Future ready

ATOMIC ENERGY OF CANADA LIMITED
2016 ANNUAL REPORT

AECL
EACL

AECL overview

As a federal Crown corporation, AECL's mandate is to enable nuclear science and technology and fulfill Canada's radioactive waste and decommissioning responsibilities.

AECL receives federal funding to deliver on its mandate and reports to Parliament through the Minister of Natural Resources. It also leverages the unique capabilities at its sites to support industry and other third parties on commercial terms.

AECL delivers its mandate through long-term contracts with the private-sector for the management and operation of its sites.

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For the past five years, AECL has been restructuring itself, preparing for the future. In 2015, we completed our transition and emerged as a new Crown corporation.

We are now future ready.

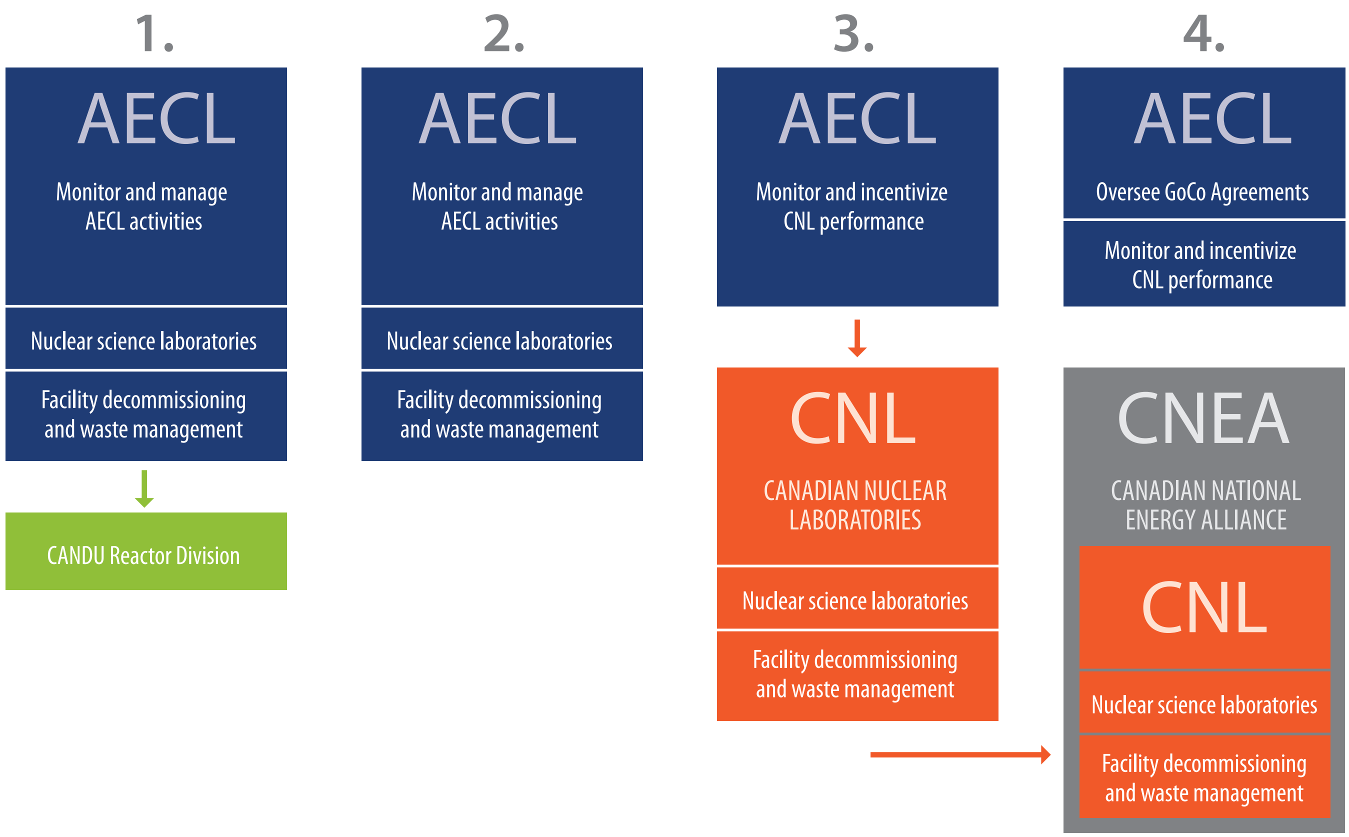
AECL is now a future-ready small Crown corporation created to deliver on its mandate – enable nuclear science and technology and fulfill Canada's radioactive waste and decommissioning responsibilities - through a Government-owned, Contractor-operated model.

Our sites

The Chalk River site is AECL's main laboratory campus and Canada's largest research and development complex. This science campus boasts multiple highly-specialized and unique laboratory facilities, testing equipment and a large research reactor, the National Research Universal (NRU), all of which are used to leverage nuclear science and technology for peaceful purposes. Scientific activities have important applications in the areas of health, safety, security, energy, non-proliferation, environmental protection and emergency response that benefit Canada and Canadians.

AECL's radioactive waste and decommissioning responsibilities stem from decades of AECL nuclear research and development and development activities at the Chalk River Laboratories, the Whiteshell Laboratories in Manitoba, as well as other sites in Ontario and Quebec. AECL is responsible for the proper and safe clean-up, remediation and long-term management of the radioactive waste at its sites. AECL also oversees similar work at sites where the Government has assumed responsibility for historic, low-level radioactive waste, such as in the municipalities of Port Hope and Clarington, in Ontario.

AECL's evolution at a glance



2011: Sale of the CANDU Reactor Division

Starting in 2009, the Government undertook a restructuring of AECL with a view of reducing risks and costs to Canadian taxpayers while leveraging AECL's capabilities for the benefit of Canadians and industry. The restructuring was undertaken in two phases, the first of which was completed in 2011 with the sale of the assets of AECL's CANDU Reactor Division to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin.

2012–13: Searching for private-sector partnerships

The second phase focused on the nuclear laboratories and associated waste management responsibilities. The objective was to bring private-sector rigour and efficiency while leveraging the significant expertise and facilities at the laboratories. The Government launched a procurement process to select a private-sector contractor to take responsibility for the management and operations of the laboratories.

2014: Creation of Canadian Nuclear Laboratories

Before entering into an agreement with a private-sector partner, CNL was created first as a wholly-owned subsidiary of AECL. This paved the way for its ownership to subsequently be transferred to the selected private-sector contractor.

2015: Implementing the GoCo model

In 2015, AECL implemented the Government-owned, Contractor-operated (GoCo) model by entering into a long-term contract with Canadian National Energy Alliance for the management and operation of Canadian Nuclear Laboratories Ltd. (CNL). Canadian National Energy Alliance is a consortium made up of CH2M HILL, WS Atkins, Fluor, SNC-Lavalin and Rolls-Royce.

Message from the Board

During the summer of 2015, the Government moved forward with the implementation of the Government-owned, Contractor-operated (GoCo) model at AECL. This marked the completion of the restructuring of the organization, and set the stage for a promising new era for Canadian nuclear science and technology by affording AECL the opportunity to significantly advance the Government's priorities through a long-term contract with the private-sector.

Throughout the restructuring, the Board oversaw important organizational changes that included: the creation and operationalization of Canadian Nuclear Laboratories (CNL), the creation of a small, expert-based AECL, and finally, the transfer of ownership of CNL to the private sector.

With the arrival of the selected private-sector contractor, Canadian National Energy Alliance (CNEA), both CNL and AECL are poised to seize the opportunities that the new GoCo model offers. As a Crown corporation, AECL has been purposefully built with the right experience and expertise to manage a very complex and high value contract. In its new oversight role, AECL can focus on matters of strategic importance in order to meet the Government's priorities and pursue value for money for Canada.

We are already starting to see the value that the new GoCo model brings. Indeed, the first few months under this model have led to the advancement of a proposal for a Near Surface Disposal Facility at the Chalk River Laboratories and a plan to close the Nuclear Power Demonstration reactor just a few kilometers away in Rolphton, Ontario. Together with ongoing decommissioning and waste management activities, these initiatives will go a long way towards addressing Canada's liabilities in a safe and efficient manner, and will pave the way for a revitalization of the Chalk River site.

Furthermore, AECL worked with the various federal departments and agencies to develop the governance and terms of reference for the first Federal Nuclear Science and Technology Work Plan, which informed the program of work in nuclear science and technology that can anticipate the needs and priorities of the Government.

With the new model also came expectations of transformational change, with a view to improving the efficiency and effectiveness across CNL missions. These changes that will keep the nuclear laboratories at the forefront of industry going forward.

I would like to take this opportunity to thank Peter Currie for his leadership and guidance as Chair of the Board throughout the restructuring. Peter was instrumental in overseeing this important transformation, and his contributions led to a smooth and successful transition process.

I would also like to express my sincere thanks to Robert Walker, who led AECL through this transition as President and CEO for more than three years until March 31, 2015. Bob's leadership throughout these changes was inspirational as he navigated his workforce to the Government-owned, Contractor-operated model.

Finally, I would like to express my gratitude to Jonathan Lundy, who built the 'new' AECL and guided it through the first crucial months under the GoCo model. His leadership was essential in putting together the strong team that now comprises AECL.

As we move forward with the GoCo model, the Board will continue to provide guidance on issues of strategic importance to the organization, helping it navigate the opportunities and risks that the contractual relationship with the private-sector brings. We do so with an engaged Board of Directors, and look forward to welcoming new members in the new fiscal year as we implement an important program of work for AECL and deliver on important priorities for Canada.

Claude Lajeunesse, Chair of the Board

Message from the Acting Chief Transition Officer

The theme of 2015-16 has been one of transformation and transition for AECL, marked by the arrival of Canadian National Energy Alliance as the new shareholder of CNL in the summer of 2015 and with it, the implementation of the GoCo model. While we have crossed the finish line after many years of restructuring, our work is just beginning.

Indeed, this past fiscal year was one of significant work and achievement for the 'new' AECL, as we completed our recruitment efforts and started operating as a small, expert-based Crown corporation. Under the leadership of Jonathan Lundy, who served as Chief Transition Officer until the end of March 2016, AECL put in place the necessary policies, processes and procedures to effectively manage the long-term contract with the private-sector for the management and operation of our sites, facilities and assets.

I can safely say that AECL has hit the ground running, and is now fully operational in its new oversight role. We continue to focus our efforts on three main fronts: 1) managing Canada's radioactive waste and decommissioning liabilities by significantly advancing activities that reduce risks and costs over the long-term; 2) delivering nuclear science and technology that meets the needs of the federal government; and 3) transforming the nuclear laboratories into a modern, world-class science campus by leveraging the existing capabilities and expertise at CNL and re-investing in science and site infrastructure.

Over the last six months, the AECL team has worked closely with CNL's new management team to ensure alignment of priorities and facilitate the development of plans that will lead to a more efficient and effective organization, aligned with CNL's vision and AECL's priorities.

We leveraged the vast experience and expertise that our expert-based staff brings to establish what we believe to be the right relationship with CNL and to set the proper level of oversight to bring value for money for Canadians.

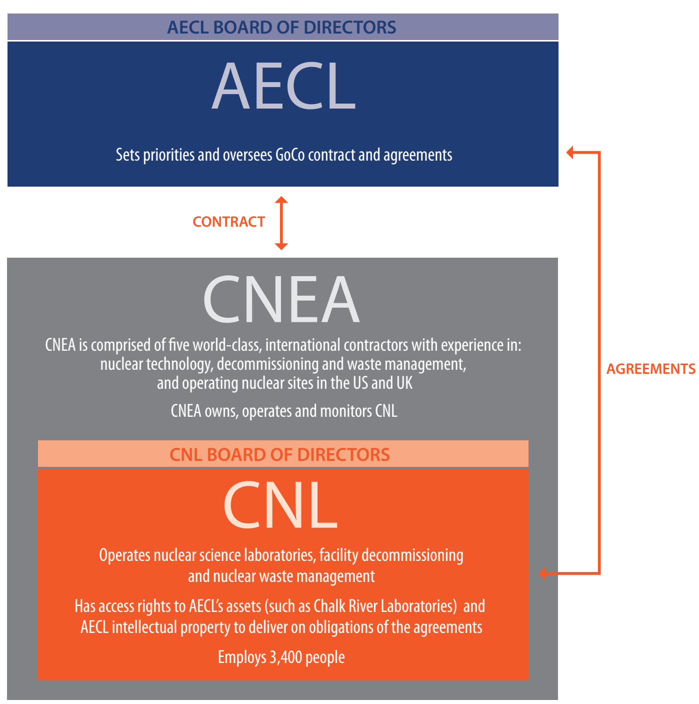
Already, the work of the AECL team and that of CNL, under the ownership of Canadian National Energy Alliance, is bearing fruit. Key projects such as the Near Surface Disposal Facility and the closure of the Nuclear Power Demonstration reactor were initiated. While much remains to be done by CNL, including licensing activities and environmental assessments, these represent an important step forward to reduce risks and the Government's liability. The Near Surface Disposal Facility will be critical in allowing CNL to safely decommission and tear down old and outdated buildings at the Chalk River Laboratories, paving the way for new science buildings that will enable a revitalization of the site. Great strides were also made on the nuclear science and technology front, with CNL developing its first work plan in response to guidance from AECL and several federal departments and agencies.

While these endeavours are certainly worth noting, it is important to acknowledge that they were undertaken in conjunction with multiple other projects and initiatives, which together, allowed CNL to deliver on its commitments safely and effectively. For instance, CNL completed the construction of the third Shielded Modular Above Ground Storage facility at the Chalk River Site and started site preparation activities for the construction of the long-term waste management facility in Port Granby as part of the Port Hope Area Initiative, in Ontario. Furthermore, CNL successfully used its Modal Detection and Relocation technology to support Bruce Power in locating and repositioning garter springs, an initiative that has the potential to extend the life of pressure tubes and CANDU units.

As we move into the first full year of operation under the GoCo model, AECL will continue to work with CNL to ensure that our vision and priorities are well aligned, and that work is done efficiently and effectively to bring value for money for Canadians.

Richard Sexton, Acting Chief Transition Officer

The new GoCo governance model



As five years of restructuring comes to an end, our new task is to leverage the Government-owned, Contractor-operated business model to bring more value to Canadians.

Above: The Chalk River Laboratories, in Ontario, are expected to undergo a renewal in the coming years. Several old facilities will be decommissioned and new and renewed science and site infrastructure facilities will be constructed.

The year in review

Transition to the GoCo model

Fiscal year 2015-16 was one of transition for AECL. While in previous years, AECL was directly responsible for managing and operating the nuclear laboratories, 2015-16 was marked by the completion of the restructuring of AECL and the implementation of the GoCo model, which fundamentally changed AECL's role. With this transition comes a different operating context and business environment: different challenges, opportunities and risks, as well as new benchmarks. The year was also marked by a corresponding shift in objectives and plans for AECL.

