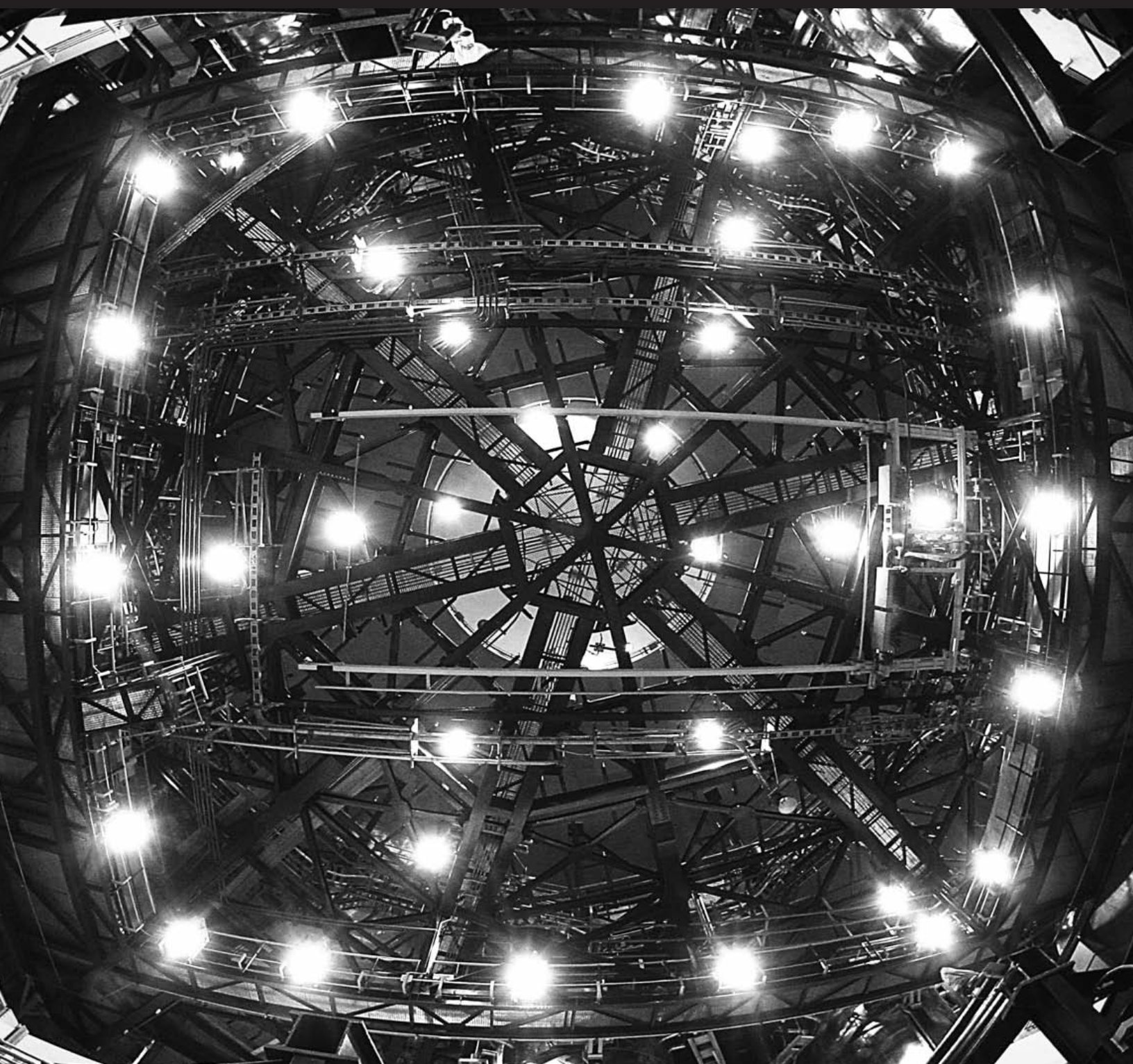

Atomic Energy of Canada Limited
2010 ANNUAL FINANCIAL REPORT



What's inside

2	The CANDU Solution
6	2009–2010 Overview
8	Message from the Chair
10	Message from the President
12	Management's Discussion and Analysis
35	Management's Responsibility
36	Auditors' Report
37	Consolidated Financial Statements
58	Board of Directors and Officers
60	Corporate Governance
62	Five-Year Consolidated Financial Summary
IBC	Corporate Information

Front cover:

Upper level interior view –
CANDU reactor building

Who we are

Atomic Energy of Canada Limited is an agent Crown corporation that provides full service nuclear technology to nuclear utilities around the world on a commercial basis while meeting strategic science and innovation policy objectives for Canada. Established in 1952, AECL is the designer and builder of Canadian-made CANDU® technology, including the Generation III+ Advanced CANDU Reactor® (ACR-1000®); the CANDU 6, one of the world's top-performing reactors; and the Enhanced CANDU 6™ (EC6™).

AECL's 5,000 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 expertise in support of CANDU reactor products.

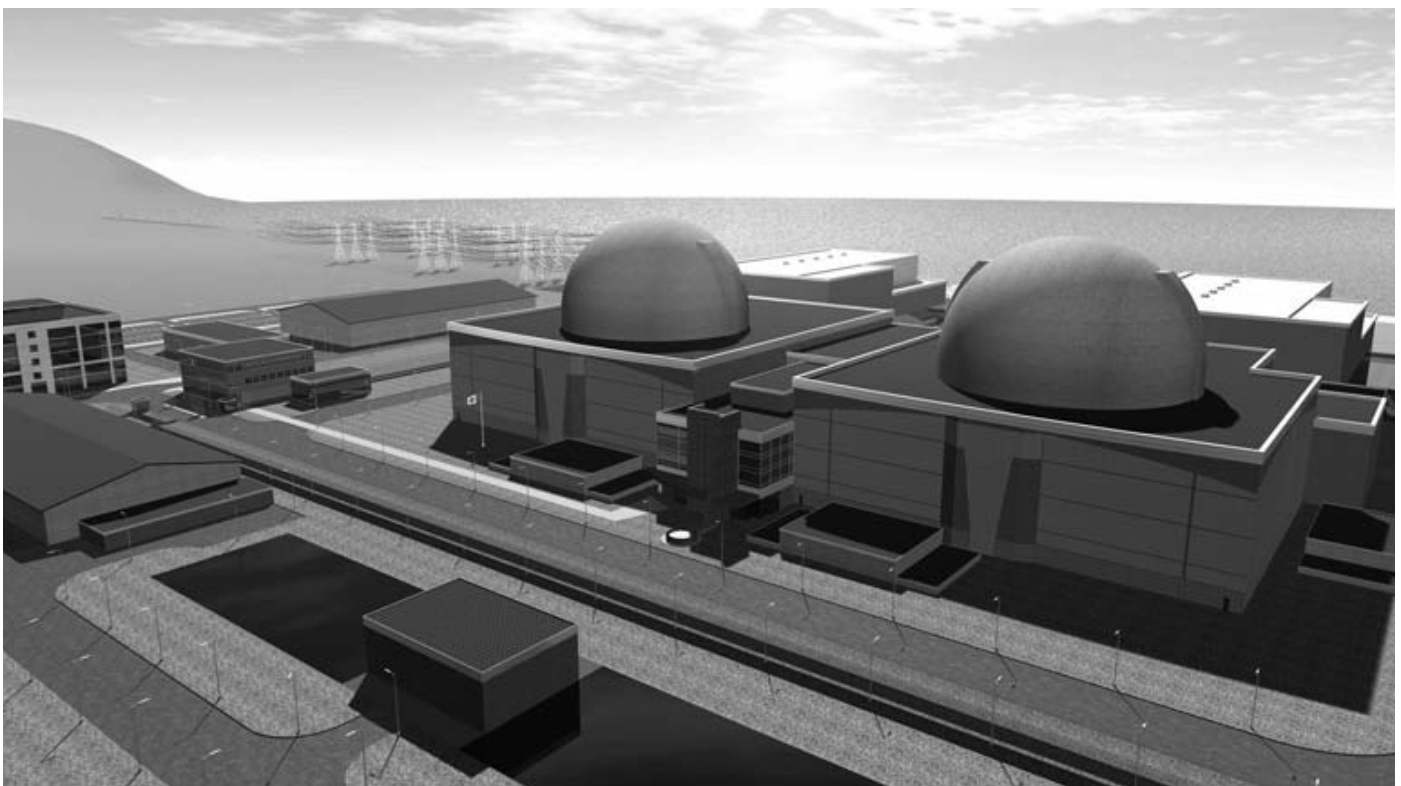
Mandate

- 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.

The Generation III+
Advanced CANDU Reactor



The CANDU Solution

CANDU reactors have earned international acclaim for providing safe, clean and reliable electricity for more than 40 years. AECL's continued goal is to create superior designs, produced to the highest customer and licensing standards, delivered on time and on budget.

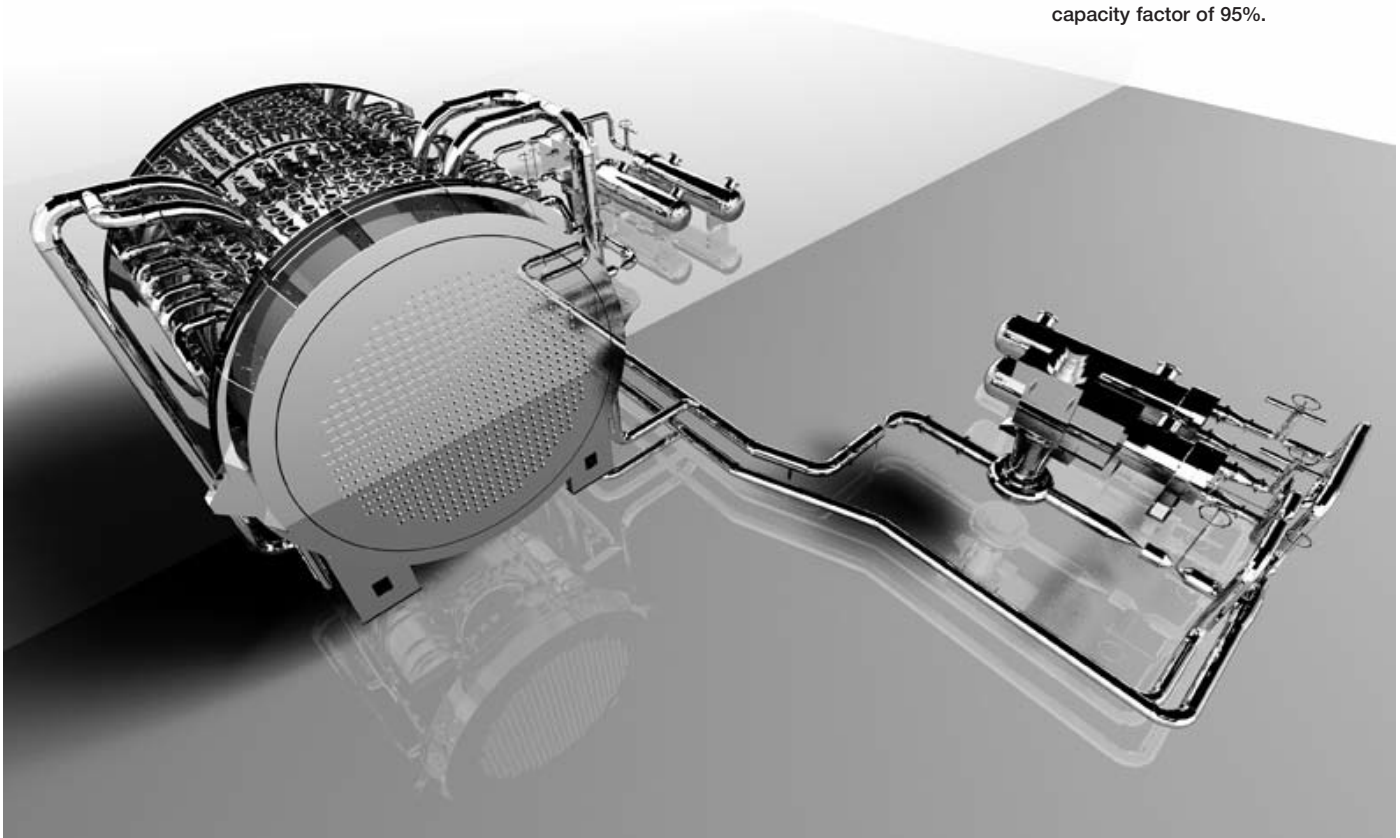
AECL designs and builds world-class nuclear reactors and offers a full suite of products, services and engineering support to global nuclear utilities.

The CANDU design features on-power fuelling and maintenance; horizontal pressure tube design; heavy water moderation; and dual independent fast-acting safety shutdown systems. CANDU technology is also being developed to have the unique ability to use alternate fuel cycles, such as thorium, mixed oxide, and recovered uranium from light water reactors.

The design's high neutron efficiency and on-power refuelling uniquely positions CANDU as the solution for customers exploring the use of alternate fuels in order to extend fuel resources and minimize spent fuel volume.

The company distinguishes itself with two world-class new-build product lines. This offers customers a reactor product best suited to their distinct needs and drivers.

By incorporating maintenance-based design strategy and an optimized outage maintenance schedule, the ACR-1000 has a target year-to-year capacity factor of 95%.



Evolutionary Technology

The Advanced CANDU Reactor (ACR-1000), a Generation III+ reactor, builds upon the proven features of the original CANDU design and is focused on meeting market demand for competitive pricing with state-of-the-art safety, operability and maintainability standards. Its design bridges heavy and light water reactor technologies and is competitive, in a head-to-head technical and economic comparison, with other leading global designs.

The neutron efficiency of the heavy water moderator design is combined with the economic advantages of light water cooling. These units are designed to have a 60-year operating life (including life

extension) and a lifetime average annual capacity factor of more than 90%.

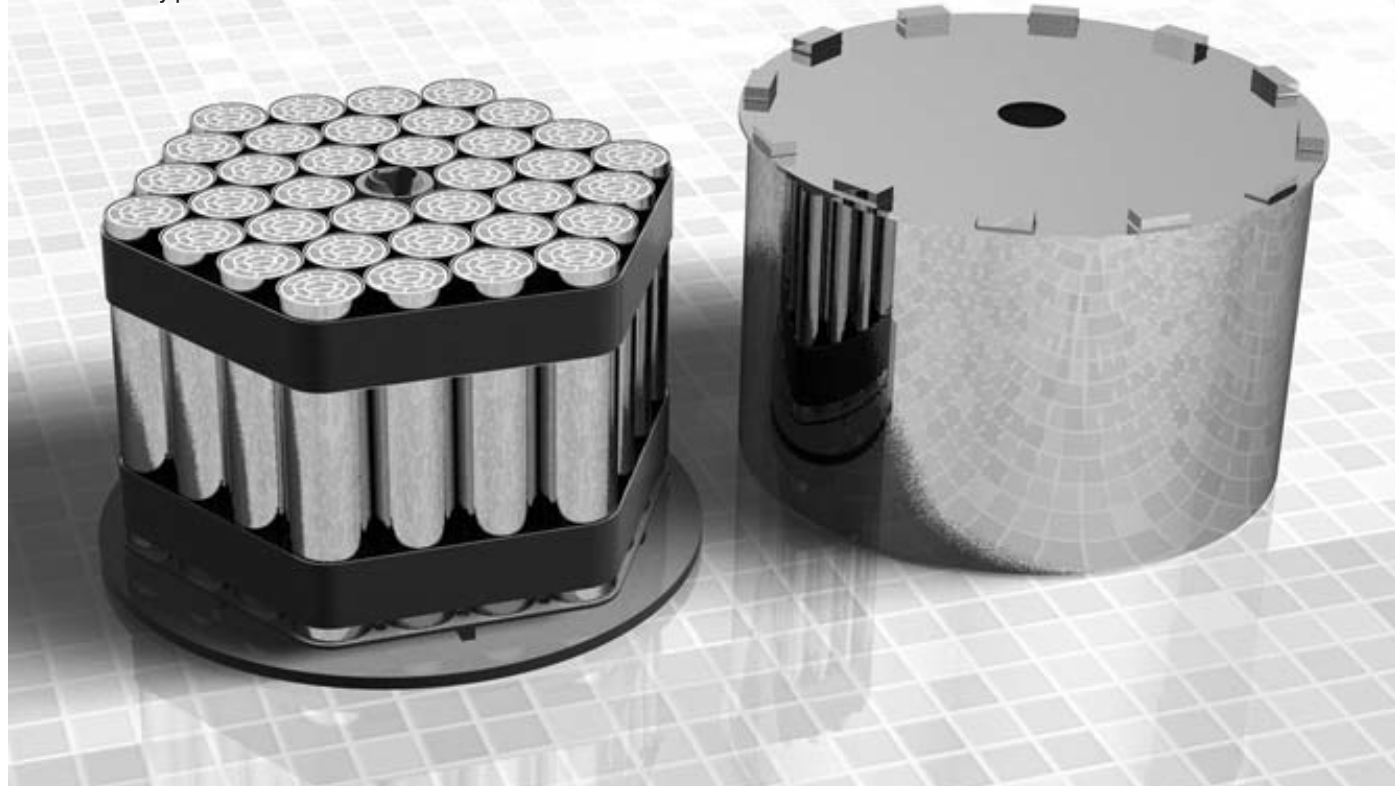
More than 85% of the ACR-1000 basic engineering program had been completed by fiscal year-end. A pre-project design review of the ACR-1000 by the Canadian Nuclear Safety Commission (CNSC) found no fundamental barriers to licensing the product in Canada. In addition, a Generic Preliminary Safety Analysis Report used in the Commission's licensing process was completed and a Preliminary Safety Analysis Report Supplemental was being finalized for completion in June 2010. This gives the ACR-1000 a competitive domestic advantage over other designs, which, at fiscal year-end, had not sought or received the same assurances from the CNSC.

Enhanced Technology

AECL's Enhanced CANDU 6 (EC6) has Generation III features and uses natural uranium. It is an enhanced version of the highly successful CANDU 6, the well-proven workhorse of the CANDU fleet.

The EC6 is the only medium-sized reactor available for markets with a smaller grid. It is being developed to offer customers the option of using alternate fuels such as thorium or recovered uranium from light water reactors. Use of recovered uranium from three light water reactors can keep a CANDU reactor running over its operational life. CANDU fuel flexibility is very significant for countries seeking extension of fuel resources, reduction in used fuel and fuel independence.

Building on the renowned fuel efficiency of CANDU 6 reactors operating today, the EC6 is designed to be the most fuel efficient nuclear reactor in the world, requiring just 17 tons of natural uranium fuel per terawatt hour of electricity produced.



