ATOMIC ENERGY OF CANADA LIMITED

First Quarter Financial Report

Interim Condensed Consolidated Financial Statements (Unaudited)

As at and for the three months ended
June 30, 2012 and June 30, 2011

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1 MESSAGE FROM THE PRESIDENT

AECL made significant progress in the first quarter of 2012-2013, working to deliver against a solid corporate plan that will contribute to the foundation of the company's future.

Approved in early April by the Governor in Council, AECL's 2012-2013 Corporate Plan provides a five-year outlook for AECL, with a primary focus on the first two to three years due to the anticipated Phase 2 restructuring of the company by the Government of Canada but without any assumption as to what that outcome will be.

The Plan is built upon two main themes: to define and deliver on our commitments to our many customers and stakeholders, while keeping to budget; and to focus on improvements that are intended to facilitate a smooth transition into the yet-to-be-determined restructuring solution. Through these commitments, AECL will respond to the Government's near-term policy priorities, including its Economic Action Plan, through our focus on business innovation, cost reduction and public safety and security.

In the first quarter, we began to deliver against our Plan; ensuring that our efforts to do so are well planned; that we have sufficient resources in place to deliver the work; and that we are suitably flexible to respond when obstacles or challenges arise, redistributing resources as plans evolve, and accelerating multi-year projects when possible.

During this period, we made progress on our primary 2012-2013 priorities to ensure that AECL staff excels at safety, execution and innovation, together; we meet our commitments through delivery against our program activity plans; and we improve AECL through the action areas identified in our Corporate Plan.

We also continued to support the Government of Canada's Phase 2 restructuring activities, which include determining AECL's future mandate, legal and governance structure, and funding requirements. The Government's gathering of information to support the restructuring has been attained through consultations internal and external to Government, and through benchmarking and costing analysis. A core team of AECL staff has been working closely with our Shareholder, through Natural Resources Canada, which is leading the initiative.

Importantly, AECL is in the process of improving governance relating to the management of its health, safety, security and environmental issues (HSSE) posture. Through this process, we've established clear priorities for key HSSE risks and implemented mitigating actions in Program Activity plans.

During the quarter, we also continued to deliver on our commitments and build on our value proposition for Canadians. AECL serves Canada as an advisor to and agent of the Government of Canada in matters of public policy, including nuclear environmental stewardship, medical isotope production and nuclear safety and security policy, regulation and operations.

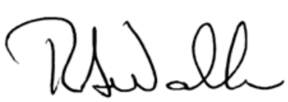
In the first quarter, as part of our ongoing emphasis on public safety, we worked closely with our emergency response counterparts in local, provincial and national agencies to ensure that, together, we can provide a strong coordinated emergency response to address potential emergency scenarios.

As part of our Nuclear Legacy Liabilities Program, we acquired sophisticated automated handling, transportation and storage equipment from Canadian industry that will enable the safe removal and treatment of used nuclear reactor fuel at the Chalk River Laboratories and its transfer to a new modern storage facility on the property.

As an important enabler of business innovation and technology transfer in Canada, AECL and collaborator Isowater Inc. reached a major milestone in the development of a distributed heavy water production system with the installation of AECL's proprietary catalyst system in an industrial chlorate plant in Canada. The pilot plant results will be useful in the design of a large-scale plant to produce heavy water, which is used as a moderator and coolant in CANDU reactors.

As a key generator of highly-qualified people, critical to a productive, innovative and safety-focused nuclear sector in Canada, we continued to enable access by researchers from Canadian universities and private industry and American national laboratories to our facilities to undertake world-class materials research. And, to share valuable knowledge, AECL launched its peer-reviewed scientific journal, *AECL Nuclear Review*, which showcases innovative and significant nuclear science and technology results generated by AECL staff and our collaborators.

The first quarter was indeed a productive period for us. We have a clear plan upon which to build and the capability to deliver on it. In the coming months, we will continue to work toward our science and technology priorities; implement robust program governance; enhance our productivity; stimulate business innovation; leverage collaborations and improve our multi-year management of infrastructure.