The focus of this section is to report on the performance measures that were set out in AECL's 2015-16 Corporate Plan, while recognizing that the previous year was one of transition and important change. As such, several accomplishments achieved during the 2015-16 fiscal year are noted below as based on the priorities and measures of success which were set out in the Corporate Plan of the same year. Most of these relate to the preparation for, and transition to, the GoCo model:

Priorities	Measures of success	Results
Achieving share transfer and completing the restructuring	Achieving the transfer of the shares of CNL to the selected private-sector contractor within established timelines (during or before fall 2015).	The shares of CNL were successfully transferred to the selected private-sector contractor, Canadian National Energy Alliance, in September of 2015.
Transition-in	CNL will deliver all of the transition-in deliverables, as set out in the contract. This objective will be achieved when AECL accepts or otherwise receives the deliverables, as specified in the contract.	On March 31, 2016, AECL confirmed to CNL and Canadian National Energy Alliance that the transition-in period had ended.
Establishing appropriate oversight model and interface	CNL will have presented a description of its proposed contractor assurance system. CNL and AECL will meet their contractual obligations on time.	CNL provided AECL with a description of its proposed contractor assurance system, which was accepted by AECL. AECL met its contractual obligations on time.
Drive improvement at CNL before and after the restructuring	Enable improved CNL safety culture, as measured by CNL demonstrating a renewed focus on safety and the implementation of some new industry best practices. Trends in key safety metrics (lost time injuries, environmental incidents, contamination incidents) are improving against previous years.	CNL continued the very positive downward trend for Lost Time Injuries with a frequency and severity of 0.06 and 0.37 respectively, a noted reduction in environmental events, and encouraging progress in reducing radiological contamination incidents with corresponding increased focus on process improvement to mitigate reoccurrences. In addition, positive continuous improvement in property/asset maintenance trend data: detailed condition assessment analysis underway, increased preventive maintenance completion rates, positive trend to optimize preventive maintenance to corrective maintenance ratio, and increased reliability of facilities and services to core business activities.

Decommissioning and waste management

Priorities for 2015-16 were focused on building momentum for CNL's Decommissioning and Waste Management programs by demonstrating progress on facility decommissioning and waste shipments.

Results

Focus was placed on the development of capability and process fundamentals to set the stage for effective delivery. Taking advantage of the broad experience of Canadian National Energy Alliance's parent companies, this includes the initiation of the development of a detailed Waste Management Strategy, proactive efforts toward the design and licensing of a Near Surface Disposal Facility, and establishment of effective characterization strategies.

In addition to the capability-building efforts, significant milestones have been achieved in:

- The start of site preparation activities for the construction of the long-term waste management facility at Port Granby, part of the Port Hope Area Initiative, in Ontario. The construction of an engineered above ground mound is part of AECL's program to clean-up and find safe, long-term management solutions for the historic low-level radioactive waste in the area.
- The repatriation of highly-enriched uranium, with the first shipment of NRX fuel rods to the Savannah River Site in South Carolina (US).
- Advancing work to decommission the Whiteshell site, including significant progress at decommissioning a former research and development complex.
- The successful completion of the first transfer of degraded used fuel to the Fuel Packaging and Storage facility, an above-ground facility.
- The completion of the construction of the third Shielded Modular Above Ground Storage (SMAGS) at the Chalk River site. The facility will enable the safe storage of intermediate level radioactive waste.

Above: Canadian Nuclear Laboratories staff are monitoring soil at the Chalk River Laboratories.

One of AECL's key priorities is to improve the decommissioning and waste management strategies at our sites. The objective is to safely and efficiently advance the clean-up, reducing risks and costs for Canadians while protecting people and the environment.

Science activities at the Chalk River Laboratories support the federal government's responsibilities in the areas of health, environment, safety, security, non-proliferation, energy and emergency management.

Above: Dr. Zhang He, at Canadian Nuclear Laboratories, prepares for fuel thermal diffusivity measurements at the Fuel Development Laboratories.

Nuclear laboratories

Priorities for 2015-16 were focused on advancing ongoing nuclear science and technology activities and planning for alignment of CNL's science and technology activities with federal needs and priorities.

Results

The governance and terms of reference for the Federal Nuclear Science and Technology Work Plan were established and interdepartmental committees, with representation from 13 departments and agencies, provided guidance to CNL in providing an annual program of work that would meet the needs of the Government.

Other advancements in nuclear science and technology over the fiscal year included:

- CNL added to its collaborations and contributions to federal science and technology priorities by establishing agreements for work related to nuclear forensics, nuclear regulation and nuclear safety. These projects will bring important work into 2016-17 and beyond.
- Using the CNL-developed Modal Detection and Relocation (MODAR) tool, a joint team from Candu Energy Inc., CNL and Bruce Power successfully located and repositioned garter springs at the Bruce Power Unit 8. This technology has the potential to reduce costs to CANDU owners and extend the life of pressure tubes.
- At the Whiteshell site, the RD-14M facility – a unique, large-scale R&D facility important in understanding safety aspects of heat and water flow in CANDU reactors – was brought back into full operation following electrical upgrades. This makes possible experiments to support the safety basis for current and future reactor designs.
- CNL brought on Dr. Art McDonald, recent recipient of the Nobel Prize in Physics and former AECL employee, as a special advisor to the President.
- Commercial margins were up for the year, in part based on isotope revenues.

Management's discussion and analysis

Forward looking statements

This Management 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, 2016 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 as at November 15, 2016, when the Corporation's Board of Directors approved this document. 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.

Restructuring of AECL

Starting in 2009, the Government undertook a restructuring of AECL with a view to reducing risks and costs to Canadian taxpayers while leveraging AECL's capabilities for the benefit of Canadians and industry. The restructuring was undertaken in two phases, the first of which was completed in 2011 with the sale of the assets of AECL's CANDU Reactor Division to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. The second phase focused on the remainder of the organization, the nuclear laboratories and associated waste management responsibilities, with the objective of implementing a Government-owned, Contractor-operated (GoCo) model.

As part of this second phase, the Government launched a procurement process to select a private-sector contractor to take responsibility for the management and operations of the laboratories. The objective is to bring private-sector rigour and efficiency while leveraging the significant expertise and facilities at the laboratories.

In 2015, following the selection of Canadian National Energy Alliance, a consortium made up of CH2M HILL, Energy*Solutions*[1], Fluor, SNC-Lavalin and Rolls-Royce, AECL moved from a Government-owned, Government-operated model to a GoCo model.

Through this model, AECL entered into a long-term contract with Canadian National Energy Alliance for the management and operation of Canadian Nuclear Laboratories Ltd. (CNL). CNL was created first as a wholly-owned subsidiary of AECL, and its ownership was subsequently transferred to Canadian National Energy Alliance.

As a result, today CNL is a private-sector company responsible for the day-to-day management and operation of all of AECL's sites, facilities and assets. CNL employs 3,400 people, most of whom were previously employees of AECL.

[1] In April 2016, following the acquisition of Energy*Solution*'s Projects, Products and Technology segment, WS Atkins became a member of the Canadian National Energy Alliance consortium and replaced Energy*Solutions*.

For its part, AECL was re-created as a purpose-built small Crown corporation with a view to ensuring that it has the necessary expertise and capabilities to oversee the GoCo agreements. AECL's objective is to leverage the GoCo model to deliver on its mandate. AECL continues to own all of the sites, facilities and assets and its role is to monitor and incentivize the performance of CNL to meet its objectives. AECL also continues to be responsible for the management of retained liabilities related to AECL's former CANDU Reactor Division (discontinued commercial operations).

Organization

AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources. AECL's operations are funded through Parliamentary Appropriations and third-party revenues, which result from commercial work that CNL undertakes, on behalf of AECL, principally in the areas of nuclear science and technology as well as the sale of heavy water and medical and industrial isotopes.

Following the first phase of the restructuring which led to the divestiture of the assets of its CANDU Reactor Division (as discussed above), AECL is evaluating and presenting financial results through two distinct reporting entities: 1) Continuing Operations, and 2) Commercial Operations (Discontinued Operations). This is due to the fact that AECL retained certain liabilities with respect to the former CANDU Reactor Division.

AECL Operations includes all of the activities associated with the management and oversight of the GoCo model, including Decommissioning and Waste management activities as well as the Nuclear Laboratories, as described below.

1. Decommissioning and Waste Management

   The objective is to safely and efficiently reduce the Government of Canada's radioactive waste liabilities, including associated risks to health, safety, security and the environment. The focus is placed on significantly advancing infrastructure decommissioning, site remediation and waste management for Canada. In previous years, these activities were funded and overseen by Natural Resources Canada through the Nuclear Legacy Liabilities Program, the Port Hope Area Initiative and the Low-Level Radioactive Waste Management Office. Under the GoCo model, AECL is now directly responsible for all of Canada's radioactive waste management responsibilities, including those related to historic low-level waste for which the Government has accepted responsibility. AECL contracts out the work necessary to deliver on these responsibilities to CNL and closely monitors the activities of CNL in an effort to ensure value for money for Canadians.

2. Nuclear Laboratories

   The objective is to enable the effective implementation of the GoCo model and thereby enable CNL to manage and operate AECL's sites efficiently and effectively. This enables CNL to provide expertise, products and services, as well as science and technology capabilities in support of: (i) Canada's federal roles, responsibilities and priorities; (ii) commercial services for third parties; and, (iii) site infrastructure at the nuclear laboratories. Work in this activity includes the renewal and modernization of the Chalk River site and facilities to enhance CNL's ability to provide safe and world-class science and technology as well as other services for Canada and commercial clients.

Risks and Opportunities

This section highlights AECL's key risks which may have potential impact on the corporation's financial results, and shows the trend compared to the previous year.

Fiscal Risks

In 2016-17, CNL will be reviewing existing plans, particularly with respect to decommissioning and waste management activities, and proposing new approaches that will lead to a faster reduction of Canada's liabilities and increased efficiencies. As these activities get underway, there are also risks associated with potential increases or decreases to AECL's decommissioning and waste management provision (liability estimate) that will need to be reflected as projects are better understood and defined. These revised plans will be subject to being accepted by AECL and in some cases may require a re-profiling of associated funding.

To address this, AECL has implemented a Liability Change Control Committee for senior management of CNL and AECL to provide a forum for informed review and approval of proposed changes to the liability estimate. AECL will also continue to communicate regularly with Natural Resources Canada (as the department advising the Minister of Natural Resources on matters related to AECL) and, as appropriate, Government central agencies, to discuss the status of priorities, risks and other items that could have funding and/or fiscal implications or require re-profiling of existing funds.

Contractual Risks

The GoCo model represents a new structure that relies on the expertise brought by Canadian National Energy Alliance as well as proper oversight by AECL to achieve value for money for Canada. AECL must find the right balance in order to mitigate the risks of either too much or too little oversight. Indeed, AECL must exercise sufficient oversight so that it has a line of sight into activities and can play a proper challenge function, but not so much oversight that unnecessary administrative requirements and processes result, which can impede the contractor from innovating and performing. Indeed AECL's role is to direct the 'what', not the 'how'.

To mitigate this risk, protocols and management processes have been established in an effort to ensure proper information is being shared at all levels and to facilitate collaboration, including a Contractor Assurance System (a system that allows the contractor to manage performance consistent with contractual requirements, which is available to AECL) and a standard-based Earned Valued Management System (a system to plan and manage projects and track performance). AECL has also been working formally and informally to establish a strong relationship with CNL. Leveraging the existing relationship will allow AECL to focus its attention on engaging CNL on broad strategic issues which are of high value to Canada, rather than focusing on processes and frequent transactions that can add lesser value. It should be noted though that AECL will retain broad audit rights should it require additional information from CNL.

Internal Risks

AECL's operations and success, including the provision of effective contractual oversight, depends in large part on the organization's ability to retain its small workforce comprised of highly qualified and specialized employees. At the end of the 2015-16 fiscal year, AECL has in place a full staff complement including international experts in order to have the right knowledge and competencies in place to help it implement the GoCo model. However, retention and filling future vacant positions could prove challenging given the fairly limited number of experts in operating nuclear sites in a GoCo environment such as AECL's. In particular, AECL has had to recruit international experts with expertise in GoCo contracts.

The retention of required knowledge and capabilities to provide effective oversight, along with the on-the-job training of other staff, continues to be critical to enable the organization to sustain operations. This will be achieved through succession planning and cross training/mentoring, in order to 'groom' the next generation of Canadian experts in the GoCo model, and to avoid any gaps in critical positions.

Given that the GoCo model is still new, AECL anticipates adjustments to its organizational structure, and associated resource needs, to adapt to its new role. To that effect, AECL has built in flexibility to be able to periodically and strategically augment its resource capabilities and skills, by engaging specialized external resources on an as-needed basis.

CNL Project Risks

AECL has identified several high-priority projects and is closely tracking CNL's progress in advancing the work. In all cases where AECL has identified higher-risk projects, closer oversight of projects is being applied. This includes requiring that plans appropriately reflect the identified priorities and necessary actions, engaging with other stakeholders, as appropriate, monitoring performance and aligning the incentive plan with the priority and risk areas.

Furthermore, with an anticipated ramping up of activities at CNL, an increased focus on safety is important. AECL will be incentivizing CNL to implement programs and procedures to prevent accidents, while working to communicate risks with internal and external stakeholders.

Legal Risks

As AECL continues to address outstanding liabilities with respect to its former CANDU Reactor Division that was sold in 2011, there is a risk that successful claims against AECL could lead to financial damages that will require government funding. The activities of the Wrap-up Office, which is responsible for addressing these issues are largely completed with relatively few remaining residual or unresolved claims, litigation or warranty obligations. Any outstanding risks are being closely managed by AECL and government officials are briefed on issues on a regular basis.

Financial review – Continuing operations

	Actual Results	
($ millions)	**2015-16**	2014-15
	$	$
Revenue and Funding		
Revenue	**117**	141
Parliamentary appropriations	**391**	221
Cost recoveries from third parties and other	**10**	21
Decommissioning and waste management funding	**90**	188
Total revenue and funding	**608**	571
Gross margin	**53**	57
Operating expenses	**211**	393
Contractual expenses	**176**	–
Financial expenses	**220**	222
Net loss before Revaluation loss on decommissioning and waste management provision and other	**(57)**	(118)

Revenue

In 2015-16, revenue decreased to $117 million (2014-15: $141 million). Revenue included isotope sales, commercial technology sales, nuclear waste management and research and development activities performed by CNL for commercial customers. This decrease can be attributed primarily to a large heavy water sales type lease recorded in 2014-15.

In providing research and development support to the CANDU Owners Group, CNL advances AECL's objectives of leveraging the existing capabilities, expertise and infrastructure to grow the laboratories' third party revenues. Revenues from these activities decreased to $33 million in 2015-16 from $38 million in 2014-15.

Parliamentary Appropriations

AECL recognized $391 million of Parliamentary Appropriations in 2015-16, an increase of $170 million compared to the prior year. This increase primarily relates to AECL assuming responsibility from Natural Resources Canada for the Government's obligations with respect to historic low-level radioactive wastes and legacy decommissioning and waste management part way through the year. As of September 13, 2015, funding for those activities was provided directly to AECL through Parliamentary Appropriations.

Cost Recoveries from Third Parties and Other

For part of the 2015-16 fiscal year, AECL received funding from Natural Resources Canada for the management of historic low-level radioactive waste through the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office (both managed by CNL). Natural Resources Canada provided $10 million in funding in 2015-16 to support both program offices' initiatives. As discussed above, AECL assumed responsibility for the Government's obligation for the management of these liabilities, and as of the implementation of the GoCo model, funding for these activities was provided to AECL directly through Parliamentary Appropriations.

