Waste Connections Inc.	6 573	8 120	
		22 256	27 213	5.9
Information Technology				
120 709	CGI Group Inc., Class A	6 977	8 244	
3 621	Constellation Software Inc.	2 187	2 759	
151 593	Open Text Corp.	5 971	6 778	
		15 135	17 781	3.9
Materials				
55 264	Agnico Eagle Mines Ltd.	2 530	3 208	
32 824	Agrium Inc.	3 960	4 746	
80 423	Alamos Gold Inc., Class A	682	659	
326 986	B2Gold Corp.	1 199	1 269	
110 120	Barrick Gold Corp.	2 248	2 002	
210 110	Belo Sun Mining Corp.	155	83	
26 118	CCL Industries, Class B	1 465	1 517	
72 490	Continental Gold Inc.	230	245	
45 570	Detour Gold Corp.	761	674	
35 001	Endeavour Mining Corp.	717	897	
279 343	First Quantum Minerals Ltd.	3 283	4 919	
23 680	Franco-Nevada Corp.	2 013	2 379	
82 040	Goldcorp Inc.	1 647	1 315	
37 130	IAMGOLD Corporation	262	272	
76 180	Kinross Gold Corp.	401	413	
67 590	Kirkland Lake Gold Ltd.	916	1 302	
85 919	Mountain Province Diamonds Inc.	376	293	
135 790	OceanaGold Corp.	541	439	
61 890	Semafo Inc.	236	221	
97 519	Teck Resources Ltd., Class B	2 781	3 205	
47 997	Torex Gold Resources Inc.	862	573	
170 896	Turquoise Hill Resources Ltd.	684	733	
57 810	Wheaton Precious Metals Corp.	1 554	1 607	
		29 503	32 971	7.2
Real Estate				
157 085	Brookfield Property Partners LP	4 551	4 375	
169 364	First Capital Realty Inc.	3 410	3 509	
		7 961	7 884	1.7

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

December 31, 2017

Holdings	Security	Cost	Fair Value	% of Net Assets
Telecommunication Services				
29 174	Rogers Communications Inc., Class B	\$ 1 498	\$ 1 869	
51 395	TELUS Corp.	2 142	2 447	
		<u>3 640</u>	<u>4 316</u>	<u>0.9</u>
Utilities				
75 019	Brookfield Infrastructure Partners LP	3 301	4 230	
56 104	Fortis Inc.	2 396	2 587	
		<u>5 697</u>	<u>6 817</u>	<u>1.5</u>
TOTAL CANADIAN EQUITIES		<u>359 070</u>	<u>403 749</u>	<u>87.7</u>
Number of Units	Security	Cost	Fair Value	% of Net Assets
MUTUAL FUND UNITS				
1 519 819	Phillips, Hager & North Small Float Fund*	\$ 40 692	\$ 49 451	
TOTAL MUTUAL FUND UNITS		<u>40 692</u>	<u>49 451</u>	<u>10.7</u>
SHORT-TERM INVESTMENTS†		<u>5 623</u>	<u>5 623</u>	<u>1.2</u>
TOTAL INVESTMENTS		<u>\$ 405 385</u>	<u>458 823</u>	<u>99.6</u>
OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			<u>1 747</u>	<u>0.4</u>
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		<u>\$ 460 570</u>		<u>100.0</u>

* Investment in related party (see note 8 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at rates ranging from 0.95% to 1.27% and mature between January 2, 2018 and January 3, 2018.

Statements of Financial Position*(in \$000s except per unit amounts)*

(see note 2 in the generic notes)	December 31 2017	December 31 2016
ASSETS		
Investments at fair value	\$ 458 823	\$ 307 827
Cash	477	436
Due from investment dealers	278	521
Subscriptions receivable	391	4
Dividends receivable, interest accrued and other assets	778	513
TOTAL ASSETS	460 747	309 301
LIABILITIES		
Due to investment dealers	104	80
Redemptions payable	34	32
Distributions payable	32	89
Accounts payable and accrued expenses	7	7
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	177	208
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")		
	\$ 460 570	\$ 309 093
Investments at cost	\$ 405 385	\$ 261 775
NAV		
SERIES N	\$ 6	\$ 11
SERIES O	\$ 460 564	\$ 309 082
NAV PER UNIT		
SERIES N	\$ 10.69	\$ 10.41
SERIES O	\$ 8.44	\$ 8.22

Statements of Comprehensive Income*(in \$000s except per unit amounts)*

For the periods ended December 31 (see note 2 in the generic notes)	2017	2016
INCOME (see note 3 in the generic notes)		
Dividends	\$ 8 121	\$ 7 076
Interest for distribution purposes	36	34
Other income received from underlying funds	572	460
Securities lending revenue (see note 7 in the generic notes)	2	–
Net realized gain (loss) on investments	7 495	997
Net gain (loss) on foreign currencies and other net assets	5	10
Change in unrealized gain (loss) on investments	7 386	52 825
TOTAL INCOME (LOSS)	23 617	61 402
EXPENSES (see notes – Fund Specific Information)		
Administration fees	69	56
Independent Review Committee costs	3	2
GST/HST	7	6
Transaction costs	174	216
TOTAL EXPENSES	253	280
INCREASE (DECREASE) IN NAV	\$ 23 364	\$ 61 122
INCREASE (DECREASE) IN NAV		
SERIES N	\$ 1	\$ –
SERIES O	\$ 23 363	\$ 61 122
INCREASE (DECREASE) IN NAV PER UNIT		
SERIES N	\$ 0.58	\$ 0.92
SERIES O	\$ 0.58	\$ 1.67

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

Statements of Cash Flow (in \$000s)For the periods ended December 31
(see note 2 in the generic notes)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ 23 364	\$ 61 122
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	(572)	(460)
Net realized loss (gain) on investments	(7 366)	(813)
Change in unrealized loss (gain) on investments	(7 386)	(52 825)
(Increase) decrease in accrued receivables	(265)	(135)
Increase (decrease) in accrued payables	–	3
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(542 012)	(674 868)
Proceeds from sale and maturity of investments	406 607	613 035
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(127 630)	(54 941)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units	164 381	104 904
Cash paid on redemption of redeemable units	(36 621)	(49 658)
Distributions paid to holders of redeemable units	(89)	(75)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ 127 671	\$ 55 171
Net increase (decrease) in cash for the period	41	230
Cash (bank overdraft), beginning of period	436	206
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 477	\$ 436
Interest received (paid)	\$ 35	\$ 34
Dividends received, net of withholding taxes	\$ 7 856	\$ 6 940