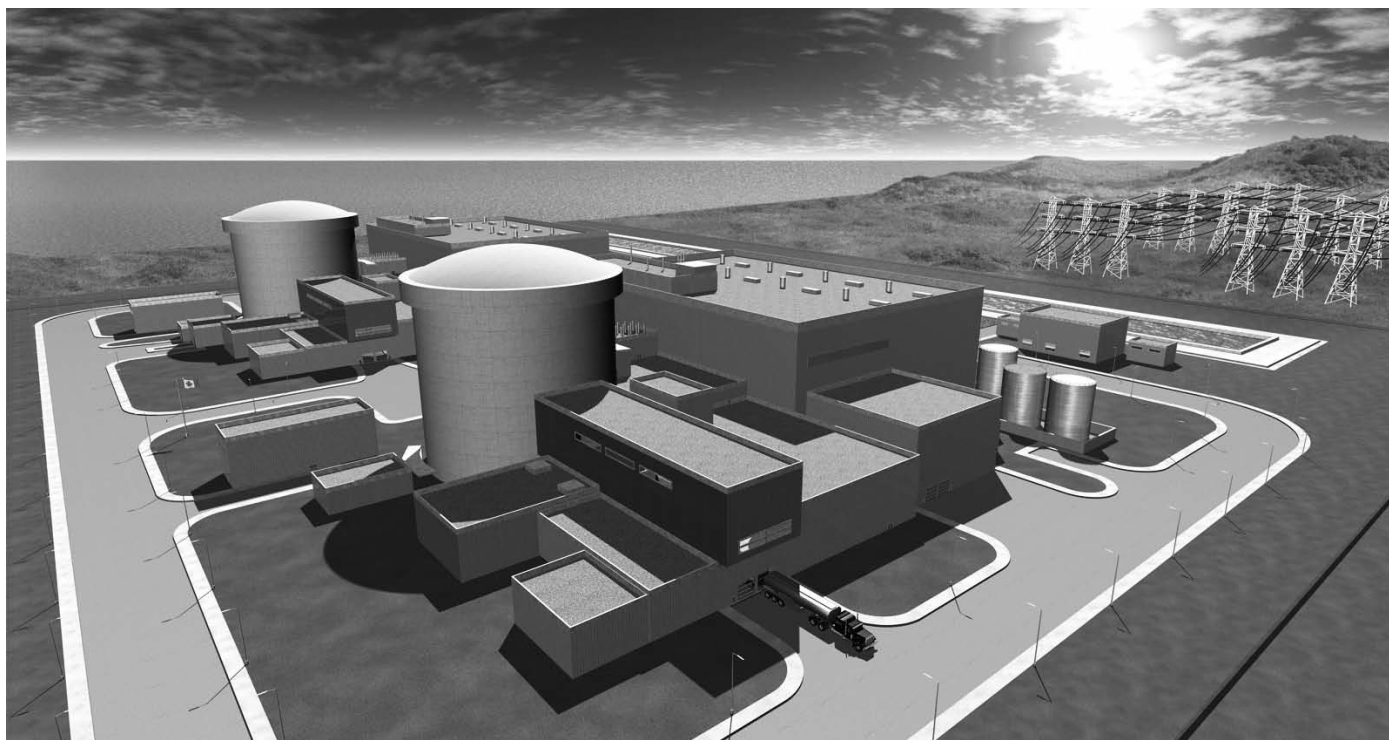
The EC6 maintains all of the proven features of the CANDU 6 reactor while delivering a higher plant output and increased safety and security attributes. The EC6 also builds on the CANDU 6's demonstrated track record for world-class performance.

AECL's life extension business allows for the safe extension of the CANDU reactor's operating life by up to 30 years. This is an intricate and highly technical operation, which involves removing and replacing all fuel channels, calandria tubes and associated parts. AECL's Services business, meanwhile, provides parts and services to CANDU plants as well as to a growing market of non-CANDU customers. With 439 active nuclear facilities in 31 countries worldwide, there is much opportunity for further and significant growth in the sale of this business' global nuclear products.

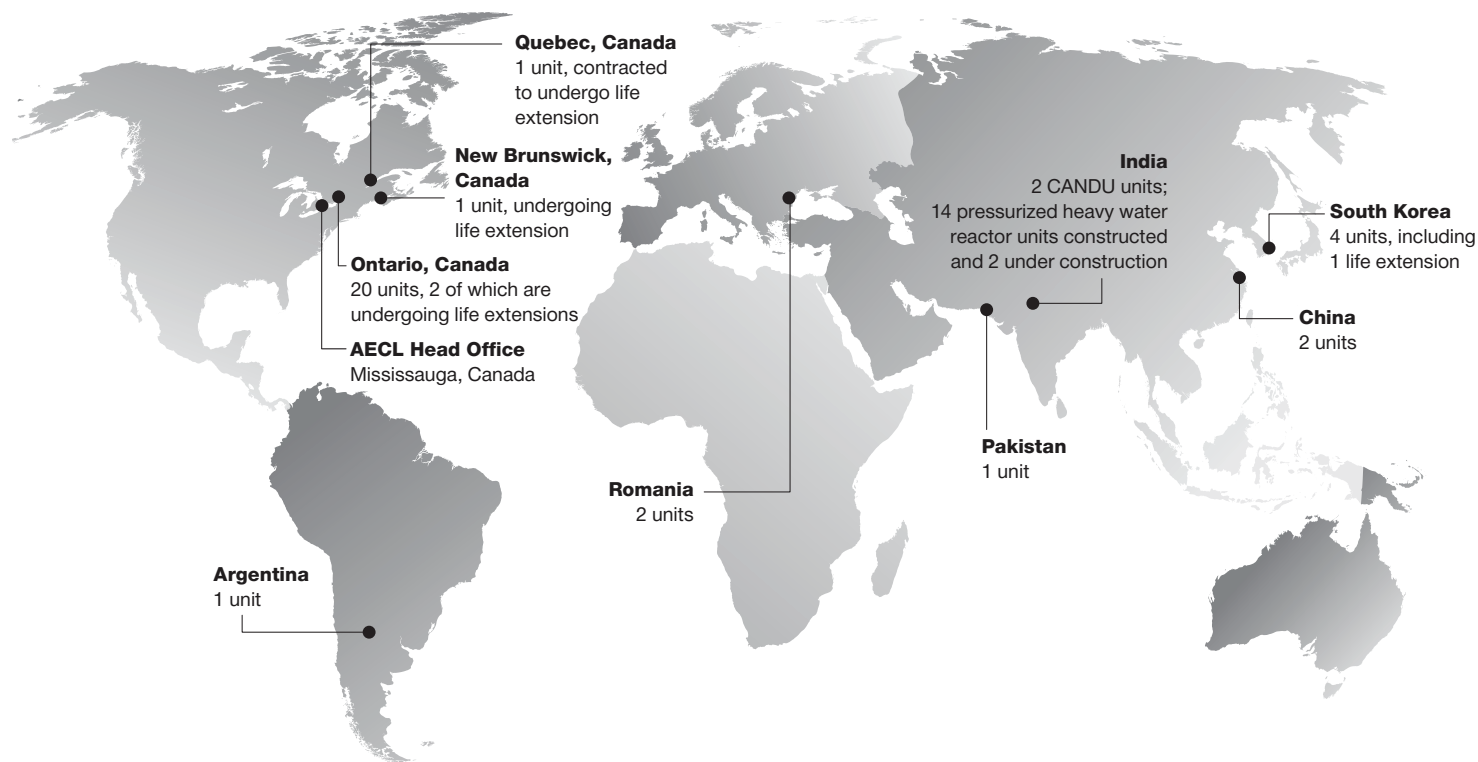
Market Opportunities at a Glance

- According to the International Atomic Energy Agency's Department of Nuclear Energy, worldwide installed nuclear generation capacity is expected to increase from approximately 370 GW to upwards of 691 GW by 2030. Market experts forecast that new-build nuclear revenues from this growth could exceed \$1,000 billion. With successful international experience constructing CANDU reactors, AECL is poised to increase its market share of that business.
- New-build market opportunities include Canada, China, India, Romania and Argentina, where there is an existing installed base of CANDU technology and a track record of strong technology performance. In India alone, the Department of Atomic Energy and Nuclear Power Corporation of India Limited has set a target of about 20 GW of nuclear power by the year 2020, increasing to 63 GW by 2032. India's nuclear fleet is based on pressurized heavy water reactors and is similar to CANDU technology. Other market opportunities include Ukraine, Lithuania and Jordan.
- With CANDU reactors around the world approaching the end of their initial pressure tube design life, there will be a large market for reactor life extensions – some 15 possible projects to 2028, with revenue up to \$3 billion. Similarly, steady growth is expected on the horizon for AECL's profitable Services business, driven by maturing CANDU reactors and anticipated life extension and new-build projects. There is also opportunity to build market share through new products and services for CANDU and non-CANDU customers. With 439 active nuclear facilities worldwide, growth can be achieved in Services' sales of global nuclear products, such as emergency core cooling strainers, reactor coolant pump seals and passive autocatalytic recombiners. These have been successfully introduced in recent years in non-CANDU markets in Europe, Asia and the United States.

The Generation III
Enhanced CANDU 6 reactor



Global Success



34 CANDU reactors, along with 16 other heavy water reactors based on the CANDU design, have been built or are under construction on four continents.

CANDU's global success is attributed to seven international reactor projects, all built to meet or exceed customer schedule and budget expectations. The CANDU 6 reactor is one of the top performing reactor designs in the world, with an 88.9% lifetime capacity factor.

2009–2010 Overview

Health and Safety

AECL's number one priority is to protect the health and safety of its employees, the public and the environment. In doing so, AECL reinforces a performance culture that provides a safe workplace for employees and meets the expectations and requirements of its key stakeholders, including the CNSC, customers and the public.

- AECL achieved a 50% decrease in the frequency of recordable lost-time injuries over 2009, AECL's best result in the last 10 years. The severity of recordable lost-time injuries declined by approximately 20%, reflecting the company's best performance over the last three years.
- The Government-funded Isotope Supply Reliability Program was established in 2008–2009 to strengthen the people, processes and facilities required to facilitate the licence renewal of the National Research Universal (NRU) reactor to 2016, upon its expiration in 2011. Last year, while the NRU was shut down for repairs, AECL continued to address these program activities to ensure a reliable supply of medical isotopes upon the NRU's return to service, expected in July 2010.

Projects

AECL's CANDU Reactor Division is committed to securing a major role in the global nuclear renaissance and financial self-sufficiency through leading-edge technology, services and engineering support to nuclear utilities around the world. This includes delivering the ACR-1000 and EC6 reactors as its flagship products; undertaking life extensions on CANDU reactors approaching their mid-life; and providing services to support the CANDU fleet. This is accomplished at

a high level of quality and compliance with regulatory requirements.

- Significant progress has been made toward ACR-1000 licensing in Canada. A Pre-Project Design Review by the CNSC concluded there are no fundamental barriers to licensing the ACR-1000 design in Canada. The Generic Preliminary Safety Analysis Report was completed in September 2009, to be followed by the release of the Preliminary Safety Analysis Report Supplemental in June 2010.
- The CNSC completed its Phase 1 Pre-Project Design Review of the EC6 nuclear reactor in March, concluding that, at an overall level, the design intent is compliant with CNSC regulatory requirements and meets the expectations for new nuclear power plant designs in Canada.
- Life extension projects made advancements in meeting contractual milestones. Several projects completed the removal phase and advanced to the installation phase. However, first-of-a-kind technical challenges discovered toward the end of the fiscal year resulted in significant further delays to schedule and cost increases. While AECL continues to actively manage technical risks, uncertainties remain regarding the resolution of these challenges.

Business and Operations

AECL's CANDU Reactor Division and Research and Technology Division business and operations focus on providing nuclear technology-related products and services to utilities, as well as managing nuclear-related facilities and technology capability to support commercial and Government requirements. These activities include

nuclear-related research and development, products and services, and waste management and decommissioning.

- In December, the Government invited investors to submit proposals for the commercial CANDU Reactor Division. At fiscal year-end, a number of investors had submitted non-binding bids for the business and no decision had been announced on the management structure for the Research and Technology Division. The Government plans to complete the restructuring process in 2010–2011. Effective April 2010, AECL realigned its business to facilitate this initiative.
- A heavy water leak was discovered in the NRU reactor vessel in May 2009, resulting in an extended shutdown of the reactor. The repair involves highly technical, first-of-a-kind solutions. Efforts by AECL and its suppliers to safely repair the reactor and return it to service for medical isotope production continued through the remainder of the year. The reactor is planned to be returned to service in fiscal 2010–2011.
- The Dedicated Isotope Facilities, including the MAPLE 1 and 2 reactors, New Processing Facility and Calcined Waste Storage Canisters, were safely ramped down to an extended shutdown state in June 2009. The CNSC granted a licence in March 2010 to formalize the status of the facilities.
- Construction of the second of six Shielded Modular Above-Ground Storage buildings began at Chalk River Laboratories, with completion slated for February 2011. Part of an infrastructure renewal program, the buildings are used to safely store low-level radioactive waste, in keeping with safety, regulatory and operational requirements.

Marketing & Sales

AECL's marketing and business development efforts are focused on domestic and international marketing of CANDU new build projects, life extension projects and delivery of CANDU and non-CANDU products and services. With the goal of improving competitiveness and meeting emerging market needs, AECL explores opportunities for strategic partnerships which complement existing areas of expertise.

- SC EnergoNuclear SA, the project company for Cernavoda Units 3 and 4 in Romania, contracted AECL to define the project scope for completing the reactors. The contract represents a major step toward the launch of a full project. CANDU is considered the preferred technology to complete the project.
- Negotiations on an international life extension contract progressed.
- The company penetrated the Japanese market with its ground-breaking sale of two pump seals and related services to the Tokyo Electric Power Company for use on their boiling water reactors. The sale is a significant growth opportunity, further expanding AECL's business outside the traditional CANDU base.
- AECL focused on building relationships with Indian nuclear counterparts. This included manufacturer Larsen and Toubro, party to a Memorandum of Understanding signed with AECL in early 2008–2009 to develop a competitive cost model for the ACR-1000 and upon completion, begin discussions on developing nuclear power plants in India. Over the past year, Canada and India have been working together to finalize a nuclear cooperation agreement.
- In a joint effort, AECL and Ukrainian nuclear utility Energoatom worked on a technical and economic evaluation

for the application of CANDU technology in Ukraine. The evaluation was completed in May 2010.

- AECL and Chinese partners advanced a first-ever commercial demonstration irradiation of recovered uranium in a Qinshan CANDU 6 reactor. The option being deployed blends recovered uranium from light water reactors with depleted uranium.
- In collaboration with Chinese experts and partners, major progress was made in assessing the technical and commercial viability of a new build thorium-capable CANDU reactor. An expert panel appointed by the China National Nuclear Corporation recommended that China consider building two CANDU units to take advantage of these unique alternative fuel capabilities, including thorium and recovered uranium.

Financial

As a Crown corporation, AECL generates commercial revenue and receives Government funding to support its operations. Commercial activities, which include major nuclear projects and related services, are managed based on profitability and growth, while Government-funded activities are managed based on meeting planned costs and deliverables. AECL is required to submit a Corporate Plan annually to the Government.

- AECL's financial performance last year was driven mainly by the need to: complete life extension projects safely and to a high level of quality; modernize Chalk River Laboratories operations to address regulatory, health, safety and environmental needs; and safely return the NRU to service following a May shutdown that extended beyond year-end. AECL recognized Government funding of \$948 million in support of these and other efforts.

- AECL expended \$115 million toward fulfilling decommissioning and waste management obligations under the Government-funded Nuclear Legacy Liabilities Program for the Government of Canada. This included ongoing decommissioning and waste management activities at Chalk River, Whiteshell and the Underground Research Laboratories, as well as the development of enabling facilities, such as a Fuel Packaging and Storage Facility at Chalk River. More than one third of the Program's expenditures are related to monitoring and maintenance costs.
- Consolidated commercial revenues of \$472 million were higher by 18% in 2009–2010. This improvement was largely due to increased activity on the CANDU Reactor Division's life extension projects. Revenue from the Services business in 2009–2010 remained relatively consistent with the previous year.
- Increased cash costs on several life extension projects contributed to the need for additional funding support from the Government. The impact of these higher costs on net income of the current year was mitigated by provisions taken in 2008–2009.
- The consolidated net loss reported in 2009–2010 was \$80 million (2008–2009: \$413 million net loss). The improvement from the previous year resulted from an increased level of Government funding, and a significant non-cash adjustment resulting from revised expenditure estimates relating to the decommissioning and waste management provision.



GLENNA CARR
Chair of the Board

Governing During a Sea Change

In 2009–2010, AECL's Board undertook to provide sound corporate governance during an extraordinary year of change and anticipated development.

The magnitude and strategic importance of these changes required an unprecedented level of Board engagement with our Shareholder – the Government of Canada – the regulator, Management, customers, partners and stakeholders during the year.

Of particular urgency, the Board, working with management and independent advisors, provided diligent oversight to ensure all appropriate measures were taken to safely repair the NRU and restore a reliable supply of medical isotopes. Board Directors met with the return-to-service team at Chalk River, visited the reactor and repair sites, maintained a high level of awareness of critical issues at hand, and since July have held bi-weekly meetings of the Science, Technology & Nuclear Oversight Committee with regular reports to the Board. We strengthened relations with local community leaders through outreach initiatives and established tools to communicate transparently AECL's progress with all of our stakeholders and interested parties worldwide.

Last year, the Board undertook extensive due diligence and outreach efforts with regard to new build and life extension proposals and bids in Ontario, Argentina and Romania. Directors invested significant time and effort to strengthen relationships with customers and stakeholders, visiting various project sites, including New Brunswick, Quebec and Port Hope.

Significant decisions were taken to invest in the ACR-1000 and EC6 reactor development programs, with particular focus on fuel development and adding to potential commercial value of AECL by assessing its intellectual property. Directors were active in fostering partnerships with communities, suppliers and post-secondary institutions to sustain and grow the CANDU nuclear industry in Canada and abroad.

Hugh MacDiarmid, our President and CEO, and I both invested much time in shareholder relations with the Minister of Natural Resources Canada, staff and senior public servants and addressing business groups, municipal and provincial governments, private sector companies and nuclear industry organizations. Our Board members were also visible and engaged in our industry and with partners, speaking at or participating in nuclear-related conferences and public events.

The Board continues to evaluate and improve its governance practices, conducting independent reviews and evaluation of board performance and risk oversight. This year, the Board undertook decisive measures to improve the efficient and effective delivery of life extension projects. The Project Risk Review and Audit Committees used independent expertise to review financial controls and project management of the current projects. Management is implementing the recommendations from the reviews; ensuring lessons learned are applied to current and future life extension projects.

And, to enhance our ability to govern AECL during this period of significant change and challenge, the Directors have engaged two Special Advisors to the Board who bring additional skills and expertise to the fore.

