Atomic Energy of Canada Limited

2009 Annual Financial Report

AECL

Atomic Energy of Canada Limited is a full-service nuclear technology company providing services to nuclear utilities around the world. Established in 1952, AECL is the designer and builder of true Canadian CANDU® technology, including the Advanced CANDU Reactor® (ACR-1000®) and the CANDU® 6, one of the world's top performing reactors.

AECL's almost 4,900 full-time employees deliver cutting-edge world-class nuclear services, research and development support, design and engineering, construction management, specialized technology, life extension, waste management and decommissioning in support of CANDU reactor products.

Mandate

- To be Canada's nuclear platform for nuclear science and technological expertise
- To operate a commercially viable, self-sustaining business designing, building and servicing CANDU nuclear power reactors

Vision / Mission

- To be the best nuclear energy company
- To provide safe, reliable, economical and sustainable nuclear energy solutions worldwide

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World-Class Technology

AECL designs and builds world-class technology – the CANDU nuclear reactor, which generates clean, green, safe, reliable power. Canada's nuclear program to-date is based on AECL's pressurized heavy water CANDU technology – well respected here and abroad for the quality and safety of its design, competitive capital and operating costs, and longevity.

The CANDU 6 design, the proven work-horse of the CANDU fleet, has been consistently safe, economical and reliable over the past three decades of operation, while achieving excellent performance track records for reliability and capacity factors. Based on the latest International Atomic Energy Agency data available (2007), of the 433 operating reactors worldwide at that time, three-quarters of AECL's international CANDU 6 fleet ranked in the top 10% for their lifetime load factor. This included holding the top three spots in the global ranking.

In Ontario, based on CANDU Owners Group data, the top three performing CANDU reactors in 2008 were at Darlington, with performance ratings of 99.4% for Unit 3, 98.5% for Unit 2, and 97.9% for Unit 4 – very high on a global scale. CANDU reactor operations around the world have also had an event-free environmental record spanning more than 500 reactor-years of operation.

The Advanced CANDU Reactor® (ACR-1000®) is AECL's evolutionary Generation III+ reactor, specifically designed to utilize the proven features of the original CANDU design and meet market demand for competitive pricing and state-of-the-art technology. It is a hybrid, bridging between heavy and light water reactor technology. The ACR-1000 is designed to have a 60-year operating life and a lifetime average annual capacity factor of more than 90%.

CANDU technology is further being developed to incorporate advanced fuel technology. AECL's CANDU reactors have the potential to use alternative fuels such as thorium or recycled uranium from light water reactors. This is important for countries without an abundant supply of uranium resources and would represent a significant breakthrough in nuclear waste reduction. Because AECL's CANDU customers are keenly interested, AECL is conducting research into alternative fuels in China and Canada.

Canada is currently one of only five countries successfully selling nuclear reactors. In the last 12 years, AECL has contractually delivered seven reactors on time and on budget – in China, South Korea and Romania. In fact, our new builds in China were both delivered under budget and ahead of schedule.

AECL's CANDU reactor life extensions, another important business line, are major undertakings. This process can safely extend the operating life of the reactor by up to 30 years. Similarly, AECL's profitable services business line helps to maintain operating CANDU reactors and provide support for non-CANDU technologies.

AECL is a national asset, guaranteeing future energy independence. With the support of its Team CANDU members, a homegrown Canadian supply sector and skilled workforce, AECL is ready to deliver with its technology to be one of the true growth engines of Canada's future economy.

Market Opportunities at a Glance

- From an existing base of 436 nuclear reactors around the globe in 2009, there are plans, discussions and work underway to build an estimated 230 reactors. Beyond this, there is potential for hundreds more. This opportunity represents a market well in excess of $1 trillion over the next 20 years.

- Recent Conference Board of Canada modelling shows that if AECL builds four twin ACR-1000 reactors in Canada and eight twin reactors internationally, 500,000 person-years of employment will be created and $80 billion will be added to Canada's gross domestic product between 2010 and 2030.

- In Ontario, the Integrated Power System Plan estimates that $27 billion of investment in nuclear power will be needed in the years 2008–2027 to maintain nuclear's current 50% share of Ontario electricity generation. That investment includes building two to four new reactors, at least two of them at Darlington, Ontario. Alberta and Saskatchewan are taking steps to include nuclear power as part of their energy mix, and a new build in New Brunswick is under active consideration.

- With CANDU reactors around the world approaching their initial design life span, there will be a large market for life extension services – some 15 projects to 2028, valued up to $5 billion. A typical single unit life extension creates around 1,500 jobs and injects an investment of $1.5 billion.

2008–2009 Overview

Health and Safety

- AECL increased its investment in its nuclear laboratory site facilities to $212 million, which contributed to progressing its health, safety and environmental stewardship objectives.
- AECL achieved an extraordinary safety milestone in fiscal 2008–2009, logging two million hours without a lost time injury – zero injuries – on the Point Lepreau life extension project.

Projects

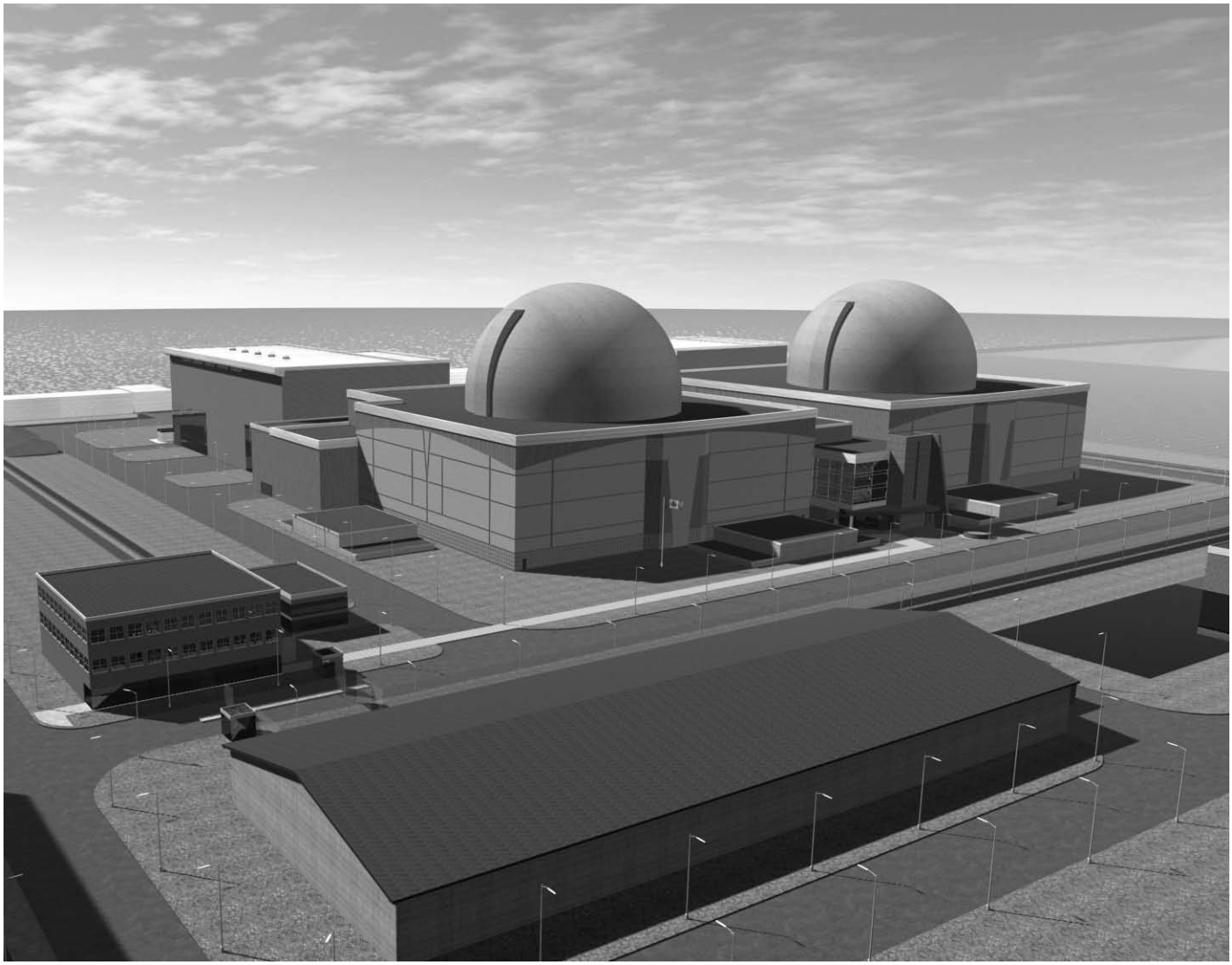
- AECL, as part of the Team CANDU® Ontario consortium, submitted in February 2009 its ACR-1000 proposal for the Ontario new build procurement process.
- The ACR-1000 development team achieved several licensing associated milestones, including the completion of the ACR-1000 Generic Safety Case Report, the basis for pre-application design review by the Canadian Nuclear Safety Commission. Significant progress was also made on the ACR-1000 Preliminary Safety Analysis Report, used in the Commission's licensing process. The Commission completed Phase 1 of the ACR-1000 Pre-Project Design Review, concluding that at a high level no obstacles have been identified that may lead to a significant design change of the ACR-1000.
- AECL was awarded contracts worth hundreds of millions of dollars by Hydro-Québec for life extension work at Gentilly 2, representing AECL's fourth life extension project in four years.
- AECL reached a significant milestone in the Bruce life extension project with the removal of the final Bruce A, Unit 1 calandria tube, marking the end of that unit's disassembly phase.
- AECL made significant progress in completing the reactor component removal phase of the Point Lepreau life extension project in New Brunswick.
- AECL encountered delays in its active first-of-a-kind life extension projects, and estimated costs to complete these projects increased substantially. A series of project management enhancements were implemented to address these challenges. Having invested in this learning experience and refined its processes, AECL expects its life extension business to grow significantly, generating up to $5 billion over the next two decades.

Business and Operations

- AECL continued to supply isotopes safely and reliably from the National Research Universal (NRU) reactor. During the year, AECL increased production to help compensate for outages at other major isotope production reactors.
- In May 2008, AECL began the ramp-down of the Dedicated Isotope Facilities to an extended safe shutdown state.
- Growth in business operations drove a 3% increase in full-time employees to 4,891 (2007–2008: 4,728).
- As part of its effort to improve its operations continually, AECL was admitted for a 24-month trial membership with the World Association of Nuclear Operators for its NRU reactor. Membership provides AECL with access to international best practices, and provides support to achieving the highest levels of operational safety.
- AECL signed a Memorandum of Understanding with manufacturer Larson and Toubro to explore the development of the ACR-1000 in India. The agreement is subject to the approval by India and Canada of a Nuclear Cooperation Agreement.
- AECL signed a fuel cycle development initiative with China to promote the use of CANDU reactors with advanced fuel cycles such as recovered uranium and thorium.

Financial

- AECL received Parliamentary appropriations of $554 million in support of many essential initiatives such as development of the ACR-1000, Canada's nuclear research and development program, renewal of infrastructure at the Chalk River facility and isotope production, among others.
- AECL invested $105 million toward fulfilling decommissioning and waste management obligations under the Government-funded Nuclear Legacy Liabilities Program.
- Consolidated commercial revenue decreased by 35% over the previous year to $401 million, reflecting reduced project revenue recognized on a percentage of completion basis, as a result of increased costs on major life extension projects. Growth in AECL's services and isotope businesses partially offset this decline.



The Generation III+ Advanced CANDU Reactor

Focus on governance and growth

2008–2009 was a year of major change and development in AECL's corporate governance.

Early in the year, the Board undertook a thorough review of AECL's governance, using a range of internal and external resources. As a result, extensive changes have been made in the structure, focus and workload of the Board and its committees.

We also strengthened the Board's working relations with management, with our stakeholders, and most notably with our shareholder, the Government of Canada.

We clarified and emphasized the strategic directions of the Corporation. Our top priorities were defined as the development and deployment of new Generation III$^+$ power reactors in Canada and the restoration of a reliable supply of isotopes at Chalk River.

Within that framework, the Board, with management, devoted substantial time and effort to prepare and assess AECL's bid to build new reactors at Darlington in Ontario. The Board also decided to withdraw our bid to construct a new reactor in the UK and to recommend to the Government of Canada that AECL discontinue the development of new MAPLE isotope reactors. These decisions were consistent with our strategic focus.

Significant time and effort were invested by Hugh MacDiarmid, our President and CEO, and I on working to strengthen shareholder relations with the Minister for Natural Resources Canada, staff and senior public servants, in addition to a number of other Ministers, officials and Members of Parliament. We increased understanding of AECL's goals and challenges, as well as our understanding of public policy. The Government's renewed support for AECL for fiscal 2009–2010 was in part due to these efforts.

Events in 2007 had made it clear that AECL had fallen short in communicating with the public and stakeholders. That is why AECL strengthened substantially its Department of External Relations and Communications and embarked on extensive outreach with all levels of governments, customers, media, suppliers and stakeholder groups including universities. Restoring public confidence remains a high priority for us, so the Board and its Committees regularly review risks to assure AECL protection of the health and safety of our workers, the public and our environment.

The governance emphasis of the Board itself has initiated many changes, clarifying the roles of Board and Management. We changed the profile requirements for Board competencies, adopted a structured approach to the search for new directors with significant due diligence and the use of a professional search firm.

The result has been an increase in Board expertise in energy, finance, risk management and nuclear safety. The Board now has full-time aid from a Corporate Secretariat to support planning and co-ordination of the Board meetings and its four committees in cooperation with their chairs.

All these changes and others have led to a major increase in the time devoted to AECL by Directors, by Management working with the Board, and by the Chair. Board and committees meet regularly and more frequently – nine Board and 27 Committee meetings in 2008–2009.

Last year, a new Board committee was created, for Project Risk Review. Another, for Science and Technology, was given a more robust mandate with emphasis on Nuclear Oversight. A Research and Development Panel of independent external experts provides advice to the Board through this Committee. Both are related to another major change in our corporate governance – an increased emphasis on identifying risk and mitigation strategies. We have developed a comprehensive risk management framework to identify and assess the full range of risks and opportunities facing AECL.

2008–2009 was a demanding year for the Board and for Management. I am pleased to take this opportunity to thank our shareholder, the Government of Canada, for its support, as well as my Director colleagues and AECL's employees for their hard work and dedication.

AECL is now better positioned to identify and assess opportunities and risks in the expanding domestic and international markets for nuclear power.

GLENNA CARR
Chair of the Board

GLENNA CARR
Chair of the Board

On the path to success

AECL in 2008–2009 continued to pursue its core mission of being a globally competitive vendor of nuclear power plants.

AECL's key strategic investment last year was the continuing development of our flagship product, the ACR-1000. Development of this Generation III$^+$ reactor remained on track and on schedule across the board, and was supported by $120 million in funding from the Canadian Government.

AECL completed the ACR-1000 Generic Safety Case Report, the basis for pre-application design review by the Canadian Nuclear Safety Commission and made significant progress on the Preliminary Safety Analysis Report used in the Commission licensing process. In December 2008, the Commission completed Phase 1 of the ACR-1000 Pre-Project Design Review, concluding that, at a high level, no obstacles have been identified that may lead to a significant design change.

At the same time, AECL invested very significant resources in preparing our bid to build ACR-1000 reactors for the Government of Ontario at the Darlington Generating Station. When submitted on February 27, 2009, the bid represented more than a year of work by hundreds of AECL staff. Our bid also received strong support from organized labour and our fellow companies in Team CANDU. Their participation was and is essential, and I am delighted to acknowledge it.

Our current operational focus is life extension projects for key customers, initially in Canada and South Korea. Such planned refurbishments can add up to 30 years to a reactor's life. We have encountered operational challenges on the Bruce and Point Lepreau life extension projects, in Ontario and New Brunswick, respectively, reflecting the extraordinary technical complexity and first-of-a-kind nature of that work. This has resulted in both schedule and cost overruns, and has had evident consequences for our financial results in 2008–2009. We remain fully dedicated to delivering a top quality result for our customer together with the highest dedication to safety in the workplace.

In addition to the Bruce and Point Lepreau life extension projects, AECL has been preparing for life extension work at Wolsong in South Korea, to begin in the first quarter of the 2009–2010 fiscal year. In late 2008 and early 2009, we were awarded contracts with Hydro-Québec to extend the life of the Gentilly 2 plant.

Overall, we believe that reactor life extension is a growth area for AECL. Fifteen CANDU reactors worldwide are candidates for life extension between now and 2028. 2008–2009 was a valuable investment in learning for us; going forward, we can count on a high level of expertise in the field, including the use of specialized equipment and remote-controlled tools for work in a radioactive environment.

The NRU at our Chalk River Laboratories performed well in 2008–2009. Production of medical isotopes was successfully expanded by 40 per cent for a six-month period to meet a global shortfall caused by the prolonged shutdown of the world's other major isotope reactor, located in the Netherlands. Following the cancellation of the MAPLE reactors, AECL signed a protocol in July with the Canadian Nuclear Safety Commission to provide a framework within which AECL and Commission staff will work to prepare the information the Commission needs to assess the continued operation of the NRU beyond the current licence period. This is a first step toward renewing the NRU's current licence, which expires in October 2011.

A notable event was the submission by Talisman International LLC of its report on the circumstances that led to the extended shutdown of the NRU in November and December 2007. Both AECL and the Commission have fully accepted the report's recommendations to clarify licensing requirements and improve the tracking of licensing commitments. AECL has worked closely with the Commission to implement corrective action. We are confident that the measures taken to-date will prevent such occurrences in the future. AECL has also enhanced its notification process for isotope supply interruptions, enabling various public agencies, including

Health Canada and the Commission, to respond effectively to anticipated medical isotope shortages. To assure the public that AECL places the highest priority on the health and safety of its workers and the Canadian public, together with protecting the environment, AECL has also enhanced its voluntary public disclosure of events relating to the Chalk River Laboratories.

AECL's spending on research and development is the sixth largest in Canada and makes a major contribution to Canada's scientific and technological development. In 2008–2009, the Corporation continued to update research facilities through its Project New Lease infrastructure renewal program.

AECL continues to be a company with an international reach. 2008–2009 saw discussions on specific projects in Argentina and Romania well advanced. Agreements were established with Ukraine, Jordan and China for CANDU technology development and deployment. Several of these agreements involve the development of alternate fuel sources for CANDU technology, including thorium and recycled light water reactor fuel.

Subsequent to year-end, the Government announced the completion of its review of AECL's business structure and its decision to restructure AECL. The objective of this decision is to equip the Corporation, its employees and the Canadian nuclear industry to participate fully and successfully in the expanding global nuclear market. At time of publication, the form and timing of restructuring had not yet been determined. AECL will continue to focus on its current mandate until such time that the Government has provided further direction on how restructuring will proceed.

Finally, I would like to make several acknowledgements. This past year marked the retirements of senior executives David Torgerson and Ken Petrunik after distinguished careers with AECL. Both demonstrated exceptional skill and leadership and we have gained from the knowledge that they shared with us.

And, throughout the year, AECL's Board of Directors provided highly effective governance. Their counsel and experience were invaluable to management and helped greatly to position AECL for the opportunities ahead. It is a pleasure to thank them, along with all of the others who contributed: our shareholder, the Government of Canada; our suppliers and colleagues in Team CANDU; and the community for whom we are all ultimately working. Most of all, I want to thank AECL's employees for their professional skills, dedication and sheer hard work.

HUGH MacDIARMID
President and
Chief Executive Officer

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President and Chief Executive Officer

Management's Discussion and Analysis

Forward-Looking Statements

This Management's Discussion and Analysis (MD&A) has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of the Corporation for the year ended March 31, 2009 and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Annual Report.

This MD&A contains forward-looking statements with respect to AECL based on assumptions that management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are difficult to predict, may ultimately require revision.

Organization

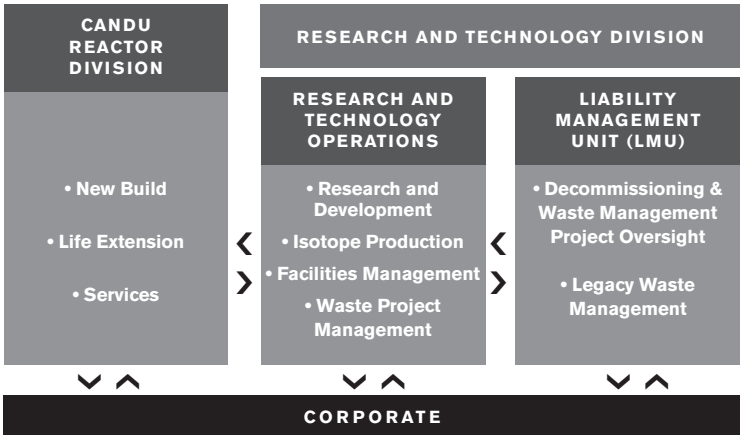
AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources Canada.

AECL has a dual mandate to operate a commercially viable business designing and building CANDU nuclear power reactors, including related products, life extensions and provision of services, and to be the nuclear platform or repository of nuclear science and technological expertise for Canada.

The Corporation's unique public policy role involves maintaining and enhancing Canada's nuclear technology to support Canadian electricity supply requirements and to manage decommissioning and waste obligations in a safe and effective manner. AECL relies upon funding provided by the Government of Canada to manage its facilities at Chalk River, Ontario and Pinawa, Manitoba. AECL also manages production and supply of a significant portion of global isotope requirements.

AECL organizes its business activities and evaluates its financial results through two business divisions: CANDU Reactor, and Research and Technology. Each division is responsible for achieving its business goals as established in the Corporate Plan.