Robert Walker
President and Chief Executive Officer

2 MANAGEMENT'S NARRATIVE DISCUSSION

2.1 Introduction

Management's Narrative Discussion is designed to provide the reader with a greater understanding of AECL's business, its business strategy and performance, its expectations of the future, and how the company manages risk and capital resources. It is also intended to enhance the understanding of the unaudited interim condensed consolidated financial statements for the first quarter of 2012-2013 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the 2011-2012 AECL annual financial report for the year ended March 31, 2012.

Unless otherwise indicated, all financial information presented in Management's Narrative Discussion, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards (IFRS).

Management's Narrative Discussion was authorized for issue by the Board of Directors on August 23, 2012.

2.2 Our Business

AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources Canada. AECL is headquartered at Chalk River, Ontario and employs more than 3,200 full-time staff.

AECL provides value to Canadians as: an advisor to, and agent of, the Government of Canada for public policy purposes; an enabler of business innovation and technology transfer; and a generator of highly-qualified people.

AECL's vision is to be a global partner in nuclear innovation. The company's overriding objective or "strategic outcome" is to ensure that Canadians and the world receive energy, health, environmental and economic benefits from nuclear science and technology, with confidence that nuclear safety and security are assured.

Management organizes its business activities and evaluates its financial results through its Nuclear Laboratories, which is responsible for achieving its business goals as established in AECL's Corporate Plan. Management also maintains a small staff complement in Mississauga, Ontario under the Wrap-Up Office to manage retained liabilities related to the CANDU Commercial Operations business as at the date of its sale in October 2011.

AECL receives federal funding through appropriations and contracts that enable it to: be an advisor to and agent of the Government of Canada in matters of public policy related to nuclear safety and security; produce medical isotopes; and manage on behalf of the Government of Canada legacy and historic wastes from the past development of nuclear technology in Canada.

AECL also generates revenue from the sale of products and/or services. This includes medical isotopes; support for CANDU-related technology; nuclear research and development and testing services for the CANDU Owners Group, individual CANDU utilities, Candu Energy Inc. and other third parties; and commercial waste management services for hospitals and universities.

AECL undertakes a series of Program Activities, identified below, that are geared to attaining the company's strategic outcome. These programs are aligned with and support the Government of Canada's science and technology priorities for a clean and healthy environment; healthy Canadians; a safe and secure Canada; and an innovative and knowledge-based economy.

Nuclear Industry Capability	Ensures that Canada maintains a strong nuclear power sector.
Nuclear Safety & Security	Ensures Canada's nuclear safety and security, based on high quality expertise and technology. It supports federal activities, regulation or policy on nuclear or radiological issues with expertise and facilities.
Clean, Safe Energy	Involves the development of energy technologies that make an impact on Canada's use of clean energy.
Health, Isotopes & Radiation	Ensures Canadians experience health benefits from nuclear science and technology, including reliable medical isotope production.
Nuclear Environmental Stewardship	Ensures that Canada's federal nuclear sites are clean and healthy environments, demonstrating the responsible deployment of nuclear science and technology. This involves managing environmental risks well and practicing sound environmental stewardship. It also ensures that Canada's radioactive waste is stored securely and Canadians have options for long-term management of used nuclear fuel.
Nuclear Innovation Networks	Ensures that the Canadian nuclear community has available highly-qualified people with innovative ideas.
Mission-Ready Science and Technology Infrastructure	Ensures that nuclear science and technology infrastructure is ready to enable the above programs by investing in AECL's people, plant and processes to achieve safe, reliable and efficient execution.
Internal Services	Comprises the corporate and administrative support required to enable the efficient and effective delivery of the above programs.

2.3 Highlights of First Quarter 2012-2013

2.3.1 Health, Safety, Security and Environment

- AECL aligned its injury/illnesses reporting definitions with those of the CANDU Owners Group. This enables group member utilities, including AECL, to consistently record and report occupational injury/illness experience, and therefore facilitate comparison across CANDU Owners Group member utilities; benchmark occupational health and safety injury/illness experience within the North American electrical utility industry; and identify industry trends in injury/illness incidents.

- AECL's lost-time injury (LTI) rate for Q1 was tracking well against the LTI target set for the fiscal year.