Decommissioning and Waste Management Funding

For part of the 2015-16 fiscal year, AECL received funding from Natural Resources Canada for the Nuclear Legacy Liabilities Program, in order to address legacy radioactive waste and decommissioning liabilities associated with AECL sites. Effective September 13, 2015, AECL assumed the responsibilities associated with addressing these liabilities and received funding directly through Parliamentary Appropriations.

Funding recognized during 2015-16 was $90 million, compared to $188 million the previous year. The related expenditures reduced the decommissioning and waste management provision. This variance in funding relates to the change in funding to Parliamentary Appropriations partway through the year.

Gross Margin

The reported gross margin of $53 million in 2015-16 was comparable to the prior year.

Operating Expenses and Contractual Expenses

The contractual arrangement with CNEA and CNL came into effect on September 13, 2015 and with it the shares of CNL were transferred from AECL to CNEA. As a result, for the second half of 2015-16, AECL made payments to CNL and CNEA as per the terms of this contractual arrangement. Together those expenses were $387 million in 2015-16 compared to $393 million in 2014-15.

Financial Expenses

Financial expenses primarily consist of the unwinding of the discount on the decommissioning and waste management provision (accretion expense). The 2015-16 financial expense of $220 million was comparable to the expense in 2014-15.

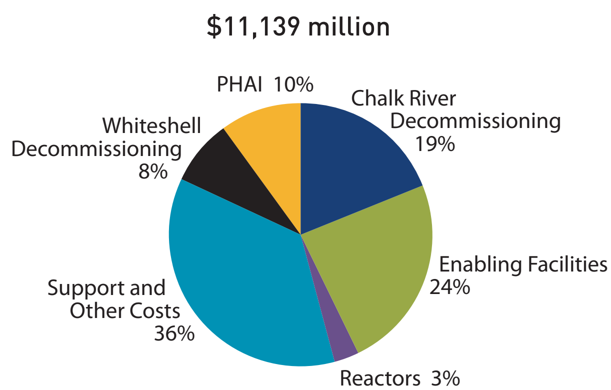
Net Loss before Revaluation Loss on Decommissioning and Waste Management Provision and Other

AECL reported a net loss before Revaluation Loss on decommissioning and waste management provision and other of $57 million in 2015-16 compared to a $118 million net loss in 2014-15. This variance in net loss was the result of increased funding as discussed above.

Revaluation (Loss) Gain on Decommissioning and Waste Management Provision and Other

The reported loss on Revaluation of decommissioning and waste management provision and other was $74 million in 2015-16 compared to a loss of $2,186 million in the previous year. The loss in the current year includes the effect of a change in the discount rate from the previous period.

Decommissioning liability 2015–2016



Under International Financial Reporting Standards (IFRS), the reported decommissioning and waste management provision is re-valued on each reporting date on a discounted or net present value basis using the discount rate in effect at the end of the period. When the discount rate decreases, the liability increases. Conversely, when the discount rate increases, the liability decreases. In both cases, the change in liability impacts the company's reported net income or net loss, but is non-cash in nature and does not impact AECL's funding requirements of the reporting year.

The March 31, 2016 rate was 2.00%, an increase of 0.01% from the previous year resulting in a reported $21 million revaluation gain in the year.

Outlook

AECL will continue to deliver on its commitments as based on its 2016-17 Corporate Plan. As part of the implementation of the GoCo model, AECL has placed significant emphasis on CNL to review existing plans and propose new plans that will contribute to advancing AECL's decommissioning and waste management responsibilities. This includes, for example, accelerating the development, design and construction of a near-surface disposal facility at the Chalk River Laboratories, which will serve as a final resting place for a large volume of AECL waste, as well as the acceleration of the decommissioning and closure of the Whiteshell Laboratories and Nuclear Power Demonstration reactor (located in Manitoba and Ontario, respectively). There is also a focus on renewing the site infrastructure at the Chalk River

Laboratories, including new and renewed science buildings, which will allow CNL to grow its nuclear science and technology mission.

As a result, 2016-17 will be a critical year for establishing longer-term plans for CNL in the areas of decommissioning, science & technology, and capital investments. AECL will be working with CNL, and challenging it as necessary, to develop plans that integrate industry best practices and bring value for Canada.

Related to the development of CNL's annual plans is the Performance Evaluation and Measurement Plan, which sets out the performance incentive plan for CNL for its work, with the exception of the Whiteshell and Nuclear Power Demonstration target-cost projects. AECL and Canadian National Energy Alliance agree on specific performance criteria and measures related to the work that CNL is expected to perform in the coming year. Such incentives allow AECL to focus attention on priority areas. Work performed by CNL at the Whiteshell and Nuclear Power Demonstration sites is conducted under separate target-cost agreements.

Discontinued operations

	Actual Results	
($ millions)	**2015-16** **$**	2014-15 $
Total revenue	**–**	1
Parliamentary appropriations	**–**	36
Gross margin	**–**	1
Operating expenses	**9**	(2)
Net (loss) income from discontinued operations	**(9)**	40

Revenue

Certain life extension projects retained by AECL as at the date of the sale of the Commercial Operations business to Candu Energy Inc. continued to be wound down. As a result, there has been minimal revenue recorded during the current and prior years.

Parliamentary Appropriations

AECL recognized Parliamentary Appropriations of $nil in 2015-16 compared to $36 million in 2014-15. The appropriations reflect funding received to close out life extension projects and address related liabilities.

Operating Expenses

Operating expenses recorded in 2015-16 relate to adjustments of contract provisions with customers resulting from the close out of each of its life extension projects. Operating costs also include the use of third-party service providers to support legal disputes, costs to support the completion of the Enhanced CANDU Reactor development program and costs to address the retained liabilities resulting from the sale of the Commercial Operations business in 2011-12.

Outlook

The Wrap-up Office's focus is primarily on the management and resolution of legal work required to settle outstanding claims and litigation relating to the CANDU Reactor Division's work pre-closing. While the activities of the Wrap-up Office have progressed substantially, a relatively small number of resources remain engaged on the resolution of these matters with the support of external advisors such as engineers, accountants, lawyers, and other specialized staff.

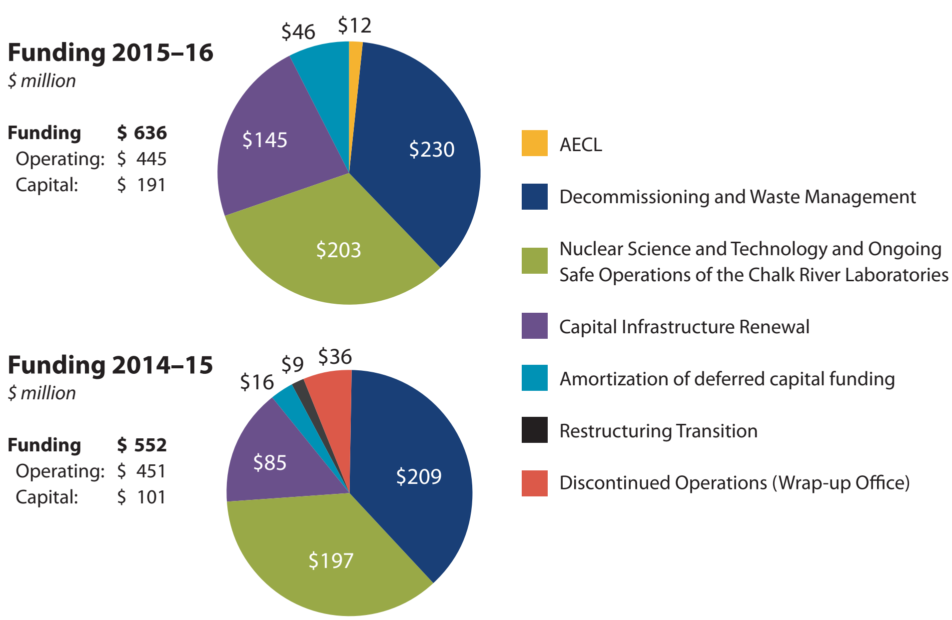
A strategy will be developed to deal with any residual or unresolved claims, litigation or warranty obligations beyond the projected close of the Wrap-up Office.

Funding

Total funding recognized in 2015-16 for operating and capital activities was $636 million (2014-15: $552 million).

The 2015-16 funding included:

- $203 million to support nuclear science and technology activities as well as ongoing safe operations of the Chalk River Laboratories.
- $230 million for decommissioning and waste management activities at the Chalk River and Whiteshell sites and environmental remediation programs primarily in Port Hope.
- $145 million for capital infrastructure renewal.
- Amortization of deferred capital funding of $46 million related to Government of Canada-funded infrastructure, mainly at Chalk River.
- Funding of $12 million to enable AECL to deliver on its oversight mandate.



Results compared to 2015-16 Corporate Plan

	Actual	Corporate Plan
($ millions)	**2015-16**	2015-16
	$	$
Revenue		
Continuing Operations	**117**	107
Discontinued Operations	**–**	–
Gross margin		
Continuing Operations	**53**	48
Discontinued Operations	**–**	–
Parliamentary appropriations and funding		
Continuing Operations	**491**	464
Discontinued Operations	**–**	–
Net (loss) income by business entity before Revaluation (loss) gain on decommissioning and waste management provision and other		
Continuing Operations	**(57)**	(11)
Discontinued Operations	**(9)**	(13)

AECL reported a net loss before Revaluation (loss) gain on decommissioning and waste management provision and other of $57 million compared to a planned net loss of $11 million. This variance is mostly related to increased expenses from impairments required to certain property, plant and equipment.

Commercial Operations (Discontinued Operations) reported a net loss of $9 million, which compares to a planned loss of $13 million.

Consolidated cash flow and working capital

	Actual Results	
($ millions)	**2015-16**	2014-15
	$	$
Cash from operating activities	**144**	110
Cash used in investing activities	**(135)**	(83)
Cash		
Increase	**9**	27
Balance at beginning of the period	**76**	49
Balance at end of the period	**85**	76

Overall, AECL's 2015-16 year end closing cash position increased by $9 million to $85 million from the previous year's balance of $76 million.

Operating Activities

Operating activities resulted in a net cash inflow of $144 million compared to a net inflow of $110 million in 2014-15. This variance is mainly due to decreased cash paid for decommissioning activities, to suppliers and employees and increased cash receipts from funding partly offset by a decrease in cash receipts from customers.

Investing Activities

The $135 million cash used in investing activities in 2015-16 was higher than the $83 million in the prior year as a result of increased infrastructure renewal program.

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 were historically used in connection with performance guarantees on major contracts related to AECL's commercial operations (Discontinued Operations). The guarantees generally related to project and product performance and advance payments. None continue in existence at this time. In addition, AECL guaranteed that certain projects would be completed within a specified time, and if AECL did not fulfill its obligations, it would potentially be responsible for liquidated damages under the applicable contract. The aggregate amount of AECL's potential exposure as at March 2016 was $60 million (2014-15: $60 million) related to liquidated damages under a contract with a former customer of AECL and which is not covered by guarantees. Management has assessed the impact of potential liquidated damages penalties on the former 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 AECL.

Accounting policy changes

Standards and Interpretations Issued to be Adopted at a Later Date

Certain standards and amendments to the existing standards have been issued by the International Accounting Standards Board and have been assessed as having a possible effect on AECL in the future.

AECL is currently evaluating the impact of adopting these standards and amendments on its financial statements, as described in Note 4(u) of the Consolidated Financial Statements.

Critical accounting estimates and policies

AECL's consolidated financial statements include estimates, assumptions and judgments made by management that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

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.

Asset Impairment

AECL reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

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.

Parliamentary Appropriations

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

- Appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred.
- Appropriations used for operating activities are recognized as funding in the income statement as costs are 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 2016, amounted to $472 million compared to $372 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 of Canada-funded heavy water inventory. This funding arrangement expired on April 1, 2006, and an amount equivalent to the proceeds has been recorded as a provision on AECL's balance sheet.

Decommissioning and Waste Management

Decommissioning and waste 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 discounting of the expected future cash flows is at a rate that reflects current market assessments of the time value of money. The provision is reviewed quarterly to reflect actual expenditures incurred and changes in management's estimate of the future costs and timing thereof.

Five-Year Consolidated Financial Summary

(unaudited)

($ millions)	**2016**	2015*	2014*	2013*	2012*
	$	$	$	$	$
Nuclear Laboratories					
Revenue	**117**	141	130	96	76
Funding	**100**	209	194	165	155
Interest revenue	**6**	9	7	8	10
Net loss before Parliamentary appropriations and Revaluation (loss) gain on decommissioning and waste management and other	**(449)**	(339)	(262)	(349)	(334)
Revaluation (loss) gain on decommissioning and waste management liability and other	**(74)**	(2,186)	231	(2,282)	(1,368)
Net (loss) income from continuing operations	**(131)**	(2,304)	257	(2,339)	(1,408)
Commercial Operations (Discontinued Operations)					
Revenue	**–**	1	36	97	278
Operating income (loss) from discontinued operations	**(9)**	4	(99)	35	(96)
Impairment of long-lived assets	**–**	–	–	(5)	(9)
Gain on sale of non-current assets	**–**	–	–	2	–
Restructuring charge	**–**	–	–	–	(31)
Net income (loss) from discontinued operations	**(9)**	40	(65)	246	254
Parliamentary Appropriations					
Operating and capital	**537**	343	399	565	729
Financial position					
Cash, cash equivalents and short term investments	**85**	76	49	35	35
Heavy water inventory	**213**	221	305	290	291
Capital expenditures	**135**	83	78	55	45
Property, plant and equipment	**491**	406	336	286	263
Decommissioning and waste management provision	**11,139**	9,974	7,750	7,970	5,679
Other					
Number of full-time employees	**42**	3,318	3,291	3,285	3,214

** Certain amounts have been reclassified to conform to the 2016 Financial Statement presentation.*

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 International Financial Reporting Standards and include estimates based on the assumptions, experience and judgment of management. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

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 auditor, the Auditor General of Canada, conducts an audit of the consolidated financial statements of the Corporation and reports on his 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 two standing committees: Audit and Human Resources & Governance. The Audit Committee, composed of independent directors, has a mandate for overseeing the independent audit, 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 auditor on a regular basis to discuss significant issues and findings, in accordance with their mandate.

The independent auditor 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 auditor before they are approved by the Board of Directors and submitted to the Minister of Natural Resources. The Board of Directors, on the recommendation of the Audit Committee, approves the consolidated financial statements. The Chair of the Audit Committee signs the audited consolidated financial statements.