AECL Reporting Units



CANDU Reactor Division

The CANDU Reactor Division, based in Mississauga, Ontario, operates on a commercial basis. It generates value through its core activities, which include the management of nuclear reactor new-build construction, life extension, and services projects. The division also manages marketing and business development, and the commercialization of AECL's ACR-1000.

The CANDU Reactor Division is comprised of three business lines:

- New-Build Projects – Activities related to the development and commercialization of the ACR-1000 and construction of all new-build contracts, including the CANDU 6 and Enhanced CANDU 6™ reactors.
- Life Extension Projects – CANDU reactor life extension projects, including the replacement of major reactor components. Reactor life extensions allow utilities to extend the life of reactors for an expected 30 years as opposed to decommissioning the reactor and building a replacement.
- Services – The Services business provides a full range of engineering and technical products and services, including engineering, production, component supply, inspection and field services. The business supports operating CANDU plants by extending their lives through upgrades and improving customer productivity and competitiveness. The non-CANDU market provides new revenue sources for future growth through the sale of various components. Beyond its traditional CANDU market, inroads are being made in Europe, Asia and the USA with non-CANDU utilities.

Commercial services (e.g. procurement), project management and marketing and business development functions support the new-build and life extension projects businesses.

The key business success factors for the reactor life extension and new-build businesses are: executing projects safely, on time and on budget, meeting contract specifications and customer requirements, implementing focused marketing programs, and developing strategic partnerships to increase market share. AECL uses a strategy of partnering with strong local entities to provide local knowledge, local content, increased marketing capability and better economics for growth within this division.

Research and Technology Division

Located primarily at the Chalk River Laboratories, the Research and Technology Division undertakes essential research and development in support of CANDU technology, including the ACR-1000 development program, production of medical isotopes through the NRU research reactor, and management of nuclear waste. An important part of this division's mission is to carry out the Government of Canada's policy mandate in support of Canadian nuclear technology and industry through its technology infrastructure, which includes nuclear laboratories and facilities.

AECL, through the Research and Technology Division, fulfills its public policy role by:

- Maintaining and enhancing Canada's nuclear technology and supporting Canadian utilities to ensure electricity supply requirements are safely and effectively met.
- Producing medical isotopes for distribution and global consumption.
- Advancing science in Canada through its support to the academic community. These initiatives drive innovation and technology advancement, and contribute to the training of highly qualified personnel for the future, in both nuclear and non-nuclear sectors of the Canadian economy, which must compete globally.
- Representing Canada internationally with respect to various nuclear programs.
- Executing decommissioning and waste management activities in a safe and effective manner.

AECL relies upon Government of Canada funding to meet these obligations. The division reports its financial performance under Research and Technology Operations and the Liability Management Unit.

Research and Technology Operations

Research and Technology Operations manages AECL's research and development capability and various nuclear-related research and development facilities at Chalk River. Expenditures are managed to specific targets based on committed funding levels and commercial revenues. Funding is largely derived from federal appropriations and is used to support ongoing operations, in addition to infrastructure initiatives.

Research and Technology Operations undertakes commercial activities to supplement government funding. These include the production of isotopes through the NRU reactor and associated facilities, research and development, as well as waste management and decommissioning services. Research and Technology Operations also provides essential nuclear research and development services in support of CANDU Reactor Division technology, including the ACR-1000 development program.

The above activities utilize significant nuclear and non-nuclear facilities at Chalk River, Ontario, and Whiteshell Laboratories in Pinawa, Manitoba.

Liability Management Unit

The Liability Management Unit manages waste and decommissioning liabilities on behalf of both the Government of Canada and AECL. The program has a focus to safely address decommissioning and waste management obligations on AECL-managed sites and waste for safe storage from universities, medical facilities, government and industry from across Canada. This is managed in accordance with Canadian Nuclear Safety Commission regulations and in the best interests of Canadians. These liabilities include obligations associated with AECL's existing infrastructure, those stemming from activities before AECL was incorporated in 1952, third-party radioactive waste from across Canada, and research and development waste in support of Canada's nuclear program. Research and Technology Operations and private sector contractors perform decommissioning and waste management work.

Goals

To support its vision and mission, AECL established a series of long-term corporate goals:

1. Protect the Health and Safety of our Employees, the Public and the Environment

As a leader in the nuclear industry, AECL is dedicated to putting the health and safety of its employees, customers and public first. AECL's continued commitment to the production of isotopes demonstrates the value placed on worldwide health. The investments made in the Nuclear Legacy Liabilities Program to reduce risks and liabilities will amount to $513 million over a five-year period. Safety is and always has been fundamental to what AECL does. Within its commercial projects, the Point Lepreau project has completed over two million hours without a lost-time injury – zero injuries to date. The average on major projects such as this is approximately 13 injuries for every one million hours (Source: Worksafe New Brunswick).

2. Develop and Deliver Competitively Superior Products and Services

AECL faces large, determined global competitors, each with third-generation technology. In order to remain competitive, AECL must leverage its highly-skilled workforce to develop superior products and services that will compete on the basis of cost and innovation to win in Canada and globally.

3. Demonstrate Leadership in Organization and Management Effectiveness

AECL participates in a complex, competitive industry with highly-skilled employees and world-class technologies. To leverage these capabilities, AECL is committed to delivering efficient and effective management tools and processes.

4. Achieve Financial Self-Sufficiency in the CANDU Reactor Division, While Fulfilling Public Policy Goals

AECL is uniquely structured in the nuclear industry, having both commercial operations and research facilities. AECL must balance its public policy and customer commitments to generate value to Canadians and all its stakeholders.

Priorities

To achieve these goals, AECL set out a series of priorities upon which the company could advance its growth strategy and focus its efforts during the year:

1. Continue Development of AECL's Next Generation ACR-1000 and Win the Bid to Become Ontario's Preferred New-Build Reactor Vendor

Progress on the ACR-1000 development program is essential in order to capitalize on immediate domestic market opportunities and to grow the Corporation internationally. In addition to Ontario's new-build reactor procurement process, in which AECL is participating, New Brunswick, Alberta and Saskatchewan have also expressed an interest in the prospect of constructing new reactors. The Government of Canada has demonstrated its commitment by enabling AECL to continue with this critical project. In 2008–2009, AECL received $120 million in funding from the Government, and in February 2009, a financial commitment for this program was received for 2009–2010. These funds are necessary to continue the ACR-1000 design engineering and systems development.

The ACR-1000 development program achieved several significant milestones in 2008–2009. These milestones, mainly related to the design and safety aspects of the ACR-1000, support licensing requirements in accordance with Canadian regulations. Among its competition, the ACR-1000 is the most advanced in the process of obtaining Canadian Nuclear Safety Commission approval.

The ACR-1000 component test program has also been advanced. It involves testing, manufacturing and assembly of the major ACR-1000 components and supports preparation for reactor pre-licensing. The testing uses full-scale mock-ups of the reactor and includes various components related to fuel, fuel systems and the reactor face. The program is on schedule to meet pre-licensing requirements.

2. Secure Major New Contracts

New-build opportunities continued to progress domestically, with AECL, as part of the Team CANDU Ontario consortium, submitting in February 2009 an ACR-1000 bid proposal for the Ontario new-build procurement process at Darlington, Ontario. Vendor selection is expected in 2009–2010.

Also late in the fiscal year, AECL's commercial business signed major retube and life extension contracts worth hundreds of millions of dollars with Hydro-Québec for the Gentilly 2 reactor.

Internationally, several initiatives in markets such as Romania, Argentina, China, Jordan, Ukraine and India are underway to develop long-term business prospects for AECL's Enhanced CANDU 6 and ACR-1000 technology.

For example, in India, AECL and Larsen & Toubro agreed to develop a competitive cost/scope model for ACR-1000 development, begin discussions to develop nuclear power plants on an engineering, procurement and construction basis, and utilize the collective expertise of the parties in global markets. Larsen & Toubro plays a lead role in equipment manufacture, construction and project management for pressurized heavy water reactors in India's domestic nuclear program.

The Services business increased its orders-on-hand by $78 million to $183 million in 2008–2009.

3. Deliver Successful Life Extension Projects for our Key Customers

AECL has four life extension projects underway. Undertaking life extension on a reactor is a very complex task. Unlike new-build reactors, life extension projects involve performing intricate procedures in a complex radioactive environment using precision, automated remote-controlled tooling on a reactor that may have unknown conditions associated with it.

As a result, AECL experienced a series of challenges on certain projects. The scope of these projects was subject to increased risks due to their first-of-a-kind nature. Consequently, AECL has faced unexpected schedule delays and cost increases.

Based on lessons learned, AECL has implemented changes where necessary, and introduced enhanced project management processes to ensure the successful completion of these and future life extension projects.

4. Meet Operating Cash Flow Requirements

AECL is largely dependent upon major nuclear projects for most of its commercial business. In 2008–2009, AECL was faced with increased costs on several commercial projects, mainly relating to reactor life extensions. As a result, AECL secured additional funding from the Government of Canada to support activities in the CANDU Reactor Division.

5. Deliver on Project New Lease and Nuclear Legacy Liabilities Program Commitments

Project New Lease is a plan developed in 2006 to address the continuing operating and maintenance requirements for the safe, secure and viable operation of the Chalk River Laboratories; implementation of program improvements to meet industry standards in operations; and the capital investment required to revitalize the aging Chalk River site infrastructure, including buildings, site distribution systems, equipment, etc.

During the past year, AECL made progress on meeting its commitments through significant infrastructure development activities. One of the major projects under development is a security and administration building. Construction is proceeding well, and the project is on track to achieve substantial completion in 2009–2010. The project is also expected to be completed within budget. To ensure that its business needs and objectives are achieved, AECL has conducted a re-evaluation and re-prioritization of Project New Lease projects and activities. AECL has also been authorized additional Government of Canada funding for capital projects and operations in 2009–2010.

The Nuclear Legacy Liabilities Program was established by the Government of Canada to address legacy waste and decommissioning liabilities on AECL-managed sites and waste received for long-term management from universities, medical facilities, government and industry from across Canada, up to March 31, 2006. The program has secured funding for a period of five years ending in March 2011. In June 2008, AECL officially opened the Waste Analysis Facility, the first building built and commissioned under the program. It is being used to review, analyze and sort waste to ensure that materials designated for clearance offsite are free from contaminants. Major projects underway and continuing through 2009–2010 include the construction of the Fuel Packaging and Storage Facility and the ongoing decommissioning of Whiteshell Laboratories.

6. Manage our Isotope Business Effectively

The NRU is a 50-plus-year-old research reactor that was slated to be phased-out of isotope production starting in November 2008 and replaced by the MAPLE reactors. On May 16, 2008, AECL announced the discontinuation of further development of the Dedicated Isotope Facilities, to be put into a safe shutdown state. This includes the MAPLE 1 and MAPLE 2 reactors, and the New Processing Facility.

AECL has since focused its efforts on ensuring continued production of isotopes from the NRU to fulfill its current supply agreement with MDS-Nordion. The NRU is licensed by the Canadian Nuclear Safety Commission to operate as an isotope production facility until October 31, 2011. During the year, isotopes continued to be supplied through the NRU and AECL established the Isotope Supply Reliability Program to ensure continuous supply of isotopes. This includes preparations to renew the reactor's licence in 2011.

Key Success Drivers and Capability to Deliver Results

Safety

Safety is the cornerstone of AECL's high performance culture. By placing safety first, AECL is aligning its safety performance culture with the expectations of its key stakeholders, such as the Canadian Nuclear Safety Commission, customers, the public and employees.

During 2008–2009, safety continued to be a major priority in maintaining a healthy workforce and an effective business environment. AECL's business activities entail large and complex operations at various sites, in addition to operating nuclear facilities. These types of conditions require additional attention to effectively manage occupational health and safety risks.

Despite ongoing employee safety training, AECL experienced an increase in the frequency of recordable lost-time injuries and a lesser increase in their severity in 2008–2009. The results are mainly attributable to increased business activity, a significant increase in the workforce over recent years, and particularly erratic weather conditions that caused a greater number of slips and falls.

AECL has taken corrective action in response to incidents and has increased its communications with employees to heighten safety awareness and has established safety measures for the long term. AECL expects recordable lost-time injuries to decrease in 2009–2010, as it continues to pursue a proactive Occupational Health & Safety program, leveraging resources and creating improvement plans for 2009–2010.

Customer Commitment

AECL recognizes that customer satisfaction is crucial to its ongoing success, and is continuing its efforts to grow AECL into a customer-driven technology company. Customer feedback mechanisms continue to provide AECL with valuable insight into meeting and exceeding customers' expections. AECL has been working as a partner with customers to provide value-added products and services in a timely and cost-effective manner.

During the year, AECL's CANDU Reactor Division implemented a series of improvement initiatives to enhance its project management capabilities with an increasing number of commercial projects being delivered. Also, the ACR-1000 program has incorporated direct feedback provided by CANDU plant operators on how to enhance operability and facilitate maintenance in its commercialization process. AECL has had formal

customer engagement programs with several utilities to secure input into the design of the ACR-1000. Additionally, AECL has carried out a comprehensive Licensing Risk Assessment Study with a potential customer. All this input has allowed new features to be designed into the plant to reduce operating risk.

Research and Development

AECL generates substantial intellectual capital and maintains a significant research and development infrastructure at Chalk River, Ontario. Research and Technology Operations enhances the safety and performance of the existing CANDU fleet, develops new technologies and advances the next generation of reactors and fuels, with the goal of exceeding international standards.

Support is provided to meet Canada's international nuclear policy commitments with the International Atomic Energy Agency, the Organization of Economic Cooperation and Development, and other international initiatives and programs, including the Generation IV forum, a collaborative effort to develop the next generation of nuclear technologies to meet the world's future energy requirements. AECL's research and development capability contributes significantly to the advancement of science in Canada through its support to the academic community in Canada and abroad (more than 200 academic researchers use the unique facilities at AECL's Chalk River site) and more than 20 Canadian universities collaborate on various research projects. These initiatives drive innovation and technology advancement; contribute to the training of highly qualified personnel for the future, in both nuclear and non-nuclear sectors of the Canadian economy; and enable in providing global competitiveness.

As part of this strategy, AECL and the Government of Canada continue to invest in nuclear research and development and the Chalk River infrastructure needed to support it. Project New Lease is an infrastructure renewal initiative that will allow AECL to maintain its research and development capability in the future and meet the needs of utilities, research-related organizations, and other commercial customers.

Project Management Skills

Over the last 12 years, AECL has delivered seven international new-build projects on time and on budget. In fact, AECL's new builds in China were both delivered under budget and ahead of schedule. The additional challenges experienced on its active and highly complex first-of-a-kind life extension projects underway, and the prospect of new-build contracts in the near future, has led AECL to enhance project management procedures, tools and practices among all projects to ensure their successful completion.

Supply Chain

AECL's ability to meet its commercial commitments is dependent upon maintaining a strong supply chain. With anticipated domestic and international success in attracting contracts, AECL continues to develop essential alliances with key suppliers to ensure quality and cost-competitive solutions are delivered and that project execution is completed successfully.

AECL is supported by more than 120 Canadian member-companies of the Organization of CANDU Industries. AECL also supports existing suppliers in expanding their service provision and assists new suppliers in attaining nuclear qualifications to encourage growth in the supply chain.

Government of Canada Support

Government of Canada support is essential to AECL's long-term commercial success as Canada's national nuclear reactor vendor and to support AECL's public policy mandate. During 2008–2009, the Government supported AECL in several ways, including:

- Funding for AECL's ACR-1000 development program. The Government has also indicated its support for these activities in 2009–2010.
- Funding for operational requirements, which allowed AECL to make progress on commercial commitments.
- Funding for AECL's ongoing nuclear research and development program and Chalk River Laboratories operations. This included several initiatives related to infrastructure renewal at AECL's Chalk River site.
- Funding for the Nuclear Legacy Liabilities Program. This program currently has committed funding to the end of March 2011.

A long-term commitment from the Government is essential to support its contribution to Canada's nuclear technology capability.

AECL receives the Government of Canada's support of its activities through the approval by the Governor in Council of AECL's Corporate Plan. The 2008–2009 Corporate Plan was approved in September 2008. The Plan requires amendment to reflect new funds issued in 2008–2009 to manage changes in operational activities, related to AECL's CANDU Reactor Division. It is expected that the amended 2008–2009 Plan will be approved by the Government of Canada in 2009–2010.

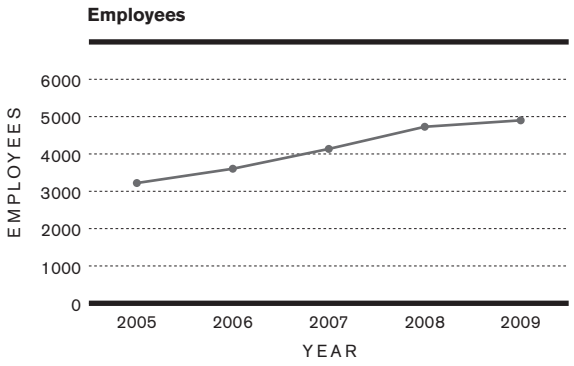
Skilled Human Resources

With the growing demand for life extension projects and the prospect of future new-build reactors, there is considerable demand for skilled technical resources at AECL and within the industry.

In anticipation of these developments and the need to address steady employee retirement over the next five years, AECL has enhanced its resource planning and development to ensure growth where it is needed and has made improvements in demographics.

Over the past few years, significant infrastructure initiatives within the Research and Technology Division and multiple large commercial projects within the CANDU Reactor Division has required AECL to increase its staffing levels to meet its commitments.

During the year, AECL increased its full-time staff by approximately 3% to 4,891 employees, including more than 3,300 highly-skilled engineers, scientists, technical professionals and operations personnel in a wide range of technical disciplines. In response to economic uncertainties arising in 2008, AECL imposed an indefinite freeze on new hires, except where they are essential. As a result, recruitment was curtailed in the latter half of the year.

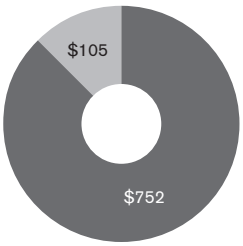


Financial Review

KEY FINANCIAL INFORMATION

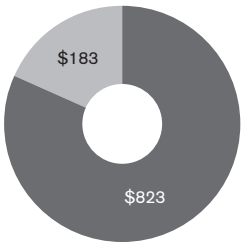
($ millions)	***2008–09***	*2007–08*
Revenue		
CANDU Reactor	**$ 336**	$ 558
Research and Technology	**65**	58
Total revenue	**$ 401**	$ 616
Funding		
Parliamentary appropriations	**$ 380**	$ 182
Parliamentary appropriations for capital items	**148**	17
Decommissioning funding	**105**	96
Cost recovery from third parties & other	**9**	6
Total funding	**$ 642**	$ 301

($ millions)	***2008–09***	*2007–08*
Net income (loss) by business division		
CANDU Reactor Division		
Net (loss) income before investment in ACR-1000	**$ (330)**	$ 50
Parliamentary appropriations for ACR-1000	**24**	38
Less: ACR-1000 development costs	**25**	87
Net (loss) income after investment in ACR-1000	**(331)**	1
Research and Technology Division		
Net loss before Dedicated Isotope Facilities (DIF)	**(14)**	(41)
Parliamentary appropriations for DIF	**67**	–
Less: Dedicated Isotope Facilities costs	**58**	9
Impairment expense	**–**	247
Net loss after DIF	**(5)**	(297)
Liability Management Unit Net loss	**(77)**	(68)
Net loss	**$ (413)**	$ (364)



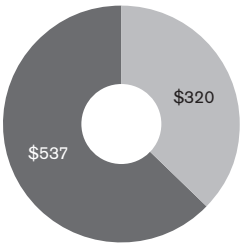
Orders-on-hand by Business
March 2008 – $857 million

- Projects
- Services



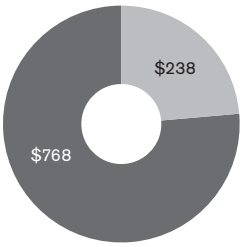
Orders-on-hand by Business
March 2009 – $1,006 million

- Projects
- Services



Orders-on-hand by Region
March 2008 – $857 million

- Canada
- International



Orders-on-hand by Region
March 2009 – $1,006 million

- Canada
- International

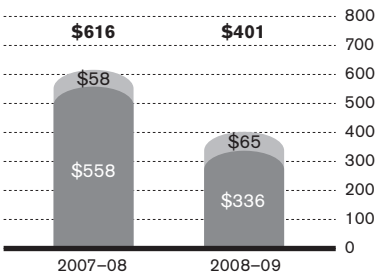
Revenue

Commercial revenues from all business divisions fell to $401 million from $616 million in 2007–2008 as a result of revenue recognized on a percentage completion basis, driven by increased cost estimates on major life extension projects. The CANDU Reactor Division contributed $336 million or 84% to AECL's 2008–2009 revenue, a 40% decrease over the previous year, despite higher revenue from the Services business.

Research and Technology commercial revenue at $65 million increased over the previous year's level of $58 million, driven largely by increased isotope production to mitigate shortfalls in the world market.

AECL commercial orders-on-hand is based on contracts awarded that are firm. Orders-on-hand, as at the end of March 2009, are $1,006 million (March 2008: $857 million). This increase reflects services, and retube and life extension contracts secured during the year. AECL expects continued revenue growth with anticipated new orders on life extension and new-build projects.