Certainly one of the most profound changes introduced last year was the Government's plan to restructure AECL. The Board supports the Government's objectives in guiding the restructuring process:

- i) That Canada requires safe, reliable and economic options to address its energy and environmental needs, and in meeting these needs, nuclear energy is an important part of Canada's future energy mix and is key to achieving the objective of becoming a clean energy superpower;

- ii) That the Government must protect the interests of taxpayers and maximize the return on its investment in the industry; and,
- iii) That the structure of AECL and its activities should position Canada's nuclear industry and its workforce to seize domestic and global opportunities.

As a liaison between the Board, the Shareholder and the Government's restructuring consultants, NM Rothschild and Sons, the Board established a Special Advisory Committee. The Committee includes Directors with significant business acumen and experience in corporate restructuring, who, on behalf of the Board, consider the best interests of the Corporation during the restructuring process.

The Special Advisory Committee has oversight of AECL engagement and cooperation by the Board and Management with our Shareholder and their restructuring consultants. During the restructuring process, the Board will focus on management maintaining AECL as a going concern, including the retention of key human resources, and the delivery of ongoing AECL projects and commitments.

In December, the Government invited investors to submit proposals for the commercial CANDU Reactor Division. The Government plans to complete the restructuring process in 2010–2011.

These changes and other initiatives required significant focus and time on the part of the Directors, of Management working with the Board, and of the Chair. Our Board and its Committees continued to meet regularly and with increasing frequency, with 11 Board and 60 Committee meetings held in 2009–2010 – more than twice the number of committee meetings held the previous year, an extraordinary effort on the part of the Directors.

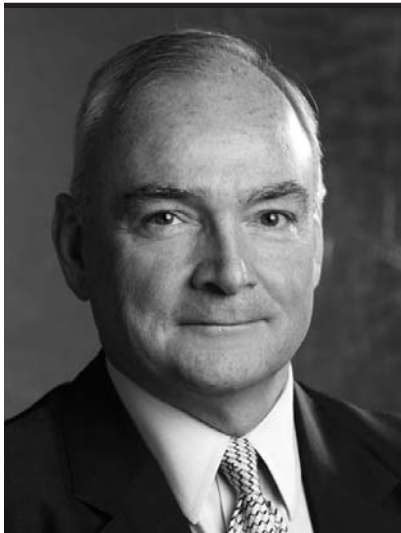
I would like to pay tribute to my Director colleagues for their high level of engagement during the year and the time and effort committed to ensuring that our top priorities have been appropriately addressed.

I would also like to express my appreciation to the Government of Canada for its support, as well as to AECL employees for their dedicated service.

We are on the cusp of a far-reaching transformation of AECL's history. We look forward to your ongoing support during this period of transition.



Glenna Carr
Chair of the Board



HUGH MacDIARMID
President and Chief Executive Officer

Deliberate Steps, Measured Progress

2009–2010 was a year in which AECL made steady progress toward its goal of being a competitive international vendor of CANDU nuclear reactors and meeting its national nuclear laboratory obligations.

AECL's commitment to safety remained our number one priority, and our diligent attention to it resulted in a significant drop in lost-time injuries last year. We will endeavour to continue this trend by further improving our health and safety initiatives to ensure that our employees, in our offices and at our project sites, are safe and sound upon leaving their workplace.

AECL's two distinct organizations, the Research and Technology Division, comprising our nuclear laboratories, and the CANDU Reactor Division, comprising our commercial operations, continued to pursue their respective objectives to bring long-term value to our Shareholder.

Nuclear Laboratories

Following the successful expansion of medical isotope production in 2008–2009 to compensate for a global supply disruption, the discovery in May 2009 of a heavy water leak in the NRU reactor resulted in an extended shutdown of the NRU at our Chalk River Laboratories. Returning the reactor to service safely and as quickly as possible has since been our top priority.

Staff and suppliers have worked around the clock to repair the reactor – a highly technical endeavour that has involved remote controlled, state-of-the-art welding processes. The NRU shutdown extended beyond the end of the fiscal year and the reactor is expected to restart in July 2010. During the year, and concurrently with the shutdown, AECL continued its Isotope Supply Reliability Program efforts that will enable the renewal of the NRU reactor licence, which expires in October 2011.

In conjunction with AECL's CANDU Reactor Division, the Nuclear Laboratories' Research and Development group continued to play a key role in supporting ACR-1000 development and made progress in areas such as CANDU fuel, nuclear waste reduction and safety.

Project New Lease infrastructure renewal activities achieved significant milestones with the completion of a waste management facility, administration building and other upgrades to address safety, security and viability of the Chalk River operations.

AECL also continued advancing solutions for the immediate, near-term and long-term management of legacy, historic and ongoing operational wastes. This included leading activities for the Port Hope Area Initiative Transition Phase and progressing Whiteshell Laboratories decommissioning activities.

Commercial Operations

AECL invested significant resources into building its commercial operations, comprised of its New Build, Life Extension and Services businesses.

Our New Build business focused on developing the ACR-1000 and EC6 as its leading nuclear technologies for anticipated deployment in Canada and internationally.

Our first-of-a-kind life extension projects continued to have significant challenges in 2009–2010. AECL actively worked toward addressing these challenges to complete the projects. Despite these challenges, life extension continues to be an important business for the future.

The Services business made steady progress and some significant gains, including with their non-CANDU product line, which expanded into Japan.

These business lines were supported by functional groups dedicated to developing our products, selling them and delivering them to our customers; Technology, Marketing and Business Development, and Operations.

Our Technology group made great strides in advancing our flagship products. ACR-1000 development remained on track and on schedule, with basic engineering more than 85 per cent completed. The CNSC's Pre-Project Design Review confirmed no fundamental barriers to licensing in Canada and we completed a key safety analysis report used in the licensing process.

Likewise, the CNSC's Phase 1 Pre-Project Design Review of the EC6 concluded that, at an overall level, the design intent is compliant with regulatory requirements and meets the expectations for new nuclear power plants in Canada.

Gains were also made in establishing CANDU's ability to utilize alternative fuel cycles, a unique differentiator from our competitors. This included a first-of-a-kind commercial demonstration of recovered uranium fuel in a Qinshan CANDU 6 reactor.

Last year, our Marketing and Business Development group efforts focused on domestic and international marketing of CANDU new build and life extension projects. The Ontario government's suspension of the Request for Proposals new build process was disappointing, but, deemed the most responsive bid, we remain confident that Ontario will complete this process and award AECL and consortium partner SNC-Lavalin Nuclear the procurement contract.

Internationally, we built strategic partnerships in incumbent and new markets. Discussions on specific projects in Argentina and Romania continued to advance and, with the prospect of a finalized Canada–India nuclear cooperation agreement in the near future, AECL is positioned to gain access to India.

In anticipation of new projects in the near future, our Operations group, which supports and delivers new build and life extension projects, advanced work on strategies and processes to meet expected resource needs; ACR-1000 execution; and knowledge management and project management resources and capabilities.

Our Results and the Path Forward

AECL's financial performance last year was mainly driven by the need to complete our life extension projects safely and to a high level of quality; modernize Chalk River Laboratories operations to address regulatory, health, safety and environmental needs; and safely return the NRU to service. Despite our challenges, we continue to see ongoing improvements

and remain confident that we have taken appropriate steps toward delivering long-term value for our Shareholder.

To ensure a robust organization, we welcomed four new senior executives to fill key positions and redeployed two others; one to strengthen our strategic contracting capabilities, the other to coordinate AECL restructuring activities. Additionally, we continued to build a sound human resources plan for project execution.

AECL worked closely with the Government in support of their plan to restructure the company. We will continue to participate fully in this process and take the necessary measures to ensure that AECL performs at a high level through the transition period. We expect this initiative will make AECL a more formidable player in the global marketplace.

I would like to thank those who have supported AECL's efforts in the past year: Our Directors, our Shareholder, suppliers, partners in Team CANDU and our employees for their commitment to excellence.

The path forward will be an exciting one: an evolution of our business; a new chapter in our history. Together, I'm confident that we will achieve the success to which we aspire.



Hugh MacDiarmid

President and Chief Executive Officer

Management's Discussion and Analysis

What's inside the MD&A

- 13 Forward-Looking Statements
- 13 Organization
- 15 Key Success Drivers and Capability to Deliver Results
- 16 Consolidated Financial Review
- 19 Operating Review
- 28 Consolidated Cash Flow and Working Capital
- 28 Off-Balance Sheet Arrangements
- 29 Management of Risks and Uncertainties
- 33 Accounting Changes
- 34 Critical Accounting Estimates and Policies

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, 2010 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.

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

The corporate services function has traditionally supported these divisions.

CANDU Reactor Division

The CANDU Reactor Division, based in Mississauga, Ontario, employs approximately 2,000 people and operates on a commercial basis providing nuclear products and related services. It generates value for nuclear utilities worldwide through its three core business lines:

New Build: Activities related to the development and commercialization of the ACR-1000 and EC6 as leading nuclear technologies, and project management of all new-build contracts in Canada and around the world.

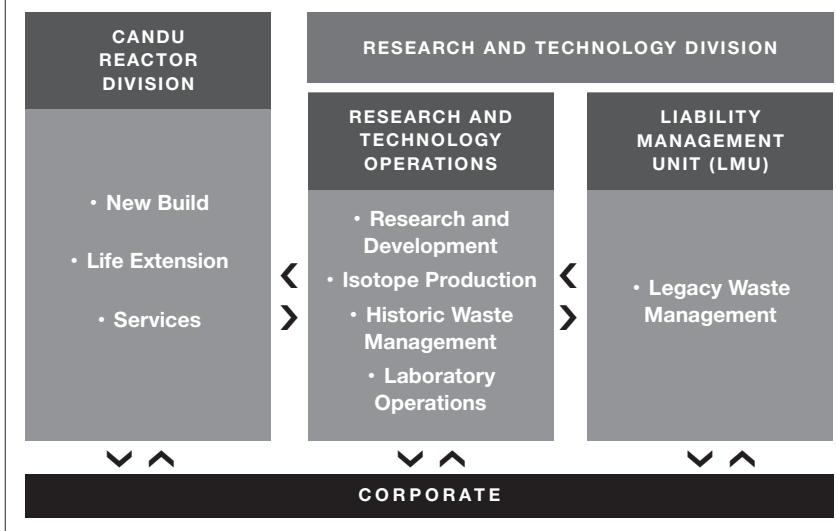
Life Extension: Reactor life extensions, including the replacement of major reactor components, allow utilities to extend the life of CANDU reactors for up to 30 years as opposed to decommissioning existing reactors and building replacements.

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 Services business also offers parts and services, including global nuclear products, to a growing market of non-CANDU customers.

These business lines are supported by the groups dedicated to developing the Division's products, selling them and delivering them to customers: Technology, Marketing and Business Development, and Operations.

- **Technology:** Focuses on the development and commercialization of the ACR-1000 and EC6, as well as providing nuclear-related goods and services to utilities.
- **Marketing and Business Development:** Sells CANDU technology and services worldwide.
- **Operations:** Delivers CANDU technology and services to commercial customers. The new-build business manages reactor construction projects, while the life extension business allows utilities to extend the life of their CANDU reactors for up to 30 years.

AECL Organization as of March 31, 2010



Research and Technology Division

AECL's Research and Technology Division employs approximately 3,000 people and is principally centred at Chalk River Laboratories, Canada's largest federal laboratory. Almost 400 of those staff members are employed in other locations, including the Whiteshell Laboratories in Manitoba.

The Research and Technology Division's value is expressed in national terms, which is characteristic of national laboratories worldwide. An ongoing investment of federal funds results in a healthy nuclear sector in Canada that contributes to jobs, economic activity and quality of life for the country.

Activities within the Division are aligned with the federal Science & Technology strategy, *Mobilizing Science and Technology to Canada's Advantage*. Through alignment with this strategy, the Division makes a significant contribution to three of the Government's Outcome Areas: an innovative and knowledge-based economy, a clean and healthy environment, and healthy Canadians.

The Division maintains facilities and research and development capabilities that are leveraged to benefit Canada and the nuclear industry. These benefits include isotope production capabilities; research themes that are focused on maintaining and improving safety; and nuclear-related products and services. Through innovation and engineering services, the Division supports the safe and efficient operation of CANDU nuclear generating stations and helps customers meet their regulatory requirements.

The Division is largely supported by the Government. It also generates revenue from the sale of products and/or services, including isotopes, research contracts for the CANDU Owners Group, and commercial waste management services for hospitals and universities. This additional activity contributed \$33 million to revenues in the year.

The Division also supports the CANDU Reactor Division in performing research, technical support and testing in the development of new commercial products, such as the ACR-1000.

The Division reports its financial performance under Research and Technology Operations and the Liability Management Unit.

Research and Technology Operations

The Research and Technology Operations organization manages the Division's nuclear research and development capability and related facilities. 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 operations and infrastructure initiatives.

The organization undertakes commercial activities that include the production of medical isotopes, CANDU technology and research and development services, as well as waste management and decommissioning services. It also provides essential technology, nuclear research and development services in support of the CANDU Reactor Division.

In addition, Research and Technology Operations manages historic waste and decommissioning liabilities. The Low-Level Radioactive Waste Management Office was established in 1982 to carry out federal low-level radioactive waste management responsibilities in Canada. The organization's main activities are to resolve historic waste problems and address general public information needs about low-level radioactive wastes. On behalf of the Government, the organization cleans up radioactive-contaminated sites across Canada for which the original owner is no longer known and where the current owner cannot reasonably be held responsible. In 2009, the Port Hope Area Initiative Management Office was established to clean up industrial radioactive residues in the Port Hope area and act as the proponent for the environmental assessment for the Port Hope and Port Granby long-term waste management projects.

The above activities utilize nuclear and non-nuclear facilities at Chalk River and Whiteshell.

Liability Management Unit

The Liability Management Unit accounts for two streams of waste and decommissioning liabilities on behalf of the Government of Canada and AECL: nuclear legacy liabilities and waste from ongoing operations. This is managed in accordance with CNSC regulations and in the best interests of Canadians. Research and Technology Operations and private sector contractors perform the waste and decommissioning work.

Nuclear Legacy Liabilities

The Government of Canada introduced the Nuclear Legacy Liabilities Program, a long-term strategy to reduce and eliminate federal nuclear liabilities on AECL sites generated prior to March 31, 2006. 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.

The program is governed through a Memorandum of Understanding between AECL and Natural Resources Canada. Under this agreement, AECL is responsible for carrying out the work in a safe, compliant and cost-effective manner.

The Government approved \$513 million for activities to be implemented over an initial five-year start-up phase, ending in March 2011.

Waste from Ongoing Operations

The Liability Management Unit accounts for ongoing operational waste from AECL's operations in addition to commercial radioactive waste received for long-term management from universities, medical facilities, government and industry from across Canada.

Key Success Drivers and Capability to Deliver Results

Safety

By placing safety first, AECL reinforces a performance culture that provides a safe workplace for employees and meets the expectations and requirements of its key stakeholders, including the CNSC, customers and the public.

These efforts resulted in very positive results in 2009–2010. AECL experienced a 50% decline last year in the recordable lost-time injury frequency rate (number of events by person hours) over 2008–2009 – its best performance in this category in the last 10 years.

The recordable lost-time injury severity rate (days lost due to workplace injury by person hours) also declined by approximately 20%, representing AECL's best result in the last three years.

The company attributes this success to its increased emphasis on a proactive Occupational Health & Safety program, increased communications with employees to heighten safety awareness, leveraging resources and the creation of improvement plans. Further work on improvement plan projects, such as improved incident management and implementation of a scorecard and audit tool, are all targeted activities to improve and sustain these results.

An important part of AECL's safety-first priority has been the commitment to apply best practices and achieve industry leadership in the company's safety programs. To that end, AECL's Health and Safety policy – the foundation of AECL's health and safety programs – was updated to set out common goals and standards to ensure that the requirements of applicable legislation for health and safety matters as they relate to AECL are met.

The policy outlines employees' responsibilities to comply with the Health and Safety policy, as well as key roles in establishing and maintaining healthy workplaces.

Customer Commitment

AECL recognizes that customer satisfaction is crucial to its ongoing success and is continuing its efforts to further evolve AECL into a customer-driven technology company. Customer feedback mechanisms continue to provide AECL with valuable insight into meeting and exceeding customers' expectations. AECL has been working cooperatively with customers to provide high-quality products and services in a timely and cost-effective manner.

Research and Development

The success of the Canadian nuclear program is founded on its broad research and development capability. AECL generates substantial intellectual capital and maintains a significant research and development infrastructure through its nuclear laboratories. It 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.

AECL provides support to meet Canada's international nuclear policy commitments, including participation in the International Atomic Energy Agency and the Generation IV International Forum. AECL's research and development capability contributes to the advancement of science in Canada through its support of the academic community – more than 200 academic researchers use the unique facilities and more than 20 Canadian universities collaborate on research projects. 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.

These capabilities support a knowledge-based, entrepreneurial Canadian economy.

Project Management Skills

In the last 13 years, AECL has achieved global success in delivering seven international new-build projects which met or exceeded customer schedule and budget expectations. Delays to schedule and cost increases continued on AECL's major reactor life extension projects, due to challenges related to their technical complexity and first-of-a-kind nature. Lessons learned on the initial projects contributed in part to schedule efficiencies on one of the more recent projects last year. With ongoing life extension projects and expected new-build in the near future, AECL continued to enhance its project management processes, tools and practices to ensure the completion of all projects.

Supply Chain

AECL's ability to meet its commercial commitments is dependent upon maintaining a strong supply chain. AECL is supported by more than 120 Canadian member-companies of the Organization of CANDU Industries, and continues to develop essential alliances with key international suppliers to promote CANDU technology.

The company has strengthened its supply chain through its life extension projects. Over the past year, the organization enhanced its ability to ensure supply is available globally and locally in anticipation of new-build projects. To encourage growth in the supply chain, AECL also supports existing suppliers in expanding their service provision and new suppliers in attaining nuclear qualifications.

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 the fulfillment of AECL's public policy mandate. During 2009–2010, Government support for AECL included funding for:

- The ACR-1000 development program.
- Operational requirements related to advancing commercial commitments.
- The nuclear research and development program, Chalk River Laboratories infrastructure renewal (Project New Lease) and ongoing operations (base operations and Isotope Supply Reliability Program).
- The Nuclear Legacy Liabilities Program. AECL worked with Natural Resources Canada on the development of the next phase of this program to extend funding beyond March 2011 – the final year of the first phase of the program.

AECL receives the Government of Canada's support of its activities through the approval of its Corporate Plan by the Governor in Council. The 2009–2010 Corporate Plan was approved in May 2010. Funding of \$535 million has been approved for use in 2010–2011.

Skilled Human Resources

AECL's highly educated and skilled workforce is the primary resource for ensuring its current and future success. Changing workforce demographics and global talent trends influence the development of AECL strategies on recruiting, engaging, deploying and retaining talent. The advancement of skills and leadership to help enhance company opportunities is achieved through a wide range of learning events and ongoing programs.