- In Q1, AECL rolled out improved worker practices to reduce the risk of workplace injury. This included enhanced procedures to ensure that equipment is de-energized before work is undertaken (commonly referred to Lock-Out Tag-Out or LOTO procedures).

- As part of AECL's overall improvement plans for the NRU reactor, the fire protection and detection systems have been undergoing upgrades. In Q1, the majority of work to install and commission updated equipment and systems was completed.

- A third-party review was launched of AECL's security program and processes in Q1 with a view to identifying possible improvements against best practices.

2.3.2 Program Activities

Nuclear Industry Capability

- AECL and collaborator Isowater Inc. reached a major milestone in the development of a distributed heavy water production system with the installation of AECL's proprietary catalyst system in an industrial chlorate plant in Canada. This pilot plant is expected to validate the performance of AECL's catalyst and the liquid phase catalytic exchange technology for producing heavy water. The pilot plant results will be useful in the design of a large-scale plant to produce heavy water, which is used as a moderator and coolant in CANDU reactors.

- As lead supplier to the CANDU Owners Group's multi-year Fuel Channel Life Management Program, expected to be completed in early 2013, AECL successfully completed two important tests in the shielded facilities at Chalk River. The results of these tests, involving destructive testing of irradiated reactor fuel channel pressure tubes, are expected to significantly improve the quantification of the fuel channel life and will be valuable to CANDU utilities with respect to their plant refurbishment decisions.

Nuclear Safety and Security

- One of AECL's goals is to ensure that it can effectively contribute its expertise and resources to a potential nuclear event or security threat response on or off-site and in conjunction with local, provincial and national agencies. In Q1, AECL led or participated in several joint emergency exercises to demonstrate and improve this capability:

    - A public alerting exercise, organized by AECL and the Laurentian Hills/Deep River Nuclear Emergency Preparedness Committee, involved the local police and fire department, municipal representatives and AECL's security and emergency preparedness teams. A reception centre exercise, organized by the same team, involved municipal volunteers, the Canadian Red Cross, the Renfrew County Health Unit and Amateur Radio Emergency Service (ham radio) operators.

    - AECL supplied expertise in data collection and decontamination during a field exercise organized by Defence Research and Development Canada's Chemical, Biological Radiological and Nuclear Research and Technology Initiative at CFB Suffield, Alberta. The exercise was part of an initiative to gather data and model a typical radiological dispersion device event, such as a bomb. Participants included AECL radiation protection staff, Canadian military specialists, several federal government departments, International Safety Research Inc., and the US Department of Energy's National Nuclear Security Administration.

- AECL and the CNSC jointly hosted a nuclear safety technology workshop in the first quarter. The objective of the workshop was to present information to the CNSC on AECL's 2012-2013 safety-related science and technology strategies and priorities that are funded by the Government of Canada, and to obtain the CNSC's feedback on the program to further align it with the CNSC's priorities.

Clean, Safe Energy

- Collaborative research and development and a strong supply chain are critical to sustaining a strong Canadian nuclear industry. Over the last three years, AECL and Tyne Engineering of Oakville have been collaborating on advancing AECL's combined electrolysis and catalytic exchange process for commercial deployment of heavy and light water detritiation plants. This collaboration has resulted in major investment by Tyne in this technology, supported by AECL's in-kind contributions. In the first quarter, this collaborative relationship grew stronger when Tyne acquired a facility near AECL to further collaborative activities at the Chalk River Laboratories.

- AECL, in collaboration with Next Hydrogen Corporation of Mississauga, reached a major milestone in Q1 in the development of an alkaline electrolysis cell. The cell separates water into oxygen and hydrogen and could be used for detritiation of heavy water or in large-scale production of hydrogen, using nuclear energy or a renewable energy system. Specifically, the team successfully demonstrated the continuous operation of the cell with the required quality of hydrogen stream from the electrolyser in a liquid phase catalytic exchange system. The next step will be to modify the cell structure to make it suitable for large-scale industrial use.