Revenue by Business
($ millions)

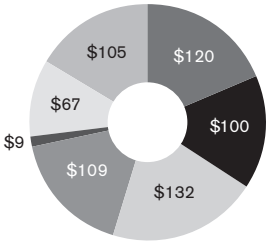


- Research and Technology Division
- CANDU Reactor Division

Funding

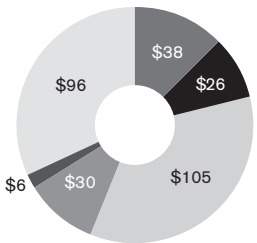
Total funding recognized in 2008–2009 was $642 million (2007–2008: $301 million). This funding was comprised of $494 million for operating and $148 million for capital expenditures. This included:

- $120 million for the ACR-1000 program. Of this amount, $24 million was used for research and overhead costs, while $96 million was used for related development costs and deferred on the balance sheet in accordance with accounting requirements. This level of investment allowed the program to meet several planned milestones.
- $100 million in funding to support working capital for increased costs incurred on certain life extension projects during the year.
- $132 million for ongoing research and development and nuclear facilities costs at Chalk River. This amount includes a reduction of $1 million related to a government-wide cost reduction initiative and funds for Generation IV reactor technology research.
- $109 million to address regulatory, health, safety and environment requirements mainly related to Project New Lease and the Isotope Supply Reliability Program at AECL's Chalk River site. Capital funding included in this amount was $52 million, and is treated as deferred capital funding on the balance sheet to match future amortization costs of the related capital asset.
- Cost recoveries from third parties and other income increased to $9 million (2007–2008: $6 million). Increased scope of work, related



Funding 2008–2009
Funding $642 million
(Operating $494 million; Capital $148 million)

- ACR-1000 ($120)
- Working Capital ($100)
- Research and Development ($132)
- Chalk River Regulatory, Health, Safety, Security and Environment ($109)
- Cost Recoveries from Third Parties and Other ($9)
- Dedicated Isotope Facilities ($67)
- Decommissioning ($105)



Funding 2007–2008
Funding $301 million
(Operating $284 million; Capital $17 million)

- ACR-1000 ($38)
- Working Capital ($26)
- Research and Development ($105)
- Chalk River Regulatory, Health, Safety, Security and Environment ($30)
- Cost Recoveries from Third Parties and Other ($6)
- Decommissioning ($96)

to historic waste activities along the Northern Transportation route in Canada, and in the Port Hope area, contributed to increased funding of $6 million, compared to $4 million in the previous year, while amortization of capital funding increased to $3 million (2007–2008: $2 million).
- $67 million for activities associated with the extended safe shutdown of AECL's Dedicated Isotope Facilities. The development of the facilities was discontinued in May 2008, and the NRU continued to reliably produce medical isotopes.
- $105 million for decommissioning and waste management activities as part of the $513 million committed by the Government over a five-year period, ending in March 2011.

Dedicated Isotope Facilities

In May 2008, AECL discontinued further development of its Dedicated Isotope Facilities, including MAPLE 1 and MAPLE 2 reactors, and the New Processing Facility. Operational activities are currently being carried out to bring the facilities to an extended safe shutdown state. At that point, the facility will be preserved with routine surveillance and monitoring to reduce degradation prior to a decision to decommission.

Net Income/Loss by Division

The CANDU Reactor Division incurred a net loss before investment in ACR-1000 of $330 million in 2008–2009, compared to a net income in 2007–2008 of $50 million. This loss is mainly a result of increased costs and delays relating to completion of the life extension projects. Consequently, expected margins were reduced and AECL was provided with additional Government funding of $100 million late in the year. The net loss after investment in ACR-1000 was $331 million (2007–2008: $1 million), as ACR-1000 costs not capitalized were marginally higher than funds provided.

Research and Technology Operations incurred a loss before Dedicated Isotope Facilities operations of $14 million compared to a net loss of $41 million in 2007–2008. This represented a net expense above Parliamentary appropriations and commercial revenue generated by the division. After including Dedicated Isotope Facilities activities, Research and Technology Operations reported a net loss of $5 million, reflecting recognition of additional government funds above operating costs required to meet financial obligations associated with working capital for these facilities.

The Liability Management Unit reported a net loss of $77 million compared to a net loss of $68 million in the previous year, largely resulting from a revision in estimates for components of the decommissioning and waste management liability during the year.

In 2008–2009, AECL incurred a consolidated net loss of $413 million from all activities (2007–2008: $364 million net loss). The losses in 2008–2009 are mainly attributable to reduced revenue recognized on a percentage completion basis, as a result of increased costs on major life extension projects and related contractual provisions within the CANDU Reactor Division. Losses in the prior year largely resulted from impairment charges for the Dedicated Isotope Facilities.

2008–2009 RESULTS COMPARED TO CORPORATE PLAN *($ millions)*	***2008–09*** ***Actual***	*2008–09* *Corporate Plan* *(Restated)*
CANDU Reactor Division		
Revenue	**$ 336**	$ 709
Funding	**124**	120
Net (loss) income	**$ (331)**	$ 93
Research and Technology Division		
Research and Technology Operations		
Revenue	**$ 65**	$ 60
Funding	**259**	272
Net loss	**$ (5)**	$ (27)
Liability Management Unit		
Decommissioning funding	**$ 105**	$ 106
Cost recoveries from third parties & other	**6**	5
Net loss	**$ (77)**	$ (51)
Consolidated net (loss) income	**$ (413)**	$ 15

The CANDU Reactor Division reported a net loss of $331 million, compared to a planned net income of $93 million. This decline in earnings resulted from increased costs and associated revenue recognition on certain life extension projects. Additional Government appropriations of $100 million were required during the year to support increased costs (see cash flow section), which is reflected in an amended 2008–2009 Corporate Plan, currently awaiting Government approval. During the year, ACR-1000 development costs of $96 million were capitalized on the balance sheet in line with accounting requirements. AECL also reported $24 million in funding for ACR-1000 development costs on the income

statement as costs pertained to research and corporate support activities. The Plan reported the entire ACR-1000 funding of $120 million on the income statement.

Research and Technology Operations increased its revenues, greater than its original plan, mainly as a result of higher levels of isotope production to offset international supply shortages. Funding was lower than plan mainly as a result of schedule slippage on several initiatives. Unused funds received from the Government of $27 million, relating to both capital and operating projects, are recorded on the balance sheet.

The Liability Management Unit utilized funding at its planned level. However, a revision in decommissioning and waste management liability estimates resulted in a loss of $77 million compared to a planned net loss of $51 million.

Overall, AECL recorded a net loss of $413 million compared to a planned net income of $15 million, largely due to increased costs and lower revenue on major life extension projects within the CANDU Reactor Division.

Division Operating Results

CANDU Reactor Division

Business Lines

- New build, including ACR-1000 commercialization
- Reactor life extension
- Services

2008–2009 Major Priorities & Measures

- Win or be in position to win the new-build contract in Ontario
- Achieve ACR-1000 milestone commitments in conjunction with Ontario market initiative
- Meet major life extension contract milestones
- Secure contract for Argentina life extension
- Make progress on Gentilly 2 life extension negotiations
- Progress with marketing efforts on new builds in Alberta and New Brunswick
- Make progress with Cernavoda 3 & 4 projects in Romania
- Achieve services revenue target

2008–2009 Significant Achievements and Progress

- Submitted bid proposal to build ACR-1000 reactors for Ontario
- ACR-1000 milestones include essential Canadian licensing requirements (Generic Safety Case Report and Canadian Nuclear Safety Commission completion of Phase 1 of the Pre-Project Design Review)
- Signed major retube and life extension contracts with Hydro-Québec for Gentilly 2
- Argentina life extension contract negotiations in progress
- Progress made in New Brunswick in advancing investor-based project structure. Near-completion of an independent safety case review of the ACR-1000 with Bruce Power Alberta.
- Cernavoda 3 & 4 projects are scheduled for 2014–2015. AECL is pursuing discussions with Romania's nuclear utility.
- Services revenue is marginally below its plan for the year and orders-on-hand increased to $183 million

CANDU REACTOR DIVISION	*Actual Results*	
($ millions)	***2008–09***	*2007–08*
Revenue		
New-build and reactor life extension	**$ 183**	$ 407
Services	**139**	134
Interest	**14**	17
Total revenue	**336**	558
Funding		
Parliamentary appropriations for CANDU Reactor Division	**100**	–
Total revenue and funding	**436**	558
Net (loss) income before investment in ACR-1000	**(330)**	50
Parliamentary appropriations for ACR-1000	**24**	38
Less: ACR-1000 development costs	**25**	87
Net (loss) income after investment in ACR-1000	**$ (331)**	$ 1

Revenues

Revenues from the CANDU Reactor Division decreased to $336 million in 2008–2009.

Revenue from reactor life extension and new-build declined significantly to $183 million (2007–2008: $407 million). This decline in revenue, which is recognized on a percentage completion basis, reflects lower than expected margins based on revised cost estimates on certain life extension contracts. Significant expansion of the market for life extension projects has enabled AECL to maintain a stable level of business activity, despite a decline in new-build and more advanced life extension project revenues. The reactor life extension business advanced in the following areas:

- Progress was made on work related to the reactor vault on both the Bruce and Point Lepreau life extension projects in Ontario and New Brunswick respectively. The disassembly phase of the Bruce life extension project is now complete.
- AECL's life extension project in South Korea began to build momentum with staff and equipment mobilizing at the site.
- AECL secured contracts with Hydro-Québec worth hundreds of millions of dollars for the Gentilly 2 retube and life extension.

The Services business generated revenues of $139 million, a 4% increase over the previous year, reflecting growth in both domestic and international business. In Canada, services work in Ontario gave rise to a significant increase in sales, which was mainly driven by a need for replacement tooling and general services. Internationally, service projects in Romania and Argentina contributed significantly to increased revenue through a demand for increased inspection services.

Funding

The Government of Canada has continued to support AECL's ACR-1000 program. Funding of $120 million was received in 2008–2009 (2007–2008: $38 million). In 2008–2009, ACR-1000 development costs and associated funding of $96 million were capitalized on the balance sheet in line with accounting requirements, while $24 million in funding was recognized on the income statement, as these funds supported associated research and corporate support activities. This level of funding has allowed AECL to move forward with planned development activities. AECL's planned approach to ACR-1000 development assumes an in-service reactor within the next decade. During the year, AECL also submitted its bid to Infrastructure Ontario to build a twin-unit ACR-1000 in Ontario. Additional Parliamentary appropriations of $100 million were received during the year to address working capital issues resulting from increased costs on certain life extension projects.

Net Income/Loss

Despite a relatively stable level of business activity, divisional earnings were reduced to a net loss of $330 million compared to a net profit of $50 million in 2007–2008, before investment in the ACR-1000 program. This decline reflects increased costs related to project labour, equipment and facilities as project schedules expanded to longer durations on certain life extension projects. In addition, $128 million in provisions for expected losses were accrued during the year. The net loss after investment in the ACR-1000 was $331 million, as costs were marginally higher than Parliamentary appropriations provided.

Research and Technology Division

Research and Technology Operations

Business Lines

- Research and development
- Isotope production
- Decommissioning and waste management services

2008–2009 Major Priorities & Measures

- Meet Government funding commitments for infrastructure improvements and operating requirements at the Chalk River site.
- Resolve dedicated isotope production facilities issues and maintain consistent supply of isotopes to meet market requirements.
- Meet commitments to Canadian utilities related to safety, design and licensing.
- Progress with various research and development initiatives to enhance CANDU technology and meet regulatory and market requirements.
- Comply with meeting licensing requirements at the Chalk River site.

2008–2009 Significant Achievements and Progress

- Secured funding for infrastructure requirements. Project New Lease deliverable performance to schedule was 96%, which is better than the year-end Corporate Plan target. Major projects include construction and renovation of research facilities and buildings, such as the security and administration building and the shielded facilities.
- Dedicated Isotope Facilities funding received and progress made to bring the facilities to extended safe shutdown state.
- Isotope Supply Reliability Program established to ensure sustainable isotope supply. Production levels were increased to meet demand, exceeding original targets.
- Progressed with commitments agreed with Canadian utilities. AECL continued to be the major supplier of research and development services, achieving 95% of its commitments in 2008–2009.
- Significant research and development initiatives include submission of patents and development of a process for hydrogen production in future reactors.
- Met Chalk River site planned progress milestones for NRU licence renewal.

RESEARCH AND TECHNOLOGY OPERATIONS	Actual Results	
($ millions)	***2008–09***	*2007–08*
Revenue		
Services	**$ 65**	$ 58
Total revenue	**65**	58
Funding		
Parliamentary appropriations for operations	**189**	144
Amortization of deferred capital funding	**3**	2
Total funding	**192**	146
Total revenue and funding	**257**	204
Expenses		
Facilities	**212**	185
Research and development	**58**	57
Other	**1**	3
Total expenses	**271**	245
Net loss before Dedicated Isotope Facilites	**(14)**	(41)
Parliamentary appropriations for Dedicated Isotope Facilities operations	**67**	–
Less: Dedicated Isotope Facilities operations costs	**58**	9
Impairment of long-lived assets	**–**	247
Net loss after Dedicated Isotope Facilites	**$ (5)**	$ (297)

Revenues

Commercial revenue increased to $65 million in 2008–2009, reflecting increased research and development services and isotope revenues. AECL increased production of isotopes mainly as a result of shortages in international supply. The availability of the NRU reactor has been greater than the previous year at 74% (2007–2008: 69%).

Revenues includes research and development activities performed for the CANDU Owners Group as part of its mandate to maintain CANDU safety, licensing and design basis for Canadian utilities. Revenues from these activities increased to $19 million (2007–2008: $17 million), reflecting work related to the examination of pressure tubes as part of a five-year agreement signed in 2004, in addition to fuel channel, reactor safety and technology-related work. Successful completion of the project in 2008–2009 has resulted in a new five-year program.

Funding

During the year, AECL received operational funding of $256 million (2007–2008: $144 million) from the Government of Canada for activities associated with the Research and Technology Operations. This increase of $112 million over the previous year reflects incremental funding mainly for Project New Lease infrastructure requirements and discontinuation of the Dedicated Isotope Facilities. Within this division's operating funding level (excluding Dedicated Isotope Facilities operations) of $189 million, $103 million relates to annual funding for operations, while $86 million was utilized for specific initiatives.

Program funding includes renewal of AECL's Chalk River infrastructure (Project New Lease), infrastructure and operational support for improvement of the isotope production process (Isotope Supply Reliability Program) and site regulatory and operational requirements. This amount excludes $52 million designated for site infrastructure requirements and that is accounted for as capital funding.

Expenses

Total expenses within Research and Technology Operations were $271 million compared to $245 million in the previous year as a result of increased labour costs associated with infrastructure and operational initiatives. Of the total expense, $212 million was used for facilities and $58 million for research and development, compared with $185 million and $57 million, respectively, in the previous year. The increase in facilities costs reflects higher operating costs on initiatives to meet Project New Lease, Isotope Supply Reliability Program and other regulatory commitments.

Net Income

Research and Technology Operations reported a net loss before Dedicated Isotope Facilities of $14 million compared to a net loss of $41 million in 2007–2008. This improvement is mainly as a result of increased Government funding for infrastructure initiatives. Overall, Research and Technology Operations reported a net loss after Dedicated Isotope Facilities of $5 million compared to a net loss of $297 million in 2007–2008. The reduced net loss reflects higher funding levels in the current year and the one-time inclusion of an impairment charge in 2007–2008 related to AECL's decision to discontinue development of the Dedicated Isotope Facilities.

Government Supported Initiatives

Facilities and Nuclear Operations and Research and Development

AECL maintains and operates significant infrastructure and maintains an extensive research capability at its Chalk River site to support CANDU reactor development and scientific research. This infrastructure includes the NRU reactor and various facilities at AECL's Chalk River site. The reference level is currently insufficient to fund existing base requirements and must be supplemented by incremental funds. This increase in base costs has resulted from inflation, more stringent regulatory standards, and a greater need for security over the past 10 years.

During 2008–2009 and 2009–2010, Government funding has taken the increase in base costs into consideration.

Project New Lease

Project New Lease is a long-term plan, subject to Government funding, to provide the required investments to ensure a safe and reliable world-class nuclear site. With this required investment, AECL's Chalk River Laboratories will be on par with nuclear regulatory expectations and will assist Canada in achieving and maintaining a world-recognized position in one of modern society's most technologically sophisticated areas of science and engineering.

Part of this investment funding will go toward accelerating AECL's ongoing capital investment plan at Chalk River. Activities include investments in wastewater facilities, nuclear waste storage facilities, electricity supply and distribution on site, equipment, and the construction and refurbishment of buildings.

The investment funding also includes requirements to ensure the safe and compliant operations of the Chalk River site and to bring it in line with nuclear industry standards and expectation. The intent is to address operational performance, regulatory requirements (i.e. site licence conditions etc.), health, safety, security and environment items, demographic issues of an aging work force, improvement of nuclear programs to comply with licence conditions and a move toward the nuclear industry best practices (i.e., security, fire protection, radiation protection etc.), and to ensure a safe and reliable operation.

Isotope Supply Reliability Program

In 2008–2009, and subsequent to the discontinuation of the Dedicated Isotope Facilities project, AECL established the Isotope Supply Reliability Program, which is subject to Government approval. Work has commenced on activities and projects focused on renewing the NRU licence in 2011. The Phase 1 activities identified in the *Protocol for NRU Licensing Activities*, the definition and development of an approach for the Integrated Safety Review of NRU, have been completed.

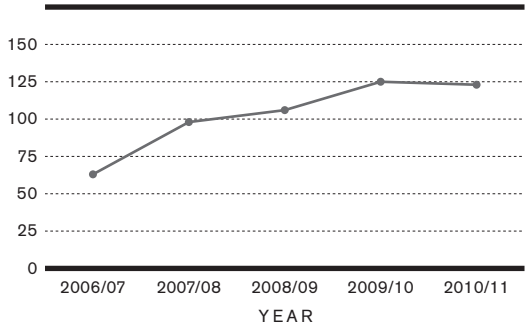
Dedicated Isotope Facilities

Operational activities are being carried out to bring the Dedicated Isotope Facilities to an extended shutdown state. At that point, the facility will be preserved with routine surveillance and monitoring to reduce degradation prior to a decision to decommission. Government funding of $67 million was provided in 2008–2009 to cover these activities in addition to supporting obligations associated with working capital for these facilities. The working capital obligations relate to fuel targets that have incurred additional costs.

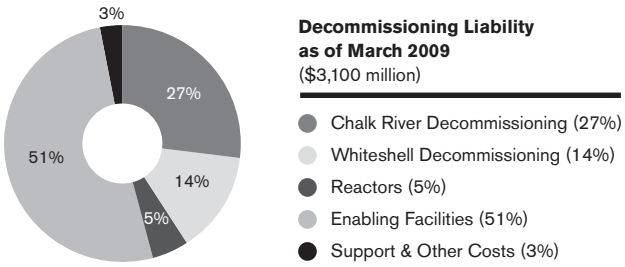
Liability Management Unit

Decommissioning program activities include the monitoring of shut down facilities, decontamination, dismantling, demolition, storage and long-term management of waste. The Liability Management Unit maintains formal decommissioning plans that are periodically reviewed and guide the execution of the program. The financial objective for this Unit is to achieve various planned milestones within the funding level established.

Liability Management Unit Five-year Projected Waste Management & Decommissioning Funding
($513 million)



The Government of Canada approved $513 million in funding for activities to be implemented over a five-year period ending in 2011. The program is governed through a Memorandum of Understanding between AECL and Natural Resources Canada. Under this agreement, Natural Resources Canada has responsibility for policy direction and oversight, including control over program funding. AECL is responsible for implementing the work in a safe, compliant and cost effective manner. A major portion of thework will be subcontracted to the private sector, including design and construction activities.



Business Lines

- Management of Government of Canada decommissioning and waste liability

2008–2009 Major Priorities & Measures

- Secure adequate funding for future activities
- Meet Government funding commitments by:
  – Progressing with waste storage (enabling facilities) projects.
  – Decommissioning various site structures and land in Chalk River and Whiteshell.

2008–2009 Significant Achievements and Progress

- Undertook a review and update of the current five-year funded plan that ends March 2011. Planning for next funded plan period will be established in concert with Natural Resources Canada in 2009–2010.
- Achieved significant progress in the removal of furnishings, fixtures and ventilation devices in the radiochemical laboratories at the Whiteshell site.
- Completed design and safety and hazards analysis for a shielded waste storage facility at Whiteshell.
- Completed demolition to create physical separation between reactor building undergoing decommissioning and adjacent structures.
- Detailed designs for Fuel Packaging and Storage project completed and application for license to construct submitted to the Canadian Nuclear Safety Commission.
- Commissioned a Waste Handling Facility at the Whiteshell site to enable processing of solid waste to modern standards.
- Officially opened the newly constructed waste analysis facility at the Chalk River site to allow processing of likely clean waste for recycling, reuse or disposal.

LIABILITY MANAGEMENT UNIT	*Actual Results*	
($ millions)	***2008–09***	*2007–08*
Decommissioning funding	**$ 105**	$ 96
Cost recoveries from third parties & other	**6**	4
Total funding	**111**	100
Expenses	**188**	168
Net loss	**$ (77)**	$ (68)

Decommissioning Funding and Initiatives

Funding recognized for the Liability Management Unit during the year is $105 million, compared to $96 million the previous year, reflecting a higher volume of work executed under the decommissioning and waste program. The funding was used to support the decommissioning activities agreed upon at the beginning of the year with Natural Resources Canada. A significant portion of these funds is allocated to the care and maintenance of various facilities and sites. Specific initiatives include:

- Chalk River Laboratories decommissioning
- Whiteshell decommissioning
- Enabling facilities

Chalk River Laboratories Decommissioning

In 2008–2009, AECL continued to incur costs for decommissioning activities at the Chalk River site. Activities include waste management activity, assessments and environmental upgrades. Major initiatives during the year include the:

- Monitoring and surveillance of various facilities, buildings and waste management areas
- Progress with decommissioning of a building and other related work

Whiteshell Decommissioning

Decommissioning costs related to Whiteshell were incurred mainly for site operations and decommissioning of AECL's Underground Research Laboratories.