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

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

For the periods ended December 31 (see note 2 in the generic notes)	Series N		Series O		Total	
	2017	2016	2017	2016	2017	2016
NAV AT BEGINNING OF PERIOD	\$ 11	\$ –	\$ 309 082	\$ 193 017	\$ 309 093	\$ 193 017
INCREASE (DECREASE) IN NAV	1	–	23 363	61 122	23 364	61 122
Early redemption fees	–	–	–	–	–	–
Proceeds from redeemable units issued	13	16	164 755	104 687	164 768	104 703
Reinvestments of distributions to holders of redeemable units	–	–	16 216	8 332	16 216	8 332
Redemption of redeemable units	(19)	(5)	(36 604)	(49 656)	(36 623)	(49 661)
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	(6)	11	144 367	63 363	144 361	63 374
Distributions from net income	–	–	(8 466)	(7 871)	(8 466)	(7 871)
Distributions from net gains	–	–	(7 782)	(549)	(7 782)	(549)
Distributions from capital	–	–	–	–	–	–
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	–	–	(16 248)	(8 420)	(16 248)	(8 420)
NET INCREASE (DECREASE) IN NAV	(5)	11	151 482	116 065	151 477	116 076
NAV AT END OF PERIOD	\$ 6	\$ 11	\$ 460 564	\$ 309 082	\$ 460 570	\$ 309 093

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

December 31, 2017

General information (see note 1 in the generic notes)

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in common shares of Canadian companies, which are chosen primarily for their growth potential.

Series N units were started August 22, 2016.

Financial instrument risk and capital management (see note 5 in the generic notes)**Concentration risk (%)**

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

	December 31 2017	December 31 2016
Investment mix		
Financials	37.1	37.9
Energy	22.8	23.0
Industrials	8.7	9.4
Consumer Discretionary	8.7	6.9
Materials	8.0	8.2
Information Technology	4.6	4.0
Consumer Staples	3.2	3.0
Real Estate	2.5	1.5
Utilities	1.5	2.6
Telecommunication Services	0.9	2.3
Cash/Other	2.0	1.2
Total	100.0	100.0

Other price risk (% impact on NAV)

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

	December 31 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 1.1	+ or - 1.0

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 December 31, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	403 749	–	–	403 749
Mutual fund units	49 451	–	–	49 451
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	5 623	–	5 623
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	453 200	5 623	–	458 823
% of total portfolio	98.8	1.2	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	265 640	2 951	–	268 591
Mutual fund units	37 623	–	–	37 623
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	1 613	–	1 613
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	303 263	4 564	–	307 827
% of total portfolio	98.5	1.5	–	100.0

For the periods ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

Management fees and operating expenses (see note 8 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 NAV of each series of the Fund.

	Management fees	Operating expenses
Series N	n/a*	0.02%
Series O	n/a*	0.02%

* Series N and Series O unitholders pay a negotiated management fee directly to RBC GAM for investment-counselling services.

December 31, 2017

Unconsolidated structured entities (%)
(see note 3 in the generic notes)

The table below summarizes the Fund's interest in the sponsored funds as a percentage of NAV, and the Fund's ownership interest as a percentage of NAV of the sponsored funds ("Ownership"). All sponsored funds are established and conduct business in Canada.

	December 31 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North				
Small Float Fund	10.7	16.7	12.2	12.9

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:

	December 31 2017	December 31 2016
Units held		
Series N	1	1
Value of all units	–	–

Taxes (\$000s) (see note 6 in the generic notes)

The Fund had no capital or non-capital losses as at December 31, 2017.

Redeemable units (000s)

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 December 31
(see note 2 in the generic notes)

	2017	2016
Series N		
Opening units	1	–
Issued number of units	2	1
Reinvested number of units	–	–
Redeemed number of units	(2)	–
Ending number of units	1	1
Series O		
Opening units	37 622	28 224
Issued number of units	19 325	15 002
Reinvested number of units	1 920	1 014
Redeemed number of units	(4 322)	(6 618)
Ending number of units	54 545	37 622

Transaction costs (\$000s except %)

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2017		December 31 2016	
	\$	%	\$	%
Total transaction costs	174	100	216	100
Related-party brokerage commissions*	9	5	22	10
Commission arrangements†	6	3	11	5

* See note 8 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

Securities lending revenue (\$000s except %)
(see note 7 in the generic notes)

Fair value of securities on loan and collateral received as at:

	December 31 2017	December 31 2016
Fair value of securities loaned	12 194	–
Fair value of collateral received	12 438	–

The table below provides a reconciliation of the gross revenue generated from the securities lending transactions of the Fund to the securities lending revenue disclosed in the Statements of Comprehensive Income.

	December 31 2017		December 31 2016	
	\$	%	\$	%
Gross revenue	3	100	–	–
RBC IS (paid)	(1)	(25)	–	–
Tax withheld	–	–	–	–
Fund revenue	2	75	–	–

Investments by other related investment funds (%)
(see note 8 in the generic notes)

The table below summarizes, as a percentage, the NAV of the Fund owned by other related investment funds as at:

	December 31 2017	December 31 2016
Phillips, Hager & North PRISM Balanced Fund	10.5	13.0
RBC Total Return Growth Fund	–	–
Total	10.5	13.0