- AECL has been actively involved in defining a “shared vision” with the international nuclear industry on the science and technology needed to understand, mitigate and prevent the long-term wear of nuclear power plant components and other industrial systems to extend the reactor’s safe operation for its customers. In the first quarter, AECL hosted two international workshops in Canada and was a major sponsor of a third workshop in the United States that explored different aspects of reactor aging. The forums contribute to the sharing of knowledge and creation of collaborations to work toward extending the long-term viability of nuclear reactors.

Health, Isotopes and Radiation

- AECL published its Radiobiology, Dosimetry and Environmental Research, 2011 Report, which outlines AECL’s unique capabilities, technical expertise and specialized facilities that support innovation in the field of radiological protection. The document is widely distributed throughout Canada and internationally to key scientists, decision-makers and research institutes undertaking radiological-protection research.

- The Integrated Implementation Plan (IIP) is a five-year program of work that contains many improvement activities. Completion of the IIP is a key condition of the current Chalk River Laboratories site licence. Progress on the overall plan at the end of Q1 was ahead of schedule. The first progress reports have been submitted to the CNSC for their evaluation and concurrence.

Nuclear Environmental Stewardship

- AECL’s Fuel Packaging and Storage project, part of the Nuclear Legacy Liabilities Program, achieved a major milestone with the transfer of a multi-million dollar package of automated handling, transportation and storage equipment. Designed and manufactured by Rolls-Royce Canada at its Peterborough, Ontario facility, the equipment will enable the safe removal and treatment of used nuclear reactor fuel at the Chalk River Laboratories site and its transfer to a new, modern storage facility, also on site.

- The first major contract for the implementation phase of the Port Hope Area Initiative (PHAI) was awarded. This contract is to upgrade a section of the main transportation route to the new Long-Term Waste Management Facility in Port Granby. The road upgrade will help to enable the remediation of 450,000-cubic meters of historic low-level radioactive waste located at the Port Granby facility. AECL is leading the initiative through the PHAI Management Office, on behalf of the federal government.

- An external audit of AECL's Environmental Management System confirmed that the system meets the latest standards of the International Organization for Standardization (ISO 14001:2004). The annual audit, conducted by the Quality Management Institute, verified that AECL is managing its environmental risks well and is practicing sound environmental stewardship.

Nuclear Innovation Networks

- AECL and the National Research Council's Canadian Neutron Beam Centre continued to enable researchers to use neutron beams as scientific tools for world-class materials research. During the first quarter, neutron beams were used for research projects involving six Canadian universities, two Canadian industries and two American national laboratories.

- AECL launched the inaugural issue of its new open-access, peer-reviewed scientific journal, *AECL Nuclear Review*, in June. The semi-annual journal showcases innovative and important nuclear science and technology results generated by AECL staff and its collaborators, including those relating to the CANDU nuclear industry, nuclear safeguards and security, clean safe energy, small reactors, sustainable energy and advanced materials, and environmental sciences. The peer-reviewed articles reflect a variety of disciplines, including engineering, chemistry, physics and biology.

Mission-Ready Science & Technology Infrastructure

- AECL undertook a series of activities during the first quarter to ensure its nuclear science and technology infrastructure can readily and effectively be used by the company's program activity areas. This included:

  - Successfully completing on schedule a planned annual NRU reactor extended outage that addressed regulatory commitments and upgrades and ensures the continued safe and reliable operation of the reactor.
  - Completion of upgrades to AECL's powerhouse, improving the safe and reliable supply of steam to heat the Chalk River Laboratories facilities.
  - Overseeing the renovation of an existing building on site which began in February 2012 and that will house a state-of-the art facility to support AECL's hydrogen isotope program.

Internal Services

- Risk management is an integral part of sound strategic planning and corporate governance at AECL. In Q1, AECL introduced a procedure that enhances its formal contract selection process on major or high risk projects to ensure effective execution of contracts and minimum risk to AECL and the Government of Canada.

2.3.3 Commercial Operations (Discontinued Operations)

- AECL's Wrap-Up Office continued to address outstanding contractual and other obligations arising from the Commercial Operations (Discontinued Operations). This included managing AECL's positive relationship with life extension project subcontractor Candu Energy Inc. Of particular note during this quarter, all AECL major-work activities associated with the Point Lepreau Nuclear Generating Station in New Brunswick were substantially completed.