As part of the decommissioning of the Underground Research Laboratories, the Nuclear Legacy Liabilities Program is funding construction of shaft and ventilation seals. The construction of this shaft seal demonstrates commitment to protecting the environment by ensuring the site is returned as closely as possible to its original condition. AECL continues to meet Natural Resources Canada's decommissioning schedule for this facility.

Enabling Facilities

In 2008–2009, the ongoing development of enabling facilities – structures, facilities and equipment that support the retrieval, processing and disposal of waste associated with decommissioning activities – continued to contribute toward a significant portion of funded activities. AECL continued its investment in the construction of enabling facilities that support decommissioning and waste management activities.

Expenses incurred mainly relate to progress made during the year on the:

- Fuel Packaging and Storage facility, which enables improved storage of fuel wastes
- Various other enabling facilities at AECL Chalk River and Whiteshell sites

In addition, the division officially opened a waste analysis facility during the year, which allows for more efficient processing of likely clean waste for reuse, recycling or landfill disposal.

Low-Level Radioactive Waste Management Office

In addition to the above funded initiatives, AECL manages the Low-Level Radioactive Waste Management Office on a cost recovery basis for Natural Resources Canada.

As part of its public policy role, AECL manages this Office for the remediation of contaminated sites throughout Canada. Significant initiatives during the year include activities related to the Northern Transport route in Canada, ongoing activities in the Port Hope area, and an information program. The latter program provides information and addresses public concerns related to low-level radioactive waste in Canada.

Expenses

Expenses were higher than the previous year, with accretion of $161 million and changes in the decommissioning and waste management provision of $27 million for a total expense of $188 million, compared to $168 million in the previous year. The increase in adjustments to the provision reflects decommissioning schedule changes related to AECL's decision to discontinue the Dedicated Isotope Facilities, in addition to revised cost estimates associated with Whiteshell operations and the Fuel Packaging and Storage project. The accretion expense represents an increase in the net present value of the decommissioning and waste management liability due to the passage of time. This liability is reviewed annually and updated as required to reflect revised costs or schedules. Overall, the Liability Management Unit reported a net loss of $77 million, a decline of $9 million from the previous year, which resulted from a revision in estimates.

Consolidated Cash Flow and Working Capital

SOURCES AND USES OF CASH	*Actual Results*	
($ millions)	***2008–09***	*2007–08*
Cash (used in) from operating activities after ACR-1000 investment	**$ (39)**	$ 19
Cash used in investing activities	**(138)**	(108)
Cash from financing activities	**155**	16
Cash and cash equivalents		
(Decrease) increase	**(22)**	(73)
Balance at beginning of the year	**55**	128
Balance at end of the year	**$ 33**	$ 55

Operating Activities

In recent years, AECL has increased spending to support its research and development infrastructure and technology development. Investment in research and development infrastructure is required to support AECL's capabilities and meet regulatory and commercial requirements, in addition to supporting the Government of Canada's public policy requirements. Technology development, mainly through investment in the ACR-1000 program, is required to maintain AECL's commercial competitiveness, both domestically and internationally. The Government of Canada has supported these efforts in 2008–2009 and 2009–2010.

Cash used in operating activities after ACR-1000 investment was a net outflow of $39 million. Cash flow from operating activities was $58 million lower than the previous year. Significant factors contributing to this reduction in cash flow are increased working capital requirements within both the CANDU Reactor and Research and Technology divisions, and increased costs on life extension projects. As a result of these factors, AECL was provided Government funding to support increased costs, and this is reflected within the financial results of the CANDU Reactor Division.

Within operating activities, funds used for decommissioning and waste management include a $2-million scheduled deposit to the *Nuclear Fuel Waste Act* trust fund, held by AECL on behalf of the Nuclear Waste Management Organization. As of March 31, 2009, the cumulative total for the fund, including interest, was $27 million. The funds are deposited to meet the requirements of the long-term management of nuclear fuel waste in Canada. The annual deposit amounts are expected to continue at the same level in the future.

AECL was provided funding of $642 million in 2008–2009 for operating and capital activities. Of this total, $7 million is for initiatives in 2009–2010, and $20 million is re-payable to the Government of Canada, in accordance with guidelines on the treatment of unused appropriations. This re-payable amount reflects revised cost/schedule estimates on certain projects including obligations associated with the Dedicated Isotope Facilities.

Investing Activities

Investing activities involved a net outlay of $138 million compared to $108 million in the previous year, reflecting an increased level of capital activity. Within the CANDU Reactor Division, $96 million of ACR-1000 costs were capitalized as development costs in 2008–2009. Research and Technology Operations invested in infrastructure at AECL's Chalk River site at a higher rate than in the previous year. However, the increase in infrastructure costs when compared to 2007–2008 is partially offset by cost reductions related to the discontinued Dedicated Isotope Facilities. Investing activities in 2008–2009 are mainly funded through Government appropriations.

Financing Activities

Financing activities generated proceeds of $155 million, mainly from Parliamentary appropriations for capital expenditures associated with infrastructure development at AECL's Chalk River site and ACR-1000 development. Other financing activities include an outlay related to the repayment of long-term payable commitments to the Government of Canada and isotope production-related inventory (see Notes 9 and 10 of the Consolidated Financial Statements).

Overall, AECL's year-end closing cash position decreased to $33 million from the previous year's level of $55 million. Including short-term investments, the total cash position decreased to $33 million from $65 million in the previous year. Included in the cash position is $76 million, which has been recorded as an obligation to the Shareholder. Certain issues surrounding treatment of these funds remain unresolved. In 2009–2010, with the current cash balance and based on the outcome of discussions with the Government of Canada, AECL is expected to have sufficient working capital to meet operational requirements. Beyond 2009–2010, within the Research and Technology division, AECL has planned a significant investment to upgrade and refurbish the Chalk River site, which is subject to government funding. Within the CANDU Reactor Division, several major life extension projects are nearing completion.

Off-Balance Sheet Arrangements

In the normal course of business, AECL enters into the following off-balance sheet arrangements:

Bank Guarantees and Standby Letters of Credit

These instruments are used in connection with performance guarantees on major contracts. The guarantees generally relate to project and product performance and advance payments. In addition, AECL also guarantees that certain projects will be completed within a specified time, and if the Corporation does not fulfil its obligations, it will assume responsibility for liquidated damages. The aggregate amount of AECL's potential exposure through liquidated damages ($139 million) and guarantees ($500 million) as at March 2009 increased to $639 million (2007–2008: $501 million) mainly as a result of new contracts secured during 2008–2009. Of this total, $135 million has been included in the calculation of contract loss provisions.

Indemnification Arrangements

These arrangements are part of the standard contractual terms to counter-parties in transactions such as service agreements, sale and purchase contracts. These indemnification agreements may require AECL to compensate the counter-parties for costs incurred as a result of certain events. The nature of these indemnification agreements prevents AECL from making a reasonable estimate of the likely maximum amount to be paid out by AECL. Management does not expect these arrangements to have a material current or future effect on the results of the consolidated financial statements of the Corporation.

Outlook

The selection of the ACR-1000 for the Ontario nuclear procurement bid would be a springboard to a revitalized Canadian and export industry and presents AECL with significant commercial opportunities and economic benefits. Success in Ontario will create a solid product platform for establishing an ACR-1000 fleet in Canada, with prospects for several more units by 2030. The successful launch of the ACR–1000 also promises to enable AECL to fulfill its longer-term objective of becoming a self-sustaining business: designing, building and servicing CANDU nuclear power reactors worldwide. The benefits to Canada include increased employment and maintaining an innovative Canadian low-emissions energy generation technology that provides security to Canada's energy supply.

AECL's primary focus for new-build development is on its domestic market, where CANDU-based nuclear energy continues to be an important component of Canada's electricity generating fuel mix, contributing 15% of total electricity generation. With its bid to build a new twin ACR-1000 reactor in Ontario, AECL looks forward to increasing its contribution to meet Canada's energy requirements.

Subsequent to year-end, the Government announced the completion of its review of AECL's business structure and a decision to restructure AECL. The primary objective of this restructuring is to leverage Canada's long-term investment in nuclear energy and strengthen Canada's nuclear industry at a time of global expansion. At time of publication, the exact form and timing of restructuring had not yet been determined. Until Government direction has been provided to AECL on how the restructuring will proceed, the Corporation will continue to operate according to its current mandate.

CANDU Reactor Division

Life Extension

Despite facing several challenges on its initial life extension projects, the CANDU Reactor Division is at advanced stages on these projects. The outlook for life extension activities is promising, as utilities seek to extend the service life of existing reactors as a means to maintaining electricity generation capacity. Key business development goals within AECL's 2009–2010 to 2013–2014 Corporate Plan (submission pending), includes securing new life extension contracts in existing CANDU 6 stations both domestically and internationally.

While it is difficult to predict the precise timing for life extension projects, AECL expects to secure one major contract in 2009–2010.

New Build

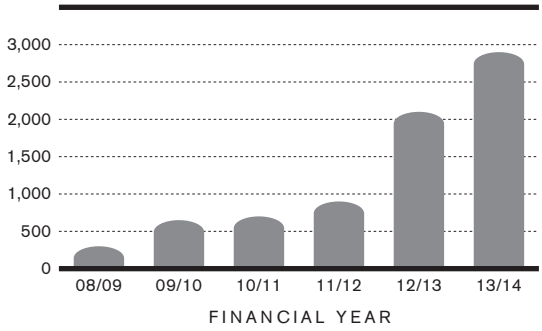
Significant progress demonstrated by the CANDU Reactor Division's recent proposal submission to build new ACR-1000 nuclear generation facilities in Ontario helps to solidify business opportunities in Canada. New Brunswick is considering expanding its nuclear capacity to support domestic requirements and achieve its goal to become an energy hub serving the Canada-US eastern seaboard. New Brunswick is also working to develop a world-class centre of excellence in nuclear power research and development. Alberta and Saskatchewan are also evaluating the feasibility of incorporating nuclear generation into their electricity systems. All these activities involve potential partnership with AECL and, as such, will provide important growth opportunities for its business.

Building on its recent success in Romania with the completion of Cernavoda Unit 2, AECL will continue to pursue international opportunities for CANDU sales based on its CANDU 6 and Enhanced CANDU 6 technology. In the near-term, new CANDU 6/Enhanced CANDU 6 sales opportunities exist in Romania, Argentina and the Middle East.

Essential to meeting market requirements is the completion of the ACR-1000 development program. Currently, the Government has increased its funding level to $120 million in 2008–2009 for this initiative, which will significantly contribute to its successful commercialization. In addition, the federal government has budgeted funding toward the ACR-1000 development program in 2009–2010.

The ACR-1000 market potential in the near- to medium-term is viewed to be initially primarily in Canada. In addition to a prospective sale in Ontario, domestic sales are forecast to be in New Brunswick, Alberta and Saskatchewan.

Consolidated Revenue Forecast
($ millions)



New-build projects are forecasted to gather momentum from 2010–2011 onward. However, in the short-term, AECL will continue to focus on delivering on its major life extension projects, meeting operational requirements, and will need the ongoing support of the Government of Canada to achieve these goals.

Services

The outlook for recurring service work is promising as utilities seek to enhance reliability, extend service life and optimize plant operations. Revenue is forecast to grow in 2009–2010. Customer feedback has dramatically improved over the past few years. Competitive pricing, improved execution and enhanced customer relationship management, in addition to expected new-build and life extension projects in Canada and abroad will strengthen the Services business and continue to be a steady source of income.

Research and Technology Division

Research and Technology Operations

Adequate funding is essential for Research and Technology Operations to maintain its infrastructure and ensure safe and effective support for Canada's nuclear industry and continued production of isotopes. In addition to AECL's base-level of appropriations of $103 million, a significant portion of the $351 million committed by the Government of Canada for 2009–2010 is to be used for infrastructure development associated with AECL's Project New Lease initiative to meet AECL's and Canada's long-term nuclear energy and related research and development requirements.

The research and development business is expected to continue its commercial activities in 2009–2010, via contracts to perform research, technical support and testing in the development of new commercial products and specialized services to Canadian and international utilities. Revenues from these activities, supplement funding provided by the Government of Canada to support operations. The organization also continues to facilitate significant national research and development related to Generation IV reactor technology, in particular the Supercritical Water Reactor, which will provide long-term nuclear capability and economic benefits to the country. The business unit fulfills the bulk of Canada's obligations under the Generation IV International Forum agreement, either directly or in concert with various institutions across Canada, and also leads Generation IV collaborations worldwide.

AECL's production of isotopes is expected to continue to be supplied from the NRU at AECL's Chalk River site until the current licence expires and possibly beyond. Currently, the NRU supplies a significant portion of the global Molybdenum-99 production, the principal medical isotope used in the diagnosis of life-threatening diseases, such as cancer and heart disease. However, the NRU licence will expire in October 2011, and to support continued domestic and international supply, AECL has embarked on the Isotope Supply Reliability Program to pursue the renewal of the NRU's operating licence and enable continued production.

Liability Management Unit

The Liability Management Unit is expected to continue to manage the Nuclear Legacy Liabilities Program under a Memorandum of Understanding with Natural Resources Canada. This Program has a long-term focus, spanning several decades, to safely address various decommissioning and waste management obligations at AECL sites and within Canada. It is funded through Natural Resources Canada and work activities are carried out in accordance with Canadian Nuclear Safety Commission regulations. The current agreement is funded until 2011, and an increased level of funding is forecast for 2009–2010 based on the planned program of work to be carried out under the five-year plan.

2009–2010 Major Priorities and Deliverables

While driving a safety first and high performance culture, AECL will focus on the following priorities and deliverables in 2009–2010:

Win the Ontario Bid and Prepare to Deliver

If the outcome of the Ontario bid is favourable, AECL intends to negotiate project agreements and manage risks, such as licensing risk and product confidence by advancing the Canadian Nuclear Safety Commission ACR-1000 pre-project design review. AECL will also achieve ACR-1000 engineering and product development milestones in its basic engineering program, progress with confirmatory research and development and customer review preparedness. A robust human resources plan will be developed for execution of projects, in addition to a comprehensive delivery/construction plan for project delivery.

Manage Life Extension Projects Successfully

AECL has reviewed its practices in project management and implemented lessons learned. It also expects to complete certain major life extension projects within the 2009–2010 timeframe and current cost estimates. Implementation of feedback on existing projects to future projects will contribute toward improved operational and financial efficiencies, while maintaining safety as a top priority.

Deliver Results on Funded Improvement and Technology Programs at Chalk River

AECL has established milestones associated with funding provided to execute both the Project New Lease and Nuclear Legacy Liabilities Program initiatives. Under the Isotope Supply Reliability Program, licensing and reliability goals have been established. Research and development commitments have been set for programs such as the ACR-1000 and Generation IV nuclear platform development.

Sign One Major New Life Extension or New-Build Commercial Contract and Significantly Advance Other Potential Commercial Deals

AECL plans to negotiate contracts for life extension and new build, including the Enhanced CANDU 6 and ACR-1000. AECL will also establish clear priorities to advance deals in international markets, and establish priorities and marketing plans for these opportunities. Within the Services business, AECL will build on opportunities for future services business contracts and continue to grow its contracts base.

Fulfill Isotope Commitments

AECL will support sustainable isotope production levels. The Corporation will also engage key stakeholders and develop a comprehensive vision for AECL's isotope business, including Canada's supply in a global context. In addition, AECL will focus on achieving licensing and reliability goals, while managing the impact of ongoing litigation.

Achieve Cash Targets

AECL intends to address its cash flow challenges with the Government of Canada. AECL will also seek approvals for its 2009–2010 Corporate Plan and drive improved financial oversight of all business operations with the goal of achieving all agreed cash targets.

Management of Risks and Uncertainties

AECL recognizes that risk management is an integral part of sound management practice and it is as much about identifying opportunities as avoiding or mitigating losses. To this end, AECL has adopted a formal enterprise risk management program that begins with the strategic and operational planning process. The program involves identifying risks that may prevent achievement of AECL's objectives, analyzing those risks, determining tolerance levels so as to avoid certain risks and transfer, mitigate or accept the remaining risks. At the operating level, proposed

commitments undergo a formal risk review. The processes ensure continual review and monitoring of operational and corporate support risks, in addition to facilitating the efficient use of resources.

During 2008–2009, the risk management framework was enhanced to address risks at individual project levels. This was a major focus for AECL.

Also last year, AECL formalized a crisis management plan. Its purpose is to enable AECL, through effective management of its communications and interactions with its employees, the public, media, regulators, its Shareholder and other stakeholders, to maintain its credibility, reputation and ability to carry on business and operations in the face of a corporate crisis.

AECL's Board of Directors is responsible for overseeing the management of risks at AECL. The Chief Executive Officer is accountable to the Board of Directors for all risk-taking activities and risk management programs. The Corporation's internal and independent auditors report directly to the Audit Committee in line with best practices. AECL has also established processes to facilitate wrongdoing disclosure company-wide.

AECL has classified risks identified in the following categories:

AECL Risk Framework

Liquidity

Liquidity risk relates to AECL's ability to fund capital improvement projects and growth opportunities, and to meet contractual and regulatory compliance obligations.

Long-Term Government of Canada Funding

A major risk facing the Corporation is related to securing a sustainable source of funds to safely maintain Canada's nuclear capabilities and increase commercial value.

The Government has provided incremental funding in 2008–2009 and has budgeted funding for 2009–2010 to support the required programs planned for the Corporation. Accordingly, management has planned and prioritized its program for the year. This is to be consistent with the established corporate objectives and positions AECL for success in the growing market for clean nuclear energy.

Working-capital Requirements

Major Contracts

A significant portion of AECL's commercial revenue is derived from project management and product development activities that span several years from inception to completion. Life extension and new build are mega-infrastructure projects and the decision to proceed is based on regulatory and economic considerations. The complexity and timing of negotiations creates challenges to achieving estimated contract effective dates. As a result, planning and executing commercial projects may significantly impact working-capital requirements on a temporary basis. Similarly, a delay in an expected contract may affect cash flow projections.

AECL reduces these risks by ensuring that contracts are negotiated to maintain positive cash flow throughout the project. AECL's services business also provides a more consistent stream of income.

Heavy Water Funds

Under an agreement with the Government of Canada, AECL is required to return a portion of Heavy Water funds to the Government. This issue remains unresolved, and AECL currently retains annual proceeds related to the sale or lease of Heavy Water and uses such proceeds to support operational requirements. If these proceeds need to be returned to the Government of Canada, a new source of long-term funding will then be required.

Payment Delays

AECL's cash position can be significantly affected by the timing of payments on major projects, and is dependent on a mix of business activity. Major project payments are triggered by the attainment of milestones and if delays or disputes arise, payments can be withheld, but the project must continue. AECL mitigates this risk by negotiating an appropriate payment structure within contracts. However, AECL operationally requires a cash reserve, access to a line of credit or incremental funding to better address this risk.

Operational and Capital Costs

AECL manages several large projects, and these are susceptible to increased costs that may severely affect AECL's working-capital position. AECL has a history of operating with current liabilities in excess of current assets, and short-term needs are addressed through funding. Over the past three years, AECL has experienced an increased level of costs on several major projects, including its fixed price projects, ACR-1000, and health, safety, security and environmental requirements at Chalk River, that have affected AECL's cash position. AECL received an increased level of funding during 2008–2009 to stabilize its working capital position.

Performance

Performance risk relates to meeting contractual requirements, cost, schedule and stakeholder expectations.

There are considerable risks in managing AECL's major projects. These include ensuring that project execution is in accordance with contractual requirements and changes are managed as a result of economic factors and government decisions. Failure to meet these contractual requirements in a timely manner may result in legal and financial implications. In addition, complex products and services may require special guarantees or acceptance of completion risk, which could ultimately result in unplanned costs. Currently, AECL manages several reactor-life extension projects. Technical and efficiency risks associated with these projects will continue to exist until completion.

AECL seeks to manage these risks through project control mechanisms, rigorous review of contracts and ongoing monitoring and evaluation of progress. In addition, maintaining comprehensive insurance coverage for various aspects of a given project and developing effective relationships with related stakeholders are key components to a successful project management process.

During the year, AECL experienced operational setbacks on its active life extension projects arising from increased costs to meet technical and operational challenges. These first-of-a-kind projects are being conducted in complex environments, using remote-controlled tooling. Consequently, maintaining original cost and schedule targets has not been possible. While challenging, these projects are well advanced and mitigation strategies have been put in place for known risks. AECL has also increased its oversight on these projects. The Corporation remains committed to standing behind its technology and delivering on its contractual commitments.

The Project New Lease and Nuclear Legacy Liabilities Program are susceptible to performance risk. As with any project, there is a risk that these projects could experience increased schedule delays, supply chain performance issues and challenges relating to timely access to human resources. These risks are being mitigated through the implementation of project management best practices; enhanced risk management practices; and increased emphasis on outsourced supply.

Technology

Technology risk relates to the ability to advance technology and deliver our product and services to meet functional, economic or licensing requirements.