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

SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH SMALL FLOAT FUND

December 31, 2017

Holdings	Security	Cost	Fair Value	% of Net Assets
CANADIAN EQUITIES				
Consumer Discretionary				
399 700	Aritzia Inc.	\$ 6 229	\$ 5 072	
190 896	Cineplex Inc.	6 087	7 126	
187 600	goeasy Ltd.	3 920	6 969	
414 600	Great Canadian Gaming Corp.	5 996	14 009	
430 200	Leon's Furniture Ltd.	5 757	7 937	
896 600	Quebecor Inc., Class B	10 453	21 249	
487 100	Sleep Country Canada Holdings Inc.	8 821	16 269	
		47 263	78 631	26.6
Consumer Staples				
520 700	Jamieson Wellness Inc.	8 379	11 632	
13 487	Lassonde Industries Inc.	3 264	3 392	
224 100	Maple Leaf Foods Inc.	2 723	8 027	
		14 366	23 051	7.8
Energy				
1 854 700	Raging River Exploration Inc.	15 103	14 838	
1 029 900	Secure Energy Services Inc.	10 047	9 022	
		25 150	23 860	8.1
Financials				
950 900	Element Fleet Management Corp.	7 802	9 034	
2 704 800	The Westaim Corp.	8 383	8 412	
		16 185	17 446	5.9
Industrials				
615 723	Badger Daylighting Ltd.	12 360	16 736	
172 200	Boyd Group Income Fund	7 282	17 374	
328 476	Richelieu Hardware Ltd.	1 980	11 263	
225 185	Ritchie Bros. Auctioneers Inc.	7 452	8 476	
492 932	Stantec Inc.	14 156	17 331	
132 131	Toromont Industries Ltd.	1 825	7 280	
		45 055	78 460	26.5
Information Technology				
1 453 039	Blackline Safety Corp.	4 359	6 539	
177 000	Kinaxis Inc.	5 061	13 592	
		9 420	20 131	6.8

Holdings	Security	Cost	Fair Value	% of Net Assets
Materials				
285 175	CCL Industries, Class B	\$ 1 944	\$ 16 564	
130 000	Stella-Jones Inc.	3 034	6 566	
		4 978	23 130	7.8
Real Estate				
92 897	FirstService Corp.	2 629	8 168	
148 300	Mainstreet Equity Corp.	5 461	6 474	
530 796	Tricon Capital Group Inc.	5 392	6 131	
		13 482	20 773	7.0
TOTAL CANADIAN EQUITIES				
		175 899	285 482	96.5
SHORT-TERM INVESTMENTS*				
		9 423	9 423	3.2
TOTAL INVESTMENTS				
		\$ 185 322	294 905	99.7
OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
			724	0.3
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
		\$ 295 629		100.0

* Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at a rate of 1.17% and mature on January 3, 2018.

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

Statements of Financial Position*(in \$000s except per unit amounts)*

<i>(see note 2 in the generic notes)</i>	December 31 2017	December 31 2016
ASSETS		
Investments at fair value	\$ 294 905	\$ 284 818
Cash	315	319
Subscriptions receivable	78	6 410
Dividends receivable, interest accrued and other assets	374	294
TOTAL ASSETS	295 672	291 841
LIABILITIES		
Redemptions payable	42	89
Accounts payable and accrued expenses	1	–
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		
	43	89
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")		
	\$ 295 629	\$ 291 752
Investments at cost	\$ 185 322	\$ 199 152
NAV		
SERIES A	\$ 971	\$ 917
SERIES O	\$ 294 658	\$ 290 835
NAV PER UNIT		
SERIES A	\$ 33.71	\$ 31.89
SERIES O	\$ 32.54	\$ 30.77

Statements of Comprehensive Income*(in \$000s except per unit amounts)*

<i>(see note 2 in the generic notes)</i>	2017	2016
For the periods ended December 31		
INCOME (see note 3 in the generic notes)		
Dividends	\$ 3 110	\$ 3 245
Interest for distribution purposes	118	127
Other income (loss)	252	151
Net realized gain (loss) on investments	(7 110)	20 376
Net gain (loss) on foreign currencies and other net assets	(1)	–
Change in unrealized gain (loss) on investments	23 917	40 995
TOTAL INCOME (LOSS)	20 286	64 894
EXPENSES (see notes – Fund Specific Information)		
Management fees	9	8
GST/HST	1	1
Transaction costs	245	191
TOTAL EXPENSES	255	200
INCREASE (DECREASE) IN NAV	\$ 20 031	\$ 64 694
INCREASE (DECREASE) IN NAV		
SERIES A	\$ 53	\$ 186
SERIES O	\$ 19 978	\$ 64 508
INCREASE (DECREASE) IN NAV PER UNIT		
SERIES A	\$ 1.86	\$ 6.49
SERIES O	\$ 2.19	\$ 6.51

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

Statements of Cash Flow *(in \$000s)*For the periods ended December 31
(see note 2 in the generic notes)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ 20 031	\$ 64 694
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	–	–
Net realized loss (gain) on investments	7 413	(20 132)
Change in unrealized loss (gain) on investments	(23 917)	(40 995)
(Increase) decrease in accrued receivables	(80)	19
Increase (decrease) in accrued payables	1	–
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(833 719)	(1 474 238)
Proceeds from sale and maturity of investments	840 136	1 502 146
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
	9 865	31 494
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units	55 044	32 585
Cash paid on redemption of redeemable units	(64 512)	(63 703)
Distributions paid to holders of redeemable units	(401)	(173)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	\$ (9 869)	\$ (31 291)
Net increase (decrease) in cash for the period	(4)	203
Cash (bank overdraft), beginning of period	319	116
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 315	\$ 319
Interest received (paid)	\$ 117	\$ 127
Dividends received, net of withholding taxes	\$ 3 283	\$ 3 415

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

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

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series O		Total	
	2017	2016	2017	2016	2017	2016
NAV AT BEGINNING OF PERIOD	\$ 917	\$ 730	\$ 290 835	\$ 253 380	\$ 291 752	\$ 254 110
INCREASE (DECREASE) IN NAV	53	186	19 978	64 508	20 031	64 694
Early redemption fees	—	—	—	—	—	—
Proceeds from redeemable units issued	1	1	48 711	36 912	48 712	36 913
Reinvestments of distributions to holders of redeemable units	1	1	3 023	3 322	3 024	3 323
Redemption of redeemable units	—	—	(64 465)	(63 792)	(64 465)	(63 792)
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	2	2	(12 731)	(23 558)	(12 729)	(23 556)
Distributions from net income	(1)	(1)	(3 424)	(3 495)	(3 425)	(3 496)
Distributions from net gains	—	—	—	—	—	—
Distributions from capital	—	—	—	—	—	—
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	(1)	(1)	(3 424)	(3 495)	(3 425)	(3 496)
NET INCREASE (DECREASE) IN NAV	54	187	3 823	37 455	3 877	37 642
NAV AT END OF PERIOD	\$ 971	\$ 917	\$ 294 658	\$ 290 835	\$ 295 629	\$ 291 752

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

December 31, 2017

General information (see note 1 in the generic notes)

The investment objective of the Fund is to provide investors with long-term capital growth by investing generally in a diversified portfolio of common stocks of small-float, high-quality Canadian companies.

