

MONEY MARKET FUND

**PHILLIPS, HAGER & NORTH
CANADIAN MONEY MARKET FUND***December 31, 2012***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 1, 2013.

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 within RBC Global Asset Management Inc., the manager of the Fund and an indirect wholly-owned subsidiary of Royal Bank of Canada.

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

The Fund seeks to provide investors with a steady level of current income, capital preservation and liquidity by investing in a well-diversified portfolio of short-term Canadian money market securities with strong credit ratings. To achieve the Fund's investment objective, we invest in government or government guaranteed treasury bills, high-grade corporate notes, and asset-backed commercial paper. At the time of purchase, securities will generally have a term to maturity of less than 183 days and the portfolio's term to maturity will typically average 30 days. The Fund is conservatively managed and does not invest in foreign securities.

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 particular investors remains as discussed in the Simplified Prospectus.

Results of Operations

The Fund's net asset value decreased to \$1.3 billion as of December 31, 2012, from \$1.6 billion at the end of 2011. The change reflected \$15.4 million of investment returns, offset by \$335.1 million of net redemptions.

As of December 31, 2012, the current yields were 0.7% for Series D units, 0.7% for Series F units, 1.2% for Series O units and 0.7% for Advisor Series units. Over the past year, the Fund's Series D units returned 0.66%. Over the same time period, the Fund's benchmark index, the DEX 30-Day Treasury Bill Index, returned 0.91%. The Fund's return is after the deduction of fees and expenses. See the Financial Highlights section for the management expense ratios and the Past Performance section for the returns of other series, which may vary because of differences in management fees and expenses.

Money markets in Canada continued to be anchored by the Bank of Canada's ("BoC") overnight rate of 1%, which has been in place for more than two years. The BoC is by no means alone in its policy of sustained ultra-low interest rates, as this trend is in place in central banks across the globe as they attempt to stimulate demand in the face of sluggish economies. The BoC met twice in the fourth quarter, both times commenting that the current low rate will eventually be phased out, although they gave no indications when this may occur.

During the reporting period, allocating the majority of the Fund's assets to highly rated securities that had a higher yield than Canadian Treasury bills helped the Fund's performance. Such securities

include high-quality corporate notes, bank-sponsored asset-backed commercial paper and bankers' acceptances. The Fund had a longer maturity than its benchmark for much of the year. The Fund's average maturity range was 45 to 60 days for most of the year.

Within the Fund, we continue to emphasize securities that meet our standards from a safety-of-principal standpoint, but also pay a premium to Canadian Treasury bills. We have increased the average maturity of securities within the Fund to 60 days so it is now twice as long as its benchmark's 30 days. We do this not because of the slope of the yield curve, which is virtually flat in the short end, but because of the slope of the credit curve. That is, the incremental yield one can capture by investing in the credit instruments that are slightly further out in maturity.

Recent Developments

Global bond yields are beginning to fluctuate after spending several months trading in a fairly tight range while new rounds of monetary stimulus and U.S. fiscal worries preoccupied the bond market. Broadly speaking, very low bond yields continue to make sense in a world of slow growth, moderate inflation, risk aversion, low policy rates and unconventional central bank actions. That said, we believe yields will not remain this low forever. The question, then, is primarily one of timing. Our sense is that 2013 could usher in moderately higher bond yields as policy clarity improves and as global growth begins to revive. But an outright tightening of monetary policy at the shortest end of the yield curve is likely still far away for many countries, and so relatively low government bond yields are likely to remain with us for some time.

All outstanding Series B units were redesignated as Series D units effective July 27, 2012. The redesignated units have a lower management fee as compared to the Series B units.

Effective July 27, 2012, Royal Bank of Canada ("Royal Bank") owns 100% of RBC Investor Services Trust (formerly, RBC Dexia Investor Services Trust, referred to throughout as "RBC IS").

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

RBC GAM is an indirect, wholly-owned subsidiary of Royal Bank and is the manager, principal portfolio advisor 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. 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.

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

Distributors

RBC GAM, Phillips, Hager & North Investment Funds Ltd., Royal Mutual Funds Inc., RBC Direct Investing Inc. and RBC Dominion Securities Inc. are principal distributors of, or distribute certain series of units of, the Fund. Dealers receive an ongoing commission based on the total value of their clients' Series C, Advisor Series and Series D units.

Trustee and Custodian

RBC IS is the trustee and custodian of the Fund. The fees paid to RBC IS are paid by RBC GAM and not the Fund.

RBC IS holds title to the Fund's property on behalf of unitholders and holds the assets of the Fund.

Other Related-Party Transactions

Pursuant to applicable securities legislation, the Fund relied on the standing instructions from the Board of Governors ("BoG") in its capacity as 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 BoG of a material breach of any standing instruction. RBC GAM policy requires that an investment decision in respect of Related-Party Trading Activities (i) is made free from any influence of Royal Bank or its associates or affiliates and without taking into account any consideration relevant to Royal Bank or its affiliates or associates, (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the 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. "Net Assets" are calculated in accordance with Canadian generally accepted accounting principles, which are used to prepare the financial statements (see table below). "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.