Commercialization of the ACR-1000

Timely completion of the ACR-1000 development program is crucial to AECL meeting the new-build market window. To be successful, the product must meet functionality, cost and performance parameters as well as licensing requirements. Furthermore, market timing, continued support from the federal government and customers, licensing preparation and an appropriate financing model and delivery structure are critical success factors. AECL manages the associated risks by closely monitoring progress and by carefully managing available resources in accordance with market conditions. In addition, AECL continues to focus its commercialization effort in Canada, as international success with a new reactor must be based on a solid market position in the home country. The support of the Shareholder is crucial to successfully completing the ACR-1000 development program and possibly being chosen as Ontario's preferred nuclear vendor.

A particular risk is the uncertainty in duration and cost of the Environmental Assessment for the first ACR-1000. A plan is in place to ensure this assessment starts as soon as possible, and AECL will work with the Canadian Nuclear Safety Commission and all stakeholders to ensure negligible environmental impact is demonstrated. While this Generation III$^+$ reactor is an evolution of the CANDU 6, the extent to which the reactor meets construction and operating performance goals will only be known with certainty once the reactor is completed and is operational. As in any project, there is a risk that the actual performance will not meet expectations and costs could escalate beyond budget. AECL's competitors face the same risk.

Supply Chain

Supply chain risk relates to the availability of qualified suppliers to support AECL's activities, work stoppage or failure by other subcontractors or suppliers to perform according to contractual terms.

With anticipated domestic and international growth, AECL's ability to build upon its supply chain is crucial to its ability to meet contractual requirements. In the context of major commercial contracts, unstable supply could result in contractual penalties, legal implications and associated costs that could affect project margins and AECL's financial position. AECL also subcontracts a portion of its work or the supply of material and equipment to third parties. Failure by third parties to perform their portion of work in accordance with contractual terms may affect AECL's ability to perform and achieve anticipated profitability on a project.

AECL controls these risks by adhering to extensive quality standards, rigorous selection of third-party subcontractors and suppliers, proactively monitoring project progress, and by obtaining performance guarantees. In addition, strategic alliances are developed to mitigate the risks of disruptions.

A strong supply chain is present in Canada through the Organization of CANDU Industries and its more than 120-member companies. AECL continues to further develop a robust supply chain through its life extension projects business, and is enhancing its organizational capabilities to ensure supply is available locally and globally, and that suppliers deliver quality and cost-competitive solutions.

During the year, AECL encountered challenges on one of its projects arising mainly from stringent technical requirements associated with nuclear products. This resulted in delayed delivery schedules and higher costs. AECL has since implemented measures to better manage supply chain processes.

Human Resources

This risk relates to labour disruptions, access to skilled resources at various locations, and maintaining adequate levels of skilled human resources to meet customer requirements and advance technology capability.

Considerable resources are required to execute the Isotope Supply Reliability Program, Project New Lease, Nuclear Legacy Liabilities Program and existing and anticipated new-build and life extension projects during this period of nuclear resurgence. AECL's ability to attract, retain and develop adequate levels of staff with the requisite skills and technical depth is paramount to achieving a long-term assurance of the safety, licensing and design basis for CANDU technology. The human resource risk stems from an increasing demand for resources in the nuclear industry worldwide and changing demographics of scientific and technical staff industry-wide. Inadequate personnel and technical capability could affect AECL's ability to achieve its business objectives and desired financial results. In addition, hiring constraints in the second half of fiscal year 2008–2009 has increased this risk.

To mitigate it, AECL is focusing on the development of staff in required technical and managerial disciplines. In anticipation of the growing demand for resources, AECL has established links with post-secondary institutions to encourage careers in the nuclear industry. Our objective is to create relationships with partners to provide complementary skills, and develop a comprehensive human resource strategy in order to ensure sufficient skilled resources are available to deliver on commitments. Constant monitoring and communicating requirements will be a priority.

Licensing

The risk is related to obtaining and maintaining licences for nuclear facilities and new technologies.

AECL operates and conducts business in a highly-regulated environment and is subject to various licensing requirements. Within the licensing regime, the preparation, construction, operation and decommissioning of nuclear-related facilities are subject to separate Canadian Nuclear Safety Commission licensing requirements. The stringent licensing requirements contribute to the safe and secure operation of nuclear facilities in Canada. However, they also contribute to an increased project timeframe and associated compliance and administrative costs.

AECL's nuclear facilities at its Chalk River site require nuclear-related licences. Failure to obtain or maintain such licences would ultimately result in the facilities being shut down. Any inability to acquire licences for new technologies (such as the ACR-1000) and/or existing technologies, such as the NRU, would severely affect AECL's business prospects, its support of the CANDU fleet and its ability to produce medical isotopes.

AECL mitigates this licensing risk through extensive monitoring of all licensing activities on an ongoing basis. In addition, AECL has in place well-established environmental and quality management systems that contribute importantly to mitigate the licensing risk.

A significant investment in AECL's Chalk River nuclear programs and facilities are required to reduce operational and commercial risks, in addition to increased Canadian Nuclear Safety Commission oversight and licence conditions. The Government of Canada has provided funding during 2008–2009, and has committed funding for 2009–2010 to support infrastructure development and related activities through the Project New Lease program.

In the case of the ACR-1000, AECL is being proactive in working with the Canadian Nuclear Safety Commission to help expedite the pre-licensing process. In April 2008, the Commission and AECL signed a Memorandum of Understanding that allowed Commission staff to start a two-phase pre-project design review of the ACR-1000 that enhances the certainty of our project delivery schedule in Canada. Phase 1 of the review was completed on December 22, 2008.

In addition, a series of independent reviews of the ACR-1000 program have also been completed or are underway. In July 2008, the Research and Development Advisory Panel to the Board reviewed the viability of the ACR-1000, including the technological step, design readiness, advantages and potential issues. In 2008, AECL performed an independent safety review using internal and external independent industry experts.

Compliance

Compliance risk relates to maintaining compliance with applicable laws, regulations and standards.

Applicable Laws and Regulations Related to Nuclear Facilities and Technologies

AECL is subject to regulations that are stringent. These are in the areas of health, safety, security and environment. Failure to comply with regulations may result in significant financial penalties and ultimately lead to licence suspension, thereby affecting AECL's ability to operate its nuclear facilities.

AECL controls this risk by ensuring and assessing compliance with all applicable national and international technical quality assurance standards and the relevant aspects of the *Nuclear Safety and Control Act* and its regulations.

Furthermore, AECL has implemented several nuclear compliance programs that specifically address the deployment of due diligence processes and associated resources necessary to comply with all applicable laws and regulations.

Capability of Research Facilities

AECL's research laboratories operate major facilities including reactors, experimental loops, shielded facilities and waste management plants. These are used to conduct research and support commercial activities, including the isotope business. Facilities are subject to applicable laws and regulations relating to safety and environmental matters.

AECL seeks to manage the safety and environmental risks associated with its facilities through its Safety Management System, which includes numerous program controls, such as stringent safety reviews and audits. In the case that a shortfall is identified, appropriate corrective action plans are put in place. These controls provide assurance of compliance with all applicable laws and regulations.

In 2008–2009, AECL continued to operate the NRU for research and commercial activities, including the production of isotopes. The NRU is the oldest Molybdenum-99 producing reactor in the world. As reactors age, longer maintenance periods are required and likelihood of failures increase as many components are not observable or serviceable without extended maintenance shutdowns. During the year, AECL embarked on the Isotope Supply Reliability Program to work toward the renewal of the NRU licence beyond its 2011 expiry date.

AECL's Chalk River site infrastructure, including buildings, site distribution systems and equipment, are aging and various risks and hazards relating to them have been identified, including regulatory, health, safety, security and the environment. Project New Lease is a long-term plan specifically designed to address the continuing operating and maintenance requirements for the safe, secure and viable operation of the Chalk River site. The plan is subject to Government funding.

Market

Market risk relates to factors such as competition, political stability, public acceptance, offshore operations and third-party credit.

Decision Cycles and Competitor Size

One of the major business risks relating to the nuclear industry is the very long decision cycles for new major projects. Furthermore, demand levels for AECL's products and services are affected by factors such as technology development, economic and social trends, and government policy initiatives.

In the project and services businesses, AECL faces formidable competitors. These publicly traded corporations have large non-contestable home markets and have the ability to raise debt and form equity partnerships.

To minimize competitive threats, AECL is establishing new strategic business alliances, increasing its full-service capability, pursuing the reactor-life extension business, commercializing newly developed technologies and carefully managing the portfolio of existing product lines. With regard to human resources, AECL has programs in place to retain and build core competencies to support AECL's corporate objectives and business opportunities.

Exposure to Foreign Operations

As AECL operates globally with sales and project offices in multiple jurisdictions, it is subject to risks associated with doing business outside Canada. Foreign operations involve inherent financial risks that include taxes, currency controls and fluctuations. AECL mitigates the risk through specific contractual requirements and obtains government rulings to reduce the financial impact of such risks when possible. Sales and purchases are made mainly in Canadian dollars. In addition, where large foreign-currency purchase commitments exist, forward contracts reduce exposure. AECL is also subject to economic factors and government decisions in the countries in which AECL does business. Obtaining sovereign and third-party guarantees have been part of AECL's risk management strategy to reduce the adverse impact of changes in these conditions.

Third Party Credit

Credit risk relates to the risk of loss due to a customer's inability to secure financing for new-build reactors or fulfill payment obligations or to a supplier's inability to deliver on commitments because of their weak financial position. However, in the context of customers, the overall risk is limited as AECL's customer base is primarily comprised of large corporations and government-related entities, which offer sovereign guarantees in their support. Given the substantial financial commitment for a nuclear power plant, customer financing is an important component of the sales cycle. While AECL's customers are generally financially strong government-affiliated entities, some of these entities may face financing challenges due to the high capital cost and the need to finance over an extended period of time. In addition, some markets are moving toward a privately owned project model, adding complexity to the financing process.

Nevertheless, AECL mitigates this risk by verifying customer and supplier solvency and requesting a letter of credit arrangement from those that may have a level of credit risk. Major contracts are usually structured to provide for progress payments and positive cash flow.

AECL experienced challenges with certain suppliers on major life extension projects. These challenges generated legal and financial complications and have affected project operational performance. AECL implemented enhanced measures to address this disruption in supply.

Public Perception of Nuclear Technology

Public perception is a risk that has the potential to impact AECL's nuclear-related activities and hinder the attainment of strategic objectives. Adverse public perception could affect progress on AECL's business activities. In Canada, public consultations are a mandatory part of the environmental assessment process. Nuclear-related environmental assessments are generally initiated through Canadian Nuclear Safety Commission licensing requirements. Adverse public perception could give rise to AECL delaying or ceasing certain business activities and could affect AECL's reputation.

The public perception of nuclear power, in general, is quite positive in AECL's target markets of New Brunswick and Ontario, and there is an emerging interest in nuclear in Alberta and Saskatchewan. In general, perception will be influenced by future events in Canada and abroad. Co-ordinated and innovative communication strategies will need to be developed and delivered to enhance AECL's brand in these markets and to mitigate risks.

AECL mitigates this risk through proactive public information programs that inform the public on safety measures and risks associated with nuclear activities. Also, AECL and organizations with which it has affiliations, such as the Canadian Nuclear Association, inform the public through advertising of nuclear energy benefits and conduct surveys to obtain public feedback.

AECL has introduced an Environmental Stewardship Council to enhance communications with key area stakeholders and the communities surrounding its operations near Chalk River, Ontario. The Council is comprised of members of the general public, municipal leaders, environment-focused organizations and representatives from AECL. The Council meets a minimum of three times per year and is facilitated by a third party and includes two observer groups, namely the Algonquins of Pikwàkanagàn and the Canadian Nuclear Safety Commission.

Enhanced communication procedures with stakeholders are in place, including the reporting of routine emissions from Chalk River site operations and non-routine items or events that may periodically occur at the Chalk River site. They also include the implementation of policies addressing business conduct and ethics, developing business recovery plans, ensuring transparency and practicing good corporate governance.

A recent Ipsos Reid poll (September 2008) indicated that support for nuclear continues to reach historic highs. Currently, half of Canadians support nuclear energy as a means of generating electricity. Significant increases have occurred in New Brunswick and Alberta.

Isotope Supply

In May 2008, AECL announced discontinuation of further development of the MAPLE reactors. AECL consequently initiated the ramp down of the Dedicated Isotope Facilities, including the MAPLE reactors, to an extended safe shutdown state. At that point, the facility will be preserved with routine surveillance and monitoring to reduce degradation prior to a decision to decommission. In 2008–2009, MDS (Canada) Inc. commenced legal proceedings against AECL and the Government of Canada related to this decision. The liabilities associated with this, if any, are not determinable at this time.

During the year, AECL established the Isotope Supply Reliability Program to support ongoing safe and reliable isotope production through the NRU and to commence work on activities needed to renew the reactor's licence beyond 2011. AECL is the sole producer of Molybdenum-99 in Canada. Government funding to support this program is important. Without it, a reliable supply of isotopes is at risk, as AECL supplies a significant portion of global isotope demand.

Competition & Business Development

AECL's major competitors are typically much larger than AECL. Foreign governments have been instrumental in the success of international competitors' ability to penetrate various markets. The political and economic environment of each marketplace, combined with the highly competitive nature of the nuclear industry, makes it difficult to predict, with certainty, the costs associated with entering a market and winning a competitive bidding process. These costs could escalate if market dynamics change. Continued and enhanced support from the Canadian government is integral to AECL's success, both domestically and globally.

Business Interruptions

AECL is subject to risks associated with disrupted operations. These risks may arise from a number of circumstances, such as regulatory obligations, labour disruptions, fire, weather, facility malfunction and other risks associated with facilities and business operations. AECL reduces these risks by using an extensive management system and conducting regular audits.

There is business risk associated with the availability of facilities. In particular, the NRU, after more than 50 years of successful operation, has performed beyond its original estimated life, mainly as a result of an effective maintenance and upgrading program. Any risk to the continued operation of the NRU entails a risk to the supply of isotopes.

A prudent program of equipment and facility maintenance supports ongoing operation of AECL's facilities. AECL's infrastructure renewal program, Project New Lease, will further mitigate these risks. Government funding support for this program has been committed to cover planned expenditures for 2009–2010. To reassure the public that AECL places the highest priority on the health and safety of its workers, the Canadian public and on protecting the environment, AECL has enhanced its voluntary public disclosure of events relating to the Chalk River Laboratories.

Security

This risk relates to the potential breach in security of AECL sites, facilities, physical assets, personnel and information.

Nuclear technology and facilities are subject to higher than normal levels of security. A breach in security may result in unauthorized transfer of technology, disclosure of sensitive business information or harm to personnel. It may also have safety implications at nuclear facilities that could impact AECL's nuclear-related licences and ability to competitively operate its business.

AECL reduces this risk through the implementation of rigorous security measures and maintains strict controls and operating procedures.

Impact of Risks

These risks can affect AECL in varying degrees of severity, and impact AECL through increased financial costs, its ability to operate facilities and performance on contracts as a result of safety factors and quality of work performed, and AECL's reputation in the industry.

Accounting Policy Changes

The Corporation has adopted four new Canadian Institute of Chartered Accountants (CICA) rapidly evolving accounting standards, effective April 2008. The implications are highlighted in the Notes to the Consolidated Financial Statements.

- Capital Disclosures (CICA Handbook Section 1535)
- Financial Instruments – Disclosure and Presentation (CICA Handbook Section 3862 & 3863)
- Inventories (CICA Handbook Section 3031)

Future Accounting Policy Changes

The Corporation will adopt the following new accounting standard effective April 1, 2009 (See Note 2 in the Consolidated Financial Statements):

- Goodwill and Intangible Assets (CICA Handbook Section 3064)

The impact of this new standard on AECL's consolidated financial statements is being assessed.

Adoption of International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles for fiscal years beginning on or after January 1, 2011.

The Public Sector Accounting Board, which establishes Generally Accepted Accounting Principles for government organizations, is continuing to review the breadth of application of IFRS to various types of government organizations.

AECL intends to adopt IFRS and has an internal team dedicated to the conversion of Canadian standards to the new framework. In addition, AECL has engaged external professional services to assist in the process. AECL has begun planning its transition to IFRS, and an initial evaluation of these standards on AECL's financial statements has been performed, however, the financial effect on AECL's consolidated financial statements has not yet been assessed.

Critical Accounting Estimates and Policies

AECL's accounting policies are developed in accordance with Canadian Generally Accepted Accounting Principles. Critical accounting policies are considered to be the most important in determining AECL's financial condition and results. They also require professional judgment by management. A summary of the Corporation's significant accounting policies, including the critical ones discussed below, is set out in the Notes to the Consolidated Financial Statements.

Revenue Recognition

AECL generates a significant portion of its revenue from long-term contracts. This revenue is recognized using the percentage of completion method, whereby revenue is recorded as related costs are incurred, relative to estimated total contract costs. The nature of this accounting method is such that refinements of the estimating process for changing conditions and new developments are continuous. Accordingly, revisions in cost and earnings estimates throughout the duration of a contract term are reflected in the period in which the need for revision becomes known. Additionally, losses on long-term contracts are recognized in the period in which they are identified, and are based upon the anticipated excess of contract costs over the related-contract revenues. Any such losses are recorded as a component of cost of sales. Revenue from services sales is recorded when services are rendered and goods are shipped. Revenue from Heavy Water shipments is recognized when the shipment is delivered in accordance with the requirements of the contract.

Asset Impairment

AECL reviews its long-lived assets, including property, plant and equipment, for impairment whenever circumstances indicate that the carrying amount of the asset may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets. Estimated undiscounted future cash flows reflect management's best estimates and changes in those estimates could materially affect the carrying amount of the long-lived assets. As a result of the asset impairment review, no major assets required an impairment write-off during the year.

Heavy Water Inventory

Heavy Water inventory is recorded as a long-term asset as the lead-time required in relation to future reactor sales exceeds one year. A provision has been made for detritiation and upgrading of the inventory.

Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows:

- Appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred
- Appropriations used for operating activities are recognized as funding in the income statement to offset costs incurred
- Appropriations used for the purchase of property, plant and equipment are deferred and amortized on the same basis as the related asset. The balance of deferred capital funding, as at March 2009, amounted to $105 million compared to $55 million in the previous year.

Commencing in 1996–1997, and pursuant to a 10-year arrangement with the Treasury Board for funding decommissioning activities, AECL retains the net proceeds from the sale or lease of Government-funded Heavy Water inventory. This funding arrangement, however, expired on April 1, 2006, and an amount equivalent to the proceeds has been recorded as a provision on AECL's balance sheet.

Decommissioning and Waste Management

Decommissioning and waste costs are recorded as a long-term liability. The liability is recorded based on the discounted value of the estimated future decommissioning and waste management expenditures to the extent that they can be reasonably estimated. The provision is reviewed annually to reflect actual expenditures incurred and changes in management's estimate of the future costs and timing thereof. The liability disclosed includes waste generated after March 31, 2006, for which AECL is financially responsible.

Management's Responsibility

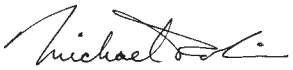
The consolidated financial statements, all other information presented in this Annual Report and the financial reporting process are the responsibility of management. These statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates based on the experience and judgment of management. Where alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The Corporation and its subsidiaries maintain books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively.

These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with Part X of the *Financial Administration Act* (FAA) and its regulations, as well as the *Canada Business Corporations Act*, the articles, and the by-laws and policies of the Corporation and its subsidiaries. The Corporation has met all reporting requirements established by the FAA, including submission of a Corporate Plan, an operating budget, a capital budget and this Annual Report. The Corporation's internal auditor has the responsibility of assessing the management systems and practices of the Corporation and its subsidiaries. AECL's independent auditors conduct an audit of the consolidated financial statements of the Corporation and report on their audit to the Minister of Natural Resources.

The Board of Directors is responsible for ensuring that management fulfills its responsibility. To accomplish this, the Board has four standing committees: Audit, Human Resources and Governance, Project Risk Review, and Science, Technology and Nuclear Oversight. The Audit Committee, composed of independent directors, has a mandate for overseeing the independent auditors, directing the internal audit function and assessing the adequacy of AECL's business systems, practices and financial reporting. The Audit Committee meets with management, the internal auditor and independent auditors on a regular basis to discuss significant issues and findings, in accordance with their mandate.

The independent auditors and internal auditor have unrestricted access to the Audit Committee, with or without management's presence. The Audit Committee reviews the consolidated financial statements and the Management's Discussion and Analysis report with both management and the independent auditors before they are approved by the Board of Directors and submitted to the Minister of Natural Resources. The Chair of the Audit Committee signs the audited financial statements.

HUGH MacDIARMID
President and Chief Executive Officer



MICHAEL ROBINS
Chief Financial Officer

Auditors' Report

To the Minister of Natural Resources

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited as at March 31, 2009 and the consolidated statements of operations, changes in shareholder's deficit, comprehensive loss and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies adopted in the current year as explained in Note 2 s) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

The consolidated financial statements as at March 31, 2008 and for the year then ended were audited by the Auditor General of Canada and other auditors who expressed an opinion without reservation on those consolidated statements in their report dated June 11, 2008.