Financial instrument risk and capital management (see note 5 in the generic notes)**Concentration risk (%)**

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

	December 31 2017	December 31 2016
Investment mix		
Consumer Discretionary	26.6	25.9
Industrials	26.5	26.0
Energy	8.1	11.6
Consumer Staples	7.8	2.2
Materials	7.8	8.0
Real Estate	7.0	2.7
Information Technology	6.8	5.4
Financials	5.9	15.1
Cash/Other	3.5	3.1
Total	100.0	100.0

Other price risk (% impact on NAV)

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

	December 31 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 1.0	+ 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 December 31, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	285 482	–	–	285 482
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	9 423	–	9 423
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	285 482	9 423	–	294 905
% of total portfolio	96.8	3.2	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	280 456	2 137	–	282 593
Mutual fund units	–	–	–	–
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	2 225	–	2 225
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	–	–	–
Total financial instruments	280 456	4 362	–	284 818
% of total portfolio	98.5	1.5	–	100.0

For the periods ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

Management fees and operating expenses (see note 8 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 NAV of each series of the Fund.

	Management fees	Operating expenses
Series A	1.00%	0.00%
Series O	n/a*	0.00%

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

December 31, 2017

**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:

	December 31 2017	December 31 2016
Units held		
Series A	39	39
Series O	43	43
Value of all units	3	3

Taxes (\$000s) (see note 6 in the generic notes)

The non-capital and capital losses as at December 31, 2017 for the Fund were approximately:

Capital losses	30 828
Non-capital losses	–

Redeemable units (000s)

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 December 31
(see note 2 in the generic notes)

	2017	2016
Series A		
Opening units	29	29
Issued number of units	–	–
Reinvested number of units	–	–
Redeemed number of units	–	–
Ending number of units	29	29
Series O		
Opening units	9 453	10 322
Issued number of units	1 546	1 371
Reinvested number of units	93	109
Redeemed number of units	(2 036)	(2 349)
Ending number of units	9 056	9 453

Transaction costs (\$000s except %)

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2017		December 31 2016	
	\$	%	\$	%
Total transaction costs	245	100	191	100
Related-party brokerage commissions*	7	3	23	12
Commission arrangements†	10	4	25	13

* See note 8 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as “soft dollars”) for research and/or order execution goods and services.

**Investments by other related investment funds (%)
(see note 8 in the generic notes)**

The table below summarizes, as a percentage, the NAV of the Fund owned by other related investment funds as at:

	December 31 2017	December 31 2016
Phillips, Hager & North Canadian Equity Fund	42.4	48.8
Phillips, Hager & North Canadian Equity Pension Trust	16.7	12.9
Phillips, Hager & North Canadian Equity Plus Pension Trust	3.6	4.3
RBC Total Return Growth Fund	–	–
Total	62.7	66.0

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

SCHEDULE OF INVESTMENT PORTFOLIO (in \$000s)

PHILLIPS, HAGER & NORTH CANADIAN EQUITY
PLUS PENSION TRUST

December 31, 2017

Holdings	Security	Cost	Fair Value	% of Net Assets
EQUITIES				
CANADIAN EQUITIES				
Consumer Discretionary				
12 690	Dollarama Inc.	\$ 787	\$ 1 993	
24 000	Gildan Activewear Inc., Class A	775	975	
32 320	Quebecor Inc., Class B	614	766	
8 365	Restaurant Brands International Inc.	361	646	
49 880	Shaw Communications Inc., Class B	1 371	1 431	
		3 908	5 811	5.1
Consumer Staples				
36 060	Alimentation Couche-Tard Inc.	1 115	2 365	
		1 115	2 365	2.1
Energy				
90 900	ARC Resources Ltd.	1 720	1 341	
18 440	Cameco Corp.	520	214	
46 770	Canadian Natural Resources Ltd.	1 684	2 101	
81 604	Cenovus Energy Inc.	1 520	936	
107 420	Enbridge Inc.	5 198	5 281	
93 140	Encana Corp.	1 347	1 562	
33 852	Keyera Corp.	1 266	1 199	
14 670	Pembina Pipeline Corp.	474	668	
56 120	Raging River Exploration Inc.	431	449	
68 160	Seven Generations Energy Ltd.	1 430	1 212	
35 482	Suncor Energy Inc.	1 298	1 637	
52 102	Tourmaline Oil Corp.	1 660	1 187	
42 545	TransCanada Corp.	2 466	2 603	
96 500	Whitecap Resources Inc.	846	864	
		21 860	21 254	18.7
Financials				
20 630	Bank of Montreal	1 712	2 075	
61 170	Bank of Nova Scotia	3 393	4 962	
69 610	Brookfield Asset Management Inc., Class A	2 003	3 809	
18 860	Canadian Imperial Bank of Commerce	1 971	2 311	
50 870	Element Fleet Management Corp.	644	483	
2 380	Fairfax Financial Holdings Ltd.	1 428	1 593	
8 400	Industrial Alliance Insurance & Financial Services Inc.	489	502	
8 283	Intact Financial Corp.	779	870	
124 150	Manulife Financial Corporation	2 286	3 255	
67 020	Royal Bank of Canada*	3 345	6 880	
15 770	Sun Life Financial Inc.	656	818	
19 140	Thomson Corp.	806	1 049	
100 230	Toronto-Dominion Bank	2 742	7 382	
		22 254	35 989	31.7