Richard J Sexton

Richard Sexton
Acting Chief Transition Officer
November 15, 2016

David J Smith

David J. Smith
Chief Financial Officer
November 15, 2016

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

Independent Auditor's Report

To the Minister of Natural Resources

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Atomic Energy of Canada Limited, which comprise the consolidated balance sheet as at 31 March 2016, and the consolidated statement of comprehensive income (loss), consolidated statement of changes in shareholder's deficit and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atomic Energy of Canada Limited as at 31 March 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Atomic Energy of Canada Limited and its wholly-owned subsidiaries that have come to my notice during my 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*, the articles and by-laws of Atomic Energy of Canada Limited and its wholly-owned subsidiaries, and the directive issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Robert Wilson, CPA, CA
Principal
for the Auditor General of Canada

15 November 2016
Ottawa, Canada

Consolidated Balance Sheets

As at March 31

(thousands of Canadian dollars)	Notes	**2016**	2015
		$	$
ASSETS			
Current			
Cash		**84,553**	75,912
Trade and other receivables	5	**54,982**	63,067
Current portion of long-term receivables	8	**32,592**	30,958
Inventory	6	**7,242**	25,884
		179,369	195,821
Non Current			
Long-term disposal of waste fund	7	**3,538**	–
Long-term receivables	8	**35,987**	68,836
Investments held in trust	9	**49,320**	47,805
Heavy water inventory	6	**212,968**	221,283
Property, plant and equipment	10	**490,988**	405,769
Intangible assets	11	**18,343**	11,319
		990,513	950,833
LIABILITIES			
Current			
Trade and other payables	12,28	**48,846**	117,606
Customer advances and obligations	13,28	**909**	3,165
Provisions	14,28	**15,851**	16,784
Current portion of decommissioning and waste management provision	15	**425,900**	229,500
Due to Canadian Nuclear Laboratories	23	**114,287**	–
Restructuring provision	28	**1,075**	3,090
		606,868	370,145
Non Current			
Decommissioning and waste management provision	15	**10,712,667**	9,744,713
Deferred capital funding	16	**471,691**	372,175
Deferred decommissioning and waste management funding	19	**245,011**	220,510
Employee benefits	17	**20,838**	29,144
		12,057,075	10,736,687
SHAREHOLDER'S DEFICIT			
Share capital	27	**15,000**	15,000
Contributed capital	19	**173,153**	207,763
Deficit		**(11,254,715)**	(10,008,617)
		(11,066,562)	(9,785,854)
		990,513	950,833
Commitments, Contingencies and Obligations	18		

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

Approved on behalf of the Board

James Hall, Director

Richard Sexton, Acting Chief Transition Officer

Consolidated Statements of Comprehensive Income (loss)

For the year ended March 31

(thousands of Canadian dollars)	Notes	**2016**	2015
		$	$
CONTINUING OPERATIONS			
Revenue	20	**116,921**	141,468
Cost of sales		**64,362**	84,295
Gross margin		**52,559**	57,173
Other funding	21	**99,840**	209,275
Operating expenses		**211,191**	392,843
Contractual expenses	23	**175,956**	–
Operating loss		**(234,748)**	(126,395)
Financial income	24	**5,691**	9,037
Financial expenses	24	**219,838**	222,122
Net loss before Parliamentary appropriations and Revaluation loss on decommissioning and waste management provision and other		**(448,895)**	(339,480)
Parliamentary appropriations	21	**391,579**	221,466
Net loss before Revaluation loss on decommissioning and waste management provision and other		**(57,316)**	(118,014)
Revaluation loss on decommissioning and waste management provision and other	15	**(73,803)**	(2,185,665)
Net loss from continuing operations before discontinued operations		**(131,119)**	(2,303,679)
Discontinued Operations (Note 28)			
Operating (loss) income from discontinued operations	28	**(8,869)**	3,504
(Loss) income from discontinued operations before Parliamentary appropriations		**(8,869)**	3,504
Parliamentary appropriations for discontinued operations	21	**–**	36,100
Net (loss) income from discontinued operations		**(8,869)**	39,604
Net loss		**(139,988)**	(2,264,075)
Other comprehensive income (loss)			
Items that will not be reclassified to profit and loss:			
Other employee benefit plan actuarial gain (loss)		**72**	(1,396)
Other comprehensive income (loss)		**72**	(1,396)
Comprehensive loss		**(139,916)**	(2,265,471)

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

Consolidated Statements of Changes in Shareholder's Equity

For the year ended March 31, 2016

(thousands of Canadian dollars)	Notes	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
		$	$	$	$
Balance at March 31, 2015		**15,000**	**207,763**	**(10,008,617)**	**(9,785,854)**
Net loss attributable to Shareholder for the period		–	–	(139,988)	(139,988)
Contributed liability	10, 15	–	–	(1,106,182)	(1,106,182)
Other comprehensive income		–	–	72	72
Comprehensive loss		–	–	(139,916)	(139,916)
Transfer to deferred decommissioning and waste management funding	19	–	(24,501)	–	(24,501)
Transfer to repayable contributions	19	–	(10,109)	–	(10,109)
Balance at March 31, 2016		**15,000**	**173,153**	**(11,254,715)**	**(11,066,562)**

For the year ended March 31, 2015

(thousands of Canadian dollars)	Notes	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
		$	$	$	$
Balance at March 31, 2015		**15,000**	**235,628**	**(7,743,146)**	**(7,492,518)**
Net loss attributable to Shareholder for the period		–	–	(2,264,075)	(2,264,075)
Other comprehensive loss		–	–	(1,396)	(1,396)
Comprehensive loss		–	–	(2,265,471)	(2,265,471)
Transfer to deferred decommissioning and waste management funding	19	–	(24,501)	–	(24,501)
Transfer to repayable contributions	19	–	(3,364)	–	(3,364)
Balance at March 31, 2015		**15,000**	**207,763**	**(10,008,617)**	**(9,785,854)**

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

Consolidated Cash Flow Statements

For the year ended March 31

(thousands of Canadian dollars)	**2016**	2015
	$	$
OPERATING ACTIVITIES		
Cash receipts from customers	**163,362**	296,843
Cash receipts from Parliamentary appropriations	**471,664**	326,744
Cash receipts for decommissioning and waste management activities before share transfer	**111,368**	179,021
Cash paid to suppliers and employees	**(513,138)**	(504,715)
Cash paid for decommissioning activities before share transfer	**(90,035)**	(188,408)
Interest received on investments (net)	**838**	564
Interest and bank charges paid	**(81)**	(40)
Cash from operating activities	**143,978**	110,009
Thereof from discontinued operations	**(14,820)**	8,042
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	**(135,337)**	(83,276)
Cash used in investing activities	**(135,337)**	(83,276)
Thereof from discontinued operations	–	–
CASH		
Increase	**8,641**	26,733
Balance at beginning of the period	**75,912**	49,179
Balance at end of the period	**84,553**	75,912

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2016

1. General Information

Atomic Energy of Canada Limited (AECL) is a federal Crown corporation whose mandate is to fulfill the Government's waste and decommissioning responsibilities, provide nuclear expertise to support federal roles and responsibilities, and offer services to users of the Nuclear Laboratories on commercial terms. AECL delivers its mandate through a long-term contract with Canadian National Energy Alliance (CNEA) for the management and operation of Canadian Nuclear Laboratories (CNL) under a Government-owned, Contractor-operated model. This contract came into effect on September 13, 2015. Prior to this date, CNL operated as a wholly-owned subsidiary of AECL.

AECL also manages the retained liabilities associated with its Commercial Operations (Discontinued Operations), which were sold to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin, on October 2, 2011.

AECL 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*.

In July 2015, AECL was issued a directive (P.C. 2015-1111) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations, and to report on the implementation of this directive in AECL's next Corporate Plan. As of March 31, 2016, AECL is fully compliant with the requirements of the directive.

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

AECL is domiciled in Canada and its address is Chalk River Laboratories, Chalk River, Ontario, K0J 1J0.

These consolidated financial statements were approved and authorized for issue by AECL's Board of Directors on November 15, 2016.

2. Restructuring and Corporate Plan

The Government of Canada has restructured AECL to reduce risks and costs to Canadian taxpayers. The first phase of the restructuring was completed in 2011 with the sale of AECL's CANDU Reactor Division (Commercial Operations) to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. As a result, AECL's commercial operations have been presented as discontinued operations in its financial reporting (see Note 28).

The second phase of the restructuring focused on AECL's Nuclear Laboratories, with the objective of implementing a Government-owned, Contractor-operated business model. As part of the implementation of this model, AECL incorporated a wholly-owned subsidiary, CNL. In November 2014, virtually all of AECL's employees were transferred to CNL, and CNL became the operator of the Nuclear Laboratories. AECL proceeded to establish itself as a small organization to provide oversight of the contractual arrangement under this model.

In June 2015, following a procurement process led by Natural Resources Canada and Public Works and Government Services Canada, the Government of Canada announced that CNEA had been selected as the preferred bidder to manage and operate CNL. The contract with CNEA came into effect on September 13, 2015, and the shares of CNL were transferred from AECL to CNEA. Under this contractual arrangement AECL retains ownership of the sites, facilities and assets and provides funding to CNL to manage and operate the sites and to undertake the program of work to fulfill AECL's mandate. This includes the provision of services to third party customers on behalf of AECL. AECL pays CNEA fees based on CNEA's achievement of established performance criteria and measures. With the transition to the Government- owned, Contractor-operated business model, the restructuring of AECL is now complete. Upon transferring the shares, AECL recorded a loss of $2.8 million in operating expenses in the Consolidated Statements of Comprehensive Income (Loss) associated with the investment in CNL. No portion of the loss is attributable to measuring the investment at fair value.

AECL has submitted its 2015-2016 to 2019-2020 and 2016-2017 to 2020-2021 Corporate Plans to the Government of Canada for approval. The Corporate Plan is aligned with the restructuring direction provided by the Shareholder and reflects AECL's new role under the Government-owned, Contractor-operated model.

3. Basis of Preparation

a) Statement of Compliance

The consolidated financial statements of AECL have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as set out in Part I of the Chartered Professional Accountants (CPA) Canada Handbook using accounting policies described herein.

b) Basis of Measurement

AECL's consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, which are measured at fair value, and Employee benefits and the decommissioning and waste management provision, which are measured based on the discounted value of expected future cashflows.

These consolidated financial statements are presented in Canadian dollars, which is AECL's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands, except where otherwise indicated.

c) Critical Accounting Estimates, Assumptions and Judgments

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying AECL's accounting policies.

AECL's consolidated financial statements include estimates, assumptions and judgments made by management that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

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.

The following are significant management judgments in applying the accounting policies of AECL that have the most significant effect on the consolidated financial statements.

Impairment of Property, Plant and Equipment and Intangible Assets

A cash-generating unit (CGU) is the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from AECL's other assets or group of assets. For the purposes of testing impairment of long-lived assets, Management has determined that there is one CGU for Continuing Operations (Notes 4(i), 10 and 11).

Research and Development

Management monitors the progress of internal research and development projects in order to determine if the projects are in the research or development phases. In addition to detailed analysis of these costs, management judgment is required in order to determine if and when the requirements for capitalization of development costs are met.

Provisions and Contingencies

AECL is exposed to contingent losses in the ordinary course of business. Prediction of the outcome of contingencies and determination of whether accrual or disclosure in the consolidated financial statements is required are matters for judgment.

Assumptions and estimation uncertainties that have the most significant effect on the amounts reported in the consolidated financial statements are discussed below.

Decommissioning and Waste Management Provision

The decommissioning and waste management provision 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. Estimated future decommissioning and waste management costs require that assumptions be made about the regulatory environment, health and safety considerations, the desired end state, technology to be employed and activities that extend well into the future.

Significant assumptions determine the valuation, such as timing of major decommissioning and remediation project expenditures, regulatory requirements, volumes of waste, interest rate, inflation factors, the impact of technological advances and the health, safety, security and environmental protection objectives that are in accordance with Canadian Nuclear Safety Commission (CNSC) regulations.

Changes to these assumptions, as well as changes to the timing of the expenditures 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 (Note 15). Also, changes to the discount rate used to estimate the liability can have a material impact on the reported financial results.

Property, Plant and Equipment and Intangible Assets

Property, plant and equipment, and intangible assets are reviewed for impairment and estimated useful life whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If indicators show that the carrying amount of an asset is less than its recoverable amount, then a formal estimation of the asset's recoverable amount is performed. For intangible assets with an indefinite useful life, this assessment is performed at each reporting date.

An asset's recoverable amount is based on an estimate of the higher of fair value less costs to sell and value-in-use, which, in turn, is determined using discounted future cash flows. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is estimated for the CGU to which the asset belongs. The accounting estimate related to asset impairment is susceptible to change from period to period because it requires management to make assumptions about future events and the impact of recognizing an impairment could have a material impact on AECL's consolidated financial statements (Notes 4(i), 10, 11).

Heavy Water Inventory
Heavy water inventory is recorded at the lower of weighted average cost and net realizable value. Net realizable value is based on Management's best estimate of future events and, accordingly, actual net realizable value could differ from these estimates (Note 6).

Employee Benefits
The cost of non-pension employee benefits earned by employees is determined using the Projected Unit Credit method prorated on length of service and Management's best estimate of salary escalation, retirement ages of employees and expected employee departure date. AECL takes advice from independent actuaries regarding the appropriateness of the assumptions. Changes in the assumptions used may have a significant impact on AECL's consolidated financial statements (Note 17).

Provisions and Contingencies
AECL is exposed to contingent losses in the ordinary course of business. In determining a reliable estimate of an obligation, Management makes assumptions about the amount and likelihood of outflows, timing of outflows and discount rates.

Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, the opinion or views of legal counsel and other advisers, and any decision of Management as to how AECL intends to handle the obligation. The actual amount and timing of outflows may deviate from the assumptions, and the difference might materially affect future consolidated financial statements, with an adverse impact upon the consolidated results of operation, financial position and liquidity (Notes 14, 18 (c) and (d)).

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of Consolidation

Subsidiaries
Subsidiaries are entities controlled by AECL. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies of AECL.

These consolidated financial statements include the accounts of AECL's wholly-owned subsidiaries, Canadian Nuclear Laboratories Limited, incorporated in Canada in 2014 (for the period up to September 13, 2015, after which CNL ceased to be a wholly-owned subsidiary of AECL); 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 AECL's Nuclear Fuel Waste Act Trust Fund ("Trust Fund"), a structured entity (Note 4 (e)). All inter-company transactions have been eliminated upon consolidation.

Structured Entity
A structured entity (SE) is created to accomplish a narrow and well-defined objective, often with legal arrangements that impose strict limits on the decision-making powers of the SE's managers. The sponsor of a SE controls the SE when it is exposed, or has rights, to variable returns from its involvement with the SE and has the ability to affect those returns through its power over the SE, even though it may own little or none of the SE's equity.

AECL has examined its business arrangements and has concluded that there is no significant interest in SEs with the exception of the Trust Fund, which have been consolidated.

b) 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, not denominated in the functional currency of AECL, 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 the Consolidated Statements of Comprehensive Income (Loss).

c) Financial Instruments

Recognition and Measurement

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

Category	**Financial Instruments**
Financial assets and financial liabilities designated at fair value through profit or loss	Investments held in trust
Loans and receivables	Cash
	Trade and other receivables
	Long-term disposal of waste fund
	Long-term receivables
Other financial liabilities	Trade and other payables
	Customer advances and obligations
	Due to Canadian Nuclear Laboratories

Financial instruments are recognized initially at fair value. Financial instruments classified as loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets and financial liabilities at fair value through profit or loss are initially and subsequently recorded at fair value at the Balance Sheet date based on similar instruments with quoted market prices. Gains and losses arising from changes in fair value are recognized as Financial income or Financial expenses in Comprehensive Income (Loss) for the period in which they occur. Transaction costs for financial assets and financial liabilities at fair value through profit or loss are expensed as incurred. The investments held in trust are designated as assets at fair value through profit or loss, as the Fund Manager is permitted to trade within the approved investment guidelines to generate adequate returns. The investments held in trust are managed on a fair value basis and their performance is actively monitored.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and do not qualify as trading assets.