  The Wrap-Up Office also continued to perform commercial and legal work required to defend, assert and settle outstanding claims relating to the Commercial Operations (Discontinued Operations) activities. Progress during the quarter was also made toward meeting deliverable and financial performance targets on corporate programs and commercial projects.

2.3.4 Financial

- AECL receives Government of Canada approval of its activities through the consideration of AECL's Corporate Plan by the Governor in Council. AECL's 2012-2013 Corporate Plan received Governor in Council approval in this quarter.
- As per IFRS, the reported Decommissioning and Waste Management liability is re-valued quarterly on a discounted or net present value basis using the discount rate in effect at the end of the quarter. The discount rate is equal to the long-term Government of Canada benchmark bond yield. 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 a non-cash income or expense and does not impact AECL's funding requirements for the reporting year.

  The discount rate at June 30, 2012 was 0.33% lower than the previous year-end. As a result, AECL's reported liability increased by $485 million in the quarter, which contributed to a comprehensive net loss of $368 million in Q1. The estimated undiscounted future decommissioning and waste management costs did not change significantly in Q1 2012-2013. The loss in the current quarter compares to a comprehensive net loss of $280 million in Q1 2011-2012, which also was the result of a decrease in the discount rate used to calculate the liability in that quarter.

- The Government of Canada provided significant financial support to allow Nuclear Laboratories and the Wrap-Up Office to move forward with their respective planned activities in accordance with the AECL Corporate Plan. Several of the more significant funded initiatives during the quarter were:

  - $9 million to support Enhanced CANDU 6® (EC6®) reactor development as per the Asset Purchase Agreement with Candu Energy Inc.

- $205 million to support ongoing Chalk River site operations to address regulatory, health, safety and environmental needs; Project New Lease (infrastructure renewal) and the Isotope Supply Reliability Program (ISRP - NRU operations and licence requirements) initiatives; and Wrap-Up Office progress on the remaining reactor life extension projects.

- $27 million for Decommissioning and Waste Management activities.

- Consolidated commercial revenues decreased to $46 million in Q1 2012-2013 from $73 million during the same period in the previous year. The decrease in consolidated commercial revenue is the result of a reduction in Services business revenue following the sale of AECL's Commercial Operations in Q3 2011-2012 and a reduction in life extension business revenue with the completion of certain life extension projects in 2011-2012.

2.3.5 Outlook

- 2012-2013 major priorities and deliverables are described in AECL's 2011-2012 annual financial report in the "Management's Discussion and Analysis" section. These priorities and deliverables have not materially changed in the first three months of 2012-2013.

2.4 Forward-Looking Statements

This Management's Narrative Discussion has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of AECL for the quarter ended June 30, 2012 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes.

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

2.5 Consolidated Financial Review

KEY FINANCIAL INFORMATION

For the three month period ended June 30 *($ millions)*		***2012***		*2011*
Revenue				
Nuclear Laboratories	**$**	**18**	$	12
Commercial Operations (Discontinued Operations)		**28**		61
Total revenue	**$**	**46**	$	73
Gross margin before funding				
Nuclear Laboratories	**$**	**6**	$	3
Commercial Operations (Discontinued Operations)		**4**		(77)
Total gross margin before funding	**$**	**10**	$	(74)
Funding				
Parliamentary appropriations - operating	**$**	**206**	$	178
Parliamentary appropriations - capital		**8**		6
Other funding - operating		**27**		27
Cost recovery from third parties and other		**4**		3
Amortization of Deferred capital funding		**3**		2
Total funding	**$**	**248**	$	216
Net loss by business entity before Parliamentary appropriations				
Nuclear Laboratories	**$**	**(568)**	$	(280)
Commercial Operations (Discontinued Operations)		**(6)**		(178)
Net loss before Parliamentary appropriations	**$**	**(574)**	$	(458)

2.5.1 Revenue

Consolidated revenue in Q1 decreased to $46 million from $73 million in Q1 2011-2012. This change is largely due to the sale of AECL's Commercial Operations in Q3 2011-2012. Also contributing to the decrease is the substantial completion of the Bruce Retube Project during the 2011-2012 fiscal year. These reductions in revenue were partially offset by greater revenue generated by Nuclear Laboratories from heavy water sales and delivery of services to Candu Energy Inc.