Holdings	Security	Cost	Fair Value	% of Net Assets
Industrials				
24 590	Canadian National Railway Co. \$	911	\$ 2 549	
5 060	Canadian Pacific Railway Ltd.	997	1 162	
11 421	Stantec Inc.	397	402	
19 780	Waste Connections Inc.	1 283	1 764	
		3 588	5 877	5.2
Information Technology				
26 200	CGI Group Inc., Class A	1 129	1 789	
890	Constellation Software Inc.	483	678	
32 336	Open Text Corp.	1 189	1 446	
		2 801	3 913	3.4
Materials				
11 022	Agnico Eagle Mines Ltd.	420	640	
6 540	Agrium Inc.	445	946	
14 314	Alamos Gold Inc., Class A	122	117	
68 594	B2Gold Corp.	271	266	
19 340	Barrick Gold Corp.	415	352	
49 450	Belo Sun Mining Corp.	42	20	
5 250	CCL Industries, Class B	281	305	
17 070	Continental Gold Inc.	125	58	
9 690	Detour Gold Corp.	173	143	
7 155	Endeavour Mining Corp.	140	183	
60 390	First Quantum Minerals Ltd.	842	1 063	
4 610	Franco-Nevada Corp.	332	463	
17 360	Goldcorp Inc.	480	278	
6 036	IAMGOLD Corporation	42	44	
15 780	Kinross Gold Corp.	84	86	
13 930	Kirkland Lake Gold Ltd.	183	268	
20 621	Mountain Province Diamonds Inc.	105	70	
29 420	OceanaGold Corp.	125	95	
13 160	Semafo Inc.	51	47	
20 920	Teck Resources Ltd., Class B	610	688	
9 490	Torex Gold Resources Inc.	203	113	
37 840	Turquoise Hill Resources Ltd.	244	162	
11 510	Wheaton Precious Metals Corp.	329	320	
		6 064	6 727	5.9
Real Estate				
33 610	Brookfield Property Partners LP	952	936	
36 690	First Capital Realty Inc.	734	760	
		1 686	1 696	1.5
Telecommunication Services				
6 250	Rogers Communications Inc., Class B	205	400	
11 500	TELUS Corp.	302	548	
		507	948	0.8
Utilities				
16 310	Brookfield Infrastructure Partners LP	637	920	
11 800	Fortis Inc.	482	544	
		1 119	1 464	1.3
TOTAL CANADIAN EQUITIES		64 902	86 044	75.7

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

PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST

December 31, 2017

Holdings	Security	Cost	Fair Value	% of Net Assets
UNITED STATES EQUITIES				
Consumer Staples				
18 640	PepsiCo Inc.	\$ 1 236	\$ 2 810	
		1 236	2 810	2.5
Financials				
29 150	Wells Fargo & Company	708	2 226	
		708	2 226	2.0
Health Care				
7 340	Johnson & Johnson	479	1 290	
3 430	Varex Imaging Corp.	72	173	
7 540	Varian Medical Systems Inc.	453	1 054	
		1 004	2 517	2.2
Industrials				
20 730	Emerson Electric Co.	907	1 817	
4 070	Illinois Tool Works Inc.	187	854	
4 660	United Technologies Corp.	353	748	
		1 447	3 419	3.0
Information Technology				
14 870	Cisco Systems Inc.	395	716	
23 110	Microsoft Corp.	722	2 486	
25 880	Oracle Corporation	756	1 539	
		1 873	4 741	4.2
TOTAL UNITED STATES EQUITIES		6 268	15 713	13.9
TOTAL EQUITIES		71 170	101 757	89.6

Number of Units	Security	Cost	Fair Value	% of Net Assets
MUTUAL FUND UNITS				
322 880	Phillips, Hager & North Small Float Fund*	\$ 3 877	\$ 10 506	
TOTAL MUTUAL FUND UNITS		3 877	10 506	9.3
SHORT-TERM INVESTMENTS†		625	625	0.6
TOTAL INVESTMENTS		75 672	112 888	99.5
UNREALIZED GAIN ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)				
		–	17	–
UNREALIZED LOSS ON FOREIGN EXCHANGE CONTRACTS (SCHEDULE A)				
		–	(93)	(0.1)
TOTAL PORTFOLIO		\$ 75 672	112 812	99.4
OTHER NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
			702	0.6
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS				
		\$ 113 514		100.0

SCHEDULE A**Foreign Exchange Contracts**

Contracts	Maturity Date	Unrealized Gain
Bought CAD 321 Sold USD 250 @ 1.2826	11-Jan-2018	\$ 6
Bought CAD 390 Sold USD 305 @ 1.2788	02-Mar-2018	8
Bought CAD 317 Sold USD 250 @ 1.2689	02-Mar-2018	3
		\$ 17

Contracts	Maturity Date	Unrealized Loss
Bought CAD 2 539 Sold USD 2 021 @ 1.2565	11-Jan-2018	\$ (1)
Bought CAD 12 877 Sold USD 10 310 @ 1.2490	11-Jan-2018	(80)
Bought USD 211 Sold CAD 267 @ 0.7892	11-Jan-2018	(2)
Bought USD 270 Sold CAD 347 @ 0.7786	11-Jan-2018	(7)
Bought USD 120 Sold CAD 152 @ 0.7875	11-Jan-2018	(2)
Bought CAD 376 Sold USD 300 @ 1.2531	02-Mar-2018	(1)
		\$ (93)
TOTAL FOREIGN EXCHANGE		\$ (76)

All counterparties have a credit rating of at least A.

* Investment in related party (see note 8 in the generic notes).

† Short-term investments, which may be made up of treasury bills, commercial paper, term deposits and discount notes, earn interest at a rate of 1.17% and mature on January 3, 2018.

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY
PLUS PENSION TRUST**
Statements of Financial Position
(in \$000s except per unit amounts)

<i>(see note 2 in the generic notes)</i>	December 31 2017	December 31 2016
ASSETS		
Investments at fair value	\$ 112 888	\$ 118 287
Cash	627	316
Due from investment dealers	69	1 000
Subscriptions receivable	7	59
Unrealized gain on foreign exchange contracts	17	–
Dividends receivable, interest accrued and other assets	189	197
TOTAL ASSETS	113 797	119 859
LIABILITIES		
Due to investment dealers	25	28
Redemptions payable	160	893
Unrealized loss on foreign exchange contracts	93	85
Accounts payable and accrued expenses	5	3
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS	283	1 009
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS ("NAV")	\$ 113 514	\$ 118 850
Investments at cost	\$ 75 672	\$ 79 165
NAV		
SERIES A	\$ 1 513	\$ 1 456
SERIES O	\$ 112 001	\$ 117 394
NAV PER UNIT		
SERIES A	\$ 88.46	\$ 83.30
SERIES O	\$ 108.66	\$ 102.33

Statements of Comprehensive Income
(in \$000s except per unit amounts)