Other financial liabilities are initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method.

Impairment

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence of impairment can include default or delinquency by a debtor or indications that a debtor will enter bankruptcy. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and the loss event has had a negative effect on estimated future cash flows of the asset which are reliably measurable.

AECL assesses all individually significant receivables for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. An impairment loss is recognized immediately in the Consolidated Statements of Comprehensive Income (Loss) when there is objective evidence of impairment. With a recovery in value, impairment losses on financial assets are reversed through the Consolidated Statements of Comprehensive Income (Loss).

d) Long-term Disposal of Waste Fund

Cash has been invested in a fund for the future disposal of radioactive waste. This investment fund, established and maintained by AECL, is intended to provide funding for covering the future disposal costs associated with radioactive waste generated from AECL's ongoing operations. Effective March 31, 2016 the fund is held in cash.

Interest earned is included in Financial income in the Consolidated Statements of Comprehensive Income (Loss).

e) Investments Held in Trust - Trust Fund

The Trust Fund is a SE established pursuant to the *Nuclear Fuel Waste Act* to finance the implementation of an approach for the long-term management of nuclear fuel waste. While AECL does not have any direct or indirect shareholdings in this entity, Management has determined that AECL, in substance, controls the Trust Fund as:

- AECL has the power to direct the investing activities of the Trust Fund.
- AECL is exposed to variable returns from its involvement with the Trust Fund as the investments are managed on a fair value basis.
- AECL has the power to develop and maintain the investment policy and is responsible to set the risk of the investments as well as the minimum and maximum ranges of asset mix, which affects AECL's returns on the Trust Fund.

Interest earned is included in Financial income in the Consolidated Statements of Comprehensive Income (Loss).

f) Inventory

Heavy water, spare parts and store supplies and reactor fuel are measured at the lower of weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Where cost exceeds net realizable value, a write down is recorded. When the circumstances that previously caused inventory to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed circumstances, the amount of the original write-down is reversed. Reactor fuel inventory costs include an allocation of overhead.

g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Costs comprise expenditures that are directly attributable to the acquisition of the asset, including costs incurred to bring the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Major parts of property, plant and equipment that have different useful lives are accounted for as separate items or components of property, plant and equipment.

The cost of major overhauls, inspections and replacement parts of an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within these costs will flow to AECL, and the cost can be measured reliably. Upon the replacement of parts of existing property, plant and equipment, the carrying amount of the replaced part is derecognized. Decommissioning and waste management costs are included as part of the related assets. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Consolidated Statements of Comprehensive Income (Loss) as incurred.

Construction in progress is not depreciated until the constructed asset is ready for use. When complete, the constructed asset is transferred to the appropriate category of property, plant and equipment and depreciated at the rate applicable to that category.

Depreciation is calculated over the depreciable amount of an item of property, plant and equipment, which is the item's cost, less its residual value. Depreciation is provided on a straight-line basis over the estimated useful life of the asset as follows:

Land improvements	10 to 20 years
Buildings and reactors	20 to 40 years
Machinery and equipment	3 to 25 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

h) Intangible Assets and Research and Development Activities

Expenditures on research activities are expensed as incurred.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and AECL has or intends to have sufficient resources to complete development and to use or sell the asset.

The expenditures capitalized include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate.

Research and development costs incurred to discharge waste management and decommissioning obligations for which specific provisions have already been made are charged against the related provision.

Other intangible assets that are acquired by AECL and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Other intangible assets are comprised of software and Contributions in Aid of Construction.

Contributions in Aid of Construction relate to the contributions made for a pipeline to deliver natural gas to the Chalk River site.

Assets under Development are not depreciated until the constructed asset is ready for use. When complete, the constructed asset is transferred to the appropriate category of intangible assets and amortized at the rate applicable to that category.

Amortization is calculated over the cost of the asset, less its residual value. Amortization is provided on a straight-line basis over the estimated useful life of the asset, from the date it is available for use, as follows:

Software costs	3 years
Contributions in Aid of Construction	40 years

i) Impairment of Property, Plant and Equipment and Intangible Assets

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable. For intangible assets with indefinite lives and intangibles not yet available for use, a calculation of recoverable amount is performed at each reporting date and whenever events or changes in circumstances indicate that the carrying amounts may not be fully recoverable.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

j) Trade and Other Receivables, Customer Advances and Obligations

Certain construction contracts may have revenue recognized in excess of billings (unbilled revenues) and other construction contracts may have billings in excess of revenue recognized (customer advances and obligations). Unbilled revenues are recorded as an asset and included in Trade and other receivables. Billings collected in excess of revenue recognized on contracts and advances for which the related work has not started are recognized as Customer advances in accordance with AECL's revenue recognition policy.

k) Decommissioning and Waste Management Provision

AECL provides for its obligations to decommission nuclear facilities and to manage nuclear waste in order to satisfy regulatory requirements. The best estimate of an obligation is recognized in the period in which a reliable estimate can be determined and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provision takes into account current technological, environmental and regulatory requirements and is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the provision. The estimated future cash forecasts are adjusted for inflation using a rate that is derived on the basis of Consensus forecasts and Bank of Canada historical and target inflation rates.

As the provision is recorded based on a discounted value of the projected future cash flows, it is increased quarterly to reflect the passage of time by removing one quarter's discount. The unwinding of the discount is charged to Financial expenses in the Consolidated Statements of Comprehensive Income (Loss).

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 depreciated over the related assets' useful lives. The effect of subsequent changes in estimating an obligation for which the provision was recognized as part of the cost of the asset is adjusted against the asset.

l) Provisions and Contingent Liabilities

A provision is recognized if, as a result of a past event, AECL has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a financial expense.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the consideration required to settle the obligation.

In those cases in which the possible outflow of economic resources as a result of present obligations is considered improbable or the amount of the obligation cannot be measured reliably, no liability is recognized.

m) Pension Plan

Substantially all of the employees of AECL are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and AECL to cover current service cost.

Pursuant to legislation currently in place, AECL has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of AECL.

n) Employee Benefits

AECL provides employee benefits such as voluntary termination compensation benefits and other benefits, including continuation of health and dental benefits during long-term disability and self-insured workers' compensation.

AECL reimburses Employment and Social Development Canada for workers' compensation claims in accordance with the *Government Employees Compensation Act* for current payments billed by the provincial compensation boards.

Non-Pension Post-Employment Defined Benefit Plans

AECL's net obligation with respect to its non-pension post-employment defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the Projected Unit Credit Method prorated on service and Management's best estimate of salary escalation, retirement ages of employees, mortality and expected employee turnover.

The discount rate is based on the methodology recommended by the Canadian Institute of Actuaries. AECL recognizes any actuarial gains and losses arising from non-pension defined benefit plans immediately in Other comprehensive income (loss) in the period in which they arise, and reports them in Deficit.

Other Long-Term Employee Benefits

AECL's net obligation with respect to other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. These benefits include self-insured workers' compensation benefits and health and dental care benefits during long-term disability.

That benefit is discounted to determine its present value. The discount rate is based on the methodology recommended by the Canadian Institute of Actuaries. The calculation is performed using a combination of the Projected Unit Credit Method prorated on service and event-driven calculations for Workers' Compensation. Any actuarial gains and losses are recognized in the Consolidated Statements of Comprehensive Income (Loss) in the period in which they arise.

Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if AECL has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and if the obligation can be estimated reliably.

o) Revenue Recognition

Revenue is derived from sales of AECL's services and products to clients. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and amounts collected for third parties, such as value added, excise and sales taxes.

Revenue is recognized when it can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to AECL. When there is uncertainty as to ultimate collection, revenue is recognized as cash is received.

When a single transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria noted below are applied to the separately identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer and the fair value associated with the product or service can be measured reliably. The amount recognized as revenue for each component is the fair value of the element in relation to the fair value of the arrangement as a whole.

i. Long-Term Contracts related to Discontinued Operations

Contract revenue includes the initial amount agreed in the contract plus any variations in the contract value, claims and incentive payments, to the extent that they can be measured reliably and it is probable that they will be received. When adjustments in contract value or estimated costs will result in a change in revenue and these adjustments are probable and can be reliably measured, any changes from the prior estimates are reflected in the Consolidated Statements of Comprehensive Income (Loss) in the current period.

When the outcome of a long-term contract can be estimated reliably, revenue is recognized under the percentage-of-completion method using the ratio of costs incurred to total estimated costs as the measure of performance. This measure of progress is then applied to the related anticipated revenue, resulting in recognizing revenue proportionately with the stage of completion.

When the outcome of a long-term contract cannot be estimated reliably, revenue is recognized only to the extent that contract costs incurred are expected to be recoverable. When the uncertainties that prevented the outcome of a contract are subsequently resolved, then revenue is recognized under the percentage-of-completion method. Expected losses on long-term contracts are recognized in Comprehensive Income (Loss) when identified.

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 they can be reliably measured and realization is probable.

ii. Cost-Reimbursement Contracts

Revenue under cost-reimbursement contracts is recognized as reimbursable costs are incurred and includes a proportion of fees earned.

iii. Other Service Contracts

When services are performed over a specified period of time, revenue is recognized on a straight-line basis unless there is evidence that some other method better represents the stage of completion. For waste management services, revenue is recognized based on the contractual arrangements specified in a contract for disposal with the customer.

iv. Supply of Product

Revenue is recognized when the risks and rewards of ownership have been transferred to the customer, which generally coincides with the transfer of title. When goods require significant tailoring, modification or integration, the revenue is recognized using the percentage-of-completion method as described above.

v. Royalty Revenue

Revenue from licensing of intellectual property is recorded as revenue in accordance with the terms of the specific agreement. These arrangements entitle AECL to receive payment from the sale to the licensee of CANDU and CANDU-related technologies for future new build, life extension and other projects.

p) Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are accounted for as Government of Canada grants and recognized as funding in the period in which they are appropriated or when entitlement is otherwise established by the end of an accounting period by Government authorization and meeting eligibility criteria. 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 the depreciable property, plant and equipment or finite lived intangible assets are recorded as deferred capital funding and amortized on the same basis as the related assets.

From 1997 to 2006, and pursuant to the 10-year arrangement for funding decommissioning activities, AECL 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 received was transferred from contributed capital to deferred decommissioning and waste management funding and was then recorded as other funding in Net income (loss) as the 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 and waste management funding.

q) 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.

r) Cost Recovery from Third Parties

AECL operated the Low-Level Radioactive Waste Management Office and Port Hope Area Initiative Management Office on a cost-recovery arrangement with Natural Resources Canada up to September 13, 2015, when the Government-owned, Contractor-operated model came into effect. As of September 13, 2015, AECL took over responsibility for fulfilling the Government's obligations with respect to historic low-level radioactive wastes. Going forward, funding for those activities will be provided directly to AECL through Parliamentary Appropriations. Costs recovered under this arrangement are recorded as cost recovery from third parties and are recognized as the related expenses are incurred and included as Other funding in Comprehensive Income (Loss).

s) Financial Income and Financial Expense

Financial income is comprised of interest income on funds invested and long-term receivables. Interest income is recognized in Comprehensive Income (Loss) as it accrues using the effective interest method.

Financial expenses relate to the unwinding of the discount on provisions.

t) Interpretations and Amendments

The following new pronouncements issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee effective July 1, 2014 were adopted by AECL on April 1, 2015. Their adoption did not have a significant impact on the consolidated financial statements.

Annual Improvements to IFRSs: 2010-2012 Cycle and 2011-2013 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle and the Annual Improvements to IFRSs 2011-2013 Cycle were issued in December 2013. These improvements include a number of amendments to various IFRSs which are effective for annual reporting periods beginning on or after July 1, 2014, on a prospective and modified retrospective basis.

u) Standards and Amendments Issued to be Adopted at a Later Date

The following standards and amendments to the existing standards have been issued by the IASB but are not yet effective. They are not expected to impact AECL's financial statements in the future, as AECL intends to transition to Public Sector Accounting Standards (PSAS) with an implementation date of April 1, 2016.

Amendments to IFRS 11 Joint Arrangements

The amendments to IFRS 11 provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments are effective for annual periods beginning on or after January 1, 2016, on a prospective basis.

Amendments to IAS 27 Separate Financial Statements

The amendments to IAS 27 allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries. Equity accounting has been introduced as a third option, in addition to the existing cost and fair value options.

The amendments are effective for annual periods beginning on or after January 1, 2016, on a retrospective basis.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, to clarify the treatment of the sale or contribution of assets between an investor and its associate or joint venture.

The amendments are effective for annual periods beginning on or after January 1, 2016, on a prospective basis.

Annual Improvements to IFRSs 2012–2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle are a collection of non-urgent amendments to IFRS. The four standards impacted are IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 1 Presentation of Financial Statements

The amendments to IAS 1 are narrow-scope and clarify, rather than significantly change, current practice. More emphasis is placed on materiality rather than the minimum requirements of a standard. The order of notes to the financial statements is not prescribed and can be combined with accounting policies. Line items on the balance sheet can be combined if the line items are immaterial or separated if it provides helpful information to users.

The amendments are effective for annual periods beginning on or after January 1, 2016.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized.

This standard will become effective for annual periods beginning on or after January 1, 2018, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application.

IFRS 9 Financial Instruments

The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis.

v) Future Changes in Accounting Policies

Following the restructuring of AECL and its changing mandate , it was determined that Public Sector Accounting Standards (PSAS) as approved by the Public Sector Accounting Board would be the most appropriate reporting basis to meet the needs of the users of AECL's financial statements. AECL will undertake conversion efforts to PSAS with an implementation date of April 1, 2016. The fiscal 2017 financial statements will include comparative figures and the April 1, 2015 opening balance sheet will be restated to conform with PSAS. AECL is currently evaluating the impact of converting to these standards on its consolidated financial statements and therefore the impact is not known at this time.

5. Trade and Other Receivables

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Trade receivables	**16,094**	29,805
Less: allowance for doubtful accounts	**(3,419)**	(544)
Net trade receivables	**12,675**	29,261
Other receivables:		
Unbilled revenue	**10,407**	23,055
Prepaid expenses	**430**	3,486
Consumption taxes receivable	**9,911**	3,502
Appropriations receivable	**19,400**	–
Other receivables	**2,159**	3,763
	54,982	63,067

The aging of gross trade receivables was as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Current	**11,406**	9,773
Past due 1 to 30 days	**986**	14,239
Past due 31 to 60 days	**235**	1,800
Past due 61 to 90 days	**405**	778
Past due more than 90 days	**3,062**	3,215
	16,094	29,805

AECL is exposed to normal credit risk with respect to its Trade and other receivables and maintains allowances for specific potential credit losses. The allowance for doubtful accounts represents Management's estimate of the expected credit losses to be incurred and is based on past experience with similar receivables and economic conditions. Should actual credit losses differ from Management's current estimates, future earnings will be affected. AECL is working to collect its outstanding trade receivables in accordance with the terms of the sales contracts.

AECL's exposure to credit risks related to Trade and other receivables, including unbilled revenue, is disclosed in Note 26.