In 2009–2010, AECL marginally increased its full-time staff by 1% to 4,957 employees (4,891 in 2008–2009), including more than 3,400 highly skilled engineers, scientists, technical professionals and operations personnel in a wide range of technical disciplines.

Consolidated Financial Review

Key Financial Information

(\$ millions)	2009–10	2008–09
Revenue		
CANDU Reactor	\$ 439	\$ 336
Research and Technology	33	65
Total revenue	\$ 472	\$ 401
Funding		
Operating	\$ 810	\$ 485
Capital	126	148
Cost recovery from third parties and other	12	9
Total funding	\$ 948	\$ 642
Net income (loss) by business division		
CANDU Reactor after Parliamentary appropriations	\$ (104)	\$ (331)
Research and Technology Operations	(5)	(5)
Liability Management Unit	29	(77)
Net loss	\$ (80)	\$ (413)

Revenue

Consolidated commercial revenues increased 18% to \$472 million in 2009–2010. This improvement mainly resulted from increased activity on the CANDU Reactor Division's life extension projects. Revenue from the Services business in 2009–2010 remained consistent with the previous year.

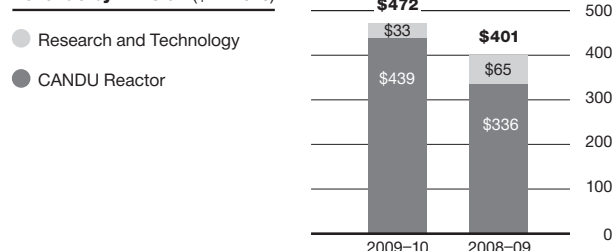
Research and Technology commercial revenue decreased by 49% to \$33 million, reflecting lower isotope sales. This decline resulted from the extended shutdown of the NRU in May 2009 to repair a heavy water leak. The shutdown extended beyond the end of the fiscal year.

Funding

Total funding recognized in 2009–2010 for operating and capital activities was \$948 million (2008–2009: \$642 million). This included:

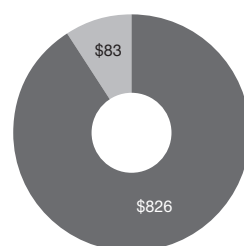
- \$108 million for the ACR-1000 program. \$29 million was used for research and overhead costs, while \$79 million was capitalized on the Consolidated Balance Sheet in accordance with accounting standards.
- A \$346 million cash infusion to support reactor life extension projects within the CANDU Reactor Division and meet contractual obligations. Three life extension projects are planned to be completed in 2010–2011.
- \$154 million for research and development, mainly supporting ongoing Chalk River site operations.
- \$120 million to address regulatory, health, safety and environmental needs. The funding supported the Project New Lease (infrastructure renewal) and Isotope Supply Reliability Program (NRU operations and licence renewal) initiatives, at AECL's Chalk River site. Capital funding totalled \$47 million.
- Cost recoveries and other funding totalled \$12 million. This includes amortization of deferred capital funding related to Government-funded infrastructure, mainly at Chalk River. In addition, cost recoveries include support for activities under the Low-Level Radioactive Waste Management Office, reported under the Research and Technology Division.
- Funding of \$21 million for the Dedicated Isotope Facilities, which include the MAPLE 1 and 2 reactors, the New Processing Facility and the Calcined Waste Storage Canisters. Operational costs have been significantly reduced since the facilities were placed in an extended shutdown state in June 2009. The CNSC granted a licence in March to formalize the status of the facilities. Funding was also used to meet contractual obligations.
- Decommissioning and waste management activities recognized increased funding of \$115 million from \$105 million in 2008–2009. Funding is provided through Natural Resources Canada and is based on AECL's expenditures.
- Specific funding of \$72 million was provided to support NRU return-to-service activities. The NRU was shut down in May 2009 to allow for repairs to the reactor vessel.

Revenue by Division (\$ millions)



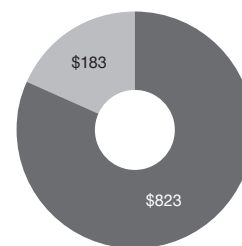
**Orders-on-hand by Business
March 2010 – \$909 million**

● Projects ● Services



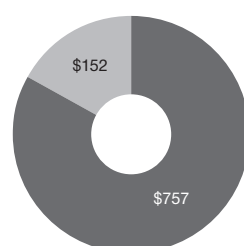
**Orders-on-hand by Business
March 2009 – \$1,006 million**

● Projects ● Services



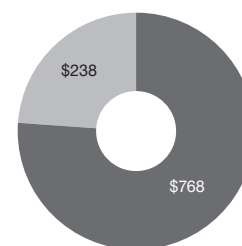
**Orders-on-hand by Region
March 2010 – \$909 million**

● Canada ● International



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

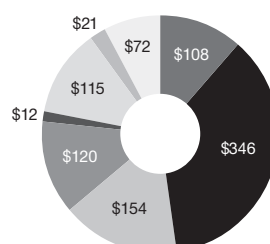
● Canada ● International



Funding 2009–2010

Funding \$948 million
(Operating \$822 million;
Capital \$126 million)

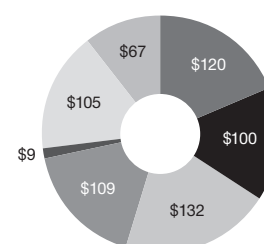
- ACR-1000 (\$108)
- Life Extension Projects (\$346)
- Research and Development (\$154)
- Chalk River Regulatory, Health, Safety, Security and Environment (\$120)
- Cost Recoveries from Third Parties and Other (\$12)
- Decommissioning (\$115)
- Dedicated Isotope Facilities (\$21)
- NRU Restart (\$72)



Funding 2008–2009

Funding \$642 million
(Operating \$494 million;
Capital \$148 million)

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



Net Income/Loss by Division

The CANDU Reactor Division reported a net loss of \$104 million (2008–2009: \$331 million net loss) after Parliamentary appropriations. This improvement was a result of increased Government funding for life extension projects provided during the year.

Under the Research and Technology Division, Research and Technology Operations reported a net loss of \$5 million (2008–2009: \$5 million net loss). Increased program expenditures and curtailed isotope sales as a result of the NRU extended shutdown were offset by increased Government funding. The Liability Management Unit reported a net income of \$29 million in 2009–2010 (2008–2009: \$77 million net loss). This increase was largely the result of a change in the implementation strategy for the remediation of stored liquid waste that reduced the corresponding provision for decommissioning liabilities.

Overall, AECL reported a net loss of \$80 million in 2009–2010, compared to a net loss of \$413 million in 2008–2009. The improvement was driven by a higher level of Government funding, increased revenue generated within the CANDU Reactor Division, and a significant decrease in the decommissioning and waste management provision.

2009–2010 Results Compared to Corporate Plan

<i>Year ended March 31 (\$ millions)</i>	<i>2009–10 Actual</i>	<i>2009–10 Corporate Plan</i>
CANDU Reactor Division		
Revenue	\$ 439	\$ 536
Funding – Operating	375	340
Net (loss) income	\$ (104)	\$ 66
Research and Technology Division		
Research and Technology Operations		
Revenue	\$ 33	\$ 33
Funding – Operating	325	331
Cost recovery from third parties and other	7	7
Net (loss) income	\$ (5)	\$ 9
Liability Management Unit		
Decommissioning funding	\$ 115	\$ 115
Net income (loss)	\$ 29	\$ (42)
Consolidated net (loss) income	\$ (80)	\$ 33

The CANDU Reactor Division reported a net loss of \$104 million, which was worse than planned net income as a result of schedule delays and increased costs on the life extension projects.

Under the Research and Technology Division, Research and Technology Operations revenues were consistent with the Corporate Plan. A reallocation of funding to the life extension projects resulted in operating funding that was lower than planned and also contributed to a net loss in Research and Technology Operations.

The Liability Management Unit reported funding of \$115 million, consistent with the Corporate Plan. Funding is recognized based on completed work packages and invoices are submitted to Natural Resources Canada for reimbursement. Net income was higher than planned due to changes in estimates pertaining to the decommissioning and waste management provision.

Overall, AECL recorded a net loss of \$80 million compared to planned net income of \$33 million. The decrease was mainly attributable to increased costs on the life extension projects, offset in part by significant estimate revisions within the Liability Management Unit.

Operating Review

CANDU Reactor Division

Business Lines

- New build, including reactor technology development and commercialization
- Reactor life extension
- Services

2009–2010 Goals

- Continuous recognition of the importance of a safe and healthy workplace through a commitment to the Division's Safety Charter.
- Achieve sustainable, profitable, long-term growth (financial self-sufficiency).
- Maintain CANDU as the nuclear technology of choice in Canada.
- Expand the international CANDU fleet.
- Deliver on project commitments.
- Increase public support and seek continued Shareholder support for CANDU technology.

2009–2010 Priorities

- Meet the requirements for new nuclear plant construction in its primary market, Canada.
- Grow the life extension business.
- Leverage partnerships.
- Achieve consistently high customer satisfaction levels.
- Ensure CANDU plants are the safest and highest performing plants in the world.

2009–2010 Measures

- Sign at least one major commercial contract by end of 2009–2010 (life extension).
- Services projects on budget/on schedule (90%).
- Commercial revenue (\$603 million).
- Achieve significant progress on the Point Lepreau and Bruce life extension projects.
- Meet ACR-1000 milestone commitments.

2009–2010 Significant Achievements and Progress

- Discussions are underway for a major contract, expected in early 2010–2011.
- Services projects on budget/on schedule (87%).
- Increased life extension cost estimates reduced revenue to \$439 million.
- The Point Lepreau and Bruce projects progressed to the installation phase.
- ACR-1000 planned milestones have been substantially completed. More than 85% of the ACR-1000 basic engineering program completed.

Strategic Initiatives

The CANDU Reactor Division's long-term growth is anchored around successful development and implementation of its leading nuclear technologies – the ACR-1000 and the EC6. The Division is committed to delivering the two products safely, reliably and economically, to the highest quality, as products of choice for nuclear new-build customers in Canada and around the world. The Division's two-product strategy enables it to market the reactor product that is most suited to the distinct needs and drivers of a particular purchaser.

The company's current focus for the ACR-1000 is Ontario, as this will provide a solid product development and licensing platform from which to develop ACR-1000 technology elsewhere in Canada. Success in Ontario will help facilitate business opportunities for this product internationally. Significant progress has been made in acquiring licensing for the ACR-1000 and EC6 through the CNSC in Canada.

While business development for the ACR-1000 will initially focus on Canada and India, CANDU 6 and EC6 development will focus primarily on the markets of Argentina, Romania, Jordan, Ukraine and China. Strong market interest for the EC6 has been expressed by countries that prefer a natural uranium reactor; a mid-sized reactor due to grid size and interconnect limitations; or those planning a transition to alternative fuel cycles, such as recovered uranium and thorium.

There are approximately 30 operating CANDU reactors around the world that may require life extension in the future. The delivery of the Division's current life extension projects will help secure future business. Ongoing efforts are being made to address first-of-a-kind challenges, enhance project management processes and apply lessons learned to more recently-awarded projects.

The CANDU Reactor Division's Services business is viewed as a preferred supplier by many of its utility customers due to its role as original CANDU designer and its solid CANDU knowledge and expertise. To improve its position in the marketplace, the Services business has developed innovative and strategic approaches to marketing, customized for its key customers. The organization is also building market share by introducing new products and strategies, such as bundling of services, and leveraging strategic partnerships to mitigate competition and provide a broader range of solutions to its customers.

Operations

The CANDU Reactor Division continued to make progress on its two leading products under development, the ACR-1000 and EC6. During the year, ACR-1000 development activities included advancements in fuel design, the reactor control centre and validation activities related to the design and safety analysis (reactor physics code suite). The Division completed the Generic Preliminary Safety Analysis Report and the CNSC completed Phase 2 of the ACR-1000 Pre-Project Design Review, signalling there are no fundamental barriers to licensing the product in Canada. The ACR-1000 basic engineering was more than 85% completed at year-end.

The CNSC's Phase 1 Pre-Project Design Review of the EC6 (completed in March), concluded that, at an overall level, the design intent is compliant with CNSC regulatory requirements and meets the expectations for new nuclear reactor power plants in Canada.

The CANDU Reactor Division continued to focus on major ongoing life extension projects. Both the Bruce and Point Lepreau life extension projects progressed to the installation phase. However, first-of-a-kind technical challenges discovered toward the end of the fiscal year resulted in significant further delays to schedule and cost increases. While AECL continues to actively manage technical risks, uncertainties remain regarding the resolution of these challenges. Financial forecasts are based on best estimates of the financial impact of these uncertainties. The more recently-awarded life extension projects, Wolsong in Korea, and Gentilly-2 in Quebec, ramped up project activity. The Wolsong project completed its removal phase ahead of schedule, which was in part attributable to lessons learned on the earlier projects. Engineering and procurement activities continued on Gentilly-2, with the reactor outage expected in fiscal 2011–2012.

The Services business line expanded its business, including breaking into the new market of Japan, where sales of nuclear pump seals, spare parts, training and consulting were made to a non-CANDU reactor utility.

In June 2009, the Ontario government suspended its Request for Proposals process for the construction of two nuclear reactors in Darlington, Ontario. AECL's submission was deemed to be "the best" proposal. The Ontario government has since indicated it remains committed to new nuclear build and AECL, through its CANDU Reactor Division, remains an interested party to this process upon its resumption.

The Division continued to pursue marketing efforts in Western Canada and arrangements with several countries, including India, China and Romania, to develop technologies and mobilize resources to facilitate new-build CANDU reactor projects. In Romania, AECL entered into a contract to assess the viability and planning of two CANDU reactor units at the Cernavoda Nuclear Power Plant, in advance of an expected project contract being awarded. With respect to its life extension business, the Division progressed negotiations on an international life extension contract.

The Division and its Chinese partners advanced a first-ever commercial demonstration irradiation of recovered uranium in a Qinshan CANDU 6 reactor. The option being deployed blends recovered uranium from light water reactors with depleted uranium.

Similarly, in collaboration with Chinese experts and partners, major progress was made in assessing the technical and commercial viability of a new-build thorium-capable CANDU reactor. An expert panel, appointed by the China National Nuclear Corporation, recommended that China consider building two CANDU units to take advantage of these unique alternative fuel capabilities, including thorium and recovered uranium.

Financial Review

CANDU REACTOR DIVISION

(\$ millions)	Actual Results	
	2009–10	2008–09
Revenue		
Reactor life extension	\$ 294	\$ 183
Services	134	139
Interest	11	14
Total revenue	439	336
Research and development costs	29	24
Net loss before Parliamentary appropriations	(479)	(455)
Funding – Operating	375	124
Net loss	\$ (104)	\$ (331)
Non-financial information		
New build and life extension projects	4	4

Revenues

Revenues from reactor life extensions increased to \$294 million (2008–2009: \$183 million). This 61 % increase largely reflects higher activity levels on the life extension projects during the year.

The Services business generated \$134 million (2008–2009: \$139 million) in revenue, largely in line with prior year results and estimates for the year.

Funding

The CANDU Reactor Division received funding of \$346 million (2008–2009: \$100 million) to support the ongoing life extension projects, which experienced additional schedule delays and cost increases in 2009–2010. The Division also received \$108 million to support ACR-1000 development costs. Of this total, \$79 million funded costs that met accounting requirements to be capitalized on AECL's Consolidated Balance Sheet, while the remaining \$29 million in funding supported research and development costs that were expensed in the Consolidated Statement of Operations.

Net Loss

The net loss before Parliamentary appropriations increased to \$479 million (2008–2009: \$455 million net loss). Due to additional technical challenges encountered and corresponding schedule delays on the life extension projects, cost estimates to complete the projects and related loss provisions have increased.

The Services business' contribution to net income remained consistent with the previous year and contributed to the recovery of divisional costs. The net loss after Parliamentary appropriations improved to \$104 million (2008–2009: \$331 million loss), reflecting increased funding to support costs incurred on major ongoing life extension projects.

Outlook

In 2008–2009, the Government announced its decision to restructure AECL. In December, investors were invited to submit proposals for AECL's commercial CANDU Reactor Division. The outcome of this initiative may significantly impact the prospective information below. The Government plans to complete the restructuring process in 2010–2011.

Life Extension

Despite experiencing challenges on several 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 of maintaining electricity generation capacity. Key business development goals in the Division's 2010–2011 to 2014–2015 Corporate Plan include securing new CANDU reactor life extension contracts, domestically and internationally.

AECL expects revenue from this business to decline in 2010–2011 as several life extension projects progress toward completion. During the year, progress was made on negotiations relating to an international life extension contract. While it is difficult to predict the precise timing for life extension projects, the Division expects to secure one major contract in 2010–2011. The CANDU Reactor Division believes that life extension is an important business line for the future and is, in the mid-term and beyond, financially sound.

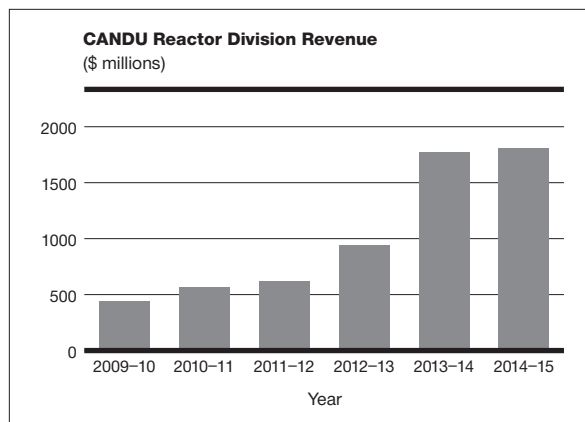
New Build

The CANDU Reactor Division's primary focus for new-build development remains on its domestic market, where CANDU-based nuclear energy continues to be an important part of Canada's electricity generating fuel mix.

During the year, the Ontario government suspended its process for the construction of two nuclear reactors at Darlington, Ontario. The CANDU Reactor Division continues to be a supportive and interested party in the resolution of this process. Beyond Canada, future market opportunities for the ACR-1000 include China and India, where there is an existing installed base of CANDU technology and a track record of strong technology performance.

The EC6, meanwhile, is attracting significant interest in a number of markets around the world, including, but not limited to, Romania, Argentina, Ukraine, Lithuania, Jordan and China. The Division expects a minimum of three sales of its EC6 technology over the next five years.

AECL is optimistic about the future of the new-build business and expects revenues from this business to gradually increase over the next five years.



Services

The outlook for recurring service work is promising as utilities seek to enhance reliability, extend service life and optimize plant operations. Competitive pricing, improved execution, enhanced customer relationship management and expected new-build and life extension projects in Canada and abroad will strengthen the Services business, which will continue to provide a steady source of income to the Division. Services will be working to expand its market reach for its CANDU and non-CANDU products and services, including the potentially large market of India. Revenues over the next five years are now expected to remain at approximately current levels. The Services business had orders on hand of \$83 million at the end of March 2010, and continues to retain its status as a preferred supplier for many customers.