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
		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 C												
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2010	10.00	0.08	(0.04)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2009	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2008 ³	10.00 [†]	0.04	(0.01)	–	–	0.03	(0.03)	–	–	–	(0.03)	10.00
Advisor Series												
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2010 ⁴	10.00 [†]	0.01	(0.01)	–	–	–	–	–	–	–	–	10.00
Series D⁵												
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.11	(0.05)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2010	10.00	0.08	(0.04)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2009	10.00	0.10	(0.04)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2008	10.00	0.37	(0.05)	–	–	0.32	(0.32)	–	–	–	(0.32)	10.00
Series F												
Dec. 31, 2012	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2011	10.00	0.12	(0.05)	–	–	0.07	(0.07)	–	–	–	(0.07)	10.00
Dec. 31, 2010	10.00	0.08	(0.04)	–	–	0.04	(0.04)	–	–	–	(0.04)	10.00
Dec. 31, 2009	10.00	0.10	(0.04)	–	–	0.06	(0.06)	–	–	–	(0.06)	10.00
Dec. 31, 2008	10.00	0.36	(0.03)	–	–	0.33	(0.33)	–	–	–	(0.33)	10.00
Series O												
Dec. 31, 2012	10.00	0.12	–	–	–	0.12	(0.12)	–	–	–	(0.12)	10.00
Dec. 31, 2011	10.00	0.11	–	–	–	0.11	(0.11)	–	–	–	(0.11)	10.00
Dec. 31, 2010	10.00	0.08	–	–	–	0.08	(0.08)	–	–	–	(0.08)	10.00
Dec. 31, 2009	10.00	0.10	–	–	–	0.10	(0.10)	–	–	–	(0.10)	10.00
Dec. 31, 2008	10.00	0.36	–	–	–	0.36	(0.36)	–	–	–	(0.36)	10.00

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 November 2008.

⁴ From October 2010.

⁵ Series D was known as Series A prior to November 17, 2008.

[†] Initial offering net asset value per unit.

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 C							
Dec. 31, 2012	10.00	6 820	682	0.54	0.54	n/a	—
Dec. 31, 2011	10.00	11 674	1 167	0.55	0.55	n/a	—
Dec. 31, 2010	10.00	11 201	1 120	0.37	0.37	n/a	—
Dec. 31, 2009	10.00	8 206	821	0.51 ⁴	0.75	n/a	—
Dec. 31, 2008 ⁵	10.00	2 439	244	0.74	1.85	n/a	—
Advisor Series							
Dec. 31, 2012	10.00	1 412	141	0.54	0.54	n/a	—
Dec. 31, 2011	10.00	8 497	850	0.55	0.55	n/a	—
Dec. 31, 2010 ⁶	10.00	690	69	0.37	0.37	n/a	—
Series D⁷							
Dec. 31, 2012	10.00	293 820	29 382	0.56	0.56	n/a	—
Dec. 31, 2011	10.00	432 080	43 208	0.55	0.55	n/a	—
Dec. 31, 2010	10.00	459 423	45 942	0.41	0.41	n/a	—
Dec. 31, 2009	10.00	563 832	56 383	0.44 ⁴	0.51	n/a	—
Dec. 31, 2008	10.00	713 765	71 376	0.52	0.52	n/a	—
Series F							
Dec. 31, 2012	10.00	7 204	720	0.50	0.50	n/a	—
Dec. 31, 2011	10.00	8 664	866	0.50	0.50	n/a	—
Dec. 31, 2010	10.00	7 607	761	0.37	0.37	n/a	—
Dec. 31, 2009	10.00	2 456	246	0.43 ⁴	0.49	n/a	—
Dec. 31, 2008	10.00	3 449	345	0.49	0.49	n/a	—
Series O							
Dec. 31, 2012	10.00	948 553	94 855	0.03	0.03	n/a	—
Dec. 31, 2011	10.00	1 115 361	111 536	0.03	0.03	n/a	—
Dec. 31, 2010	10.00	903 528	90 353	0.03	0.03	n/a	—
Dec. 31, 2009	10.00	818 885	81 888	0.02 ⁴	0.02	n/a	—
Dec. 31, 2008	10.00	959 549	95 955	0.03	0.03	n/a	—

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 a percentage of daily average net asset value during the period. The trading expense ratio is not applicable to fixed-income transactions.

⁴ Effective November 1, 2009, a fixed administration fee was introduced in respect of each series of the Fund. If the fixed administration fee would have been in effect throughout 2009, the adjusted MER for each series of the Fund would be: Series C – 0.50%, Series D – 0.43%, Series F – 0.42%, Series O – 0.03%.

⁵ From November 2008.

⁶ From October 2010.

⁷ Series D was known as Series A prior to November 17, 2008.

FINANCIAL HIGHLIGHTS (cont.)