The change in allowance for doubtful accounts was as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Balance at beginning of year	**(544)**	(841)
Charges	**(3,419)**	–
Reversals	**544**	297
Balance at end of year	**(3,419)**	(544)

6. Inventory

(thousands of Canadian dollars)	March 31 2016	March 31 2015
	$	$
Raw materials	**242**	1,631
Work in progress	**1,431**	7,713
Finished products	**532**	2,923
Reactor fuel	**2,205**	12,267
Spare parts and store supplies	**5,037**	13,617
Inventory	**7,242**	25,884
Heavy water inventory	**212,968**	221,283

The cost of inventory for reactor fuel and spare parts and store supplies recognized as an expense and included in Cost of sales and Operating expenses was $4.9 million (2015 – $26.2 million). The total amount of inventory written down in 2016 was $nil (2015 – $0.2 million).

In addition to internal consumption of heavy water at the Chalk River Laboratories, which was $0.1 million (2015 – $0.8 million), the cost of inventory for heavy water recognized as an expense and included in Cost of sales was $8.2 million (2015 – $24.7 million). The total amount of heavy water written down in 2016 was $nil (2015 – $58.1 million). The write-down in 2015 related to an assessment that was undertaken during the year of the net realizable value of the heavy water inventory.

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

7. Long-Term Disposal of Waste Fund

AECL is required to invest cash in a fund for the future disposal of radioactive waste arising from AECL 's ongoing operations. This fund is intended to cover the future disposal costs associated with radioactive waste generated. The cash dedicated to this purpose is not expected to be used in the upcoming fiscal year. The fund is comprised of the following:

(thousands of Canadian dollars)	Maturities	March 31 2016	Yield
		$	
Cash equivalents	Not applicable	**3,538**	0.0%

8. Long-Term Receivables

(thousands of Canadian dollars)	March 31 2016	March 31 2015
	$	$
Contract receivables from customers in respect of the financing of products and services, maturing through 2019 at fixed repayment amounts	**55,130**	80,670
Finance lease receivable	**13,449**	19,124
Current portion	**(32,592)**	(30,958)
	35,987	68,836

The contract receivables primarily relate to heavy water sales in prior years. The amount is repayable to AECL based on a fixed repayment schedule through 2019. The implicit interest rate in the receivable is 5.77% per annum. Required repayment amounts are recorded as operating activities on the Consolidated Cash Flow Statements and are due as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Less than one year	**26,762**	25,283
Between one and five years	**28,368**	55,387
	55,130	80,670

AECL's net investment in a finance lease receivable, which consists entirely of heavy water, is as follows:

	March 31					
(thousands of Canadian dollars)	**2016**			2015		
	Gross investment in finance lease receivables	**Unearned finance income**	**Present value of minimum lease payments receivable**	Gross investment in finance lease receivables	Unearned finance income	Present value of minimum lease payments receivable
	$	**$**	**$**	$	$	$
Less than one year	**6,154**	**(324)**	**5,830**	6,171	(496)	5,675
Between one and five years	**7,688**	**(69)**	**7,619**	13,842	(393)	13,449
	13,842	**(393)**	**13,449**	20,013	(889)	19,124

9. Investments Held in Trust

The *Nuclear Fuel Waste Act* requires Canadian nuclear utilities to form a waste management organization, the Nuclear Waste Management Organization (NWMO), 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 NWMO may withdraw monies from it in accordance with the provisions of the Act, Section II. As required by the Act, AECL's initial deposit to its Trust Fund was $10 million on November 25, 2002. Subsequent annual deposits averaging approximately $1.5 million have been made as required, and will continue until the full lifecycle costs of managing the nuclear fuel waste over the long-term are set aside.

The Trust Fund, managed by CIBC on behalf of AECL, invests in fixed income instruments, with various maturities. The fund has been consolidated and the investments held by the fund are recorded as a long-term asset and measured at fair value through profit or loss. Quoted market values for the instruments or similar instruments, in the case of the bonds, are estimated at $49.3 million as at March 31, 2016 (March 31, 2015 – $47.8 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. These investments are comprised of the following:

(thousands of Canadian dollars)		March 31 **2016**	**Yield**	2015	Yield
		$		$	
Cash equivalents*	Not applicable	**1,192**	**0.0%**	1,187	0.0%
Canadian government bonds**	June 2018 - December 2025	**27,422**	**2.5%**	32,361	2.8%
Corporate bonds	January 2017 - February 2022	**20,706**	**2.3%**	14,257	2.8%
		49,320		47,805	

* *Cash equivalents consist mainly of short-term money market instruments with original maturities less than 90 days.*
** *Canadian government bonds include federal, provincial and municipal bonds.*

10. Property, Plant and Equipment

(thousands of Canadian dollars)

2016

	Construction in progress	Land and land improvements	Buildings	Reactors, Machinery and Equipment	Total
	$	$	$	$	$
Cost at March 31, 2015	**191,690**	**78,837**	**263,921**	**378,587**	**913,035**
Additions and transfers	137,153	2,855	54,077	38,897	232,982
Disposals and transfers	(96,573)	–	(6)	(348)	(96,927)
Impairment	(20,238)	(2,627)	–	(4,006)	(26,871)
Contributed asset (Note 15)	–	4,184	247	–	4,431
Other changes	–	–	(4,630)	–	(4,630)
Cost at March 31, 2016	**212,032**	**83,249**	**313,609**	**413,130**	**1,022,020**
Depreciation at March 31, 2015	**–**	**38,490**	**183,080**	**285,696**	**507,266**
Increase in depreciation	–	3,127	4,750	16,226	24,103
Disposals	–	–	(6)	(331)	(337)
Transfers	–	–	–	–	–
Depreciation at March 31, 2016	**–**	**41,617**	**187,824**	**301,591**	**531,032**
Net carrying amount at March 31, 2015	**191,690**	**40,347**	**80,841**	**92,891**	**405,769**
Net carrying amount at March 31, 2016	**212,032**	**41,632**	**125,785**	**111,539**	**490,988**

(thousands of Canadian dollars)

2015

	Construction in progress	Land and land improvements	Buildings	Reactors, Machinery and Equipment	Total
	$	$	$	$	$
Cost at March 31, 2014	140,810	59,868	256,426	389,737	846,841
Additions and transfers	85,994	18,969	1,460	10,338	116,761
Disposals and transfers	(33,869)	–	(1,868)	(21,488)	(57,225)
Impairment	(1,245)	–	–	–	(1,245)
Other changes	–	–	7,903	–	7,903
Cost at March 31, 2015	191,690	78,837	263,921	378,587	913,035
Depreciation at March 31, 2014	–	35,858	181,214	293,980	511,052
Increase in depreciation	–	2,632	3,698	13,159	19,489
Disposals	–	–	(1,832)	(21,443)	(23,275)
Transfers	–	–	–	–	–
Depreciation at March 31, 2015	–	38,490	183,080	285,696	507,266
Net carrying amount at March 31, 2014	140,810	24,010	75,212	95,757	335,789
Net carrying amount at March 31, 2015	191,690	40,347	80,841	92,891	405,769

Depreciation of property, plant and equipment for the year ended March 31, 2016 was $24.1 million (2015 – $19.5 million). The Amortization of Property, plant and equipment is recognized in Operating expenses in the Consolidated Statements of Comprehensive Income (Loss).

Impairment charges of $26.9 million were recorded in 2016 (2015 – $1.2 million). Of the charges recorded in 2016, $17.3 million relates to a writedown of NRU related assets as a result of delays in the assets becoming operational. The recoverable amount based on the value-in-use associated with the writedown of NRU related assets is $6.2 million. The remaining impairment charges relate to the cancellation of intended projects for which costs had been included in Construction in progress as well as adjustments made to Contributed assets after management assessment. The impairment charges are recognized in Operating expenses in the Consolidated Statements of Comprehensive Income (Loss).

11. Intangible Assets

(thousands of Canadian dollars)		**2016**	
	Assets under Development	Software	Total
	$	$	$
Cost at March 31, 2015	**529**	**13,315**	**13,844**
Additions and transfers	8,188	744	8,932
Disposals and transfers	–	–	–
Cost at March 31, 2016	**8,717**	**14,059**	**22,776**
Amortization at March 31, 2015	**–**	**2,525**	**2,525**
Increase in amortization	–	1,908	1,908
Amortization at March 31, 2016	**–**	**4,433**	**4,433**
Net carrying amount at March 31, 2015	**529**	**10,790**	**11,319**
Net carrying amount at March 31, 2016	**8,717**	**9,626**	**18,343**

(thousands of Canadian dollars)		**2015**	
	Assets under Development	Software	Total
	$	$	$
Cost at March 31, 2014	681	9,532	10,213
Additions and transfers	529	3,783	4,312
Disposals and transfers	(681)	–	(681)
Cost at March 31, 2015	529	13,315	13,844
Amortization at March 31, 2014	–	1,321	1,321
Increase in amortization	–	1,204	1,204
Amortization at March 31, 2015	–	2,525	2,525
Net carrying amount at March 31, 2014	681	8,211	8,892
Net carrying amount at March 31, 2015	529	10,790	11,319

The Amortization of Intangible assets is recognized in Operating expenses in the Consolidated Statements of Comprehensive Income (Loss).

Total Research and Development costs for the current year were $67.7 million (2015 – $63.8 million), of which none (2015 – $nil) met the criteria for capitalization. The Research and Development costs incurred prior to the transfer of shares of CNL to CNEA have been included in operating expenses, any costs incurred after the transfer of shares to CNEA have been incurred by CNL under the Government-owned, Contractor-operated model.

12. Trade and Other Payables

(thousands of Canadian dollars)	March 31 **2016**	2015
	$	$
Trade payables	**565**	13,168
Other payables and accrued expenses	**10,699**	43,442
Accrued payroll liabilities	**2,810**	34,929
Current portion of employee benefits (Note 17)	**2,843**	3,814
Amounts due to related parties	**31,548**	21,438
Amounts due to Shareholder	**381**	815
	48,846	117,606

The carrying values of trade and other payables are considered to be a reasonable approximation of fair value due to their short-term nature.

The Amounts due to Shareholder represent Royalty revenues. The Amounts due to related parties represent cash proceeds from the sales of heavy water (Note 19).

13. Customer Advances and Obligations

(thousands of Canadian dollars)	March 31 **2016**	2015
	$	$
Customer advances and unearned revenue	**909**	3,165

Customer advances are comprised of billings collected in excess of revenue recognized and advances for which the related work has not started.

14. Provisions

(thousands of Canadian dollars)

	Contractual	Other	**Total**
	$	$	$
Balance at March 31, 2014	**15,595**	**136,278**	**151,873**
Additions	–	–	–
Utilized in year	(10,570)	(113,002)	(123,572)
Reduction from remeasurement	–	(11,517)	(11,517)
Balance at March 31, 2015	**5,025**	**11,759**	**16,784**
Additions	–	3,865	3,865
Utilized in year	–	(623)	(623)
Reduction from remeasurement	(3,625)	(550)	(4,175)
Balance at March 31, 2016	**1,400**	**14,451**	**15,851**

Completion of certain life extension projects and near completion of other projects have resulted in a decrease of $4 million (2015 – $11 million) in contract loss provision. It is expected that these expenditures will be incurred within one year following the reporting period.

Other provisions include exposure to claims related to life extension projects as well as lawsuits and legal claims, disputes with suppliers and an onerous lease. It is expected that these expenditures will be incurred within two to three years following the reporting period.

Provision amounts are short-term in nature and are not discounted. Reduction from remeasurement amounts are included in the operating expenses of Continuing Operations and Discontinued Operations.

15. Decommissioning and Waste Management Provision

AECL has an obligation to decommission its nuclear facilities and other assets in order to address its liabilities, reduce risk and meet applicable regulatory requirements. 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 portion of the liabilities relate to obligations that existed prior to the creation of AECL in 1952.

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.

As part of the implementation of the GoCo, the responsibilities for the implementation of Canada's commitments with respect to the Port Hope Area Initiative, including all of the assets and liabilities, were transferred to AECL. This included an order in council (P.C. 2015-1027) that transferred administration of the real property associated with the Port Hope Area Initiative from the Minister of Natural Resources to AECL. As a result, AECL recorded a decommissioning and waste management provision of $1,110.6 million and an increase to property, plant and equipment of $4.4 million (Note 10).

Responsibility for the Low-Level Radioactive Waste Management Office has transferred from Natural Resources Canada to AECL and includes all activities to address and manage historic low-level waste at sites in Canada for which the Government has assumed responsibility (excluding the Port Hope Area Initiative). A liability has not been recognized as insufficient information is available regarding the scope, required remediation activities and schedule to reasonably estimate the cost of the obligation.

The Decommissioning and waste management provision is as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Carrying amount - Beginning of period	**9,744,713**	7,535,142
Carrying amount - Beginning of period, current portion	**229,500**	214,500
Liabilities settled	**(239,453)**	(199,978)
Unwinding of discount	**219,838**	222,122
Effect of change in discount rate	**(21,237)**	2,114,073
Revision in estimate and timing of expenditures	**95,040**	71,592
Revision in estimate and timing of expenditures affecting Property, plant and equipment	**(4,630)**	7,903
Adjustment of capital items to decommissioning and waste management	**(4,947)**	–
Contributed liability	**1,110,613**	–
Waste, decommissioning and site restoration costs from ongoing operations	**9,130**	8,859
Carrying amount - End of period	**11,138,567**	9,974,213
Less current portion	**(425,900)**	(229,500)
	10,712,667	9,744,713

The Revaluation gain (loss) reported on the Statement of Comprehensive Income (Loss) is comprised of the effect of the change in discount rate and the revision in estimate and timing of expenditures reported above.

The undiscounted future expenditures, adjusted for inflation, for the plan projects comprising the liability are $18,863.4 million (March 31, 2015 – $18,063.9 million). The provision is re-valued at the current discount rate in effect at each balance sheet date.

The provision as at March 31, 2016 was discounted using a rate of 2.00%. The balance as at March 31, 2015 was discounted using a rate of 1.99%.

The effect of a change in the discount rate on the provision is recognized in Revaluation gain (loss) on decommissioning and waste management provision and other in the Consolidated Statements of Comprehensive Income (Loss). The total gain for the year was $21.2 million (2015 – $2,114.1 million charge).

Key assumptions used in determining the provision:

	March 31	
	2016	2015
Discount period	**148 years**	149 years
Discount rate	**2.00%**	1.99%
Inflation rate	**1.70%**	1.70%

The provision is highly sensitive to the interest rate used to discount the future expenditures. The following table outlines the sensitivity of a 1% change in the discount rate used to estimate the provision:

	March 31	
(millions of Canadian dollars)	**2016**	2015
	$	$
1% increase	**(2,053)**	(2,137)
1% decrease	**3,030**	3,184

16. Deferred Capital Funding

Deferred capital funding was provided to AECL through appropriations from its Shareholder (Notes 21, 25) as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Deferred capital funding, opening balance	**372,175**	302,997
Capital funding received during the year	**145,328**	85,261
Amortization of deferred capital funding	**(45,843)**	(16,083)
Other changes	**31**	–
Deferred capital funding, closing balance	**471,691**	372,175

17. Employee Benefits

a) Pension Plan

As described in Note 4(m), AECL's employees participate in the Public Service Pension Plan. Contributions are made to three accounts: Public Service Superannuation Account, Public Service Pension Fund account, and the Retirement Compensation Arrangement account.