Government Support

The CANDU Reactor Division will continue to require Government funding in 2010-2011 to support several life extension projects and to advance its technology development program. Thereafter, the level of funding required is expected to be reduced.

2010-2011 Major Priorities and Deliverables

While delivering a safety first and high performance culture, the CANDU Reactor Division will focus on the following priorities and deliverables in 2010-2011:

- Progress several life extension projects toward completion.
- Sign one major commercial contract.
- Generate Services revenue of \$127 million.
- Meet deliverable and financial performance targets on corporate programs and commercial projects.
- Sign a joint advanced fuel development agreement with China.
- Expand global marketing efforts in India, China, Ukraine and Jordan.
- Improve on occupational, health and safety metrics.

Research and Technology Division

Research and Technology Operations

Business Lines

- Research and development
- Isotope production
- Historic waste management
- Laboratory operations

2009–2010 Goals

- Protect the health and safety of employees, the public and the environment.
- Develop and deliver competitively superior products and services.
- Demonstrate leadership in organization and management effectiveness.
- Fulfill public policy goals and continue support for the CANDU Reactor Division to assist in its commercial viability.

2009–2010 Priorities

- Research and development support for the ACR-1000 development program.
- Maintain design and licensing basis for CANDU reactor technology and develop advanced nuclear concepts.
- Manage the Isotope Supply Reliability Program, and Project New Lease commitments.
- Develop and commercially exploit expertise and facilities in support of commercial products and services.
- Develop/sustain core competencies for a nuclear Science and Technology Centre of Excellence.
- NRU Repair and Return to Service.
- In cooperation with Natural Resources Canada, Public Works and Government Services Canada, leading Transition Phase activities within the governance model for the next phase of the Port Hope Area Initiative, including obtaining a CNSC licence for the Port Hope Project.
- Completing current research and development studies regarding the long-term management of used fuel as per the commercial contract with the Nuclear Waste Management Organization.

2009–2010 Measures

- Project New Lease deliverable performance of 90%.
- Isotope Supply Reliability Program deliverable performance of 90%.
- Technology deliverable performance of 96%.
- Research and Development commercial performance of 95%.
- Research and Development support for ACR-1000 at 90%.
- Port Hope Area Initiative deliverable performance of 90%.

2009–2010 Significant Achievements and Progress

- Project New Lease deliverable performance was 89%.
- Isotope Supply Reliability Program deliverable performance was 83%.
- Technology deliverable performance was 97%.
- Research and Development commercial performance was 100%.
- Research and Development support for ACR-1000 was 94%.
- Port Hope Area Initiative deliverable performance was 90%.

Strategic Initiatives

Over the past 60 years, Research and Technology Operations has made substantial contributions to Canada's economy and environment, largely as a result of the initial investment in its infrastructure: research reactors, laboratories and offices. The following renewal programs, which are dependent on the availability of Government funding, are underway:

- Project New Lease is a 10-year plan developed in 2006 to address the safe, secure and viable operation of Chalk River Laboratories. This includes the implementation of program improvements to meet industry standards in operations and the capital investment required to revitalize the aging site infrastructure. The requirements, which were defined and categorized based on known risks, involve addressing operational performance; regulatory requirements; health, safety, security and the environment issues; demographic issues of an aging workforce; and nuclear industry best practices, including replacement of strategic research and development facilities. With this investment, the laboratory will help Canada attain and maintain a position as a world leader in nuclear science and technology.
- The Isotope Supply Reliability Program involves renewing facilities, equipment and staff capabilities that are required for reliable, long-term isotope production. A key objective is an Integrated Safety Review of the NRU reactor to allow its continued operation past the next licence renewal for Chalk River Laboratories in October 2011. Other priorities include the provision of sufficient waste management facilities to allow isotope production to continue and improvements to the management of tritium, a potential hazard.
- 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 the Chalk River site.
- Delivering the national low-level radioactive waste management program for Canada's historic radioactive wastes through the Low-Level Radioactive Waste Management Office and delivering the federally-committed Port Hope Area Initiative construction of new long-term waste management facilities through the Port Hope Area Initiative Management Office.

Operations

In 2009–2010, as part of Research and Technology Operations' ongoing operations, a \$59 million research and development program was continued. This program, which is planned in conjunction with industry partners, supports activities in areas such as fuel, safety, health and control instrumentation. A smaller but significant activity within the organization focuses on advanced concepts that will lead to a commercial application to reduce volumes of nuclear waste and increase the amount of electricity generated.

In support of the CANDU Reactor Division, a development program to advance the ACR-1000 was also undertaken. Research and Technology Operations also engaged in commercial services, with customers including the Nuclear Waste Management Organization, the Department of National Defence, the CNSC, Canadian universities and hospitals, and the European Union.

Beyond providing support for the nuclear industry, Research and Technology Operations has played a role in an anti-terrorism initiative led by Defence Research and Development Canada. As part of this initiative, the organization has developed a new device to assess health effects in an emergency response to any radiological threat. It has also developed technology to track contraband nuclear material at international borders.

Work organization and management is a key driver of a cost-effective operation. During the year, a third party reviewer was engaged to assess the effectiveness of the Isotope Supply Reliability Program and identify areas for improved performance. This program achieved 83% of its objectives for the year.

A key component of the Isotope Supply Reliability Program is the Integrated Safety Review of the NRU, an activity that supports the renewal of the Chalk River Laboratories' operating licence. The work, divided into four phases, is described in a protocol document agreed upon by AECL and the CNSC. Phase I was completed in 2008–2009. Phase II, which involves a systematic assessment of the safe operation of the NRU, is progressing well, with all milestones to fiscal year-end met on schedule.

In May 2009, a heavy water leak was discovered in the NRU reactor vessel, resulting in an extended shutdown of the reactor to undergo repairs. The NRU, which is also instrumental in isotope production, remained out of service beyond the fiscal year-end.

Operational activities were carried out to safely bring the Dedicated Isotope Facilities to an extended shutdown state. The facility will continue to be preserved with routine surveillance and monitoring to reduce degradation.

Significant programs and projects operated by the Low-Level Radioactive Waste Management Office last year included: oversight of historic low-level radioactive waste national mounds and contaminated sites at various locations throughout Canada; delivery of interim waste management programs at Port Hope and Scarborough; operation of the Canada-wide Artefact Recovery Program; and consultations with communities along the Northern Transportation route regarding resolution of contamination issues. The LLRWMO operates base facilities in Ottawa and Port Hope and delivers national information programs.

Financial Review

RESEARCH AND TECHNOLOGY OPERATIONS

(\$ millions)	Actual Results	
	2009–10	2008–09
Revenue and Funding		
Revenue	\$ 33	\$ 65
Parliamentary appropriations – Operating	321	256
Amortization of deferred capital funding	5	3
Cost recoveries from third parties and other	7	6
Total revenue and funding	\$ 366	\$ 330
Expenses		
Facilities	\$ 302	\$ 218
Research and development	59	58
Other	—	1
Dedicated Isotope Facilities operations costs	9	58
Total expenses	370	335
Net loss	\$ (5)	\$ (5)

Revenues

Commercial revenue, which includes isotope sales, commercial technology sales, nuclear waste management and research and development activities performed for the CANDU Owners Group, decreased to \$33 million (2008–2009: \$65 million).

While the decline reflected an overall decrease in commercial activity, the cessation of isotope sales with the extended shutdown of the NRU reactor from May 2009 to beyond year-end was a primary contributor to this decline.

In providing research and development support to the CANDU Owners Group, Research and Technology Operations contributes to fulfilling its mandate to maintain the CANDU safety, licensing and design basis for Canadian utilities. Revenues from these activities increased to \$20 million in 2009–2010 (2008–2009: \$19 million).

Funding

Parliamentary appropriations for operations and amortization of deferred capital funding increased to \$326 million (2008–2009: \$259 million). This amount includes funding of \$321 million (2008–2009: \$256 million) from the Government of Canada for activities associated with the Research and Technology Operations, as well as \$5 million (2008–2009: \$3 million) related to amortization of deferred capital funding. An increased level of funding was used to support all major initiatives underway within the organization, with the exception of the Dedicated Isotope Facilities, which saw a decline in funding to \$21 million (2008–2009: \$67 million) as the facilities were placed in an extended shutdown state in June 2009. Specific one-time funding of \$72 million was received during the year to support repair activities and replace lost margin associated with the extended shutdown of the NRU.

The increase in overall funding in 2009–2010 also reflects incremental funds provided by the Government in response to the insufficiency of the Research and Technology Operations' reference level funding to meet existing base requirements. Base costs have continued to rise as a result of inflation, more stringent regulatory standards and a greater need for security over the last 10 years.

Program funding includes renewal of 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 \$47 million designated for site infrastructure requirements, accounted for as capital funding. Funding of \$45 million was provided to support Project New Lease capital activities, including the completion of an administrative building, a waste management facility, electricity infrastructure upgrades, design and refurbishment of several facilities (hydrogen laboratory, research facilities) and several operational improvement programs.

Research and Technology Operations manages historic wastes through the Low-Level Radioactive Waste Management Office and Port Hope Area Initiative Management Office on a cost recovery basis for Natural Resources Canada. Funding of \$7 million (2008–2009: \$6 million) was provided through Natural Resources Canada to support both the Low-Level Radioactive Waste Management Office and Port Hope Area Initiative Management Office.

Expenses

Total expenses within Research and Technology Operations were \$370 million compared to \$335 million in 2008–2009. Driving this increase in funded costs were NRU repair activities and related refurbishment and supporting activities under the Isotope Supply Reliability Program. This increase was partially offset by a decline in isotope production costs resulting from the NRU extended shutdown. Costs also increased over 2008–2009 as a result of a ramp up in project management activity related to preparations for the construction of a waste-enabling facility under the Port Hope Area Initiative Management Office. Low-Level Radioactive Waste Management Office costs incurred during the year were lower compared to 2008–2009 due to the transition of the Port Hope Area Initiative Project to a separate organization and reduced work related to the Northern Transportation route.

Net Loss

Research and Technology Operations reported a net loss of \$5 million (2008–2009: net loss \$5 million), as expenses and funding both increased.

Outlook

Research and Development activities planned for 2010–2011 will include safety, licensing and design research for the CANDU Reactor Division; commercially contracted work for the CANDU Owners Group; and product and services development.

Ongoing work related to the NRU repair is expected to be completed in 2010–2011, and will provide for a return to safe, reliable isotope production. Current actions being undertaken to repair the NRU and to address technical challenges are necessary for the reactor to remain licensed to operate under the *Nuclear Safety and Control Act*. These activities are intended to allow the reactor to operate until at least 2016. The organization will also continue to focus on renewing infrastructure at the Chalk River site, as well as on activities relating to the Integrated Safety Review of the NRU, an activity that supports the renewal of the Chalk River Laboratories' operating licence. The site licence is to expire in October 2011.

Revenues in 2010–2011 from the CANDU Owners Group to address safety, reliability and component integrity for the CANDU fleet are expected to remain consistent with those in 2009–2010. However, revenues from isotope production are expected to increase with the NRU's return to service. Government funding is planned to be lower, largely as a result of one-time funding provided in 2009–2010 to support NRU repair activities.

Overall, Research and Technology Operations plans to continue its progress with infrastructure and operational improvement initiatives in 2010–2011 and beyond. This will require the organization to maintain an increased level of funding in 2010–2011.

The planned restructuring of the CANDU Reactor Division, slated for 2010–2011, and an expected decision by the Government on management of the Research and Technology Division may impact the financial position and planned needs of Research and Technology Operations.

2010–2011 Major Priorities and Deliverables

Research and Technology Operations will focus on the following priorities and deliverables in 2010–2011:

- Meet deliverable and financial performance targets on corporate (Research and Technology and Liability Management Unit) programs and commercial projects.
- Improve occupational, health and safety metrics.

Liability Management Unit

Business Lines

- Legacy Waste Management

2009–2010 Goals

- To manage nuclear legacy liabilities on behalf of the Government of Canada on AECL and other sites to ensure the safety of Canadians and protect the environment.

2009–2010 Priorities

- Advancing decommissioning activities at the Whiteshell site to reduce liabilities and operational costs.
- Continuing to reduce health, safety and environmental risks at the Chalk River site through environmental remediation activities and removal of redundant buildings, as specified in operating plan commitments.
- Advancing solutions for the immediate, near-term and long-term management of legacy and ongoing operational wastes.

2009–2010 Measures

2009–2010 Significant Achievements and Progress

- Nuclear Legacy Liabilities Program deliverable performance of 90%.
- Nuclear Legacy Liabilities Program deliverable performance was 87%.

Strategic Initiatives

Key Liability Management Unit strategic initiatives are:

- Ensure that necessary core competencies are available and robust.
- Establish and maintain integrated plans and facilities that support waste management requirements at Chalk River. This ensures that facilities are in place to support business activities and ensure continued compliance with the Chalk River site licence.
- Achieve excellence in operations and capabilities by ensuring that the Liability Management Unit processes for Nuclear Legacy Liabilities Program planning and delivery meet the Government's needs and planned schedules and costs.

Operations

Major activities at Chalk River during the year included the decommissioning of various structures and monitoring and surveillance of a number of facilities, buildings and waste management areas. A new approach was adopted for dealing with radioactive liquids in aging tanks, which has reduced the decommissioning and waste management provision. As well, steady progress was made in constructing a facility to retrieve historic corroded used research reactor fuels from aging storage facilities; package and vacuum dry them; and store them in a new storage facility. The dismantling and removal of the remaining foundations of a large wood-framed building containing several radiochemical laboratories was completed, as well as the removal of several small buildings.

At Whiteshell, work continued on decommissioning the part of the shielded facilities that are no longer needed to support decommissioning activities, and closure of the Underground Research Laboratory reached an advanced stage. The shaft seal at the main subsurface fracture zone and the lower portion of the ventilation raise seal were installed. All redundant surface boreholes were sealed.

Financial Review

LIABILITY MANAGEMENT UNIT

(\$ millions)	Actual Results	
	2009-10	2008-09
Decommissioning funding	\$ 115	\$ 105
Expenses	86	182
Net income (loss)	\$ 29	\$ (77)

Decommissioning Funding

The Nuclear Legacy Liabilities Program entered its fourth year of activities to reduce the federal liabilities associated with redundant shutdown buildings and environmental contamination.

Funding recognized for the Liability Management Unit during the year was \$115 million, compared to \$105 million the previous year. Associated expenditures reduced the decommissioning and waste management liability.

The Liability Management Unit continued to make expenditures for ongoing decommissioning and waste management activities at the Chalk River site. These expenditures increased over the previous year, largely as a result of planning expenditures, projects related to groundwater treatment systems, and legacy lands.

Whiteshell decommissioning expenditures increased over the previous year as a result of site maintenance expenditures. Decommissioning expenditures related primarily to site operations and the Underground Research Laboratories, which is expected to be closed in March 2011.

The ongoing development of enabling facilities continued to comprise a significant portion of funded activities. Expenditures remained consistent with the previous year, and progress was made on several initiatives during the year, including a Fuel Packaging and Storage Facility. This facility allows for remediation of old storage areas and improves the management and storage of fuel wastes, and various other enabling facilities at the Chalk River and Whiteshell sites that facilitate processing and storage of nuclear waste.

Expenses

Expenses decreased to \$86 million (2008-2009: \$182 million), mainly as a result of significant adjustments to the decommissioning and waste management provision related to a change in the implementation strategy for the remediation of stored liquid waste. The liability is reviewed annually and adjusted to reflect revised costs and schedules. Accretion and other expenses of \$158 million was relatively consistent with the previous year (2008-2009: \$155 million). Overall, the Liability Management Unit reported a net income of \$29 million (2008-2009: \$77 million net loss).

Outlook

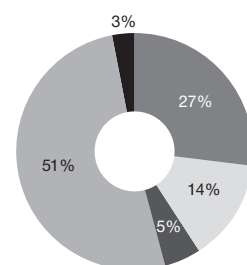
The Liability Management Unit manages decommissioning and waste management liabilities on behalf of the Government of Canada. Government funding for the initial \$513 million five-year start-up phase of the long-term (70-year) strategy will end in March 2011. Major activities underway and continuing through 2010-2011 include continued remediation of radioactive liquid and research fuel wastes stored in aging structures, and the ongoing decommissioning of Whiteshell Laboratories and aging infrastructure at the Chalk River site. The Liability Management Unit management has begun consultations with Natural Resources Canada to understand the requirements for the next phase of the program, which will require a funding commitment from the Government.

2010-2011 Major Priorities and Deliverables

The Liability Management Unit will continue to progress with program schedules as agreed with Natural Resources Canada. Ongoing activities include construction of enabling facilities, various waste monitoring and remediation activities, long-term planning related to decommissioning of buildings, program funding renewal, and storage facilities.

Decommissioning Liability 2009-2010 \$3,085 million

- Chalk River Decommissioning (27%)
- Whiteshell Decommissioning (14%)
- Reactors (5%)
- Enabling Facilities (51%)
- Support and Other Costs (3%)



Consolidated Cash Flow and Working Capital

SOURCE AND USES OF CASH

(\$ millions)	Actual Results	
	2009–10	2008–09
Cash from (used in) operating activities	\$ 1	\$ (39)
Cash used in investing activities	(129)	(138)
Cash from financing activities	143	155
Cash and cash equivalents		
Increase (decrease)	15	(22)
Balance at beginning of the year	33	55
Balance at end of the year	\$ 48	\$ 33

Operating Activities

Operating activities resulted in a net cash inflow of \$1 million compared to a net cash outflow of \$39 million in 2008–2009. AECL received funding of \$915 million in 2009–2010, representing an increased level of Government support from prior years. The increased level of funding was required to support a number of activities including the ongoing commercial life extension projects within the CANDU Reactor Division and the Research and Technology Division's NRU return-to-service project.

Investing Activities

Investing activities involved a net outlay of \$129 million compared to \$138 million in the previous year. Continued investment in the ACR-1000 program largely contributed to this outflow, which was down from the previous year as Government funding was reallocated to the ongoing life extension projects. Project New Lease undertook significant investments, including the completion of an administrative building and various site refurbishment and equipment purchases. The investment program, which is ongoing, aims to renew infrastructure at the Chalk River site and ensure safe operations at the nuclear facility.

Financing Activities

Financing activities generated proceeds of \$143 million (2008–2009: \$155 million), consisting of Parliamentary appropriations for capital expenditures associated with ACR-1000 development and infrastructure development at the Chalk River site, including Project New Lease and the Isotope Supply Reliability Program.

Overall, AECL's year-end closing cash position increased to \$48 million from the previous year's level of \$33 million.

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 guarantees that certain projects will be completed within a specified time, and if the Corporation does not fulfill its obligations, it will assume responsibility for liquidated damages. The aggregate amount of AECL's potential exposure through liquidated damages (\$99 million) and guarantees (\$500 million) as at March 2010 was \$599 million (2008–2009: \$639 million). Management has assessed the impact of liquidated damages penalties on the active life extension projects and incorporated it in the calculation of liabilities in the financial statements.