<i>(see note 2 in the generic notes)</i>	2017	2016
For the periods ended December 31		
INCOME (see note 3 in the generic notes)		
Dividends	\$ 2 797	\$ 3 064
Interest for distribution purposes	8	10
Other income received from underlying funds	123	153
Securities lending revenue (see note 7 in the generic notes)	1	–
Net realized gain (loss) on investments	8 194	10 366
Net gain (loss) on foreign currencies and other net assets	946	202
Change in unrealized gain (loss) on investments	(1 897)	9 486
TOTAL INCOME (LOSS)	10 172	23 281
EXPENSES (see notes – Fund Specific Information)		
Management fees	7	13
Administration fees	36	36
Independent Review Committee costs	3	2
GST/HST	4	5
Transaction costs	49	79
Withholding tax	57	71
TOTAL EXPENSES	156	206
INCREASE (DECREASE) IN NAV	\$ 10 016	\$ 23 075
INCREASE (DECREASE) IN NAV		
SERIES A	\$ 118	\$ 389
SERIES O	\$ 9 898	\$ 22 686
INCREASE (DECREASE) IN NAV PER UNIT		
SERIES A	\$ 6.87	\$ 10.83
SERIES O	\$ 8.95	\$ 18.45

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

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

 For the periods ended December 31
 (see note 2 in the generic notes)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in NAV	\$ 10 016	\$ 23 075
ADJUSTMENTS TO RECONCILE NET CASH PROVIDED BY (USED IN) OPERATIONS		
Interest for distribution purposes	–	–
Non-cash distributions from underlying funds	(123)	(153)
Net realized loss (gain) on investments	(8 143)	(10 271)
Change in unrealized loss (gain) on investments	1 897	(9 486)
(Increase) decrease in accrued receivables	8	27
Increase (decrease) in accrued payables	2	(1)
(Increase) decrease in margin accounts	–	–
Cost of investments purchased	(90 519)	(201 807)
Proceeds from sale and maturity of investments	103 206	220 637
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	16 344	22 021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of redeemable units	5 346	6 450
Cash paid on redemption of redeemable units	(21 379)	(28 681)
Distributions paid to holders of redeemable units	–	–
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	\$ (16 033)	\$ (22 231)
Net increase (decrease) in cash for the period	311	(210)
Cash (bank overdraft), beginning of period	316	526
CASH (BANK OVERDRAFT), END OF PERIOD	\$ 627	\$ 316
Interest received (paid)	\$ 8	\$ 10
Dividends received, net of withholding taxes	\$ 2 749	\$ 3 020

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

**PHILLIPS, HAGER & NORTH CANADIAN EQUITY
PLUS PENSION TRUST**
Statements of Changes in NAV *(in \$000s)*

For the periods ended December 31 (see note 2 in the generic notes)	Series A		Series O		Total	
	2017	2016	2017	2016	2017	2016
NAV AT BEGINNING OF PERIOD	\$ 1 456	\$ 4 280	\$ 117 394	\$ 114 521	\$ 118 850	\$ 118 801
INCREASE (DECREASE) IN NAV	118	389	9 898	22 686	10 016	23 075
Early redemption fees	–	–	–	–	–	–
Proceeds from redeemable units issued	21	87	5 273	6 400	5 294	6 487
Reinvestments of distributions to holders of redeemable units	29	30	2 809	3 146	2 838	3 176
Redemption of redeemable units	(82)	(3 300)	(20 564)	(26 213)	(20 646)	(29 513)
NET INCREASE (DECREASE) FROM REDEEMABLE UNIT TRANSACTIONS	(32)	(3 183)	(12 482)	(16 667)	(12 514)	(19 850)
Distributions from net income	(29)	(30)	(2 809)	(3 146)	(2 838)	(3 176)
Distributions from net gains	–	–	–	–	–	–
Distributions from capital	–	–	–	–	–	–
TOTAL DISTRIBUTIONS TO HOLDERS OF REDEEMABLE UNITS	(29)	(30)	(2 809)	(3 146)	(2 838)	(3 176)
NET INCREASE (DECREASE) IN NAV	57	(2 824)	(5 393)	2 873	(5 336)	49
NAV AT END OF PERIOD	\$ 1 513	\$ 1 456	\$ 112 001	\$ 117 394	\$ 113 514	\$ 118 850

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

PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST

December 31, 2017

General information (see note 1 in the generic notes)

The investment objective of the Fund is to provide investors with long-term capital growth by investing primarily in a well-diversified portfolio of Canadian common stocks that are qualified investments for registered Canadian pension plans. The Fund may also invest a portion of its assets in U.S. and international securities.

Financial instrument risk and capital management (see note 5 in the generic notes)**Concentration risk (%)**

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

	December 31 2017	December 31 2016
Investment mix		
Financials	34.2	33.3
Energy	19.4	18.8
Industrials	10.7	8.1
Information Technology	8.2	6.7
Consumer Discretionary	7.6	3.2
Materials	6.6	6.0
Consumer Staples	5.4	5.0
Health Care	2.2	2.0
Real Estate	2.2	1.1
Utilities	1.3	2.2
Telecommunication Services	0.8	2.0
Canadian Equity Funds	–	10.5
Cash/Other	1.4	1.1
Total	100.0	100.0

Currency risk (% of NAV)

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 NAV)

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

	December 31 2017	December 31 2016
S&P/TSX Capped Composite		
Total Return Index	+ or - 1.1	+ or - 1.0

Since historical correlation may not be representative of future correlation, actual results could differ from this sensitivity analysis and the difference could be material.

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

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

The following is a summary of the inputs used as of December 31, 2017 and 2016.

December 31, 2017	Level 1	Level 2	Level 3	Total
Equities	101 757	–	–	101 757
Mutual fund units	10 506	–	–	10 506
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	625	–	625
Derivatives – assets	–	17	–	17
Derivatives – liabilities	–	(93)	–	(93)
Total financial instruments	112 263	549	–	112 812
% of total portfolio	99.5	0.5	–	100.0

December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	104 070	1 036	–	105 106
Mutual fund units	12 431	–	–	12 431
Fixed-income and debt securities	–	–	–	–
Short-term investments	–	750	–	750
Derivatives – assets	–	–	–	–
Derivatives – liabilities	–	(85)	–	(85)
Total financial instruments	116 501	1 701	–	118 202
% of total portfolio	98.6	1.4	–	100.0

For the periods ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1, Level 2 and Level 3.