AECL's rate of contribution to the Public Service Superannuation Account (PSSA) equals the employee contributions and AECL's contributions to the Public Service Pension Fund account is a 1.15 multiple of the employee contributions (March 31, 2015 – 1.28). AECL's contribution to the Retirement Compensation Arrangement account for calendar year 2016 is a multiple of 6.67 of the employee contributions (calendar year 2015 – 7.13). The multiple is subject to change based on revaluation by the Public Service Pension Plan ("Plan") administration.

Substantially all of the employees of AECL are covered by the Plan, a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and AECL. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general employer contribution rate effective during the year was 12.3% of employee salaries (2015 – 12.0%). Total contributions of $16.2 million (2015 – $32.5 million) were recognized as an expense in the year. The changes in contributions between 2014-15 and 2015-16 are due to the implementation of the Government-owned, Contractor-operated model, whereby the ownership of AECL's then-subsidiary, CNL, was transferred to CNEA. As at the date of this transfer, employees of CNL became employees of a private-sector organization. While existing CNL employees are entitled to a three year transitional period in the PSPP, the employer contributions are being made by CNL. AECL's contributions noted above include CNL employees up to September 13, 2015.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two per cent of pensionable service, times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

b) Employee Benefits

AECL provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(n). The defined benefit obligation is funded as benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation.

The VTC included in the 2016 Employee benefits liability is $11.5 million (2015 - $15.0 million) and is payable in instances of future voluntary resignations and retirements.

The measurement date of the Employee benefits liability is March 31, 2016, and the latest actuarial valuation of these benefits was performed at that date. The weighted average duration of the defined benefit obligation at the end of the reporting period is 7.3 years (2015 – 7.0 years).

The following summarizes the activity in the post-employment and other long term benefit plans:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Employee benefits liability, beginning of year	**29,144**	29,058
Employee benefits liability, beginning of year - current portion*	**3,814**	4,297
Current service cost	**93**	1,353
Interest on Employee benefits liability	**829**	1,236
Benefits paid	**(4,869)**	(4,290)
Actuarial losses (gains) arising from changes in demographic assumptions	**108**	621
Actuarial losses (gains) arising from changes in financial assumptions	**(1,547)**	2,222
Actuarial (gains) losses arising from experience adjustments	**(191)**	(1,539)
Disposal of subsidiary	**(3,700)**	–
Employee benefits liability, end of year	**23,681**	32,958
Current portion, Employee benefits liability*	**(2,843)**	(3,814)
Employee benefits liability	**20,838**	29,144

* *The current portion of the Employee benefits liability is included in Trade and other payables (Note 12).*

The following summarizes expenses arising from AECL's post-employment and other long-term benefit plans in the Consolidated Statements of Comprehensive Income (Loss) and in the Consolidated Balance Sheets:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Net benefit plan cost		
Current service cost	**93**	1,353
Interest cost	**829**	1,236
Remeasurements	**(1,558)**	(92)
Annual benefit plan expense	**(636)**	2,497

The Annual benefit plan expense relating to AECL employees is recognized in Cost of sales and Operating expenses in the Consolidated Statements of Comprehensive Income (Loss). The Annual benefit plan expense relating to Commercial Operations employees is recognized in Cost of sales and Operating expenses in Discontinued Operations (Note 28).

The significant actuarial assumptions adopted in measuring AECL's Employee benefits are summarized as follows:

Actuarial assumptions

	March 31	
	2016	2015
Discount rate	**3.30%**	3.00%
Rate of increase in salaries	**2.75%**	2.75%
Health care cost trend	**4.00%**	5.00%

For the 2016 and 2015 fiscal years, the mortality rates are those used by the Office of the Superintendent of Financial Institutions for the March 31, 2011 valuation of benefits provided under the PSSA. The disabled mortality rates are those used for the valuation of the benefit liabilities of the schedule 1 insurance fund of the WSIB of Ontario as of December 31, 2010.

The Employee benefits liability and costs are subject to measurement uncertainty due to the use of actuarial assumptions. The impact of these factors on the remeasurement of the Employee benefits liability can be significant and volatile at times.

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on possible changes to these assumptions occurring at the end of the reporting period. The sensitivity analyses provided in the table are hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in a change in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	March 31
(thousands of Canadian dollars)	**2016**
	$
1% increase in discount rate (4.3%)	**21,892**
1% decrease in discount rate (2.3%)	**25,244**
1% increase in rate of increase of salaries (3.75%)	**24,136**
1% decrease in rate of increase of salaries (1.75%)	**22,838**
Post-retirement mortality rates at 90% of mortality rates used	**23,797**
Post-retirement mortality rates at 110% of mortality rates used	**23,149**

A 1% increase or decrease in the Health care cost trend will not have a material impact on the Employee benefits.

18. Commitments, Contingencies and Obligations

a) Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Less than one year	**1,017**	2,830
Between one and five years	**2,093**	7,378
More than five years	**–**	1,183
	3,110	11,391

AECL leases office space under operating leases with various expiration dates. The leases contain an escalation clause providing for additional rent. During the year ended March 31, 2016, an amount of $2.4 million (2015 – $5.0 million) was recognized as an expense in Comprehensive Income (Loss) in respect of operating leases.

The total of future sublease payments to be received is $2.3 million.

b) Operating and Capital Commitments

As at March 31, 2016, AECL has contractual arrangements with third party suppliers, including contracts that allow for termination with penalties, approximating $302.6 million (2015 – $197.1 million). These commitments are held by CNL in accordance with the Government-owned, Contractor-operated model. Included in this amount are contracts related to the purchase of property, plant and equipment and intangible assets of approximately $76.2 million (2015 – $58.6 million).

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 meet defined performance criteria. Liquidated damages are provided for in contracts and provide for compensation to be paid upon a specific breach of that contract (e.g. late performance).

Liquidated damages penalties are estimated at $60 million at March 31, 2016 (2015 – $60 million) and have been expensed previously in the consolidated financial statements in Discontinued Operations. As described in Note 4(o), on an ongoing basis, management reviews the progress on long-term projects (such as life extension projects, Note 14) to determine if liquidated damages penalties will be incurred. When it is probable that these penalties will be incurred and they are measurable, liquidated damages penalties are included in the revised calculation of revenue and/or contract loss provisions on those projects.

d) Lawsuits and Legal Claims

AECL is engaged in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all of the proceedings and claims against AECL is subject to future resolution, including the uncertainties of litigation. Based on information currently known to AECL and after consultation with outside legal counsel, Management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of AECL.

e) Contractor Contract

AECL has a contract with CNEA to manage and operate CNL under the Government-owned, Contractor-operated model. This contract is for a 6 year period with a renewal option of up to 4 years. AECL's contract with CNEA outlines, among other items, the annual incentive fee that is available to the Contractor subject to satisfactory performance.

19. Contributed Capital and Deferred Decommissioning and Waste Management Funding

Included in contributed capital is approximately $nil (March 31, 2015 – $25 million) related to Parliamentary appropriations received for the production of heavy water inventory. Up to and including 1995-1996, AECL was required to repay the Government, 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 AECL 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 and waste management funding, which was used to fund ongoing decommissioning activities.

An annual amount equivalent to the proceeds from sales made during the 10-year arrangement received after April 1, 2006 (Notes 8 and 4(p)) is transferred from contributed capital to deferred decommissioning and waste management 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 amounts due to related parties and are presented in Trade and other payables (Note 12) on AECL's Consolidated Balance Sheets.

20. Revenue

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Services	**60,068**	58,522
Sales of goods	**53,826**	79,227
Royalties	**3,027**	3,719
	116,921	141,468

21. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations, which include Statutory Funding, to ensure funds are spent in a manner consistent with the basis for which they were approved. Approved Main Estimates and Supplementary Estimates include amounts for the operations of the Nuclear Laboratories, including the safe operations of the Chalk River Laboratories and the management of Canada's decommissioning and radioactive waste responsibilities. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations.

During the year, Parliamentary appropriations were received and recognized as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Parliamentary appropriations - Continuing Operations, operating		
Nuclear Laboratories, operating	**345,736**	205,383
Amortization of deferred capital funding	**45,843**	16,083
Parliamentary appropriations - Continuing Operations, operating	**391,579**	221,466
Parliamentary appropriations - Discontinued Operations, operating	**–**	36,100
Parliamentary appropriations - capital		
Capital infrastructure refurbishment project funding	**145,328**	85,261
Total Parliamentary appropriations	**536,907**	342,827

In 2015-16, AECL received $472 million and recognized a sum of $537 million (2014-15: $327 million received and $343 million recognized). The differences between received and recognized Parliamentary appropriations relate to the amortization of deferred capital funding. Capital funding is received as funds are required but is recognized simultaneously with the depreciation of the related asset in AECL's Consolidated Financial Statements (Notes 4(p) and 16). There were also Parliamentary appropriations receivable of $19.4 million as at March 31, 2016.

During the year, AECL received the above funding to support planned activities. This funding was used in the following manner:

- Support ongoing Chalk River site operations and regulatory, health, safety and environmental needs, as well as science and technology activities.
- Decommissioning and waste management activities at the Chalk River and Whiteshell sites and environmental remediation programs primarily in Port Hope.
- Capital infrastructure renewal
- Project completion costs and toward workforce transition costs related to the divestiture of the Commercial Operations

b) Other Funding

During the year, Other funding was recognized as follows:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Operating funding		
Cost recoveries from third parties and other	**9,905**	20,816
Decommissioning and waste management	**89,935**	188,459
	99,840	209,275

As of September 13, 2015, AECL took over responsibility for fulfilling the Government's obligations with respect to historic low-level radioactive wastes. As of this date, funding for those activities was provided directly to AECL through Parliamentary appropriations.

22. Additional Information by Type of Expense

(thousands of Canadian dollars)	March 31 **2016**	2015
	$	$
Payroll expenses	**170,843**	341,841
General and administrative expenses	**15,298**	28,494
Site and program operating costs	**156,390**	304,389
Contractual amounts paid or payable less costs charged to Construction in progress (see Note 23)	**357,413**	–

The above costs represent actual costs to AECL in the year relating to Continuing Operations, including decommissioning and waste management activities, and Wrap-Up Office (Discontinued Operations). Certain components of the costs (2015-16: $239.5 million; 2014-15: $200.0 million) have been utilized to settle Decommissioning and waste management liabilities (Note 15) and, as such, are not included in the Consolidated Statements of Comprehensive Income (Loss). Payroll expenses include salaries and related legislated contributions. The expenses relating to Continuing Operations are recognized in Cost of sales and Operating expenses in the Consolidated Statements of Comprehensive Income (Loss). The expenses relating to Commercial Operations are recognized in Cost of sales and Operating expenses in Discontinued Operations (Note 28).

23. Contractual Arrangement

As of September 13, 2015, AECL has been delivering its mandate through a long-term contract with CNEA for the management and operation of CNL under a Government-owned, Contractor-operated model. Prior to this date, CNL operated as a wholly-owned subsidiary of AECL.

Under the Government-owned, Contractor-operated model, the assets, sites and facilities continue to be owned by AECL, but are being managed and operated by a private-sector company. As such, AECL makes payments to CNL and CNEA ("Contractual amounts paid or payable") as per the terms of the contractual arrangement.

The following contractual expenditures were incurred:

(thousands of Canadian dollars)	March 31 **2016**	2015
	$	$
Contractual amounts paid or payable	**432,444**	–
Less: Costs charged to Decommissioning and waste management provision	**(149,308)**	–
Less: Costs charged to Construction in progress	**(75,032)**	–
Less: Costs classified as Cost of sales	**(32,148)**	–
Contractual expenses	**175,956**	–

Contractual amounts paid or payable include fees paid to CNEA, in accordance with the long-term contractual arrangement between AECL and CNEA and CNL. It also includes all allowable expenses of CNL representing payroll and other direct expenses of the work performed and the supporting corporate support and site operating costs. However, the CNL allowable costs to deliver third party commercial revenues for AECL are reported as Cost of sales on the Statement of Comprehensive Income.

The balance due to CNL at March 31, 2016 was $114.3 million and represents funding owing for allowable costs incurred by CNL.

For comparative purposes, the CNL balances included in AECL's Consolidated Balance Sheets at September 13, 2015 are as follows:

(thousands of Canadian dollars)	September 13 2015
	$
Assets	
Cash	26,790
Trade and other receivables	12,427
Inventory	18,962
Due from shareholder	32,481
Liabilities	
Trade and other payables	84,250
Employee benefits	3,651

24. Financial Income and Expenses

	March 31	
(thousands of Canadian dollars)	**2016**	2015
	$	$
Financial income		
Interest on long-term receivables	**4,476**	5,873
Interest on investments and other	**838**	564
Trust fund income	**377**	2,600
	5,691	9,037
Financial expenses		
Unwinding of decommissioning and waste management provision	**219,838**	222,122

25. Related Party Transactions

Transactions between AECL and its subsidiaries have been eliminated on consolidation and have not been disclosed in this note.

AECL is controlled by the Government, which owns 100% of AECL's shares. The Government, the Plan and government-controlled entities are the primary related parties with which AECL transacts.

In addition to the transactions disclosed in Notes 10, 11, 12, 14, 15, 16, 17, 19, 21, and 28 AECL had the following transactions with the Government:

- Program billings to Natural Resources Canada for historic low-level radioactive waste management and decommissioning activities which are included in Note 21(b).
- In the normal course of business, AECL also enters into various transactions with the Government, its agencies and other Crown corporations.

For reporting purposes, AECL has been deemed to have significant influence over its associate CANDU Owners Group Inc. (COG). The recognition of the investment in COG has not been recorded in the consolidated financial statements of AECL as it is not significant. The following transactions were carried out with COG:

(thousands of Canadian dollars)	March 31 2016	March 31 2015
	$	$
Revenue	**33,254**	37,713
Membership fees	**6,199**	6,812

The outstanding balance with COG as a result of these transactions at March 31, 2016 was $3.6 million (March 31, 2015 - $7.9 million).

AECL also has transactions with its key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of AECL, including AECL's directors and executive officers. The table below summarizes the amounts paid or payable to the key management personnel on a comparative basis.

(thousands of Canadian dollars)	March 31 2016	March 31 2015
	$	$
Salaries and other short-term benefits	**5,882**	3,982
Termination benefits	**2,876**	225
Post-employment benefits	**1,476**	1,176
	10,234	5,383

26. Financial Instruments and Financial Risk Management

Financial assets and liabilities

Financial assets and financial liabilities in the Consolidated Balance Sheets were as follows:

(thousands of Canadian dollars)	March 31, 2016			
	Assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	**Total**
	$	**$**	**$**	**$**
Cash	**–**	**84,553**	**–**	**84,553**
Investments held in trust	**49,320**	**–**	**–**	**49,320**
Trade and other receivables	**–**	**54,982**	**–**	**54,982**
Long-term disposal of waste fund	**–**	**3,538**	**–**	**3,538**
Long-term receivables	**–**	**68,579**	**–**	**68,579**
Trade and other payables	**–**	**–**	**(48,846)**	**(48,846)**
Customer advances and obligations	**–**	**–**	**(909)**	**(909)**
Due to Canadian Nuclear Laboratories	**–**	**–**	**(114,287)**	**(114,287)**
	49,320	**211,652**	**(164,042)**	**96,930**

(thousands of Canadian dollars)	**March 31, 2015**			
	Assets at fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
	$	$	$	$
Cash	–	75,912	–	75,912
Investments held in trust	47,805	–	–	47,805
Trade and other receivables	–	63,067	–	63,067
Long-term receivables	–	99,794	–	99,794
Trade and other payables	–	–	(117,606)	(117,606)
Customer advances and obligations	–	–	(3,165)	(3,165)
	47,805	238,773	(120,771)	165,807

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Except for Long-term receivables, the carrying value of all financial assets and financial liabilities approximates fair value as at March 31, 2016 and March 31, 2015, due to their short-term nature. The fair value of the long-term portion of the long-term receivables is $36 million (March 31, 2015 – $72 million) and is estimated by calculating a discounted cash flow using the long-term interest rate in effect at the end of the reporting period (Level 2). The long-term interest rate is based on the Government of Canada's long term benchmark bond yields adjusted for market and credit risk.