Indemnification Arrangements

These arrangements are part of the standard contractual terms to counterparties in transactions such as service agreements, sale and purchase contracts. These indemnification agreements may require AECL to compensate the counterparties 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 the Corporation. Management does not expect these arrangements to have a material current or future effect on the consolidated financial statements of the Corporation.

Management of Risks and Uncertainties

AECL recognizes risk management as an integral part of sound strategic planning and corporate governance.

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 established processes to facilitate wrongdoing disclosure company-wide.

The Risk Management Oversight Council, reporting to the CEO and Audit Committee, is tasked with identifying and prioritizing significant risks and opportunities, as well as directing action to mitigate or exploit these events. This group is also responsible for the periodic review and updating of all risk management procedures, including those related to pursuing new business and managing major projects.

AECL has classified risks in the following categories:

AECL's Risk Framework				
RISK CATEGORIES				
LIQUIDITY	PERFORMANCE	TECHNOLOGY	SUPPLY CHAIN	HUMAN RESOURCES
LICENSING	COMPLIANCE	MARKET	BUSINESS INTERRUPTION	SECURITY
IMPACT				
FINANCIAL	SAFETY	QUALITY	REPUTATION	

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.

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 complexity and timing of negotiations creates challenges to achieving estimated contract-effective dates, and can significantly impact working capital requirements.

AECL reduces these risks by negotiating contracts that maintain positive cash flow throughout the project. AECL's Services business also provides a 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 these proceeds to support operational requirements, as indicated in the Corporate Plan that was approved for the 2009–2010 planning period. If these proceeds must be returned to the Government of Canada, a new source of long-term funding will be needed.

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. While AECL mitigates this risk by negotiating an appropriate payment structure within contracts, the Corporation operationally requires responsive funding mechanisms to better address this risk.

Operational and Capital Costs

AECL manages large projects that are susceptible to increased costs, and consequently 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.

AECL continued to experience increased costs on several major projects, including its fixed price projects, ACR-1000 development and health, safety, security and environmental requirements at Chalk River, which, at times, negatively impacted its cash position. During 2009–2010, AECL received an increased level of funding 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, which include ensuring that project execution is in accordance with the client's contractual requirements and changes are managed as a result of economic factors and Government decisions. Failure to meet contractual requirements may result in legal and financial implications. In addition, products and services may require special guarantees or acceptance of completion, which could ultimately result in unplanned costs.

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 continued to experience significant financial setbacks on several life extension projects, arising from technical and operational challenges. Consequently, maintaining original cost and schedule targets has not been possible, and additional Government funding was requested to support the CANDU Reactor Division. Mitigation strategies have been put in place for known risks, lessons learned are being applied to more recently-awarded projects and AECL has increased its oversight on all of its 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 and EC6

Timely completion of the ACR-1000 and EC6 development programs is crucial to AECL meeting the new-build market window. To be successful, the products 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 carefully managing available resources in accordance with market conditions.

AECL continues to focus its commercialization effort for the ACR-1000 in Canada, as international success with a new reactor is optimal when 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.

AECL is focusing its commercialization effort for the EC6 on international markets that prefer a natural uranium reactor, a mid-sized reactor, and/or alternative fuel cycles. Support of the Shareholder is crucial to successfully complete the EC6 technology development to meet delivery requirements.

While the ACR-1000 and EC6 are an evolution of the CANDU 6, the extent to which the reactors meet construction and operating performance goals will only be known with certainty once the reactors are completed and operational. There is also a risk that actual performance will not meet expectations and costs will 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.

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 to third parties. As a result, third party performance issues may affect AECL's ability to perform and achieve anticipated profitability on a project.

AECL manages these risks by developing strategic alliances, adhering to stringent procurement and management practices, and obtaining performance guarantees.

A strong supply chain is present in Canada through the Organization of CANDU Industries. AECL continues to develop a robust supply chain by enhancing its organizational capabilities to ensure competitive supply is available globally.

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, the Nuclear Legacy Liabilities Program and existing and anticipated new-build and life extension projects. The human resource risk stems from an increasing demand for resources in the nuclear industry worldwide and changing demographics of scientific and technical resources industry-wide. Insufficient personnel and technical capability could affect AECL's business objectives and financial results.

To help mitigate these risks, AECL is enhancing its resource planning and development processes, focusing on the development of staff in required technical and managerial disciplines. AECL has put in place integrated training programs; established links with post-secondary institutions to encourage careers in the nuclear industry; is creating relationships with partners to provide complementary skills; and is recruiting in all fields to ensure sufficient skilled resources are available to deliver on commitments.

Licensing

The Licensing risk relates to obtaining and maintaining licences for nuclear facilities and new technologies.

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. 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.

AECL mitigates licensing risk through extensive monitoring of all licensing activities on an ongoing basis.

A significant investment in AECL's Chalk River nuclear programs and facilities is required to reduce operational and commercial risks, in addition to increased CNSC oversight and licence conditions. The Government has provided funding during 2009–2010 and has committed funding for 2010–2011 to support infrastructure development and related activities through the Project New Lease program.

AECL is working proactively with the CNSC to expedite the pre-licensing process for its reactor technology. The CNSC has completed its Pre-Project Design Review of the ACR-1000, concluding that there are no fundamental barriers to licensing the ACR-1000 in Canada. The Generic Preliminary Safety Analysis Report was completed in September 2009, to be followed by the release of the Preliminary Safety Analysis Report Supplemental in June 2010. The CNSC completed Phase 1 of the EC6 Pre-Project Design Review in March, concluding that, at an overall level, the design intent is compliant with CNSC regulatory requirements and meets the expectations for new nuclear power plant designs in Canada.

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

AECL manages 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. Where 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 May 2009, AECL shut down the NRU for repairs, which impacted the production of medical isotopes. During the year, AECL embarked on a Government-funded program to repair and return the NRU to service. Work under the Isotope Supply Reliability Program, introduced in 2008–2009, continued to address the Integrated Safety Review of the NRU, an activity that supports the renewal of the Chalk River Laboratories operating licence beyond its October 2011 expiry date. The NRU is expected to be returned to service in 2010–2011. As with any technology, the NRU's advanced age creates challenges for reliable operation. A rigorous program of maintenance is in place to reduce the likelihood of future service disruptions.

AECL's Chalk River site infrastructure is aging and various related risks and hazards have been identified. During the year, funding was provided for Project New Lease, which is a long-term plan specifically designed to support the safe, secure and viable operation of AECL's Chalk River site. The plan is subject to continued 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 faced by the nuclear industry is the very long decision cycle 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 also competes with publicly traded corporations that have large non-contestable home markets and 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 its 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.

In 2009–2010, AECL established and further developed strategic technology and business alliances, with the intention of expanding its global reach. These alliances allow AECL to better meet the technology and business requirements of markets in countries such as China and India.

Last year, the Ontario government suspended its Request for Proposals process for the construction of two nuclear reactors in Darlington, Ontario. While Ontario's decision delays the potential first sale of an ACR-1000 and increases market risk, AECL is focused on its development program, managing its skilled resources and continuing its marketing efforts in Canada as an initial step to entering the global market.

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 result in AECL's delaying or ceasing certain business activities and could affect AECL's reputation. In Canada, public consultations are a mandatory part of the environmental assessment process. Nuclear-related environmental assessments are generally initiated through CNSC licensing requirements.

AECL mitigates this risk through proactive information programs that inform the public about 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 various means, about nuclear energy benefits and conduct surveys to obtain public feedback.

To reassure the public that AECL places the highest priority on the health and safety of its workers and the Canadian public, and on protecting the environment, AECL maintains an Environmental Stewardship Council to enhance communications with key area stakeholders and the communities surrounding its operations near Chalk River, Ontario. The Corporation has also enhanced its voluntary public disclosure of events relating to its Chalk River Laboratories, including routine emissions and non-routine items or events that may periodically occur.

Enhanced communication procedures also include the implementation of policies addressing business conduct and ethics, developing business recovery plans, ensuring transparency and practicing good corporate governance.

Isotope Supply

AECL placed the Dedicated Isotope Facilities, including the MAPLE reactors, in an extended shutdown state in June 2009. The CNSC granted a licence in March 2010 to formalize the status of the facilities. Legal proceedings by MDS (Canada) Inc. against AECL and the Government of Canada related to these facilities are ongoing and liabilities associated with this, if any, are not determinable at this time.

Business Interruptions

AECL is subject to risks associated with operations disruptions. These risks may arise from a number of circumstances, such as regulatory obligations, labour disputes, 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.

A prudent program of equipment and facility maintenance supports ongoing operation of AECL's facilities. The NRU is a 50-plus-year-old reactor operating beyond its expected lifespan. In May 2009, a heavy water leak was discovered in the NRU reactor vessel, resulting in an extended shutdown of the NRU to undergo repairs. As a result, isotope production and various research and development activities were curtailed. Repairs were ongoing at year-end and the NRU is expected to be returned to service in 2010–2011. AECL's Project New Lease and the Isotope Supply Reliability Program initiatives were designed to support the renewal of facilities, equipment and staff capabilities, including those relating to the NRU. These initiatives will help mitigate further risks to the NRU and elsewhere on site. Government funding for both programs has been committed to cover planned expenditures for 2010–2011.

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 could result in unauthorized transfer of technology, disclosure of sensitive business information or harm to personnel. Such an event could result in 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 could affect AECL with varying degrees of severity. They could also increase AECL's financial costs and impact the Corporation's ability to operate facilities and perform on contracts as a result of issues-related safety factors or quality of work performed. All have the potential to diminish AECL's reputation in the industry.

Accounting Changes

Adoption of International Financial Reporting Standards in Canada

As a result of amendments to the scope of public sector accounting standards approved by the Public Sector Accounting Board (PSAB) in October 2009, AECL is permitted to self-select between International Financial Reporting Standards (IFRSs) or Public Sector Accounting as its basis of accounting. Due to the commercial nature of some of its business, AECL has determined that IFRS is the more appropriate basis and will continue its conversion efforts with an implementation date of April 1, 2011.

AECL has an internal team dedicated to IFRS conversion. The team has begun the implementation phase.

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 policies 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 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 Consolidated Statement of Operations 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 2010, amounted to \$147 million compared to \$105 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 Consolidated Balance Sheet.

Decommissioning and Waste Management

Decommissioning and waste management 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 five standing committees: Audit; Human Resources & Governance;

Project Risk Review; Science, Technology & Nuclear Oversight; and Special Advisory Committee. 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
June 18, 2010



Kent Harris
Chief Financial Officer
June 18, 2010

Auditors' Report

To the Minister of Natural Resources

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited (the "Corporation") as at March 31, 2010 and the consolidated statements of operations, changes in shareholder's deficit, comprehensive income (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.

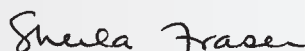
We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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, 2010 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 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

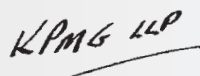
significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.

Pursuant to paragraph 132(2)(b) of the *Financial Administration Act*, we wish to bring an other matter to Parliament's attention. Subsequent to year-end, on May 13, 2010, the Governor in Council approved only the 2009–2010 portion of the Corporation's 2009–2014 Corporate Plan. The Corporate Plan sets out the strategic direction and revised operating and capital budgets for the Corporation without making assumption as to the outcome of any possible restructuring as described in Note 2 to the Consolidated Financial Statements. This Plan is of particular importance to the Corporation given the significance of Government funding to major ongoing initiatives.



Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 18, 2010



Chartered Accountants, Licensed Public Accountants

Toronto, Canada
June 18, 2010

Consolidated Balance Sheet

As at March 31

(thousands of dollars)

2010

2009

Assets

Current

Cash and cash equivalents (Note 4)	\$ 47,833	\$ 33,196
Accounts receivable and unbilled revenue	121,774	116,717
Current portion of long-term receivables (Note 6)	19,028	17,977
Inventory (Note 5)	30,365	25,325

	219,000	193,215
Long-term receivables (Note 6)	170,224	189,364
Trust fund (Note 7)	29,671	26,729
Heavy water inventory (Note 5)	291,701	294,004
Property, plant and equipment (Note 8)	231,360	190,594
Intangible assets (Note 9)	180,040	96,255

	\$ 1,121,996	\$ 990,161
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Liabilities

Current

Accounts payable and accrued liabilities	\$ 206,019	\$ 165,857
Customer advances and obligations	440,872	433,688
Current portion of provisions (Note 15)	232,732	79,175
Current portion of decommissioning and waste management provision (Note 12)	131,200	118,400
Current portion of long-term payables (Note 11)	13,319	13,319

	1,024,142	810,439
Decommissioning and waste management provision (Note 12)	2,953,699	2,981,345
Provisions (Note 15)	—	81,593
Deferred capital funding (Note 10)	147,002	104,615
Deferred development funding (Note 10)	175,348	96,255
Deferred decommissioning and waste management funding (Note 16)	100,644	76,143
Employee future benefits (Note 14)	61,501	60,631
Long-term payables (Note 11)	18,289	30,054

	4,480,625	4,241,075
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Commitments and contingencies (Notes 12 and 18)

Shareholder's deficit

Capital stock

Authorized – 75,000 common shares		
Issued – 54,000 common shares	15,000	15,000

Contributed capital (Note 16)	350,872	378,629
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Deficit	(3,724,501)	(3,644,642)
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Accumulated other comprehensive income	—	99
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	(3,358,629)	(3,250,914)
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	\$ 1,121,996	\$ 990,161
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The accompanying notes are an integral part of these consolidated financial statements

Approved on behalf of the Board:



Peter Currie
Director



Hugh MacDiarmid
Director

Consolidated Statement of Operations

For the year ended March 31

(thousands of dollars)

2010

2009

CANDU Reactor Division

Revenue

Nuclear products and services	\$ 428,074	\$ 321,639
Interest on long-term receivables (Note 6)	11,360	12,363
Interest on investments and other (Note 4)	124	1,907
	439,558	335,909

Funding

Parliamentary appropriations (Note 13)	346,000	100,000
	346,000	100,000

Expenses

Cost of sales and operating expenses	889,922	766,020
	889,922	766,020

CANDU Reactor Division net (loss) before investment in ACR-1000	(104,364)	(330,111)
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Investment in ACR-1000 development

Parliamentary appropriations (Note 13)	28,994	23,745
Development costs (Note 9)	28,994	24,494

CANDU Reactor Division net loss	(104,364)	(330,860)
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Research and Technology Division

Revenue

Services	32,861	65,377
	32,861	65,377

Funding

Parliamentary appropriations (Note 13)	299,566	189,154
Cost recovery from third parties and other	7,372	5,910
Amortization of deferred capital funding (Note 10)	4,679	2,510
	311,617	197,574

Expenses

Cost of sales and operating expenses	359,297	275,072
Interest on long-term payables (Note 11)	1,551	1,942
	360,848	277,014

Research and Technology Division net (loss) before Dedicated Isotope Facilities	(16,370)	(14,063)
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Dedicated Isotope Facilities

Parliamentary appropriations (Note 13)	21,198	66,646
Expenses	9,430	57,957

Research and Technology Division net loss	(4,602)	(5,374)
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Liability Management Unit

Funding (Note 13)

Decommissioning funding	114,656	105,080
	114,656	105,080

Expenses (Note 12)

Revision in estimate and timing of expenditures	(72,485)	27,533
Accretion and other expenses	158,034	154,691
	85,549	182,224

Liability Management Unit net income (loss)	29,107	(77,144)
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Net loss	\$ (79,859)	\$ (413,378)
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Amortization disclosure (Note 8)

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)

	2010	2009
Balance at beginning of the year	\$ 378,629	\$ 404,234
Transfer to deferred decommissioning funding (Note 16)	(24,501)	(24,501)
Transfer to repayable contributions (Note 16)	(3,256)	(1,104)
Balance at end of the year	\$ 350,872	\$ 378,629

DEFICIT

(thousands of dollars)

	2010	2009
Balance at beginning of the year	\$ (3,644,642)	\$ (3,231,264)
Net (loss)	(79,859)	(413,378)
Balance at end of the year	\$ (3,724,501)	\$ (3,644,642)

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(thousands of dollars)

	2010	2009
Balance at beginning of the year	\$ 99	\$ (219)
Other comprehensive (loss) income for the year	(99)	318
Balance at end of the year (Note 19)	\$ —	\$ 99

Capital stock

	\$ 15,000	\$ 15,000
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Total Shareholder's Deficit

	\$ (3,358,629)	\$ (3,250,914)
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The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income (Loss)

For the year ended March 31

(thousands of dollars)

	2010	2009
Net loss	\$ (79,859)	\$ (413,378)
Other comprehensive income (loss)		
Net (loss) gain on derivatives designated as cash flow hedges (Note 19)	(198)	103
Reclassification to income of gains on derivatives designated as cash flow hedges	99	215
Other comprehensive (loss) income	(99)	318
Comprehensive loss	\$ (79,958)	\$ (413,060)

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)

2010

2009

Operating activities

Cash receipts from customers	\$ 501,431	\$ 564,713
Cash receipts from Parliamentary appropriations	658,879	398,218
Cash receipts for decommissioning and waste management activities	113,324	102,466
Cash paid to suppliers and employees	(1,158,373)	(1,001,209)
Funds used for decommissioning activities	(114,725)	(104,987)
Interest received on investments (net)	124	1,905
Cash from (used in) operating activities	660	(38,894)

Investing activities

Purchase of short-term investments	—	(3,968)
Sales and maturities of short-term investments	—	14,027
Investment in ACR-1000	(79,100)	(97,478)
Acquisition of property, plant and equipment and software	(49,908)	(51,075)
Cash used in investing activities	(129,008)	(138,494)

Financing activities

Proceeds from Government for capital funding	53,979	59,700
Proceeds from Government for development funding	89,006	96,255
Repayment of long-term payable	—	(500)
Cash from financing activities	142,985	155,455

Cash and cash equivalents:

Increase (decrease)	14,637	(21,933)
Balance at beginning of the year	33,196	55,129
Balance at end of the year	\$ 47,833	\$ 33,196

Supplemental disclosure of cash flow information

Interest and bank charges paid during the year	\$ 57	\$ 70
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The accompanying notes are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended March 31, 2010

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 and 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 and 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. Restructuring

In November 2007, the Corporation's Shareholder announced that it would initiate a review of AECL to determine whether AECL's structure as a Crown corporation best equips it, its employees and ultimately the Canadian nuclear industry, to participate fully in the expanding global nuclear market. The review was conducted by the AECL Review Team at Natural Resources Canada, in consultation with the Department of Finance and the Department of Justice, and with the collaboration of AECL and external financial advisors.

In May 2009, the Shareholder announced its decision to move forward with a restructuring of AECL, noting the distinct mandates, resource and management needs of the two divisions of AECL: CANDU Reactor Division and the Research and Technology Division. Financial advisors were engaged to develop a restructuring plan and to provide external financial advice.