Management fees and operating expenses (see note 8 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 NAV of each series of the Fund.

	Management fees	Operating expenses
Series A	0.50%	0.06%
Series O	n/a*	0.03%

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

PHILLIPS, HAGER & NORTH CANADIAN EQUITY PLUS PENSION TRUST

December 31, 2017

Unconsolidated structured entities (%)
(see note 3 in the generic notes)

The table below summarizes the Fund's interest in the sponsored funds as a percentage of NAV, and the Fund's ownership interest as a percentage of NAV of the sponsored funds ("Ownership"). All sponsored funds are established and conduct business in Canada.

	December 31 2017		December 31 2016	
	NAV	Ownership	NAV	Ownership
Phillips, Hager & North				
Small Float Fund	9.3	3.6	10.5	4.3

Taxes (\$000s) (see note 6 in the generic notes)

The non-capital and capital losses as at December 31, 2017 for the Fund were approximately:

Capital losses	18 347
Non-capital losses	–

Redeemable units (000s)

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 December 31
(see note 2 in the generic notes)

	2017	2016
Series A		
Opening units	17	61
Issued number of units	1	1
Reinvested number of units	–	–
Redeemed number of units	(1)	(45)
Ending number of units	17	17
Series 0		
Opening units	1 147	1 325
Issued number of units	51	66
Reinvested number of units	26	31
Redeemed number of units	(193)	(275)
Ending number of units	1 031	1 147

Transaction costs (\$000s except %)

Transaction costs, including brokerage commissions, in consideration of portfolio transactions for the periods ended:

	December 31 2017		December 31 2016	
	\$	%	\$	%
Total transaction costs	49	100	79	100
Related-party brokerage commissions*	3	6	8	10
Commission arrangements†	2	4	5	6

* See note 8 in the generic notes.

† Commission arrangements are part of commission amounts paid to dealers. The Fund uses commission arrangements (formerly known as "soft dollars") for research and/or order execution goods and services.

Securities lending revenue (\$000s except %)
(see note 7 in the generic notes)

Fair value of securities on loan and collateral received as at:

	December 31 2017	December 31 2016
Fair value of securities loaned	2 770	–
Fair value of collateral received	2 825	–

The table below provides a reconciliation of the gross revenue generated from the securities lending transactions of the Fund to the securities lending revenue disclosed in the Statements of Comprehensive Income.

	December 31 2017		December 31 2016	
	\$	%	\$	%
Gross revenue	1	100	–	–
RBC IS (paid)	–	(25)	–	–
Tax withheld	–	–	–	–
Fund revenue	1	75	–	–

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, portfolio manager, distributor and one of the registrars of the Funds and its head office is located at 155 Wellington Street West, 22nd Floor, Toronto, Ontario. These financial statements were approved for issuance by the Board of Directors of RBC GAM on March 8, 2018.

The Funds may issue an unlimited number of units in some or all of Series A, Series N and Series O.

Series A units are available to all investors and may be purchased, switched or redeemed through RBC GAM or other authorized dealers.

Series N units are only available to related mutual funds.

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, Phillips, Hager & North Investment Funds Ltd.

2. Financial year/period

The information provided in these financial statements and notes thereto is for the 12-month periods ended or as at December 31, 2017 and 2016, as applicable. In the year a Fund or series is established, “period” represents the period from inception to December 31 of that fiscal year.

3. Summary of significant accounting policies

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”). The significant accounting policies of the Funds, which are investment entities, are as follows:

Classification of Financial Assets and Liabilities The Funds’ financial assets and financial liabilities, other than derivatives, are designated at fair value through profit or loss at inception, as those financial assets and liabilities are managed together and their performance evaluated on a fair value basis in accordance with the Funds’ documented investment strategy. Derivatives are classified as held for trading and measured at fair value through profit or loss. Redemption units are measured at their respective redemption values. All other assets and liabilities are measured at amortized cost. Realized gains arising on derivatives during a period are included in the

Statements of Comprehensive Income in “Net gain (loss) from futures contracts,” “Other derivatives” and “Net gain (loss) on foreign currencies and other net assets,” where applicable.

Classification of Redeemable Units The Funds have multiple features across the different series of the Funds. Consequently, the Funds’ outstanding redeemable units are classified as financial liabilities in accordance with the requirements of IAS 32 Financial Instruments: Presentation.

Unconsolidated Structured Entities The Funds may invest in other Funds and exchange-traded funds (“ETFs”) managed by the manager or an affiliate of the manager (“sponsored funds”) and may invest in other Funds and ETFs managed by unaffiliated entities (“unsponsored funds”); collectively, “underlying funds.” The underlying funds are determined to be unconsolidated structured entities, as decision making in the underlying fund is not governed by the voting rights or other similar rights held by the Fund. The investments in underlying funds are subject to the terms and conditions of the offering documents of the respective underlying funds and are susceptible to market price risk arising from uncertainties about future values of those underlying funds. The underlying funds’ objectives are generally to achieve long-term capital appreciation and/or current income by investing in a portfolio of securities and other funds in line with each of their documented investment strategies. The underlying funds apply various investment strategies to accomplish their respective investment objectives.

The underlying funds finance their operations by issuing redeemable units which are puttable at the unitholder’s option, and entitle the unitholder to a proportional stake in the respective underlying funds’ NAV.

The Funds do not consolidate their investment in underlying funds but account for these investments at fair value. The manager has determined that the Funds are investment entities in accordance with IFRS 10 Consolidated Financial Statements, since the Funds meet the following criteria:

- (i) The Funds obtain capital from one or more investors for the purpose of providing those investors with investment management services,
- (ii) The Funds commit to their investors that their business purpose is to invest funds solely for the returns from capital appreciation, investment income or both, and
- (iii) The Funds measure and evaluate the performance of substantially all of their investments on a fair value basis.

Therefore, the fair value of investments in the underlying funds is included in the Schedule of Investment Portfolio and included in “Investments at fair value” in the Funds’ Statements of Financial Position. The change in fair value of the investment held in the underlying funds is included in “Change in unrealized gain (loss) on investments” in the Statements of Comprehensive Income.