2.5.2 Gross Margin

First quarter consolidated gross margin increased to $10 million from negative $74 million for the same period in the previous year. This variance can be primarily attributed to the Q1 2011-2012 adjustments to revenue and costs to reflect the estimate to complete the life extension contracts based on the terms of the subcontract agreement with Candu Energy Inc. This positive variance was partially offset by a reduction in gross margin earned from Services activity by AECL's Commercial Operations as a result of the sale of this business in 2011-2012.

2.5.3 Net Income / Loss before Parliamentary Appropriations by Operational Organization

Under IFRS, the reported Decommissioning and Waste Management liability is re-valued quarterly on a discounted or net present value basis using the discount rate in effect at the end of the quarter. The June 30, 2012 discount rate was 2.33%, a decrease of 0.33% from the previous year-end. As a result, Nuclear Laboratories reported a net loss of $568 million this quarter. The estimated undiscounted future decommissioning and waste management costs did not change significantly in Q1 2012-2013. The loss in the current quarter compares to a net loss of $280 million in the same period in 2011-2012, which was the result of a decrease in the discount rate used to calculate the liability in that quarter.

Commercial Operations (Discontinued Operations) reported a net loss of $6 million this quarter compared to a net loss of $178 million in Q1 2011-2012. This decrease in loss is mainly due to the adjustments to revenue and costs relating to AECL's subcontract agreement with Candu Energy Inc. and restructuring costs, both recorded in Q1 2011-2012. These variances were in addition to a reduction in operating expenses as a result of the sale of Commercial Operations to Candu Energy Inc. during the 2011-2012 fiscal-year.

2.5.4 Year-to-Date 2012-2013 Results Compared to Plan

The 2012-2013 year-to-date results are comparable to the planned results presented and approved in AECL's 2012-2013 Corporate Plan. As such, AECL is on track to meet the performance measures for the current fiscal year as outlined in its 2012-2013 Corporate Plan.

2.6 Financial Review by Organization

2.6.1 Nuclear Laboratories

For the three month period ended June 30		2012		2011
($ millions)				
Revenue and Funding				
Revenue	$	18	$	12
Cost recoveries from third parties and other		4		3
Amortization of Deferred capital funding		3		2
Total revenue and funding	$	25	$	17
Gross margin before Parliamentary appropriations	$	6		3
Operating expenses	$	88	$	88
Net loss before decommissioning and Parliamentary appropriations	$	(73)	$	(78)
Decommissioning				
Funding	$	27	$	27
Revaluation loss on decommissioning and waste management liability and other		(485)		(190)
Financial expenses		(37)		(39)
Decommissioning net loss	$	(495)	$	(202)
Net loss before Parliamentary appropriations	$	(568)	$	(280)

2.6.1.1 Revenue

In Q1 2012-2013, the Nuclear Laboratories generated $18 million in revenue related to its support for the nuclear industry capability, compared to $12 million in the same period of the previous year. Revenue included isotope sales, commercial technology sales, nuclear waste management and research and development activities performed for the CANDU Owners Group. This improvement relates primarily to increased heavy water sales of $4 million in the quarter and $4 million in revenue earned on work performed under contract for Candu Energy Inc. These increases were partially offset by decreased revenue generated from work performed for the CANDU Owners Group and decreased isotope sales in this quarter when compared to the same period in the prior year.

2.6.1.2 Gross Margin

Gross margin increased from $3 million in Q1 2011-2012 to $6 million in Q1 2012-2013. This increase stems primarily from the increased revenue described above.

2.6.1.3 Cost Recoveries from Third Parties

Nuclear Laboratories manages historic wastes through the Low-Level Radioactive Waste Management Office and Port Hope Area Initiative Management Office on a cost recovery basis for Natural Resources Canada. The activities help to ensure sound environmental stewardship for Canada. Natural Resources Canada provided $4 million in funding in this quarter to support both offices' initiatives. This level of funding is comparable to that provided in the same period in 2011-2012.