Sheila Fraser

SHEILA FRASER, FCA
Auditor General of Canada

Ottawa, Canada
May 15, 2009, except as to Note 22
which is as of May 28, 2009

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
May 15, 2009, except as to Note 22
which is as of May 28, 2009

Consolidated Balance Sheet

As at March 31

(thousands of dollars)	***2009***	*2008*
Assets		
Current		
Cash and cash equivalents (Note 3)	**$ 33,196**	$ 55,129
Short-term investments (Note 3)	**–**	10,059
Accounts receivable	**116,717**	92,258
Current portion of long-term receivables (Note 5)	**17,977**	16,983
Inventory (Note 4)	**25,325**	22,581
	193,215	197,010
Long-term receivables (Note 5)	**189,364**	207,601
Trust fund (Note 6)	**26,729**	23,117
Heavy Water inventory (Note 4)	**294,004**	294,939
Property, plant and equipment (Note 7)	**190,594**	142,476
Development costs (Note 11)	**96,255**	–
	$ 990,161	$ 865,143
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 165,857**	$ 156,600
Current portion of customer advances	**433,688**	280,480
Current portion of provisions (Note 15)	**79,175**	6,653
Current portion of decommissioning and waste management provision (Note 12)	**118,400**	103,900
Current portion of long-term payables (Note 9)	**13,319**	7,160
	810,439	554,793
Decommissioning and waste management provision (Note 12)	**2,981,345**	2,904,336
Customer advances	**–**	4,500
Provisions (Note 15)	**81,593**	5,310
Deferred capital funding (Note 8)	**104,615**	54,731
Deferred development funding (Note 8)	**96,255**	–
Deferred decommissioning and waste management funding (Note 16)	**76,143**	51,642
Employee future benefits (Note 14)	**60,631**	60,649
Long-term payables (Note 9)	**30,054**	41,431
	4,241,075	3,677,392
Commitments and contingencies (Notes 10, 12 & 18)		
Shareholder's deficit		
Capital stock		
Authorized – 75,000 common shares		
Issued – 54,000 common shares	**15,000**	15,000
Contributed capital (Note 16)	**378,629**	404,234
Deficit	**(3,644,642)**	(3,231,264)
Accumulated other comprehensive income (loss)	**99**	(219)
	(3,250,914)	(2,812,249)
	$ 990,161	$ 865,143

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

Approved on behalf of the Board:

BARBARA TRENHOLM
Director

HUGH MacDIARMID
Director

Consolidated Statement of Operations

For the year ended March 31

(thousands of dollars)	***2009***	*2008*
CANDU Reactor Division		
Revenue		
Nuclear products and services	**$ 321,639**	$ 541,105
Interest on long-term receivables (Note 5)	**12,363**	13,311
Interest on investments and other (Note 3)	**1,907**	3,471
	335,909	557,887
Funding		
Parliamentary appropriations (Note 13)	**100,000**	–
	100,000	–
Expenses		
Cost of sales and operating expenses	**766,018**	508,185
Interest on long-term payables	**2**	37
	766,020	508,222
CANDU Reactor Division net (loss) income before investment in ACR-1000	**(330,111)**	49,665
Investment in ACR-1000 development		
Parliamentary appropriations (Note 13)	**23,745**	37,500
Development costs (Note 11)	**24,494**	86,706
CANDU Reactor Division net (loss) income	**(330,860)**	459
Research & Technology Division		
Revenue		
Services	**65,377**	57,932
	65,377	57,932
Funding		
Parliamentary appropriations (Note 13)	**189,154**	143,492
Amortization of deferred capital funding (Note 8)	**2,510**	2,409
	191,664	145,901
Expenses		
Cost of sales and operating expenses (Note 11)	**269,162**	242,672
Interest on long-term payables (Note 9)	**1,942**	1,919
	271,104	244,591
Research & Technology Division net loss before Dedicated Isotope Facilities	**(14,063)**	(40,758)
Dedicated Isotope Facilities (Note 10)		
Parliamentary appropriations (Note 13)	**66,646**	–
Impairment of long-lived assets (Note 7)	**–**	246,946
Expenses	**57,957**	9,441
Research & Technology Division net loss	**(5,374)**	(297,145)
Liability Management Unit		
Funding (Note 13)		
Decommissioning funding	**105,080**	96,095
Cost recovery from third parties and other	**5,910**	4,234
	110,990	100,329
Expenses (Note 12)		
Revision in estimate and timing of expenditures	**27,533**	13,255
Accretion and other expenses	**160,601**	154,835
	188,134	168,090
Liability Management Unit net loss	**(77,144)**	(67,761)
Net loss	**$ (413,378)**	$ (364,447)

Amortization disclosure (Note 7)

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

Consolidated Statement of Changes in Shareholder's Deficit

For the year ended March 31

CONTRIBUTED CAPITAL

(thousands of dollars)	***2009***	*2008*
Balance at beginning of the year	**$ 404,234**	$ 432,408
Transfer to deferred decommissioning funding (Note 16)	**(24,501)**	(24,501)
Transfer to repayable contributions (Note 16)	**(1,104)**	(3,673)
Balance at end of the year	**$ 378,629**	$ 404,234

DEFICIT

(thousands of dollars)	***2009***	*2008*
Balance at beginning of the year	**$ (3,231,264)**	$ (2,866,817)
Net loss	**(413,378)**	(364,447)
Balance at end of the year	**$ (3,644,642)**	$ (3,231,264)

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(thousands of dollars)	***2009***	*2008*
Balance at beginning of the year	**$ (219)**	$ –
Transition adjustment on adoption of financial instruments accounting standards	**–**	213
Other comprehensive income (loss) for the year	**318**	(432)
Balance at end of the year (Note 19)	**$ 99**	$ (219)
Deficit and Accumulated Other Comprehensive Loss	**$ (3,644,543)**	$ (3,231,483)
Changes in Shareholder's Deficit	**$ (3,265,914)**	$ (2,827,249)

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

Consolidated Statement of Comprehensive Loss

For the year ended March 31

(thousands of dollars)	***2009***	*2008*
Net loss	**$ (413,378)**	$ (364,447)
Other comprehensive income (loss)		
Net gain (loss) on derivatives designated as cash flow hedges (Note 19)	**103**	(332)
Reclassification to income of gains (losses) on derivatives designated as cash flow hedges	**215**	(100)
Other comprehensive income (loss)	**318**	(432)
Comprehensive loss	**$ (413,060)**	$ (364,879)

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

Consolidated Cash Flow Statement

For the year ended March 31

(thousands of dollars)	***2009***	*2008*
Operating activities		
Cash receipts from customers	**$ 564,713**	$ 635,017
Cash receipts from parliamentary appropriations	**398,218**	182,092
Cash receipts for decommissioning and waste management activities	**102,466**	97,304
Cash paid to suppliers and employees	**(1,001,209)**	(804,017)
Funds used for decommissioning activities	**(104,987)**	(94,873)
Interest received on investments (net)	**1,905**	3,434
Cash (used in) from operating activities	**(38,894)**	18,957
Investing activities		
Purchase of short-term investments	**(3,968)**	(13,720)
Sales and maturities of short-term investments	**14,027**	16,880
Investment in ACR-1000	**(97,478)**	–
Acquisition of property, plant and equipment	**(51,075)**	(110,882)
Cash used in investing activities	**(138,494)**	(107,722)
Financing activities		
Proceeds from government for capital funding	**59,700**	17,300
Proceeds from government for development funding	**96,255**	–
Repayment of long-term payable	**(500)**	(1,000)
Cash from financing activities	**155,455**	16,300
Cash and cash equivalents:		
Decrease	**(21,933)**	(72,465)
Balance at beginning of the year	**55,129**	127,594
Balance at end of the year	**$ 33,196**	$ 55,129
Supplemental disclosure of cash flow information		
Interest and bank charges paid during the year	**$ 70**	$ 107

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2009

1. The Corporation

Atomic Energy of Canada Limited (collectively "AECL" or the "Corporation") was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown corporation under the *Financial Administration Act* and an agent of Her Majesty the Queen in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. The Corporation receives funding from the Government of Canada and is exempt from income taxes in Canada.

AECL conducts its business through two divisions: CANDU Reactor Division and the Research & Technology Division. These divisions represent strategic business units established by senior management to facilitate the achievement of the Corporation's long-term objectives, to aid in resource allocation decisions and to assess operational and financial performance. The Research & Technology Division includes the Liability Management Unit which has the responsibility to manage the decommissioning and waste management liability on behalf of the Government of Canada.

2. Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

a) Basis of Presentation

These consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, USA in 1988, AECL Technologies B.V., incorporated in the Netherlands in 1995, and its interest in a trust fund for which the Corporation is the primary beneficiary. All inter-company transactions have been eliminated.

b) Use of Estimates

The Corporation's financial statements include estimates and assumptions made by management that affect the amounts reported in the financial statements and accompanying notes. Estimates are based on a number of factors, including historical experience, current events and actions that the Corporation may undertake in the future, and other assumptions that management believes are reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Some estimates require a high level of judgment. Significant areas of judgment and estimates are; valuation of Heavy Water inventory, costs of future decommissioning and waste management, future contract costs, revenue, fair value of derivatives, provisions, employee future benefits provision and amortization of property, plant and equipment. Actual results may differ from these estimates.

Management bases its judgment of contract costs and revenues on the latest available information, which includes detailed contract valuations. In many cases, the results reflect the expected outcome of long-term contractual obligations that span more than one reporting period. Contract costs and revenues are affected by a variety of uncertainties that depend on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures. The impact of the changes in accounting estimates is then reflected in the ongoing results.

When accounting for provisions for litigation and other items, the Corporation has taken internal and external advice in considering known legal claims made by or against the Corporation. It carefully assesses the likelihood of success of a claim or action. Appropriate provisions are made for legal claims or actions against the Corporation on the basis of likely outcome, but no provisions are made for those that, in the view of management, are unlikely to succeed or are not determinable.

c) Cash, Cash Equivalents and Short-Term Investments

Investments with maturities of 90 days or less from the date of purchase are presented as cash equivalents. Short-term investments have original maturities greater than 90 days but less than one year. Cash equivalents and short-term investments are recorded at fair value on the date of trade.

d) Trust Fund

Long-term investments in the Trust Fund established pursuant to the *Nuclear Fuel Waste Act* are measured at fair value on the date of trade. Interest earned is netted against Accretion and Other expenses on the Consolidated Statement of Operations since the Decommissioning and Waste Management provision includes the obligations under the *Act*.

e) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

f) Financial Instruments

Derivative Financial Instruments

The Corporation enters into foreign exchange forward contracts with major financial institutions to manage its exposure to changes in exchange rates arising from contractual terms and ongoing business operations. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative instruments are recorded on the Consolidated Balance Sheet at fair value. Derivatives with a positive fair value are recorded in accounts receivable and derivatives with a negative fair value are recorded in accounts payable and accrued liabilities.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. This category includes changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in other comprehensive income (OCI) until the criteria for recognition in the Consolidated Statement of Operations are met.

Recognition and Measurement

The following table presents the classification of AECL's financial instruments in the various categories:

Category	*Financial Instruments*
Financial assets and liabilities held for trading	• Trust fund • Cash and cash equivalents • Short-term investments
Financial assets held to maturity	• None
Available for sale financial assets	• None
Loans and receivables	• Accounts receivable • Long-term receivables
Other financial liabilities	• Accounts payable and accrued liabilities • Customer advances • Provisions • Long-term payables

Loans and receivables and other financial liabilities are measured at amortized cost, using the effective interest rate method for instruments with maturities greater than one year.

Accounts receivable are recognized initially at fair value and reviewed on an invoice-by-invoice basis to establish the provision for bad debts.

Other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost based on the circumstances/ invoices/transactions.

Financial assets and liabilities held for trading are recorded at fair value at the balance sheet date based on instruments with quoted market prices. Gains and losses arising from changes in fair value are recognized in revenue and/or cost of sales and operating expenses for the period in which they occur, except in the case of derivative instruments designated as hedges in a cash flow hedging relationship (as mentioned below). Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading.

AECL classifies the investment in the *Nuclear Fuel Waste Act* trust fund as held for trading (measured at fair value) as the Fund Manager is permitted to trade within the approved investment guidelines to generate adequate returns.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The effective portion of the change in fair value of such derivative instrument is recorded in OCI while the ineffective portion is recognized immediately in net income. Any unrealized gain or loss on effective foreign exchange hedges is recognized as OCI. Any ineffective portion of the unrealized gain or loss on hedging is recognized immediately in income. When a derivative hedging relationship expires, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in accumulated other comprehensive income (AOCI) are recognized in the current period's Consolidated Statement of Operations under 'Cost of sales and operating expenses'. AECL only undertakes cash flow hedges.

g) Inventory

Heavy Water, supplies and reactor fuel are valued at the lower of average cost and net realizable value.

h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less amortization. Construction in progress is not amortized until ready for use. When complete, the asset is transferred to the appropriate category and amortized at the rate applicable to that category. Asset retirement costs are included as part of the related asset costs. Amortization is provided on a straight-line basis over the estimated useful life of the asset, and on a usage basis for certain machinery and equipment used in commercial projects, as follows:

Land improvements	*10 to 20 years*
Buildings and reactors	*20 to 40 years*
Machinery and equipment	*3 to 20 years*

i) Impairment of Long-Lived Assets

AECL reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. An impairment loss, if any, is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. Fair value is calculated using an expected present value technique.

j) Customer Advances and Unbilled Revenues

Certain contracts may have revenue recognized in excess of billings (unbilled revenues), and other contracts may have billings in excess of revenue recognized (customer advance payments). Unbilled revenues are recorded as an asset and grouped with accounts receivable. Billings collected in advance on contracts are recorded as a liability and recognized in accordance with the Corporation's revenue recognition policy.

k) Decommissioning and Waste Management Provision

AECL provides for its legal obligation to decommission nuclear facilities and to manage nuclear waste in order to satisfy regulatory requirements. The obligation is recognized at fair value in the period when a reasonable estimate can be determined. As the provision is recorded based on a discounted value of the projected future cash flows, it is increased annually to reflect the passage of time by removing one year's discount. The accretion is charged to expense in the Consolidated Statement of Operations.

The provision is reduced by actual expenditures incurred. The cost estimate is subject to periodic review and any material changes in the estimated amount or timing of the underlying future cash flows are recorded as an adjustment to the provision. Upon settlement of the liability, a gain or loss will be recorded. The provision includes future construction costs associated with certain enabling facilities, such as disposal facilities for nuclear waste.

Decommissioning costs of new assets are added to the carrying amount and amortized over the related assets' useful life.

l) Revenue Recognition

Long-Term Contracts and Service Contracts

Revenue is derived from sales of the Corporation's services and products to clients. Revenue under certain long-term contracts, many of which provide for periodic payments, are recognized under the percentage-of-completion method using the ratio of cost incurred to total estimated cost as the measure of performance. When adjustments in contract value or estimated costs are determined, any changes from the prior estimates are generally reflected in earnings in the current period. Anticipated losses on contracts are charged to earnings when identified and determined to be likely. Penalties, including penalties for late delivery, are recorded as a reduction of total contract revenue in the period in which the determination is made. Amounts for claims against customers are recognized when determinable and realization is likely. Revenue under cost-reimbursement contracts are recorded as costs are incurred and include an estimate of fees earned. Revenue under all other contracts is recognized when services are performed.

Supply of Product

Revenue is recognized when the product is shipped to the customer.

Interest Revenue

Interest entitlement under a long-term receivable is recognized as revenue over the term of the related agreement.

m) Research and Development

Research and development costs include direct and indirect costs associated with research and development activities, including; salaries, wages and other related costs of personnel; the cost of materials and services consumed; amortization of equipment and facilities; overhead support costs; and other related costs, such as amortization of patents and licenses.

Research expenses are expensed as incurred. Development charges are expensed unless they meet the criteria for deferral; the product or process is clearly defined and the attributable costs are identifiable, technical feasibility of the product or process has been established, management intends to produce and either market or use the product or process, a market for the product or process is clearly defined or its usefulness to the enterprise has been established, and adequate resources exist, or are expected to be available, to complete the project.

Research and Development costs incurred to discharge long-term waste management and decommissioning obligations for which specific provisions have already been made are charged to the related liability.

n) Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows; appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred; and appropriations used for the purchase of property, plant and equipment are recorded as deferred capital funding and amortized on the same basis as the related asset. From 1997 to 2006, and pursuant to the 10-year arrangement for funding decommissioning activities, the Corporation retained cash proceeds from the sale or lease of the portion of Heavy Water inventory that was funded by the Government of Canada. The cash proceeds were transferred from contributed capital to deferred decommissioning funding and were then recorded as funding in the Consolidated Statement of Operations as related expenditures were incurred. Proceeds from sales made during the 10-year arrangement that are received after April 1, 2006 are transferred from contributed capital to deferred decommissioning funding.

o) Cost Recovery from Third Parties

AECL operates the Low-Level Radioactive Waste Management Office through the Liability Management Unit on a cost-recovery arrangement with Natural Resources Canada. Cost recovery under these arrangements is recorded as cost recovery from third parties and is recognized as the related expenses are incurred. Research programs within Research & Technology Division have been moved under Research & Technology Division Revenue as Services.

p) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan administered by the Government of Canada. Although this Pension Plan is a defined benefit plan, the Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Plan. Therefore, contributions to the Plan are limited to those made by the employees and the Corporation on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis.

q) Other Employee Future Benefits

The Corporation provides certain termination benefits for current employees pursuant to collective agreements and conditions of employment. Other benefits include workers' compensation claims for which the Corporation reimburses Human Resources and Social Development Canada in accordance with the *Government Employees Compensation Act* for current payments billed by the provincial compensation boards.

The Corporation accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the Unit Credit Actuarial cost method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees and expected employee turnover.

r) Variable Interest Entities

A variable interest entity (VIE) is an entity in which the equity invested is not sufficient to permit that entity to finance its activities without external support, or, the equity investors lack voting control, an obligation to absorb future losses, or the right to receive future returns. The primary beneficiary of a VIE is the enterprise that will absorb a majority of the VIE's expected losses, receive a majority of its expected returns, or both. The Corporation has examined its business arrangements and has concluded that there is no significant interest in a VIE with the exception of the Trust Fund that has been consolidated.

s) Changes in Accounting Policies

Inventories

On April 1, 2008, AECL adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, "Inventories", which establishes standards for the measurement of inventories, including determination of their cost. The adoption of these recommendations has not affected net income, nor has it been necessary to reclassify amounts from Inventory to Property, plant and equipment.

Financial Instruments and Capital Disclosures – Disclosure and Presentation

On April 1, 2008, AECL adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 3862, Financial Instruments – Disclosures, Handbook Section 3863, Financial Instruments – Presentation, and Handbook Section 1535, Capital Disclosures.

Handbook Section 1535, Capital Disclosures, requires disclosure that enables users of financial statements to evaluate a company's objectives, policies and processes for managing capital.

Handbook Section 3862, Financial Instruments – Disclosures, outlines disclosure requirements for financial instruments and places increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments and how these risks are managed.

Handbook Section 3863, Financial Instruments – Presentation, carries forward the presentation requirements from Section 3861, Financial Instruments – Disclosure and Presentation.

t) Future Changes in Accounting Policies

Goodwill and intangible assets

In 2008, the CICA issued Section 3064 of its Handbook, "Goodwill and Intangible Assets", which superseded Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It will apply to AECL's financial statements effective April 1, 2009. AECL is evaluating the impact of this new standard on its consolidated financial statements.

Adoption of International Financial Reporting Standards in Canada

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles (GAAP) for fiscal years beginning on or after January 1, 2011.

AECL intends to adopt IFRS and has an internal team dedicated to the conversion of Canadian standards to this international framework. AECL has assigned internal resources to manage the conversion and has engaged external professional services to assist in the process. AECL has begun planning its transition to IFRS, and an initial evaluation of these standards on AECL's financial statements has been performed. However, the financial effect on AECL's consolidated financial statements has not yet been determined.

The Public Sector Accounting Board (PSAB), which establishes Canadian GAAP for government organizations, issued on February 24, 2009 an Invitation to Comment on the breadth of application of IFRS to various types of government organizations. AECL's conversion plans may be altered depending on additional direction provided by the PSAB.

3. Cash, Cash Equivalents, and Short-Term Investments

Bank deposits are maintained at levels required to meet daily operating needs. Any surplus deposits are invested in the short-term money market. The investing strategy is based on a conservative risk assessment. All instruments mature within a year and are rated as R1 Low or higher by the Dominion Bond Rating Service and as A1 or higher by Standard and Poor's. Investments are comprised of the following:

(thousands of dollars)	***2009***	***Yield***	*2008*	*Yield*
Cash and cash equivalents*	**$ 33,196**	**0.4%**	$ 55,129	3.0%
Canadian Government bonds**	**$ –**	**–**	$ 965	3.9%
Negotiable term deposits	**–**	**–**	9,094	4.5%
Short-term investments	**$ –**		$ 10,059	

**Cash and cash equivalents includes cash and short-term money market instruments. The 2008 balance is inclusive of $51.6 million of segregated cash no longer treated as such in 2009 (Note 16).*

***Canadian Government bonds include federal and provincial bonds*

4. Inventory

(thousands of dollars)	***2009***	*2008*
Reactor fuel	**$ 14,598**	$ 13,826
Spare parts and store supplies	**10,727**	8,755
	25,325	22,581
Heavy Water inventory	**294,004**	294,939
	$ 319,329	$ 317,520

Reactor Fuel inventory costs include an allocation of overhead.

The cost of inventory for reactor fuel, spare parts and store supplies recognized as expense and included in Cost of sales and operating expenses amounts to $7.8 million (2008 – $6.5 million). There were no material write-downs of inventory in 2009.

The cost of inventory for Heavy Water recognized as expense and included in Cost of sales and operating expenses amounts to $0.5 million (2008 – $3.2 million). There were no material write-downs of Heavy Water during the year.

AECL had no reversals of write-downs and none of the inventory is pledged as security for liabilities.