In December 2009, the Shareholder invited investors to submit proposals for AECL's commercial CANDU Reactor Division, in order to restructure the Corporation. Proposals will be assessed based on how well they meet set objectives, including: ensuring that Canadians have nuclear as a safe, reliable and economic clean energy option; controlling costs to the Government while maximizing the return on the taxpayers' investment; and positioning the nuclear industry in Canada to seize domestic and global opportunities. AECL management is supporting the process. Ultimate sale of all or a portion of the CANDU Reactor Division is at the discretion of the Shareholder.

Prior to the close of the fiscal year, the Corporation submitted its 2009–2010 to 2013–2014 Corporate Plan. Subsequent to year-end, on May 13, 2010, Governor in Council approval was obtained for the 2009–2010 planning period. The Corporate Plan and these financial statements have been prepared without making any assumptions as to the outcomes of the restructuring. As such, they do not contemplate any changes to AECL's existing activities. Should Government decisions with respect to AECL's restructuring affect the Corporation's structure, mandate or future financial situation, there may be a need to revisit the strategies outlined in that Plan and the related financial statement presentation (Note 3).

AECL's Research and Technology Division, which includes the Chalk River Laboratories, is not included in the sale process. The Shareholder has indicated it will make a decision at a later date on the best management structure for that Division.

3. Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). 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, U.S.A. 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.

In addition, the Corporation's financial statements do not include any adjustments that would be required to the carrying values of the assets and liabilities, the reported net income/loss for the year, and the balance sheet classification if it was determined at a future date

that any of the existing activities of the Corporation would meet the criteria to be classified as held for sale. The application of such criteria would require that the assets and liabilities be written down to the lower of carrying value and fair value less costs to sell and such a write-down may be material and would depend on market conditions on the date such criteria are met.

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, research and development costs and amortization of property, plant and equipment and intangible assets. Actual results may materially differ from these estimates.

Management bases its estimate of contract revenues and costs on the latest available information, which includes detailed contract valuations. In many cases the results reflect the expected outcome of long-term contractual obligations which span more than one reporting period. Contract revenues and costs 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 impact of the changes in accounting estimates is then reflected in the ongoing results.

The most significant judgments and estimates impacting revenue recognition are required for the four fixed price contracts in which the Corporation is completing the life extension of existing CANDU reactors. The accuracy of the Corporation's revenue and Consolidated Statement of Operations in a given period is largely dependent on the accuracy of its estimates of the cost to complete each of these projects. There are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include the completeness and accuracy of the original bid, costs associated with added scope changes, complex technical issues arising from the nature of these first-of-a-kind projects, subcontractor performance issues, changes in productivity expectations, site conditions that differ from those assumed in the original bid (to the extent contract remedies are unavailable) and the availability and skill level of workers in the geographic location of the project. Incorporated in the Corporation's forecasts are the best estimates of the financial impact of these project uncertainties prior to their resolution which may vary materially from the actual amounts realized. Substantial changes in cost estimates, particularly in these larger, more complex projects have had, and can in future periods have, a material effect on the Corporation's Consolidated Statement of Operations.

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 which in the view of management are unlikely to succeed or cannot be reliably determined.

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 precludes it from using 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 included in accounts receivable and derivatives with a negative fair value are included in accounts payable and accrued liabilities.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (OCI). This category includes changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in 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 into various categories:

<i>Category</i>	<i>Financial Instruments</i>
Financial assets and liabilities held for trading	<ul style="list-style-type: none"> • Cash and cash equivalents • Trust fund
Financial assets held to maturity	<ul style="list-style-type: none"> • None
Available for sale financial assets	<ul style="list-style-type: none"> • None
Loans and receivables	<ul style="list-style-type: none"> • Accounts receivable • Long-term receivables
Other financial liabilities	<ul style="list-style-type: none"> • Accounts payable and accrued liabilities • Customer advances and obligations • Provisions • Long-term payables

Loans and receivables and other financial liabilities are recorded at fair value upon initial recognition and are subsequently carried at amortized cost using the effective interest method. Accounts receivable are reviewed on an invoice by invoice basis to establish the provision for bad debts.

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 discussed 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 Consolidated 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 a 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 a 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 in OCI. Any ineffective portion of the unrealized gain or loss on hedging is recognized immediately in net 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 constructed 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. Determination of recoverability is based on an estimate of undiscounted future cash flows. Fair value is calculated using an expected present value technique.

j) Customer Advances and Obligations 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 included in accounts receivable. Billings collected in excess of revenue recognized 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, is recognized under the percentage-of-completion method using the ratio of costs incurred to total estimated costs 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 is 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 personnel-related costs; the cost of materials and services consumed; amortization of equipment and facilities; overhead support costs; and other costs such as amortization of patents and licences.

Research expenses are expensed as incurred. Development charges are expensed unless they meet the following criteria for capitalization: the product or process is clearly defined and the attributable costs are reliably identifiable and measurable; 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.

Management monitors the progress of internal research and development projects. However, distinguishing between research and development phases and costs requires a detailed analysis. Management also monitors whether the recognition requirements for development costs continue to be met.

Amortization is provided on a straight-line basis over the estimated useful life of the development costs.

Research and development costs incurred to discharge long-term waste management and decommissioning obligations for which specific provisions have already been made are charged against 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 or development costs are recorded as deferred capital funding or deferred development 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 and the Port Hope Area Initiative Management Office through the Research and Technology Division on a cost-recovery arrangement with Natural Resources Canada. Costs recovered under these arrangements are recorded as cost recovery from third parties and are recognized as the related expenses are incurred.

p) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan (PSPP) administered by the Government of Canada. Although the PSPP 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 expensed in the Consolidated Statement of Operations 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 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, in which 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 VIEs with the exception of the Trust Fund, which has been consolidated.

s) Adoption of Accounting Standards

Goodwill and intangible assets

On April 1, 2009, AECL adopted Section 3064 of the CICA Handbook, "Goodwill and Intangible Assets" which superseded Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs".

The standard defines the recognition and measurement criteria for intangible assets and, in particular, for intangible assets that are internally generated. Prior to the adoption of Section 3064, AECL recorded software costs as Property, Plant and Equipment. Except for the reclassification of computer software to Intangible Assets, the implementation of this new section did not have a significant impact on AECL's financial statements. Amortization is provided on a straight-line basis over the estimated useful life of the asset, as follows:

Development costs	Useful life
Software costs	3 years

Financial instruments

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Handbook Section 3862, "Financial Instruments – Disclosures" to align Section 3862 with International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures*. The purpose was to establish a framework for measuring fair value in GAAP and to expand disclosures. An entity is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy includes the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The amendment enhanced liquidity risk disclosure with a requirement to include a maturity analysis for derivative and non-derivative financial liabilities. These standards apply to annual consolidated financial statements relating to fiscal years ending after September 30, 2009. The adoption of the new standard resulted in additional disclosures in the Notes to the Consolidated Financial Statements.

t) Future Changes in Accounting Policies

Adoption of International Financial Reporting Standards in Canada

As a result of amendments to the scope of public sector accounting standards approved by the Public Sector Accounting Board (PSAB) in October 2009, AECL is permitted to self-select between IFRS or Public Sector Accounting Standards as its basis of accounting. AECL's assessment is that IFRS is the more appropriate basis due to its commercial nature and will continue its conversion efforts with an implementation date of April 1, 2011.

AECL has an internal team dedicated to the conversion to IFRS and it has begun the implementation phase.

4. Cash and Cash Equivalents

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:

<i>(thousands of dollars)</i>	2010	Yield	2009	Yield
Cash and cash equivalents*	\$ 47,833	0.2%	\$ 33,196	0.4%

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

5. Inventory

<i>(thousands of dollars)</i>	2010	2009
Reactor fuel	\$ 17,171	\$ 14,598
Spare parts and store supplies	13,194	10,727
	\$ 30,365	\$ 25,325
Heavy water inventory	291,701	294,004
	\$ 322,066	\$ 319,329

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 \$5.8 million (2009 – \$7.8 million). There were no material write-downs of inventory in 2010.

In addition to internal consumption of heavy water at the Chalk River Laboratories, the cost of inventory for heavy water recognized as expense and included in Cost of sales and operating expenses was \$0.7 million (2009 – \$0.5 million). There were no material write-downs of heavy water in 2010.

AECL had no reversals of write-downs and no inventory pledged as security for liabilities.

6. Long-Term Receivables

<i>(thousands of dollars)</i>	2010	2009
Contract receivables from customers in respect of the financing of products and services, maturing through 2019 at fixed repayment amounts	\$ 189,252	\$ 207,341
Current portion	(19,028)	(17,977)
	\$ 170,224	\$ 189,364

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 due as follows:

<i>(thousands of dollars)</i>	
2011	\$ 19,028
2012	20,141
2013	21,319
2014	22,566
2015	23,886
Subsequent to 2015	82,312
	\$ 189,252

7. Trust Fund

The *Nuclear Fuel Waste Act* requires 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 approximately \$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 \$29.7 million as at March 31, 2010 (2009 – \$26.7 million). Interest earned on trust assets accrues to the Trust Fund. Interest earned on these instruments is fixed whereas the fair values of the instruments vary according to the prevailing market rate of interest. Therefore, yield on the instruments is variable. These investments are comprised of the following:

<i>(thousands of dollars)</i>	<i>Maturities</i>	2010	<i>Yield</i>	2009	<i>Yield</i>
Short-term					
Cash and cash equivalents*	Not applicable	\$ 6	0.0%	\$ 87	0.4%
Corporate bonds	June 2010 – February 2011	1,780	3.0%	—	
		\$ 1,786		\$ 87	
Long-term					
Canadian Government bonds**	April 2012 – December 2025	\$ 22,610	4.2%	\$ 23,421	4.2%
Corporate bonds	May 2011 – January 2017	5,275	3.8%	3,221	3.8%
		\$ 27,885		\$ 26,642	
		\$ 29,671		\$ 26,729	

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

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

8. Property, Plant and Equipment

(thousands of dollars)

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
CANDU Reactor Division						
Construction in progress	\$ 4,198	\$ —	\$ 4,198	\$ 2,025	\$ —	\$ 2,025
Land and land improvements	1,174	273	901	1,035	261	774
Buildings	19,888	14,402	5,486	19,888	13,887	6,001
Machinery and equipment	36,526	24,771	11,755	32,450	22,492	9,958
	61,786	39,446	22,340	55,398	36,640	18,758
Research and Technology Division						
Construction in progress	53,847	—	53,847	74,950	—	74,950
Land and land improvements	47,019	28,279	18,740	44,381	26,914	17,467
Buildings	236,451	163,018	73,433	206,921	160,362	46,559
Reactors, machinery and equipment	317,202	254,202	63,000	281,470	248,610	32,860
	654,519	445,499	209,020	607,722	435,886	171,836
Total	\$ 716,305	\$ 484,945	\$ 231,360	\$ 663,120	\$ 472,526	\$ 190,594

Amortization of property, plant and equipment for the year ended March 31, 2010 was \$14.9 million (2009 – \$11.7 million).

The Corporation reviews the net recoverable amount of its long-lived assets. As a result of the review, no impairment charges were recorded in 2010 and 2009.

9. Intangible Assets

(thousands of dollars)

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
ACR-1000 development	\$ 175,349	\$ —	\$ 175,349	\$ 96,255	\$ —	\$ 96,255
Software	10,101	5,410	4,691	3,845	3,845	—
	\$ 185,450	\$ 5,410	\$ 180,040	\$ 100,100	\$ 3,845	\$ 96,255

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, they involve the maintenance of intellectual property developed over the years. This includes basic knowledge of materials, reactor physics, chemistry, critical components, radiation and the environment, which 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.

Development costs that meet the criteria for capitalization are capitalized, and the remaining development costs, along with all research activities, are expensed in the Consolidated Statement of Operations.

In 2010, \$79.1 million (2009 – \$96.3 million) of the \$108.1 million (2009 – \$120.7 million) of ACR-1000 development costs met the criteria for capitalization. There were no other development costs that met the criteria for capitalization (2009 – \$nil). The determination of qualifying development costs is subject to ongoing review.

Other commercial research and development costs under the CANDU Reactor Division were \$8.0 million (2009 – \$2.1 million). Under the Research and Technology Division, CANDU technology research and development costs were \$58.8 million (2009 – \$57.9 million) and Facilities, nuclear operations and support costs were \$301.5 million (2009 – \$212.3 million).

Amortization of software for the year ended March 31, 2010 was \$1.6 million (2009 – \$0.8 million).

10. Deferred Funding

The Corporation recognized funding of \$47.1 million (2009 – \$52.4 million) from the Government of Canada in 2010 for capital infrastructure refurbishment projects at the Chalk River facilities, and \$79.1 million (2009 – \$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)

	2010	2009
Deferred capital funding, opening balance	\$ 104,615	\$ 54,731
Capital funding recognized during the year (Note 13)	47,066	52,394
Amortization of deferred capital funding	(4,679)	(2,510)
Deferred capital funding, closing balance	\$ 147,002	\$ 104,615

Deferred development funding

(thousands of dollars)

	2010	2009
Deferred development funding, opening balance	\$ 96,255	\$ —
Development funding recognized during the year (Note 13)	79,093	96,255
Deferred development funding, closing balance	\$ 175,348	\$ 96,255

11. Long-term Payables

(thousands of dollars)

	2010	2009
Long-term payable	\$ 31,608	\$ 43,373
Unsecured, non interest bearing, maturing September 2012		
Amount is recorded net of discount of \$1.7 million at 4.08%		
	31,608	43,373
Less current portion	(13,319)	(13,319)
	\$ 18,289	\$ 30,054

Required payments over subsequent years are as follows:

(thousands of dollars)

2011	\$ 13,319
2012	13,319
2013	6,660
	\$ 33,298

Long-term payables relate to inventory purchased from MDS (Canada) Inc. 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 of 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.

Imputed interest expense of \$1.6 million (2009 – \$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.

12. Decommissioning and Waste Management Provision

AECL has an obligation to decommission its nuclear facilities and other assets in order to satisfy CNSC 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 CNSC 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 \$6,873.6 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 Handbook Section 3110, "Asset Retirement Obligations", increased estimates resulting from new liabilities or increases in the spending profile are discounted using the current rate of 3.92% while decreases use a blended rate of 5.08%.

The decommissioning and waste management provision is as follows:

<i>(thousands of dollars)</i>	2010	2009
Opening balance	\$ 3,099,745	\$ 3,008,236
Liabilities settled	(111,129)	(103,114)
Accretion expense	158,206	155,124
Revision in estimate and timing of expenditures	(72,485)	27,533
Revision in estimate and timing of expenditures affecting Property, plant and equipment	2,272	601
Waste, decommissioning and site restoration costs from ongoing operations	8,290	11,365
	3,084,899	3,099,745
Less current portion	(131,200)	(118,400)
	\$ 2,953,699	\$ 2,981,345

In June 2006, the Government of Canada announced it would provide funding of \$513 million over five years to fund the Nuclear Legacy Liabilities Program. Previous to this, AECL retained proceeds from heavy water sales to fund the decommissioning program (Note 16). The Government of Canada requires AECL to account for waste, decommissioning or site restoration liabilities resulting from AECL's ongoing operations after April 1, 2006. \$38.1 million is 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 \$802 million was received in the current year (2009 – \$554 million), \$822 million has been recognized (2009 – \$528 million), with the difference recorded as an adjustment to the amount repayable to the Government of Canada included in provisions.

<i>(thousands of dollars)</i>	2010	2009
Operating funding		
Research and Technology Division		
Research and related infrastructure	\$ 154,885	\$ 132,536
Dedicated Isotope Facilities	21,198	66,646
Chalk River Laboratories regulatory, health, safety, security and environment initiatives	72,681	56,618
NRU return to service	72,000	—
	320,764	255,800
CANDU Reactor Division		
Life extension projects	\$ 346,000	\$ 100,000
ACR-1000 development	28,994	23,745
	374,994	123,745
Total operating funding	\$ 695,758	\$ 379,545
Capital funding		
ACR-1000 development	\$ 79,093	\$ 96,255
Capital infrastructure refurbishment project funding	47,066	52,394
Total capital funding	\$ 126,159	\$ 148,649

The Government of Canada has committed funding for 2011 totaling \$535 million.

Research and related infrastructure funding is the base operating funding for AECL's Chalk River Laboratories.

During the year, AECL received \$25 million (2009 – \$80 million) from the Government of Canada to support placing the Dedicated Isotope Facilities into an extended shutdown state.

Chalk River Laboratories regulatory, health, safety, security and environment initiatives funding includes the revitalization of AECL's Chalk River Laboratories and the maintenance of isotope production at the NRU reactor.

NRU return to service funding includes the cost of repairing the NRU reactor, returning it to service, and replacing lost margins from forgone isotope sales during its outage.

Life Extension Projects funding is used to bridge the shortfall in the various projects due to re-estimates in project completion costs.

ACR-1000 development funding is used for research and development activities relating to the Generation III⁺ reactor.

b) Other Funding

Amounts received from other government entities for execution of work performed on service contract agreements and invoiced in a manner similar to other commercial customers are classified as Other Funding. In addition, amortization of Deferred Capital Funding is recorded simultaneously with the amortization of the related asset in AECL's Consolidated Statement of Operations.

<i>(thousands of dollars)</i>	2010	2009
Operating funding		
Cost recoveries from third parties and other	\$ 7,372	\$ 5,910
Amortization of Deferred Capital Funding	4,679	2,510
Decommissioning and waste management	114,656	105,080
	\$ 126,707	\$ 113,500

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:

<i>(thousands of dollars)</i>	2010	2009
Payments by employees	\$ 25,971	\$ 24,605
Payments by employer	\$ 51,252	\$ 51,328

The Corporation's rate of contribution to the Public Service Superannuation Account equals the employee contributions and the Public Service Pension Fund account is a 1.94 multiple of the employee contributions (2009 – 1.91). The contribution to the Retirement Compensation Arrangement account for calendar year 2010 is a multiple of 8.9 of the employee contributions (calendar year 2009 – 7.5). 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 3 (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.

<i>(thousands of dollars)</i>	<i>2010</i>	<i>2009</i>
Accrued benefit obligation, beginning of year	\$ 72,490	\$ 79,077
Current service cost	4,143	2,832
Interest on accrued benefit obligation	5,442	4,504
Benefits paid	(8,954)	(6,379)
Actuarial (losses) gains	1,953	(7,544)
Accrued benefit obligation, end of year	75,074	72,490
Unamortized net actuarial losses	(4,022)	(2,847)
Accrued benefit liability	71,052	69,643
Current portion, accrued benefit liability	(9,551)	(9,012)
Net accrued benefit liability	\$ 61,501	\$ 60,631
Net benefit plan cost		
Current service cost	\$ 4,143	\$ 2,832
Interest cost	5,442	4,504
Amortization of actuarial losses	—	258
Annual benefit plan expense	\$ 9,585	\$ 7,594

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 (2009 – 11 years). The measurement date of the accrued benefit obligation is March 31, 2010, and the latest actuarial valuation of these benefits was performed in March 2010. The next valuation will be performed in March 2011.