Fair value hierarchy

The following table analyzes financial instruments measured at fair value, by valuation method. AECL uses the following hierarchy to classify fair value measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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

Changes in valuation methods may result in transfers into or out of levels 1, 2, and 3. For the reporting periods ended March 31, 2016 and March 31, 2015, there were no transfers between levels.

(thousands of Canadian dollars)	**March 31, 2016**				March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	$	**$**	**$**	**$**	$	$	$	$
Assets measured at fair value								
Investments held in trust - Cash equivalents	**1,192**	**–**	**–**	**1,192**	1,187	–	–	1,187
Investments held in trust - Bonds	**–**	**48,128**	**–**	**48,128**	–	46,618	–	46,618
	1,192	**48,128**	**–**	**49,320**	1,187	46,618	–	47,805

a) Credit Risk

Credit risk is the risk that one party to the financial instrument may not meet its obligations under the terms of the financial instrument. AECL's financial assets exposed to credit risk are Cash, Investments held in trust, Trade and other receivables, Long-term disposal of waste fund, and Long-term receivables. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets which totalled $261.0 million (March 31, 2015 – $286.6 million).

As of March 31, 2016, all investment instruments are rated as R1 Low or higher by the Dominion Bond Rating Service and as A1 or higher by Standard and Poor's.

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 investment strategy.

Trade Receivables

Exposure to credit risk from Trade receivables is low due to AECL's specific customer base within a government-regulated industry. The potential for credit losses is further mitigated by evaluating customer creditworthiness before credit is extended. The carrying amount of Trade receivables is measured by tracking invoices on an individual basis and any allowance for doubtful accounts is on an invoice-by-invoice basis, with a review and approval process.

Four customers (March 31, 2015 – three), each representing greater than 5% (March 31, 2015 – 5%) of the total accounts receivable, comprise an aggregate 62% (March 31, 2015 – 77%) of total accounts receivable. No significant amounts are due in foreign currency.

b) Liquidity Risk

This represents the risk that AECL will not have sufficient funds to meet its liabilities, commitments and obligations when due. A major risk facing AECL is related to securing a sustainable source of funds to safely maintain its nuclear capabilities. AECL'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. AECL 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 2016, AECL's liquidity risk management objectives were unchanged from those in 2015. However, additional funding was required from the Government to meet obligations. As of March 31, 2016, AECL was holding cash of $84.6 million (March 31, 2015 – $75.9 million). Accounts payable and accrued liabilities of $48.8 million (March 31, 2015 – $117.6 million) (Note 12) are due within the year.

AECL's funding plan is part of the Corporate Plan, and is reviewed and approved annually by the Board of Directors and the Government. AECL relies on funding from the Government to continue operations and meet future obligations.

c) Market Risk

i. Currency Risk

AECL's consolidated financial statements are presented in Canadian dollars, but a portion of its business is conducted in other currencies, with the exposure to foreign currency transactions primarily related to the U.S. dollar. The objective of AECL's foreign exchange risk management activities is to minimize transaction exposure and the resulting volatility of AECL's earnings and commitments.

As of March 31, 2016 and March 31, 2015, had the exchange rate (CAN$/US$) been 5% higher or lower, the impact on Comprehensive Income (Loss) for the year would have been insignificant.

ii. 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 AECL's interest rate management activities is to minimize the volatility of AECL's earnings and expenses. AECL's exposure to interest risk is limited to changes in interest rates associated with its investments in bonds and discount rates associated with the decommissioning and waste management provision. Changes in the discount rate are sensitive to interest rate fluctuations (see Sensitivity Analysis in Note 15).

d) Regulatory Risk

AECL operates in a highly regulated business environment. Changes in government policy may have an adverse impact on AECL's financial position. AECL's objective in managing regulatory risk is to actively monitor and implement changes on a timely basis to enable operations. In 2016, AECL's regulatory risk management objectives were unchanged from those in 2015.

27. Capital Management

The authorized share capital of AECL is comprised of 75,000 common shares with no par value. As at March 31, 2016 and March 31 2015, 54,000 shares were issued for $15,000,000.

As a Schedule III Part I Crown corporation under the *Financial Administration Act*, Her Majesty in Right of Canada owns the shares of AECL. 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, AECL had no plans to seek additional capital in the next 12 months.

AECL's objective in managing capital is to provide sufficient liquidity to support its financial obligations and its operating and strategic plans, as well as to safeguard its ability to continue as a going concern. This is managed through periodic funding received from the Government, the volume of cash from operations and the portfolio of highly liquid investments or instruments readily convertible into cash with high-quality counterparties. In 2016, AECL's capital management objectives were unchanged from those in 2015.

Capital for the reporting periods is summarized as follows:

(thousands of Canadian dollars)	March 31	
	2016	2015
	$	$
Shareholder's deficit	**(11,066,562)**	(9,785,854)
Deferred capital funding	**471,691**	372,175
Deferred decommissioning and waste management funding	**245,011**	220,510
Decommissioning and waste management provisions	**11,138,567**	9,974,213
	788,707	781,044

Given the limited amount of capital available from these sources, AECL relies principally on operating and capital funding provided by the Shareholder, which is requested in AECL's Corporate Plan.

28. Discontinued Operations

On October 2, 2011, the Government of Canada sold AECL's Commercial Operations to Candu Energy Inc., a wholly owned subsidiary of SNC-Lavalin at which point Candu Energy Inc. assumed full ownership and day-to-day operational control over the Commercial Operations.

The sale involved certain AECL-owned assets to Candu Energy Inc. and an exchange of undertakings among the three parties (AECL, SNC-Lavalin and the Government of Canada). Under the terms of the sales agreement, AECL is entitled to receive royalty payments resulting from new build and life extension projects contracted by Candu Energy Inc. post-close. These royalty payments are received on behalf of the Government of Canada and are remitted to the Receiver General. As such, these remittances are included in operating expenses in the Consolidated Statements of Comprehensive Income (Loss). The Intellectual Property Licence Agreement from which royalty income will be generated has a 15-year term and became effective on October 2, 2011.

A restructuring provision was recorded for $36.5 million of which $35.4 million has been paid as of March 31, 2016 (2015 – $33.4 million) and $1.1 million of the provision remains to complete the process (2015 – $3.1 million). The restructuring provision consists mainly of estimated termination benefits for affected employees.

The entire Commercial Operations are considered a discontinued operation. Income and cash flows for the discontinued operations are reported separately in these consolidated financial statements in accordance with IFRS 5.

Results of Discontinued Operations

(thousands of Canadian dollars)	March 31	
	2016	2015
Revenue – Life extension projects	**106**	1,070
Cost of sales	**501**	(53)
Gross margin	**(395)**	1,123
Operating expenses	**8,474**	(2,381)
Operating income (loss) from discontinued operations	**(8,869)**	3,504

There were no construction contracts in progress as at March 31, 2016.

The following balances included in the Consolidated Balance Sheets relate to ongoing projects and restructuring costs included in Discontinued Operations:

	March 31	
(thousands of Canadian dollars)	**2016**	2015
Liabilities		
Trade and other payables	**1,041**	4,384
Customer advances and obligations	**–**	90
Provisions	**14,461**	16,659
Restructuring provision	**1,075**	3,090

29. Comparative Figures

Certain of the March 31, 2015 comparative figures have been adjusted to conform to the financial statement presentation adopted in the 2015-16 fiscal year. In the Consolidated Cash Flow Statements, Cash receipts from customers and Cash paid to suppliers and employees have each been increased by $9.4 million in order to better reflect the nature of these items. This reclassification did not have a material impact.

Corporate governance

The corporate governance structure of AECL is similar to that of other corporations incorporated pursuant to the *Canada Business Corporations Act* with the following important exceptions:

- AECL is an agent and a parent Crown corporation and is subject to the provisions of Part X of the *Financial Administration Act* (“FAA”) of Canada;
- The sole Shareholder of AECL is the Government of Canada as represented by the Minister of Natural Resources;
- AECL’s Board of Directors (“Board”), the Board Chair and the President and Chief Executive Officer are appointed by the Government of Canada by Order-in-Council.

To lead AECL during the transition period to and implementation of the GoCo model, a Chief Transition Officer was appointed. The duties of the Chief Transition Officer are currently being fulfilled by an Acting Chief Transition Officer, who is likewise directly accountable to the Board of Directors. Once the Government appoints a President and CEO, he or she will lead AECL in its new role and the position of Acting Chief Transition Officer will be eliminated. All direct reports to the CEO, or in the current circumstances, the Acting Chief Transition Officer, of AECL are appointed by the Board through the Human Resources and Governance Committee on the recommendation of the Acting Chief Transition Officer or, once a President and CEO is appointed, by him or her. Each of these direct reports is accountable for specific areas of business and operations as approved by the Chief Transition Officer (and President and CEO, as appropriate) endorsed by the Board’s Human Resources and Governance Committee.

Board of Directors / Officers

AECL is governed by a Board of Directors, which provides strategic direction and advice to the President and Chief Executive Officer and currently to the Acting Chief Transition Officer. The Board, through its Chair or Chair of a Board Committee, receives direction from the Corporation's single Shareholder, the Government of Canada, as represented by the Minister of Natural Resources. It is accountable to Parliament through the Minister of Natural Resources.

AECL's Board has two committees, the Audit Committee and Human Resources & Governance Committee, each having specific Charters that set out respective responsibilities for and on behalf of the Board.

In 2015-16, the Board provided input, due diligence, advice and perspectives on the implementation of the GoCo model, oversaw AECL's Wrap-Up Office activities with respect to the resolution of legal liabilities that had been retained by AECL following the divestiture of its commercial operations, provided appropriate oversight over the management of corporate and business risks and continued to report to the Minister of Natural Resources with respect to the Board's fulfilment of its governance role and accountabilities.

As at March 31, 2016, the Board consisted of four Directors who represented the Canadian business and science and technology communities. They were not members of AECL management nor did they receive compensation from the company, other than director fees for all but one member. AECL's Directors, the Chair of the Board and the President and CEO (position currently vacant) are appointed by the Government of Canada by Order-in-Council. A list of Board members for 2015-16 and as of the date of the approval of this report is presented below.

Dr. Claude Lajeunesse (Chair)

Appointed to Board, March 2005

Reappointed January 2015 – ending December 2015 (incumbent directors continue in office until their successors are appointed)
Appointed Chair of the Board August 2016

Former Chair of the Board for the Green Aviation Research & Development Network; President and CEO of the Aerospace Industries Association of Canada and the Association of Universities and Colleges of Canada; President and Vice Chancellor of Concordia University in Montreal and Ryerson University in Toronto. Past Board member of TD Insurance; Canada Science and Technology Museums Corporation Foundation; SOFINOV (Caisse de dépôt et placement du Québec) and of the Toronto East General Hospital. Holds a PhD in nuclear engineering from Rensselaer Polytechnic Institute in New York.

Committees: Human Resources & Governance (Chair)

Gregory Josey

Appointed to Board, March 2013

Reappointed January 2015 – ending December 2015 (incumbent directors continue in office until their successors are appointed)
Resigned September 2016

Former Vice President, Finance, and Chief Financial Officer at McNeil Consumer Healthcare, Johnson & Johnson Inc., and Johnson & Johnson – Merck Consumer Pharmaceuticals; Officer and Director of Johnson & Johnson Inc. Canada; Chair of Johnson & Johnson Canadian CFO Council and member of the Ontario CNIB Advisory Board. Holds an H.B.B.A. from Wilfred Laurier University and is a Chartered Professional Accountant.

Committees: Audit (Chair)

Bob Hamilton

Appointed to Board December 2014 – ending December 2015 (incumbent directors continue in office until their successors are appointed)

Deputy Minister, Natural Resources Canada. Former Deputy Minister of the Environment; Former Senior Associate Secretary of the Treasury Board and Lead on the Canada-United States Regulatory Cooperation Council; Former Associate Deputy Minister of the Environment; Former Associate Secretary of the Treasury Board. Occupied senior positions at Finance Canada, including Senior Assistant Deputy Minister of the Tax Policy Branch and Assistant Deputy Minister of Financial Sector Branch. Holds a Bachelor of Arts (Economics) and Masters of Economics from the University of Western Ontario.

James Hall

Appointed to Board August 2013

Reappointed December 2014 – ending December 2015 (incumbent directors continue in office until their successors are appointed)

Vice President of Callidus Capital Corporation. President and CEO of James Hall Advisors Inc. Current director of Immunovaccine Inc. and a trustee of an OMERS Trust. Former Chairman and Chief Executive Officer of Journal Register Company, Senior Vice President & Chief Investment Officer of Working Ventures Canadian Fund Inc., and Senior Vice President of Lloyds Bank Canada. A Chartered Accountant, Mr. Hall holds an H.B.A. from the Richard Ivey School of Business at Western University.

Committees: Audit (Chair, as of September 2016) and Human Resources & Governance

Martha Tory

Appointed to Board October 2016

Former Partner, Assurance Services, Ernst & Young. Board member; Chair, Finance, Audit and Risk Committee; and member, Governance and Human Resources Committee: MaRS Discovery District. Board Chair: Institute of Competiveness and Prosperity. Board Chair: PREVNet (a Network of Centres of Excellence). Board member; Vice-Chair, Business and Human Resources Committee; Governance and Nominating Committee member; and Chair, Chief of the Emergency Department Search Committee: Sunnybrook Health Sciences Centre. Board member and Chair, Finance, Audit and Property Committee: George Brown College. Board member; Treasurer and Finance and Audit Committee Chair, Governance and Nominating Committee Member and Member, CEO Search Committee: Dixon Hall Neighbourhood Services. Board member, GBSP Centre Corp. (Young Centre for the Performing Arts). Member, Standards Council and Finance Committee, Imagine Canada. Member, Finance Committee, Shaw Festival. Member, Audit and Risk Committee, Bermuda Hospital Board.

Director attendance at Board & Committee meetings (2015-16)

Director	Audit (6 meetings)	Human Resources & Governance (4 meetings)	Board of Directors (15 meetings)
P. Currie[1]	5/5	3/3	11/11
C. Lajeunesse[2]	1/1	4/4	15/15
B. Hamilton	n/a	n/a	3/15
G. Josey[3]	6/6	1/1	15/15
J. Hall	6/6	4/4	15/15
Martha Tory[4]	n/a	n/a	n/a

1 Term ended December 31, 2015
2 Appointed to the Audit Committee on December 23, 2015
3 Appointed to the Human Resources and Governance Committee on December 23, 2015
4 Appointed to the Board in October 2016

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