5. Long-Term Receivables

(thousands of dollars)	***2009***	*2008*
Contract receivables from customers in respect of the financing of products and services, maturing through 2019 at fixed repayment amounts	**$ 207,341**	$ 224,584
Current portion	**(17,977)**	(16,983)
	$ 189,364	$ 207,601

The long-term receivable is primarily related to Heavy Water sales in previous years. Required repayment amounts are recorded as operating activities on the cash flow statement and are scheduled as follows:

(thousands of dollars)	
2010	$ 17,977
2011	19,028
2012	20,141
2013	21,319
2014	22,566
Subsequent to 2014	106,310
	$ 207,341

6. Trust Fund

The *Nuclear Fuel Waste Act* required the Canadian nuclear utilities to form a waste management organization, the Nuclear Waste Management Organization, to provide recommendations to the Government of Canada on the long-term management of nuclear fuel waste and to implement the approach selected. The legislation also requires that each nuclear fuel waste owner establish a trust fund to finance implementation of the approach. Each individual trust fund is held in order to meet the requirements of the *Act* and only the Nuclear Waste Management Organization may withdraw monies from it in accordance with the provisions of the *Act*. As required by the *Act*, AECL's initial deposit to its Trust Fund was $10 million on November 25, 2002. Subsequent annual deposits of $2 million have been made as required, and will continue until the obligation ceases or the amount is modified by the Government of Canada once certain requirements stipulated in the *Act* are met by the Nuclear Waste Management Organization.

The Trust Fund, managed by CIBC on behalf of AECL, invests in fixed income instruments, with various maturities. The fund has been recorded as a long-term asset and measured at fair value. Interest earned from the fund offsets accretion expense related to the decommissioning and waste management provision. Quoted market values of the instruments are estimated at $26.7 million as at March 31, 2009 (2008 – $23.1 million). Interest earned on trust assets accrues to the Trust Fund. Interest earned on these instruments is fixed, whereas the fair value of the instruments varies according to the prevailing market rate of interest. Therefore, yield on the instruments is variable. These investments are comprised of the following:

(thousands of dollars)	Maturities	***2009***	***Yield***	*2008*	*Yield*
Cash and cash equivalents*	June 2009 – September 2009	**$ 87**	**0.4%**	$ 1,414	3.4%
Canadian Government bonds**	May 2010 – December 2025	**23,421**	**4.2%**	15,413	3.9%
Corporate bonds	June 2010 – February 2013	**3,221**	**3.8%**	6,290	4.0%
		$ 26,729		$ 23,117	

**Cash and cash equivalents includes cash and short-term money market instruments*

***Canadian Government bonds include federal, provincial and municipal bonds*

7. Property, Plant and Equipment

(thousands of dollars)	***2009***			*2008*		
	Cost	***Accumulated Amortization***	***Net Book Value***	*Cost*	*Accumulated Amortization*	*Net Book Value*
CANDU Reactor Division						
Construction in progress	**$ 2,025**	**$ –**	**$ 2,025**	$ 1,147	$ –	$ 1,147
Land and land improvements	**1,035**	**261**	**774**	999	258	741
Buildings	**19,888**	**13,887**	**6,001**	19,780	13,246	6,534
Machinery and equipment	**36,295**	**26,337**	**9,958**	29,072	23,607	5,465
	59,243	**40,485**	**18,758**	50,998	37,111	13,887
Research & Technology Division						
Construction in progress	**74,950**	**–**	**74,950**	37,793	–	37,793
Land and land improvements	**44,381**	**26,914**	**17,467**	44,109	25,533	18,576
Buildings	**206,921**	**160,362**	**46,559**	199,198	157,646	41,552
Reactors, machinery and equipment	**281,470**	**248,610**	**32,860**	276,136	245,468	30,668
	607,722	**435,886**	**171,836**	557,236	428,647	128,589
Total	**$ 666,965**	**$ 476,371**	**$ 190,594**	$ 608,234	$ 465,758	$ 142,476

Amortization of property, plant and equipment for the year ended March 31, 2009 amounted to $12.5 million (2008 – $11.8 million).

Impairment of Long-Lived Assets

The Corporation regularly reviews the net recoverable amount of its long-lived assets. As a result of the review, no impairment charges were recorded in 2009 (2008 – $202 million, Note 10).

8. Deferred Funding

The Corporation recognized funding of $52.4 million from the Government of Canada in 2009 ($17.3 million – 2008) for capital infrastructure refurbishment projects at the Chalk River facilities, and $96.3 million in ACR-1000 development funding. Deferred capital funding and deferred development funding are provided to the Corporation through appropriations from its shareholder.

Deferred capital funding

(thousands of dollars)	***2009***	*2008*
Deferred capital funding, opening balance	**$ 54,731**	$ 40,035
Capital funding received during the year	**52,394**	17,300
Retirement of funded assets	**–**	(195)
Amortization of deferred capital funding	**(2,510)**	(2,409)
Deferred capital funding, closing balance	**$ 104,615**	$ 54,731

Deferred development funding

(thousands of dollars)	***2009***	*2008*
Deferred development funding, opening balance	**$ –**	$ –
Development funding received during the year	**96,255**	–
Amortization of deferred development funding	**–**	–
Deferred development funding, closing balance	**$ 96,255**	$ –

9. Long-term Payables

(thousands of dollars)	***2009***	*2008*
Loans from Government of Canada	**$ –**	$ 500
Matured September 2008 bearing interest at 4.4%, paid in $0.5 million semi-annual instalments		
Long-term payable (Note 10)	**43,373**	48,091
Unsecured, maturing September 2012. Amount is net of discount of $3.2 million at 4.08%		
	43,373	48,591
Less current portion	**(13,319)**	(7,160)
	$ 30,054	$ 41,431

Required payments over subsequent years are as follows (Note 10):

(thousands of dollars)	
2010	$ 13,319
2011	13,319
2012	13,319
2013	6,660
	$ 46,617

10. Dedicated Isotope Facilities Isotope Supply Agreement

In February 2006, AECL entered into an agreement with MDS (Canada) Inc. whereby AECL acquired beneficial ownership of the Dedicated Isotope Facilities, comprised of two medical isotope-producing reactors (MAPLE 1 and 2) and their related processing facility. Additionally, AECL acquired $53 million in isotopes production related inventory with a deferred payment obligation of 48 monthly installments of $1.1 million, commencing in October 2008. The value of the inventory and the related deferred obligation were recorded at $41.7 million (Fuel and Targets), and $2.5 million (Spare parts), the present value of these future payments (Note 9). The Corporation recognized an impairment charge in 2008 for the full value of the Dedicated Isotope Facilities ($202 million) and related inventory.

On May 16, 2008, AECL discontinued development of the MAPLE reactors. During the year, AECL received $80 million from the Government to support placing the Dedicated Isotope Facilities in a safe shutdown state. Included in the amounts received in 2009 is $7 million for activities to be undertaken in 2010.

On July 8, 2008, MDS (Canada) Inc. commenced legal proceedings against AECL and the Government of Canada in connection with AECL's isotope business. The amount claimed is $1,600 million, and is currently under review. No provision has been made in these financial statements as the liabilities, if any, are not determinable at this time.

Amortization expense of $1.9 million (2008 – $1.9 million) related to the discount on the long-term payable was expensed in the Consolidated Statement of Operations. Required payments are disclosed at the undiscounted amount (Note 9).

11. Research and Development Costs

Operating costs include research and development costs. AECL's research and development activities are undertaken to maintain and enhance Canada's scientific and technological expertise in support of the production of environmentally friendly and cost effective CANDU nuclear generated electricity, as well as other important peaceful nuclear technologies such as nuclear medicine. In particular, it involves the maintenance of intellectual property developed over the years. This includes basic knowledge of materials, reactor physics, chemistry, critical components, radiation and the environment that could have an impact on the safety, licensing and design basis of CANDU technology. Additionally, it includes advancement of the economics, safety and operating performance of the existing product line and applying advancements to future technologies.

As of March 31, 2009, $96 million of the $121 million of ACR-1000 development costs met the criteria for capitalization. There were no other development costs that met the criteria for deferral (2008 – $nil). The determination of qualifying development costs is subject to ongoing review.

Research and Development costs incurred in 2008–2009 are as follows:

(thousands of dollars)	***2009***	*2008*
CANDU Reactor Division		
ACR-1000 development	**$ 120,749**	$ 86,893
Other commercial development	**2,147**	113
	122,896	87,006
Research and Technology Division		
CANDU technology development	**57,855**	57,100
Facilities, nuclear operations & support costs	**212,300**	185,300
	270,155	242,400
Total Research and Development costs	**$ 393,051**	$ 329,406

12. Decommissioning and Waste Management Provision

AECL has an obligation to decommission its nuclear facilities and other assets in order to satisfy Canadian Nuclear Safety Commission and other applicable regulations. These facilities include prototype reactors, Heavy Water plants, nuclear research and development, waste management and other facilities. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. These activities include surveillance and monitoring, decontamination, demolition and the management of the associated waste. A significant portion of the obligation relates to liabilities that were incurred prior to the creation of AECL in 1952.

The estimated future decommissioning and waste management costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end state, technology to be employed and, in some cases, research and development activities that extend well into the future. Significant assumptions determine the valuation, such as timing of major decommissioning and remediation project expenditures, regulation requirements, volumes of waste, market based premium, interest rate estimates, inflation factors, and the impact of technological advances. Another important assumption is that the liability reflects the funding level necessary to achieve health, safety and environmental protection objectives that are in accordance with Canadian Nuclear Safety Commission regulations. Changes to these assumptions, as well as changes to the timing of the programs or the technology employed, or changes in the standards and regulations governing the decommissioning of nuclear facilities, could result in material changes to the Decommissioning and Waste Management provision.

The decommissioning plan follows a hierarchy of activities to achieve:

- A controlled and controllable state for all redundant nuclear facilities that removes short-term risks
- A sustainable, stable and safe state of the facilities under surveillance
- Cost-optimized completion of actions to achieve a final end state that is an accepted completion of the decommissioning process as required by the regulator

The decommissioning plan projects undiscounted expenditures of $7,075 million (in current dollars) until 2085. The discount and inflation rates used to calculate the present value of the provision, at the time the plan was implemented, were 5.25% and 1.7% respectively. In accordance with the requirements of CICA Section 3110 Asset Retirement Obligations, an increase in estimates resulting from new liabilities or increases in the spending profile are discounted using the current rate of 4.01% while decreases use a blended rate of 5.13%.

AECL is reassessing the techniques employed to address a portion of the stored liquid waste liabilities as a result of escalating costs and extended schedule under the current approach. AECL has initiated a detailed review of the current and proposed alternatives to determine the most effective path forward, taking into account the related technical, financial and risk issues. The potential cost implications that may result from the review are not determinable at this time. As such, the liability of $300 million (discounted) related to these activities remains unchanged in 2009.

Decommissioning and waste management provision reconciliation:

(thousands of dollars)	***2009***	*2008*
Opening balance	**$ 3,008,236**	$ 2,927,934
Liabilities settled	**(103,114)**	(94,189)
Accretion expense	**155,124**	151,674
Revision in estimate and timing of expenditures	**27,533**	13,255
Revision in estimate and timing of expenditures affecting property, plant and equipment	**601**	–
Waste, decommissioning and site restoration costs from ongoing operations	**11,365**	9,562
	3,099,745	3,008,236
Less current portion	**(118,400)**	(103,900)
	$ 2,981,345	$ 2,904,336

In June 2006, the Government of Canada announced it would provide funding of $513 million over five years to fund the Nuclear Legacy Liability Program. Previous to this, AECL retained proceeds from Heavy Water sales to fund the decommissioning program (Note 16). As part of the funding arrangement with Natural Resources Canada, AECL is required to separately account for waste, decommissioning, or site restoration liabilities that result from AECL's ongoing operations after April 1, 2006 ($29.9 million) included in the closing Decommissioning and Waste Management provision.

13. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations to ensure funds are spent in a manner consistent with the basis for which they were approved. Although $554 million was received in the current year ($198 million – 2008), only $528 million has been recognized, with the remainder included in provisions as an amount repayable to the Government of Canada (Note 15).

(thousands of dollars)	***2009***	*2008*
Operating funding		
Research & Technology Division		
Research and related infrastructure	**$ 132,536**	$ 105,285
Dedicated Isotope Facilities	**66,646**	–
Chalk River Laboratories regulatory, health, safety, security and environment initiatives	**56,618**	12,607
Working Capital	**–**	25,600
	255,800	143,492
CANDU Reactor Division		
Working Capital	**$ 100,000**	$ –
ACR-1000 development	**23,745**	37,500
	123,745	37,500
Total operating funding	**$ 379,545**	$ 180,992
Capital funding		
ACR-1000 development	**$ 96,255**	$ –
Capital infrastructure refurbishment project funding	**52,394**	17,300
Total capital funding	**$ 148,649**	$ 17,300

The Government has committed funding for 2009–2010 totalling $580 million.

b) Other Funding

AECL receives amounts classified as funding through other government entities from execution of work performed on service contract agreements, invoiced in a manner similar to other commercial customers.

(thousands of dollars)	***2009***	*2008*
Operating funding		
Liability Management Unit		
Decommissioning & waste management	**$ 105,080**	$ 96,095
Cost recoveries from third parties	**5,910**	4,234
	$ 110,990	$ 100,329

14. Employee Future Benefits

a) Pension Plan

The Corporation's employee pension benefits are covered through the Public Service Pension Plan. Payments are made to three accounts: Public Service Superannuation Account, Public Service Pension Fund account, and the Retirement Compensation Arrangement account. Total contributions made on account of current service are as follows:

(thousands of dollars)	***2009***	*2008*
Payments by employees	**$ 24,605**	$ 21,275
Payments by employer	**$ 51,328**	$ 46,568

The Corporation's rate of contribution to the Public Service Superannuation Account is equal to the employee contributions and the Public Service Pension Fund account is a 1.91 multiple of the employee contributions (2008 – 2.02). The contribution to the Retirement Compensation Arrangement account for calendar year 2009 is a multiple of 7.5 of the employee contributions (calendar year 2008 – 7.3). The multiple is subject to change based on revaluation by the Public Service Pension Plan administration.

b) Other Employee Future Benefits

The Corporation provides certain termination and other benefits as described in Note 2 q). The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets and the plan deficit is equal to the accrued benefit obligation.

(thousands of dollars)	***2009***	*2008*
Accrued benefit obligation, beginning of year	**$ 79,077**	$ 77,046
Current service cost	**2,832**	5,186
Interest on accrued benefit obligation	**4,504**	4,106
Benefits paid	**(6,379)**	(5,146)
Actuarial gains	**(7,544)**	(2,115)
Accrued benefit obligation, end of year	**72,490**	79,077
Unamortized net actuarial losses	**(2,847)**	(10,600)
Accrued benefit liability	**69,643**	68,477
Current portion, accrued benefit liability	**(9,012)**	(7,828)
Net accrued benefit liability	**$ 60,631**	$ 60,649
Net benefit plan cost		
Current service cost	**$ 2,832**	$ 5,186
Interest cost	**4,504**	4,106
Amortization of actuarial losses	**258**	504
Annual benefit plan expense	**$ 7,594**	$ 9,796

Cumulative actuarial gains or losses in excess of 10% of the obligation are amortized over the remaining average service period of active employees. The average remaining service period of the active employees covered by the other employee future benefits plan is 11 years (2008 – 11 years). The measurement date of the accrued benefit obligation is March 31, 2009, and the latest actuarial valuation of these benefits was performed in March 2009. The next valuation will be performed in March 2010.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation are:

- A discount rate of 7.5% (2008 – 5.75%)
- A rate of compensation increase of 5% (2008 – 5%)

15. Provisions

The Corporation has recorded provisions as follows:

(thousands of dollars)	***2009***	*2008*
Contract loss provision	**$ 127,606**	$ –
Due to shareholder (Note 13)	**27,079**	1,100
Other	**6,083**	10,863
Total provisions	**$ 160,768**	$ 11,963
Less current provision	**(79,175)**	(6,653)
	$ 81,593	$ 5,310

The Corporation encountered delays in its active life extension projects, and estimated costs to complete these projects have increased substantially. As a consequence, expected losses of $128 million net of claims have been recognized as a liability and recorded under Provisions on the Consolidated Balance Sheet.

Revenue in 2009 was reduced to reflect the impact of increased costs on the revenue recognized on a percentage complete basis. The Government of Canada has provided funding of $100 million in 2009 to support completion of these projects.

16. Contributed Capital and Deferred Decommissioning Funding

Included in contributed capital is approximately $189 million (2008 – $214 million) related to Parliamentary appropriations received for the production of Heavy Water inventory. Up to and including 1995–1996, the Corporation was required to repay the Government of Canada, by way of a dividend, the cash proceeds from the sale of Government-funded Heavy Water. From 1997 to 2006, a Decision by the Treasury Board directed the Corporation to hold the proceeds from the sale or lease of this Heavy Water in a segregated fund for use in decommissioning activities for the 10-year period following the Decision. As the Heavy Water was sold or leased, the cash proceeds were transferred from contributed capital to deferred decommissioning funding, which was used to fund ongoing decommissioning activities.

An amount equivalent to the proceeds from sales made during the 10-year arrangement received after April 1, 2006 (Note 5) is transferred from contributed capital to deferred decommissioning funding. However, the funds are not required to be segregated for use in decommissioning activities.

Other cash proceeds from Heavy Water sales are recorded as repayable contributions to the Government and are presented in provisions on the Corporation's Consolidated Balance Sheet (Note 15).

17. Related Party Transactions

In addition to the transactions disclosed in Notes 7, 8, 9, 12, 13, 14 and 16, the Corporation had the following transactions with the Government of Canada:

(thousands of dollars)	***2009***	*2008*
Repayment of loans		
Principal	**$ 500**	$ 1,000
Interest	**11**	54
	$ 511	$ 1,054

Cost recovery from third parties includes billings to Natural Resources Canada for low-level radioactive waste management activities.

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other Crown corporations. These transactions are recorded at the exchange amount.

18. Commitments, Contingencies and Obligations

a) Commitments

The Corporation has entered into non-cancellable operating leases expiring on various dates for the rental of office space. The leases contain an escalation clause providing for additional rent. The Corporation also enters into other non-cancellable agreements facilitating operations and project requirements. Minimum future payments under these obligations are as follows:

(thousands of dollars)	
2010	$ 95,039
2011	17,594
2012	9,934
2013	8,325
2014	6,492
Subsequent to 2014	23,593
	$ 160,977

b) Regulatory Obligations

To ensure compliance with Canadian Nuclear Safety Commission site licence conditions and other regulatory requirements, the Corporation has undertaken major investment in new and existing building infrastructure at Chalk River. The Corporation's planned expenditure under the Infrastructure Renewal program for 2010 is $48 million. These obligations are funded through Parliamentary appropriations.

c) Performance Guarantees and Liquidated Damages

It is industry practice to use letters of credit, surety bonds and other performance guarantees on major contracts. Such guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria. Liquidated damages are those amounts designated during the formation of a contract for the injured party to collect as compensation upon a specific breach (e.g., late performance).

AECL also guarantees, in the normal course of business, that certain projects will be completed within a specified time and may bear responsibility for liquidated damages should obligations not be met.

The aggregate amount of the Corporation's potential exposure under the performance guarantees is estimated to be approximately $500 million. Exposure to liquidated damages penalties is estimated at $139 million at March 31, 2009, of which $135 million has been included in the determination of the contract loss provision (Note 15).

d) Other

In the normal course of operations, AECL has become involved in various claims and legal proceedings (in addition to those in Note 10). AECL has taken internal and external advice in considering known legal claims and proceedings made by or against the Corporation. Consequently, it carefully assesses the likelihood of the success of a claim or proceeding. While the final outcome with respect to claims and legal proceedings are pending as at March 31, 2009 and cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on AECL's financial position or results of operations.

19. Financial Instruments and Financial Risk Management

As part of its operations, AECL carries out transactions that expose it to financial risks such as credit, liquidity and market risks.

a) Foreign Currency Risk

Foreign Currency risk is the risk of transacting in a currency other than the operational currency of the organization. This can lead to variations in cash management of the operations.

Hedges

AECL enters into hedging contracts with major financial institutions to manage the Corporation's exposure to foreign currency risks. Realized foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received. The Corporation enters into foreign exchange forward contracts to reduce the risk associated with the purchase and sale of goods in foreign currencies, primarily with respect to the US dollar.

At the inception of a hedging relationship, AECL documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. The Corporation documents, both at hedge inception and on an ongoing basis, whether or not the derivatives that are used in hedging transactions are effective in offsetting the changes attributable to the hedged risks. A hedge is effective when the amount and the timing of payment of the transactions are matched by the hedge or is within the ratio of 80 to 125% when comparing the fair value of the hedge against the change in fair value of the cash flow of the underlying transactions. Currently, all of AECL's forward contracts are designated as effective hedging relationships. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes. AECL has reviewed relevant contracts for embedded derivatives and elected April 1, 2003 as the transition date. It was determined there were no material embedded derivatives in contracts that should be accounted for separately.

As of March 31, 2009, there are 15 (2008 – 33) forward contracts with a notional value of $6 million (2008 – $15 million). These contracts are expected to be effective as hedges. Expiry dates on foreign exchange forward contracts are between April 2009 and March 2010.