2.6.1.4 Operating Expenses

Q1 2012-2013 operating expenses for Nuclear Laboratories of $88 million did not change from the same period the previous year.

2.6.1.5 Net Loss before Decommissioning and Parliamentary Appropriations

Nuclear Laboratories reported a net loss before decommissioning and Parliamentary appropriations of $73 million in this quarter compared to a $78 million net loss in Q1 2011-2012. This decrease in net loss results from the increase in revenue and gross margin, both as described above.

2.6.1.6 Decommissioning Funding

Decommissioning funding recognized during this quarter was $27 million. This level of funding is comparable to that provided in Q1 2011-2012. The decommissioning funding enables AECL to provide sound environmental stewardship in addressing AECL's decommissioning and waste management liabilities.

2.6.1.7 Decommissioning Expenses

The charge relating to Revaluation loss on decommissioning and waste management liability and other increased by $295 million to $485 million in this quarter compared to $190 million in Q1 2011-2012. See Section 2.5.3 for further details on these variances.

Financial expenses in Q1 2012-2013 of $37 million, which primarily includes the increase in the net present value of the decommissioning and waste management provision (due to the passage of time), were comparable to those in Q1 2011-2012, which were $39 million.

Overall, decommissioning activities resulted in a Q1 2012-2013 net loss of $495 million compared to a net loss of $202 million in Q1 2011-2012. These losses were mainly caused by the adjustment to the discount rate used to calculate the decommissioning and waste management provision.

2.6.2 Commercial Operations (Discontinued Operations)

For the three month period ended June 30		***2012***		*2011*
($ millions)				
Revenue				
Reactor life extension	**$**	**28**	$	43
Services		**-**		18
Total revenue	**$**	**28**	$	61
Gross Margin				
Reactor life extension	**$**	**4**	$	(84)
Services		**-**		7
Total gross margin	**$**	**4**	$	(77)
Operating Expenses	**$**	**10**	$	42
Net loss before Parliamentary appropriations and restructuring charges	**$**	**(6)**	$	(119)
Restructuring and impairment charges		**-**		59
Net loss before Parliamentary appropriations	**$**	**(6)**	$	(178)

2.6.2.1 Revenue

AECL continued to earn revenue from certain life extension projects retained by AECL and the Government of Canada as at the date of the Commercial Operations sale to Candu Energy Inc.

Total revenue decreased to $28 million in this quarter from $61 million in the same period in 2011-2012. A significant portion of this change resulted from the decrease in Services revenue due to the sale of this business to Candu Energy Inc. in October 2011. Additionally, the decrease in revenue from life extension projects was mainly due to the substantial completion of all major work activities associated with the Bruce Retube Project in 2011-2012.

2.6.2.2 Gross Margin

Gross margin increased to $4 million this quarter from negative $77 million in Q1 2011-2012. This increase is mainly due to the Q1 2011-2012 adjustment to reflect the terms of the subcontract agreement with Candu Energy Inc. to complete AECL's life extension projects. This positive variance was partially offset by reduced gross margin in this quarter for the Services business, with the sale of AECL's Commercial Operations, and for the life extension business, with the substantial completion of certain life extension projects in the prior year.

2.6.2.3 Operating Expenses

Operating expenses decreased by $32 million to $10 million in this quarter (Q1 2011-2012: $42 million). The decrease is directly attributable to the sale of the Commercial Operations.

2.6.2.4 Net Income / Loss

Commercial Operations generated a net loss of $6 million this quarter, a $113 million decrease in loss from the $119 million net loss in Q1 2011-2012, both before Parliamentary appropriations and restructuring charges. This variance is primarily due to the adjustments resulting from the subcontract agreement with Candu Energy Inc. and the reduction in operating costs, both as described above.