Certain Funds may invest in mortgage-related or other asset-backed securities. These securities include commercial mortgage-backed securities, asset-backed securities, collateralized debt obligations and other securities that directly or indirectly represent a participation in, or are securitized by and payable from, mortgage loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans while asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans and student loans. The Funds account for these investments at fair value. The fair value of such securities, as disclosed in the Schedule of Investment Portfolio, represents the maximum exposure to losses at that date.

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 and derivatives 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.

Short-Term Investments – Short-term investments are valued at fair value, which is approximated at cost plus accrued interest.

Warrants – Warrants are valued using a recognized option pricing model, which includes factors such as the terms of the warrant, time value of money and volatility inputs that are significant to such valuation.

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 unrealized 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.

Mutual Fund Unit Valuation – Units of Funds are valued at their respective NAV per unit from fund companies on the relevant valuation dates.

Fair Valuation of Investments – The Funds have procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available or which may not be reliably priced. Under these fair valuation procedures, the Funds primarily employ a market-based approach, which may use related or comparable assets or liabilities, NAV per unit (for exchange-traded funds), recent transactions, market multiples, book values and other relevant information for the investment to determine its fair value. Management also has procedures in place to determine the fair value of foreign securities traded in countries outside of 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.

The Funds may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments, but only if they arise as a feature of the instrument itself. Due to the

inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

All security valuation techniques are periodically reviewed by the Valuation Committee (“VC”) of the manager and are approved by the manager. The VC provides oversight of the Funds’ valuation policies and procedures.

Cash Cash is comprised of cash and deposits with banks and is recorded at fair value. The carrying amount of cash approximates its fair value because it is short-term in nature.

Foreign Exchange The value of investments and other assets and liabilities in foreign currencies is translated into Canadian dollars 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 have their subscriptions, redemptions and performance denominated in Canadian dollars and, consequently, the Canadian dollar is the functional currency for the Funds.

Valuation of Series A different NAV is calculated for each series of units of a Fund. The NAV 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 NAV 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, 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.

Increase (Decrease) in NAV per Unit Increase (decrease) in NAV per 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:

CAD – Canadian dollar

USD – United States dollar

4. Critical accounting judgments and estimates

The preparation of financial statements requires the use of judgment in applying the Funds’ accounting policies and making estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that management has made in preparing the financial statements.

Classification and measurement of financial instruments and application of fair value option

In classifying and measuring financial instruments held by the Funds, the manager is required to make significant judgments about whether or not the business of the Funds is to invest on a total return basis for the purpose of applying the fair value option for financial assets.

Fair value measurement of securities not quoted in an active market

The Funds have established policies and control procedures that are intended to ensure these estimates are well controlled, independently reviewed and consistently applied from period to period. The estimates of the value of the Funds' assets and liabilities are believed to be appropriate as at the reporting date.

The Funds may hold financial instruments that are not quoted in active markets. Note 3 discusses the policies used by management for the estimates used in determining fair value.

5. Financial instrument risk and capital management

RBC GAM is responsible for managing each Fund's capital, which is its NAV 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." These risks include a Fund's direct risks and pro rata exposure to the risks of underlying funds, as applicable.

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 NAV 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 7). 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.

6. 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. Since the Funds do not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. 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 20 years.

7. 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.

8. Administrative and other related-party transactions

Manager, Portfolio Manager, Distributor and Registrar

RBC GAM is an indirect wholly owned subsidiary of Royal Bank of Canada (“Royal Bank”). RBC GAM is the manager, portfolio manager, distributor and registrar of the Funds. RBC GAM is responsible for the day-to-day operations of, and provides investment advice and portfolio management services to, 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. The management fee is calculated and accrued daily as a percentage of the NAV of each series of units of the Funds. 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. The fixed administration fee is calculated and accrued daily as a percentage of the NAV of each series of units of the Funds. 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 proportionately to each series based upon the relative NAV of each series. 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”). A Fund will not invest in units of an underlying mutual fund if the Fund would be required to pay any management or incentive fees in respect of that investment that a reasonable person would believe duplicates a fee payable by the underlying mutual fund for the same service. The Fund’s ownership interest in underlying mutual funds is disclosed in the Notes to Financial Statements – Fund Specific Information.

RBC GAM or its affiliates may earn fees and spreads in connection with various services provided to, or transactions with, the Funds, such as banking, brokerage, securities lending, foreign exchange and derivatives transactions. RBC GAM or its affiliates may earn a foreign exchange spread when unitholders switch between series of funds denominated in different currencies. The Funds also maintain bank accounts and

overdraft provisions with Royal Bank for which Royal Bank may earn a fee. Affiliates of RBC GAM that provide services to the Funds in the course of their normal business, all of which are wholly owned subsidiaries of Royal Bank of Canada, are discussed below.

Brokers and Dealers

The Funds have established or may establish standard brokerage agreements and dealing agreements at market rates with related parties such as RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, NBC Securities Inc. and Royal Bank of Canada.

Trustee and Custodian

RBC IS is the trustee and custodian of the Funds. RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Funds. RBC IS earns a fee as the trustee and custodian, which is paid by the manager from the fixed administration fee paid by 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. The registrars earn a fee, which is paid by the manager from the fixed administration fee paid by the Funds.

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 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 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.

9. Revision of comparative information

Where applicable, certain comparative figures on the Statements of Cash Flow have been revised.

Amounts reclassified to "Non-cash distributions from underlying funds" have been presented separately from amounts related to "Cost of investments purchased" to appropriately reflect the non-cash components of investments purchased. The impact on the "Net cash provided by (used in) operating activities" is nil.

Comparative figures on the Statements of Cash Flow have been revised for the following funds:

Phillips, Hager & North Balanced Pension Trust

10. Future accounting changes

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

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classifications and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018. Classification and measurement of debt assets will be driven by an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

GENERIC NOTES TO FINANCIAL STATEMENTS

(also see Fund Specific Information)

December 31, 2017

On adoption of IFRS 9, the Funds' investment portfolios will continue to be classified at fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortized cost with no material impact expected from application of the new impairment model introduced in IFRS 9. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Funds' financial statements.

If you have questions regarding Phillips, Hager & North Pension Trust, please contact us using the following options:

By Phone

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On the Internet

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