As of March 31, 2009, had the exchange rate (CAN$/US$) been 5% higher or lower, and hedge accounting was not applied, net income for the year would have been $0.2 million higher or lower, respectively. The following table shows the fair value of the hedges used to manage risk associated with foreign exchange, expressed in Canadian dollars. The impact of foreign exchange hedging transactions on operations is recorded in the line item corresponding to the hedged item within other comprehensive income:

(thousands of dollars)	***2009***	*2008*
Instruments designated as cash flow hedges	**$ 99**	$ (219)

In 2009, AECL's foreign currency risk management objectives were unchanged from those in 2008.

b) Credit Risk

Credit risk is the risk that one party to the financial instrument might not meet its obligations under the terms of the financial instrument for cash and cash equivalents, trust fund, accounts receivable and long-term receivables. In 2009, AECL's credit risk management objectives were unchanged from those in 2008.

Cash equivalents, short-term investments and trust fund

AECL's exposure is reduced by:

- Monitoring at the appropriate levels of management
- Applying a conservative investing strategy
- All instruments mature within a year in order to limit the exposure

As of March 31, 2009, all instruments are rated as R1 Low or higher by the Dominion Bond Rating Service, and as A1 or higher by Standard and Poor's.

Accounts receivable (trade)

Exposure to credit risk from accounts receivable is low due to AECL's specific customer base within a government-regulated industry. Invoices are tracked on an individual basis and any bad debt provision is kept strictly on an invoice-by-invoice basis with a substantial review and approval process.

Three customers (2008 – three), each representing greater than 10% of the total accounts receivable, comprise an aggregate 53% (2008 – 55%) of total accounts receivable. No significant amounts are due in foreign currency.

Presented below is the value of trade receivables, by age, and the related bad debt provision:

(thousands of dollars)	***2009***
Current	**$ 46,632**
1 to 30 days	**7,237**
31 to 60 days	**2,472**
61 to 90 days	**849**
Over 90 days	**3,311**
	60,501
Provision for bad debts	**(1,223)**
Total accounts receivable	**$ 59,278**

During the year, the bad debt provision increased by $0.7 million to $1.2 million.

c) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value represents management's estimates of the market value at a given point in time. The carrying value of all financial assets and liabilities approximate fair value as at March 31, 2009 and 2008 with the exception of long-term receivables and payables. The fair value of long-term receivables is $207.5 million (2008 – $225.4 million). Loans from the Government of Canada included in the long-term payable were fully repaid in 2009.

The Corporation's exposure to interest risk is limited to changes in discount rates associated with asset retirement obligations and long-term payables. Changes in the discount rate are based on a credit adjusted risk-free rate that is sensitive to interest rate fluctuations. A 1% change in the rate yields a $250 million change in the liability.

AECL's exposure is reduced by:

- Limited transactions dealing with interest payments
- Financial instruments invested in relatively conservative instruments
- Investing in reputable institutions

In 2009, AECL's interest rate management objectives were unchanged from those in 2008.

d) Regulatory Risk

The nature of the business environment that the Corporation operates in is highly regulated. Changes in government policy may have an adverse impact on the Corporation's financial position. In 2009, AECL's regulatory risk management objectives were unchanged from those in 2008.

e) Liquidity Risk

This represents the risk that the Corporation will not have sufficient funds to meet its commitments and obligations. As a Schedule III Part I Crown corporation, AECL is restricted from borrowing funds to meet its obligations. The Corporation is dependent upon funding from its shareholder to meet its obligations.

AECL manages liquidity risk by:

- Establishment of a Cash Flow Steering Committee
- Cross-functional participation in project and business reviews
- Frequent communication with its shareholder to manage ongoing cash requirements and secure appropriate funding
- Maintaining a portfolio of highly liquid investments or instruments readily convertible into liquidity with high-quality counterparties

In 2009, AECL's liquidity risk management objectives were unchanged from those in 2008. However, additional funding was required from the Government of Canada to meet obligations.

The Corporation's funding plan is part of the Corporate Plan, and is reviewed and approved annually by the Board of Directors and the Government of Canada. AECL relies on funding from the Government of Canada to continue operations and meet future obligations. The Corporate Plan for fiscal 2008–2009 has been approved. However, an amended plan for 2008–2009 must be submitted. As at May 15, 2009, this amended plan and the Corporation's 2009–2010 plan have not been approved by the Government of Canada.

20. Capital Management

As a Schedule III Part I Crown corporation under the *Financial Administration Act*, Her Majesty the Queen in Right of Canada owns the shares of the Corporation. Any procurement or disposition of shares can only be undertaken after Parliamentary authorization. Further, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada.

AECL safeguards the entity's ability to continue as a going concern by managing its capital in order to achieve the Corporation's long-term objectives. This is managed through periodic funding received from the Government, the volume of cash received from operations and the portfolio of highly liquid investments or instruments readily convertible into liquidity with high-quality counter parties. The Corporation has a capital structure comprised of shareholders' equity, long-term payables, deferred capital funding, deferred development funding and deferred decommissioning and waste management funding.

In 2009, AECL's capital management objectives were unchanged from those in 2008.

21. Comparative Figures

Certain 2008 comparative amounts have been reclassified from financial statements previously presented to conform to the 2009 financial statement presentation.

22. Subsequent Events

On May 28, 2009, the Government of Canada announced its decision to move forward with a restructuring of AECL. No decision has been made as to the specific form the restructuring will take and no timeline for implementation has been presented. The financial impact to AECL is not determinable at this time.

Board of Directors

Glenna Carr

Appointed January 2008, Chair of the Board, AECL, Mississauga, Ontario

Formerly Chair of the Board of Directors of Independent Electricity System Operator; Chair of the Board of Technical Standards and Safety Authority; President of the Canadian Council for Public-Private Partnerships; Board Director, Ault Foods Ltd.; Chief Executive Officer, Carr-Gordon Limited; Vice-President, Laidlaw Inc.; Deputy Minister of the Ontario Management Board of Cabinet, Ministry of Consumer and Commercial Relations, and Ministry of Skills Development. Awarded National Champion for Excellence and Innovation in Public-Private Partnerships 2001; ICD.D Certified Director, Institute of Corporate Directors 2005.
Committees: Ex-Officio on Audit; Science, Technology & Nuclear Oversight; Human Resources & Governance; Project Risk Review.

Hugh MacDiarmid

President and Chief Executive Officer, AECL, Mississauga, Ontario

Director of ALH Holding Inc.

Former Managing Director, Holden America LLC; President and Chief Executive Officer, Laidlaw Educational Services; Executive Vice-President, Commercial, Canadian Pacific Railway; President and Chief Executive Officer, Lumonics Inc.; and principal with McKinsey & Company. Previous appointee of both the Government of Canada, as Chair of the External Advisory Committee on Smart Regulation, and the Government of Ontario, as Governor of Ortech International. Appointed January 2008.
Committees: Ex-Officio on Science, Technology & Nuclear Oversight; Human Resources & Governance; Project Risk Review. By invitation: Audit.

Marcel Aubut

Lawyer, Managing Partner, Heenan Blaikie, Montreal, Québec

Former President-CEO of the Québec Nordiques and Governor of the NHL; Founder of law firm Aubut Chabot; Founder and President of the Québec Metro High Tech Park; President and CEO of Trans-America Productions Ltd. Previous and current directorships include Hydro-Québec; Purolator; Laurentian Life Insurance Company of Canada; Investors Group; Æterna Zentaris Inc.; National Hockey League Pension Society; Boralex Power Income Fund; La Société de développement du Loisir et du Sport du Québec and Sodic Québec Inc. Officer of the Ordre national du Québec (2006), Member (1986) and Officer (1993) of the Order of Canada, Official Medal of the Québec National Assembly (1981), Queen's Counsel (1986), inducted into Canada's Sports Hall of Fame in 1999 and the Québec Sports Hall of Fame in 2008. Recipient of the Québec Bar's honorary advocaters Emeritas 2008. Appointed January 2001, reappointed in 2005 and 2008.
Committees: Member, Human Resources & Governance.

Richard Boudreault

President and Chief Executive Officer, Exploration Orbite Inc.

Former Chief Executive Officer of PyroGenesis Inc., Chief Technology Officer and Vice-President of Corporate Strategy at Advanced Research and Technology Inc. Venture Advisor for Caisse de dépôt et placement du Québec and Professor of Mechanical Engineering, Université de Sherbrooke. Director of Mechtronix, ITSMax and GeoMax, and ex-Director of 25 firms and organizations. Holds a physics degree from the University of Montreal, a Master of Engineering from Cornell University and an MBA from the Université de Sherbrooke. Appointed December 2007.
Committees: Member, Audit and Science and Technology.

Peter Currie

Director, Canadian Tire Corporation Limited, Affinion Group Inc., Intelius Inc., Arise Technologies

Former Executive Vice-President and Chief Financial Officer of Nortel Networks Corporation; Vice-Chairman and Chief Financial Officer for the Royal Bank of Canada; and Executive Vice-President and Chief Financial Officer at North American Life Assurance Company. Member of the Board of Governors and Executive Committee of York University, member of the Board of York University Development Corp. Former Director of Toronto East General Hospital, C.D. Howe Institute and Symcor Inc. Named Canada's CFO of the Year in 2003 by PricewaterhouseCoopers, Financial Executives International Canada and The Caldwell Partners International. Appointed July 2008.
Committees: Member, Audit.

Cassie J. Doyle

Deputy Minister, Natural Resources Canada

Former Associate Deputy Minister of Environment Canada; President and Chief Executive Officer, British Columbia Assets and Land Corporation; Deputy Minister of Environment, Lands and Parks, Small Business, Tourism and Culture and Housing and Consumer Services; and Assistant Deputy Minister of Municipal Affairs, Government of British Columbia. Holds a Master of Social Work in Public Policy and Administration. Appointed December 2007.
Committees: Member, Human Resources & Governance.

Dr. Claude Lajeunesse

President and CEO, Aerospace Industries Association of Canada

Former President of Concordia University in Montreal and Ryerson University in Toronto, and President and CEO of the Association of Universities and Colleges of Canada. He is a member of the Strategic Advisory Board of TD Insurance, Canadian Liver Foundation and Canadian Council for Christians and Jews. Appointed March 2005.
Committees: Chair, Science, Technology & Nuclear Oversight, Interim Chair, Project Risk Review.

Dr. John Luxat

Professor and NSERC/UNENE Industrial Research Chair in Nuclear Safety Analysis, McMaster University

Former Vice-President and Board Director of Nuclear Safety Solutions Limited. Recently appointed to the Province of Alberta's Nuclear Power Expert Panel. Past President and Treasurer of the Canadian Nuclear Society. Member of the Canadian and American Nuclear Societies and of the Advisory Board of the International Association for Structural Mechanics in Reactor Technology. Holds a PhD in electrical engineering from the University of Windsor. Appointed October 2008.
Committees: Member, Science, Technology & Nuclear Oversight.

Carol Perry

Commissioner, Ontario Securities Commission and Chair of its Governance and Nominating Committee

Former Director of DALSA Corporation, Irwin Toy Limited and Independent Electricity Market Operator. Served as Chair of the Board of Directors of St. Joseph's Health Centre in Toronto, and as a Director of the Bloorview MacMillan Children's Foundation. A former investment banker, held senior positions with RBC Dominion Securities, Richardson Greenshields and CIBC World Markets. ICD.D Certified Director, Institute of Corporate Directors. Appointed July 2008.
Committees: Member, Project Risk Review.

Gordon H. Shaw

Director, Corporate Secretary, and Advisory Board Chair, Aeolis Wind Power Corporation

Former Senior Executive with Imperial Oil Limited, Vice-Chair and Executive Director, Reform Party of Canada, Chair of Board and Director, Terra Mines Ltd., President and Director, SPL Wastewater Recovery Centre. Advisory Board, Strategic Power Solutions. Appointed December 2007.
Committees: Member, Science, Technology & Nuclear Oversight.

Stella Thompson

Corporate Director, Principal and Co-Founder of Governance West Inc., Calgary, Alberta

Current directorships include: Alberta's Electricity Balancing Pool, Alberta WaterSmart, Calgary Airport Authority, Calgary Herald Advisory Board, Resverlogix Corp., Genome Alberta (Vice-Chair) and Talisman Energy Inc. Most recently appointed to the Alberta Provincial Audit Committee. Recipient of the ICD.D certification granted by the Institute of Corporate Directors and, in 2005, was recognized by the Women's Executive Network and the University of Western Ontario's Richard Ivey School of Business as one of Canada's Top 100 Most Powerful Women. Former Vice-President at Petro-Canada. Appointed September 2002.
Committees: Chair, Human Resources & Governance; Member, Audit and Project Risk Review.

Barbara Trenholm

Professor Emerita, Faculty of Business Administration, University of New Brunswick, Fredericton, N.B.

A Fellow Chartered Accountant, directorships include Plazacorp Retail Properties Ltd. Member of the Institute of Corporate Directors. Awards include the National Post/ PricewaterhouseCoopers Leaders in Management Education Award, the Global Teaching Excellence Award, and University of New Brunswick Merit Award and Dr. Allan P. Stuart Award for Excellence in Teaching. Former member of the Canadian Institute of Chartered Accountant's Board of Directors, Past-President of the New Brunswick Institute of Chartered Accountants, and former Acting Dean of the University of New Brunswick's Faculty of Business Administration. Appointed June 2002.
Committees: Chair, Audit; Member, Project Risk Review.

Officers

Glenna Carr
Chair of the Board

Hugh MacDiarmid
President and Chief Executive Officer

Ala Alizadeh
Vice-President, Marketing and Business Development

George Bothwell
Senior Vice-President, External Relations and Communications

Macit Cobanoglu
Vice-President, CANDU Services

Richard Coté
Vice-President, Isotopes Business

Ron Cullen
Vice-President, New-Build Construction

Allan Hawryluk
Senior Vice-President, General Counsel and Corporate Secretary

Jerry Hopwood
Vice-President, Product Development

Wayne Inch
Vice-President and General Manager, Operations

Michael Ingram
Senior Vice-President, Operations

William Kupferschmidt
Vice-President and General Manager, Research and Development

Joseph Lau
Vice-President, Engineering and Technical Delivery

Beth Medhurst
Senior Vice-President, Human Resources

Joan Miller
Vice-President and General Manager, Waste Management and Decommissioning

Bill Pilkington
Senior Vice-President and Chief Nuclear Officer

Andre Robillard
Vice-President, Chief Information Officer

Michael Robins
Senior Vice-President and Chief Financial Officer

Greg Sayer
Vice-President, Compliance, Corporate Oversight and Regulatory Affairs

Ian Trotman
Vice-President, Life Extension and Project Management

Corporate Governance

The corporate governance structure of AECL is similar to publicly traded companies with the Board of Directors appointed by AECL's shareholder, the Government of Canada. The Board Chair, the President and Chief Executive Officer are also appointed by the Shareholder by Order-in-Council.

In 2008–2009, the Board provided direction, input and evaluation of AECL's strategic plans and approved major contracts and initiatives. A major focus for the Board during the year was the provision of effective governance oversight over the development and submission of AECL's bid proposal for the Ontario government's Nuclear Procurement Project Request for Proposals.

AECL's corporate governance framework reflects best practice as outlined in the Treasury Board of Canada Secretariat's corporate governance guidelines for Crown corporations. The Board of Directors recognizes that effective governance requires continuous improvement of corporate processes and practices necessary to ensure a high level of accountability to its stakeholders.

In 2008–2009, AECL continued to implement and strengthen its governance activities to enhance stronger accountability, transparency and confidence throughout the organization. In particular, the Board undertook the following initiatives during the year:

- Continued the Director succession and search process for the purpose of ensuring continuity and effective leadership by the Board aligned with strategic priorities.
- Oversaw the development of the Ontario Bid proposal with extensive work in this regard undertaken by the Project Risk Review Committee as well as by the Board as a whole.
- Completed a review of its Board Committee structure for the purpose of ensuring the appropriate level of Board oversight over business risk and other related risks.
- As a result of the Committee review, implemented a Board Committee restructuring to align Board oversight of enterprise-wide risk among appropriate Board Committees. This included the creation of a new Project Risk Review Committee to provide oversight and enhanced performance monitoring of AECL's major commercial projects, and an enhanced role for the Science, Technology & Nuclear Oversight Committee, including robust governance oversight of major capital projects at Chalk River.
- Continued to provide regular reporting to the Minister of Natural Resources in regard to the Board's fulfillment of its governance role and accountabilities.
- Undertook a comprehensive Director orientation process for three new Directors during the year and a continuing Director education program for all Directors including site visits, sessions on nuclear science and technology, and industry conferences.
- Developed a number of new governance policies in relation to defining Board policy and process, including policies in relation to Committee minutes; the retention and disposal of Board material; Director compensation.
- The Board Chair also gave several keynote addresses on the subject of Crown corporation governance to audiences of Directors and prospective Directors during the year.

The Board

During 2008–2009, the Board welcomed several new Directors, as well as said farewell to several retiring Directors, which brought the Board complement to 12 members, 10 of whom are currently independent in the sense that they are not management, nor do they have any interest, business or other relationship with the Corporation. AECL's business affairs are governed by the Board of Directors, which provides key stewardship responsibilities as set out in the Board Charter. These responsibilities include oversight for financial management, the identification of principal risks, approval of the strategic direction of the organization, alignment of the Corporation's public policy objectives, as well as meeting its overall legal requirements.

The table on the following page sets forth the record of attendance for Board and committee meetings for each of the Directors over the past fiscal year. The compensation of the Board complies with the Remuneration Guidelines for part-time Governor in Council Appointees. Ms. Doyle, Deputy Minister of Natural Resources Canada, Mr. Dicerni, Deputy Minister of Industry Canada and Mr. MacDiarmid, President and CEO of AECL, the three non-independent Directors, do not receive compensation as Directors.

The Board regularly assesses its effectiveness and functioning through an assessment process using external expertise. The Board has also created Director standards that set out the skills and criteria required to be an effective member of the Board of Directors. These criteria are aligned with the corporate governance guidelines for Crown corporations issued by the Privy Council Office, and an orientation process is in place to familiarize new Directors with the standards. The Board has approved a number of governance policies and procedures to assist it in fulfilling its role and responsibilities.

Table of Directors' Attendance at Meetings of the Board and at Board Committees, 2008–2009

Director	*Audit (10 meetings)*	*Science, Technology & Nuclear Oversight (3 meetings)*	*Human Resources & Governance (5 meetings)*	*Project Risk Review (9 meetings)*	*Board of Directors (9 meetings)*
G. Carr, Chair[1]	10/10	3/3	5/5	9/9	9/9
H. MacDiarmid, President[1]	10/10	2/3	5/5	9/9	9/9
M. Aubut	–	–	4/5	–	9/9
R. Boudreault	10/10	–	–	–	9/9
P. Currie[2]	4/4	–	–	–	7/7
R. Dicerni[3]	–	–	–	5/5	2/8
C. Doyle	–	–	1/5	–	9/9
R. Harding[4]	–	–	–	–	–
C. Lajeunesse	–	3/3	–	9/9	9/9
J. Luxat[5]	–	2/2	–	–	5/5
J. McKee[6]	–	1/1	3/3	–	4/4
C. Perry[2]	–	–	–	5/5	7/7
G. Shaw	–	3/3	–	–	9/9
S. Thompson	9/10	–	5/5	9/9	8/9
B. Trenholm	10/10	–	–	9/9	9/9

1 Ex-Officio Members of all Committees, with the exception that Mr. MacDiarmid is not a member of the Audit Committee

2 C. Perry and P. Currie were appointed July 30, 2008

3 R. Dicerni resigned February 2, 2009

4 R. Harding resigned May 6, 2008

5 J. Luxat was appointed October 2, 2008

6 J. McKee retired September 6, 2008

Five-Year Consolidated Financial Summary

(millions of dollars)	***2009***	*2008**	*2007**	*2006**	*2005**
CANDU Reactor Division					
Revenue	**$ 322**	$ 541	$ 514	$ 303	$ 283
Interest revenue	**14**	17	19	17	18
Net (loss) income before investment in					
Advanced CANDU Reactor development	**(330)**	50	80	48	72
ACR Funding	**24**	38	–	60	35
ACR Development costs	**25**	87	69	61	90
Net (loss) income	**$ (331)**	$ 1	$ 11	$ 47	$ 17
Research & Technology Division					
Revenue	**$ 65**	$ 58	$ 56	$ 105	$ 70
Funding	**192**	146	108	102	103
Gains	**–**	–	–	61	–
Net (loss) income before Dedicated Isotope Facilities	**(14)**	(41)	(70)	33	(51)
Funding	**67**	–	–	–	–
Impairment charge	**–**	247	–	–	–
Expenses	**58**	9	–	–	–
Net (loss) income	**$ (5)**	$ (297)	$ (70)	$ 33	$ (51)
Liability Management Unit					
Funding	**$ 111**	$ 100	$ 68	$ 56	$ 47
Net loss	**$ (77)**	$ (68)	$ (84)	$ (75)	$ (1,807)
Financial position					
Cash, cash equivalents and short-term investments	**$ 33**	$ 65	$ 141	$ 111	$ 67
Heavy Water inventory	**294**	295	299	299	300
Capital expenditures	**51**	111	84	56	8
Property, plant and equipment	**191**	142	246	188	135
Decommissioning and waste management provision	**3,100**	3,008	2,928	2,847	2,750
Long-term payables (excludes current portion)	**$ 30**	$ 41	$ 47	$ 46	$ 3
Other					
Export revenues	**$ 105**	$ 136	$ 124	$ 183	$ 225
Number of full-time employees	**4,891**	4,728	4,135	3,604	3,221

** Certain amounts have been reclassified to conform to the 2009 Financial Statement presentation*

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2251 Speakman Drive
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Canada L5K 1B2

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Canada R0E 1L0

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