Management Fees

RBC GAM is the manager, portfolio advisor and registrar of the Fund. Management fees paid by each series of the Fund are calculated up to 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 C	up to 0.65%	38%	62%
Advisor Series	up to 0.65%	38%	62%
Series D	Note 1	23%	77%
Series F	up to 0.40%	—	100%

Note 1 – up to 0.50% (decreasing to 0.40% on the net Series D asset value over \$200,000,000).

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

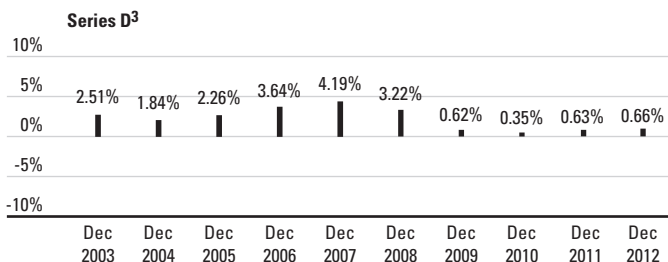
* Includes all costs related to management, investment advisory services, general administration and profit.

PAST PERFORMANCE

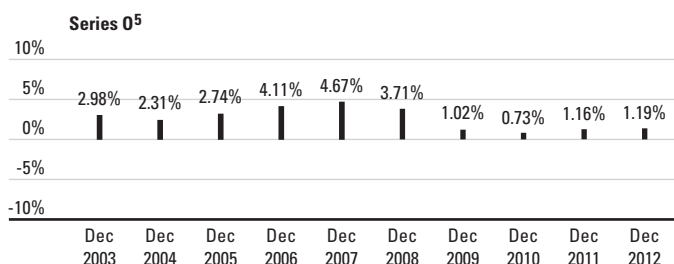
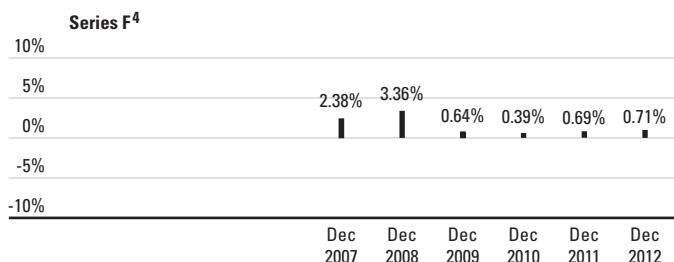
The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional units of the Fund and would be lower if distributions were not reinvested. The performance information does not take into account sales, redemption, distribution, optional 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.



PAST PERFORMANCE (cont.)



¹ From November 2008.

² From October 2010.

³ Series D was known as Series A prior to November 17, 2008.

⁴ From June 2007.

⁵ From October 2002.

SUMMARY OF INVESTMENT PORTFOLIO

(after consideration of derivative products, if any)

As at December 31, 2012

Investment Mix

	% of Net Asset Value
Corporate Notes	97.5
Government Notes	2.5

Top 25 Holdings

	% of Net Asset Value
Bay Street Funding Trust - Class A 1.173% Jan 28 13	4.1
Wells Fargo Financial Canada Corp. 1.130% Jan 3 13	3.3
Bank of Montreal 1.300% Mar 7 13	3.0
Bank of Nova Scotia 1.250% Feb 27 13	2.6
Bank of Montreal 1.301% Mar 4 13	2.6
HSBC Bank Canada 1.161% Jan 7 13	2.3
HSBC Bank Canada 1.193% Mar 1 13	2.2
SOUND Trust 1.179% Mar 15 13	2.1
Fusion Trust 1.320% May 10 13	1.9
Canadian Imperial Bank of Commerce 1.271% Mar 1 13	1.9
Canadian Master Trust - Series A 1.172% Feb 19 13	1.8
Merit Trust - Senior Notes 1.100% Jan 3 13	1.8
Fusion Trust 1.320% May 2 13	1.6
Clarity Trust 1.208% Mar 7 13	1.6
Bank of Nova Scotia 1.162% Jan 15 13	1.4
McCain Financial Canada 1.148% Jan 10 13	1.4
Bank of Nova Scotia 1.251% Feb 12 13	1.4
Canadian Imperial Bank of Commerce 1.260% Feb 26 13	1.4
Province of Manitoba 1.230% Dec 31 12	1.4
Clarity Trust 1.211% Apr 1 13	1.3
Enbridge Inc. 1.141% Jan 14 13	1.3
Zeus Receivables Trust - Senior Notes 1.300% May 10 13	1.3
Inter Pipeline Fund 1.240% Mar 15 13	1.3
SOUND Trust 1.148% Jan 17 13	1.3
Bell Canada International Inc. 1.156% Jan 18 13	1.2
Top 25 Holdings	47.5

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. It is updated quarterly and may be obtained by calling our Investment Funds Centre at 1-800-661-6141, by viewing on our website, www.phn.com, or by emailing us at info@phn.com.