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

- A discount rate of 5.15% (2009 – 7.5%).
- A rate of compensation increase of 2.5% (2009 – 5%).

15. Provisions

<i>(thousands of dollars)</i>	<i>2010</i>	<i>2009</i>
Contract loss provision	\$ 212,037	\$ 127,606
Due to Shareholder (Note 13)	7,023	27,079
Other	13,672	6,083
Total provisions	\$ 232,732	\$ 160,768
Less current provision	(232,732)	(79,175)
	\$ —	\$ 81,593

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 \$212 million (2009 – \$128 million) have been recognized as a liability and recorded as Provisions on the Consolidated Balance Sheet.

The balance of amounts due to Shareholder represents appropriated funding received that is in excess of amounts spent on funded programs.

16. Contributed Capital and Deferred Decommissioning Funding

Included in contributed capital is approximately \$161 million (2009 – \$189 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 Government-funded heavy water in a segregated fund for use in decommissioning activities for the 10-year period following the Decision. As Government-funded 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 6) 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 of Canada and are presented in Provisions (Note 15) on the Corporation's Consolidated Balance Sheet.

17. Related Party Transactions

In addition to the transactions disclosed in Notes 8, 9, 10, 11, 12, 13, 14, 15 and 16, the Corporation had the following transactions with the Government of Canada:

<i>(thousands of dollars)</i>	2010	2009
Repayment of loans		
Principal	\$ —	\$ 500
Interest	—	11
	\$ —	\$ 511

Cost recovery from third parties includes billings to Natural Resources Canada for historic 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:

<i>(thousands of dollars)</i>	
2011	\$ 60,613
2012	13,737
2013	11,049
2014	8,675
2015	6,857
Subsequent to 2015	21,443
	\$ 122,374

b) Regulatory Obligations

To ensure compliance with CNSC site licence conditions and other regulatory requirements, the Corporation has undertaken major investment in new and existing building infrastructure at the Chalk River facility. The Corporation's planned expenditure on these initiatives for 2011 is \$30 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 damages whose amount the parties designate during the formation of a contract for the injured party to collect as compensation upon a specific breach (e.g. late performance).

In the normal course of business, AECL guarantees 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 \$99 million at March 31, 2010. Management has assessed the impact of liquidated damages penalties on the active life extension projects and incorporated it in the calculation of the contract loss provision (Note 15).

d) Other

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 against AECL and the Government of Canada 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.

In the normal course of operations, AECL has become involved in various other claims and legal proceedings. 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 that are pending at March 31, 2010 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. The Corporation's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the Corporation's performance.

Risk management is the responsibility of the Corporation's management. They identify, evaluate and where appropriate, control the negative impact of any such risk. Material risks are monitored and discussed with the Audit Committee of the Board of Directors.

Fair value measurements

Section 3862 of the CICA Handbook establishes a framework for measuring fair value in GAAP and for expanding disclosures about fair value measurements. An entity is required to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy includes the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value under the amendment to Section 3862 is principally applied to financial assets and liabilities consisting of investments and foreign exchange forward contracts. The following table provides a summary of financial assets and liabilities that are measured at fair value as of March 31, 2010 and 2009:

(thousands of dollars)	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
T-bills		\$ 13,998		\$ 13,998		\$ 18,585		\$ 18,585
Term deposits		15,000		15,000		5,000		5,000
Bankers acceptance		10,000		10,000		4,999		4,999
Bonds		29,665		29,665		26,642		26,642
Derivatives designated as hedging instruments:								
Foreign exchange forward contracts		—		—		99		99
Total assets		\$ 68,663		\$ 68,663		\$ 55,325		\$ 55,325

There are no liabilities measured at fair value.

Level 1 – Based on quoted market prices in active markets.

Level 2 – Inputs, other than quoted prices in active markets, that are observable, either directly or indirectly.

Level 3 – Unobservable inputs that are not corroborated by market data.

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 approximates fair value as at March 31, 2010 and 2009, with the exception of long-term receivables and payables. The fair value of long-term receivables is \$185.7 million (2009 – \$207.5 million). Loans from the Government of Canada included in the long-term payable were fully repaid in 2009.

The following table represents the fair value of the Corporation's financial instruments as well as their classification on the Consolidated Balance Sheets as of March 31, 2010 and 2009:

<i>(thousands of dollars)</i>	2010	2009
Fair value of financial assets		
Within Cash and cash equivalents		
T-bills	\$ 13,998	\$ 18,498
Term deposit	15,000	5,000
Bankers acceptance	10,000	4,999
	\$ 38,998	\$ 28,497
Trust fund		
T-bills	—	87
Bonds	29,665	26,642
	\$ 29,665	\$ 26,729
Derivatives designated as hedging instruments:		
Within Accounts receivable		
Foreign exchange forward contracts	—	99
	\$ —	\$ 99
Total	\$ 68,663	\$ 55,325

There are no liability derivatives at fair value

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. The objective of the Corporation's foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of the Corporation's earnings and commitments. The Corporation currently transacts in many currencies, but the exposure to foreign currency transactions primarily relates to the U.S. dollar.

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 U.S. 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 precludes it from using 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, 2010, there are no forward contracts (2009 – 15 forward contracts, notional value \$6 million).

As of March 31, 2010, had the exchange rate (CAN\$/US\$) been 5% higher or lower, and had hedge accounting not been applied, the net loss for the year would have remained unchanged. 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 OCI:

<i>(thousands of dollars)</i>	2010	2009
Instruments designated as cash flow hedges	\$ —	\$ 99

In 2010, AECL's foreign currency risk management objectives were unchanged from those in 2009.

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. In 2010, AECL's credit risk management objectives were unchanged from those in 2009.

Cash equivalents and short-term investments

The objective of managing counterparty credit risk is to prevent losses in financial assets. AECL's exposure is reduced by:

- Monitoring at the appropriate levels of management.
- Applying a conservative investing strategy.
- All instruments mature within a year.

As of March 31, 2010, 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. The carrying amount of accounts receivable is reduced by tracking invoices on an individual basis and any bad debt provision is kept strictly on an invoice-by-invoice basis with a stringent review and approval process.

Eight customers (2009 – three), each representing greater than 4% (2009 – 10%) of the total accounts receivable, comprise an aggregate 87% (2009 – 53%) 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:

<i>(thousands of dollars)</i>	<i>2010</i>
Current	\$ 34,310
1 to 30 days	7,306
31 to 60 days	2,533
61 to 90 days	1,866
Over 90 days	4,786
	50,801
Provision for bad debts	(898)
Total trade accounts receivable	\$ 49,903

During the year, the bad debt provision decreased by \$0.3 million to \$0.9 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.

The objective of the Corporation's interest rate management activities is to minimize the volatility of the Corporation's earnings and expenses. 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 one per cent increase in the rate yields a \$475 million decrease in the decommissioning and waste management provision and a one per cent decrease in the rate results in a \$650 million increase 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 2010, AECL's interest rate management objectives were unchanged from those in 2009.

d) Regulatory Risk

The Corporation operates in a highly regulated business environment. Changes in government policy may have an adverse impact on the Corporation's financial position. The Corporation's objective in managing regulatory risk is to actively monitor and implement changes on a timely basis to enable operations. In 2010, AECL's regulatory risk management objectives were unchanged from those in 2009.

e) Liquidity Risk

This represents the risk that the Corporation will not have sufficient funds to meet its commitments and obligations. The Corporation's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. As a Schedule III Part I Crown corporation, AECL is restricted from borrowing funds to meet its obligations. The Corporation is dependent on funding from its shareholder to meet its obligations.

AECL manages liquidity risk by:

- 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 2010, AECL's liquidity risk management objectives were unchanged from those in 2009. However, additional funding was required from the Government of Canada to meet obligations. As of March 31, 2010, the Corporation was holding cash and cash equivalents of \$47.8 million. Accounts payable and accrued liabilities of \$206 million are due within the year. Long-term payables (Note 11) of \$31.6 million are due within three years, of which \$13.3 million is due within one year.

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.

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's ability to obtain additional capital, either through equity or debt, is pursuant to the provisions of the *Financial Administration Act*. Historically, no long-term debt was put in place. Additional capital arose in the form of Government contributions. At year-end, the Corporation had no plans to seek additional capital in the next 12 months; however, the eventual capital structure after restructuring was not known.

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. The Corporation's objective in managing capital is to provide sufficient liquidity to support its financial obligations and its operating and strategic plans, while generating a reasonable return to the Government of Canada from its various commercial operations. 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 cash with high-quality counterparties. In 2010, AECL's capital management objectives were unchanged from those in 2009.

The Corporation has a capital structure comprised of Shareholders' deficit, long-term payables, deferred capital funding, deferred development funding, deferred decommissioning and waste management funding and decommissioning and waste management provision. Given the limited amount of capital available from these sources, the Corporation relies principally on operating and capital funding provided by the Shareholder, which is requested in the Corporation's Corporate Plan.

21. Comparative Figures

Certain 2009 comparative amounts have been reclassified from financial statements previously presented to conform to the 2010 financial statement presentation.

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: Chair, Special Advisory. 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 and Special Advisory.

Marcel Aubut, O.C., O.Q., Q.C., Ad. E.

Lawyer, Managing Partner, Heenan Blaikie, Montreal, Quebec

Former President-CEO of the Quebec Nordiques and Governor of the NHL; Founder of law firm Aubut Chabot, which merged with Heenan Blaikie; Founder and President of the Quebec Metro High Tech Park; President and CEO of Trans-America Productions Ltd. Directorships include Hydro-Quebec; Purolator; Whole Foods Market Canada, Olymel, VANOC, Canada's Sports Hall of Fame, Boralex, Intra Continental Insurers Ltd., General Insurance Company Inc., Laurentian Life Insurance Company of Canada; Investors Group; Æterna Zentaris Inc.; NHL Pension Society; Toronto 2015 Pan Am Bid; Fondation Nordiques. Officer of the Ordre national du Québec (2006), Member (1986) and Officer (1993) of the Order of Canada, Official Medal of the Quebec National Assembly (1981), Queen's Counsel (1986). Recipient of the Quebec Bar's honorary advocates Emeritas (2009). In 2010, elected President of the Canadian Olympic Committee, received the title of *Grands Québécois* by the Chambre de commerce de Québec and the Medal of

Gloire de L'Escolle. 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, Science, Technology & Nuclear Oversight, and Special Advisory.

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. Former member of the Board of Governors and Executive Committee of York University, former member of the Board of York University Development Corp. Former Director of Toronto East General Hospital, C.D. Howe Institute and former Board Chairman of 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: Chair, Audit; Member, Special Advisory.

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, to September 2009.

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. Member of the Board and Chair of the Green Aviation Research Development

Network, Chair of the Schmeelk Foundation and Board member of the Canada-Israel Committee. Appointed March 2005.

Committees: Chair, Science, Technology & Nuclear Oversight; Member, Project Risk Review and Special Advisory.

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 with 32 years of experience in the Canadian nuclear industry. Member of 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 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. Professional Engineer and ICD.D Certified Director, Institute of Corporate Directors. Appointed July 2008.

Committees: Chair, Project Risk Review; Member, Human Resources & Governance and Special Advisory.

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 and Human Resources & Governance.

Stella Thompson

Corporate Director, Calgary, Alberta

Current directorships include: Alberta's Electricity Balancing Pool, the Alberta Provincial Audit Committee, Alberta WaterSmart (Chair), Calgary Airport Authority, Resverlogix Corp., Genome Alberta (Vice-Chair) and Talsman Energy Inc. 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: Member, Audit and Project Risk Review.

NON-VOTING ADVISORS

Graham Brown

President and CEO of Carillion Canada Inc.

Former Chief Operating Officer of Ontario Power Generation and National Power PLC and former Senior Vice-President of British Petroleum PLC. Current Director of the Canadian Council for Public-Private Partnerships. Former Board Director of Ontario Power Generation, National Power, Seaford Resources, and New Brunswick Power Corp. Holds an Honours Degree in Mathematics from Durham University, Durham, England. Appointed February 2010.

Committees: Member, Project Risk Review.

Elizabeth Dowdeswell

President and CEO, Council of Canadian Academies, Management Consultant.

Adjunct Professor, McLaughlin-Rotman Centre for Global Health, University of Toronto, Toronto, Ontario

Former Founding President & CEO of Canada's Nuclear Waste Management Organization; Executive Director of the United Nations Environment Program; Under-Secretary-General of the United Nations; Assistant Deputy Minister, Environment Canada; Executive Director, Royal Commission on Unemployment Insurance; Deputy Minister, Saskatchewan Culture and Youth. Current directorships include Technical Standards & Safety Authority; Ashco Shareholders Inc., Associated Engineering; Ontario Genomics Institute and Grand Challenges Canada. Chair of the Scientific Advisory Committee, Council of Canadian Academies and member of the Standing Advisory Group on Technical Assistance and Cooperation, IAEA. Holds a Master of Science degree from Utah State University. Appointed February 2010.

Committees: Member, Science, Technology & Nuclear Oversight.

Officers

Glenna Carr

Chair of the Board

Hugh MacDiarmid

*President and
Chief Executive Officer*

Ala Alizadeh

*Vice-President, Marketing and
Business Development*

Bruce Ambeault

Vice-President, Contracts

George Bothwell

*Senior Vice-President,
External and Communications*

Richard Côté

*Vice-President,
Isotopes Business*

Anthony DeVuono

*Senior Vice-President and
Chief Technology Officer*

Earnest (Hank) Drumhiller

*Vice-President and
General Manager, Operations
(Research and Technology
Operations)*

Ramzi Fawaz

*Senior Vice-President,
Operations*

Tracy Greig

Vice-President, Supply Chain

Kent Harris

*Senior Vice-President and
Chief Financial Officer*

Allan Hawryluk

*Senior Vice-President,
Strategic Contracting*

Jerry Hopwood

*Vice-President,
Product Development*

Georgina Kossivas

Vice-President, Finance

William Kupferschmidt

*Vice-President and
General Manager,
Research and Development*

Joseph Lau

*Vice-President, Engineering
and Technical Delivery*

Jonathan Lundy

*Senior Vice-President,
General Counsel and
Corporate Secretary*

Beth Medhurst

*Senior Vice-President,
Human Resources*

Joan Miller

*Vice-President and General
Manager, Waste Management
and Decommissioning*

William Pilkington

*Senior Vice-President and
Chief Nuclear Officer*

Michael Robins

*Senior Vice-President,
Restructuring*

Ian Trotman

*Vice-President,
Life Extension Projects 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, and the President and Chief Executive Officer are also appointed by the Shareholder by Order-in-Council.

In 2009–2010, 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 2009–2010, 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.
- Completed an annual review of its Board Committee structure for the purpose of ensuring the appropriate level of Board oversight over business risk and other related risks.
- Provided significant oversight and monitoring of AECL's major commercial projects and capital projects by enhancing the respective role and mandates of the Project Risk Review Committee and the Science, Technology & Nuclear Oversight Committee.
- As a result of the Committee review, created the Special Advisory Committee to provide oversight to, and perspective on, the Government of Canada's restructuring initiative.
- Continued to provide regular reporting to the Minister of Natural Resources in regard to the Board's fulfillment of its governance role and accountabilities.

- 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

Last year, the Board had 12 appointed members, 10 of whom were independent in the sense that they were not management, nor did they have any interest, business or other relationship with the company.

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, examination of the corporation's public policy objectives, as well as meeting its overall legal requirements.

The following table 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, and Mr. MacDiarmid, President and CEO of AECL, are considered non-independent Directors, and as such 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.

Directors' Attendance at Board Meetings and Committee Meetings, 2009–2010

Director	Audit (9 meetings + 1 joint meeting with Project Risk Review)	Science, Technology & Nuclear Oversight (17 meetings)	Human Resources & Governance (9 meetings)	Project Risk Review (12 meetings + 1 joint meeting with Audit)	Special Advisory* (11 meetings)	Board of Directors (11 meetings)
G. Carr ¹	10/10	16/17	9/9	12/13	11/11	11/11
H. MacDiarmid ¹	10/10	16/17	8/9	12/13	10/11	11/11
M. Aubut			5/9			8/11
R. Boudreault	9/10	15/17			10/11	10/11
P. Currie	10/10				11/11	10/11
C. Doyle						6/11
E. Dowdeswell ²		4/4				1/1
C. Lajeunesse		17/17		13/13	11/11	11/11
J. Luxat		15/17				11/11
C. Perry			8/9	13/13	11/11	11/11
G. Shaw		17/17	8/9			11/11
S. Thompson	10/10		9/9	13/13		10/11
B. Trenholm	10/10			12/13		11/11

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

² E. Dowdeswell joined the Board in February 2010 as a non-voting Advisor and Member of the Science, Technology & Nuclear Oversight Committee.

* First meeting held July 13, 2009

Five-Year Consolidated Financial Summary

(Unaudited)

(millions of dollars)

	2010	2009*	2008*	2007*	2006*
CANDU Reactor Division					
Revenue	\$ 428	\$ 322	\$ 541	\$ 514	\$ 303
Interest revenue	11	14	17	19	17
Net (loss) income before investment in Advanced CANDU reactor development	(104)	(330)	50	80	48
ACR funding	29	24	38	—	60
ACR development costs	29	25	87	69	61
Net (loss) income	\$ (104)	\$ (331)	\$ 1	\$ 11	\$ 47
Research & Technology Division					
Revenue	\$ 33	\$ 65	\$ 58	\$ 56	\$ 105
Funding	312	198	150	113	109
Gains	—	—	—	—	61
Net (loss) income before Dedicated Isotope Facilities	(16)	(14)	(41)	(70)	33
Funding	21	67	—	—	—
Impairment charge	—	—	247	—	—
Expenses	9	58	9	—	—
Net (loss) income	\$ (5)	\$ (5)	\$ (297)	\$ (70)	\$ 33
Liability Management Unit					
Funding	\$ 115	\$ 105	\$ 96	\$ 63	\$ 49
Net income (loss)	\$ 29	\$ (77)	\$ (68)	\$ (84)	\$ (75)
Financial position					
Cash, cash equivalents and short-term investments	\$ 48	\$ 33	\$ 65	\$ 141	\$ 111
Heavy water inventory	292	294	295	299	299
Capital expenditures	50	51	111	84	56
Property, plant and equipment	231	191	142	246	188
Decommissioning and waste management provision	3,085	3,100	3,008	2,928	2,847
Long-term payables (excludes current portion)	\$ 18	\$ 30	\$ 41	\$ 47	\$ 46
Other					
Export revenues	\$ 163	\$ 105	\$ 136	\$ 124	\$ 183
Number of full-time employees	4,957	4,891	4,728	4,135	3,604

* Certain amounts have been reclassified to conform to the 2010 Financial Statement presentation

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