2.7 Consolidated Cash Flow and Working Capital (Before Discontinued Operations)

SOURCES AND USES OF CASH

For the three month period ended June 30		***2012***		*2011*
($ millions)				
Cash from operating activities	**$**	**15**	$	31
Cash used in investing activities		**(9)**		(8)
Cash and cash equivalents				
Increase		**6**		23
Balance at beginning of the period		**35**		19
Balance at end of the period	**$**	**41**	$	42

Overall, AECL's Q1 2012-2013 closing cash position decreased to $41 million from the Q1 2011-2012 level of $42 million.

2.7.1 Operating Activities

Operating activities generated a net cash inflow of $15 million in Q1 2012-2013, a decrease from the $31 million in Q1 2011-2012. This variance stems mainly from decreased cash paid to suppliers and employees and increased cash received from Parliamentary appropriations which were partially offset by a decrease in cash receipts from customers.

2.7.2 Investing Activities

Investing activities used cash of $9 million in Q1 2012-2013. This expenditure level was comparable to the $8 million expenditure in Q1 2011-2012.

2.8 Highlights of the Consolidated Balance Sheet

($ millions)		**June 30, 2012**		March 31, 2012		Variance In $	Variance By %
Assets	**$**	**1,123**	$	1,147	$	(24)	-2%
Liabilities		**7,032**		6,681		351	5%
Shareholder's deficit		**5,909**		5,534		375	7%

AECL closed Q1 2012-2013 with assets of $1,123 million, which represents a $24 million decrease in assets from March 31, 2012. This variance is mainly the result of a decrease in Trade and other receivables. This decrease in assets is partially offset by an increase in Property, plant and equipment.

The increase in Liabilities of $351 million can be attributed primarily to the change in the Decommissioning and Waste Management provision of $498 million, which mainly resulted from the decrease in the discount rate used to estimate the reported liability. This increase in liabilities is partially offset by a reduction in Customer advances and obligations and a reduction in Trade and other payables.

The change in Shareholder's deficit is the result of the net loss, which is due to the non-cash expense associated with the change in discount rate used to estimate the Decommissioning and waste management liability, incurred in this quarter.

2.9 Funding

2.9.1 Parliamentary Appropriations

For the three month period ended June 30		***2012***		*2011*
($ millions)				
Parliamentary appropriations - operating	**$**	**206**	$	178
Parliamentary appropriations - capital				
Capital infrastructure refurbishment project funding	**$**	**8**	$	6
Total Parliamentary appropriations - capital	**$**	**8**	$	6
Total Parliamentary appropriations	**$**	**214**	$	184

AECL receives Parliamentary appropriations to support planned activities. In the current quarter, the Corporation received and recognized a sum of $214 million compared to $184 million received and recognized in the first quarter of 2011-2012. Funding is applied to the Nuclear Laboratories program activities that comprise AECL's program activity architecture and that are aligned with federal science and technology priorities. Funding is also utilized to address the retained liabilities associated with the life extension projects.

There were no Parliamentary appropriations receivable as at June 30, 2012.

2.9.2 Other Funding

For the three month period ended June 30		***2012***		*2011*
($ millions)				
Other funding				
Cost recoveries from third parties and other	**$**	**4**	$	3
Amortization of Deferred capital funding		**3**		2
Decommissioning and waste management		**27**		27
Total Other Funding	**$**	**34**	$	32

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. Amortization of Deferred capital funding is recorded simultaneously with the depreciation of the related asset in AECL's Interim Condensed Consolidated Statement of Comprehensive Income.

2.10 Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2011-2012 annual financial report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices associated with the Nuclear Laboratories and retained Commercial Operations liabilities as noted in the 2011-2012 annual financial report have not materially changed in the first three months of 2012-2013.

3 MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations," and for such internal controls as Management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.

Robert Walker
President and Chief Executive Officer
August 29, 2012
Chalk River, Canada

David J. Smith
Acting Chief Financial Officer
August 29, 2012
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheet
(Unaudited)

(thousands of Canadian dollars)	Notes		**June 30, 2012**		March 31, 2012
Assets					
Current					
Cash and cash equivalents		**$**	**40,902**	$	35,439
Trade and other receivables	10		**303,795**		338,121
Current portion of long-term receivables			**21,608**		21,319
Inventory			**29,239**		29,179
			395,544		424,058
Long-term receivables			**122,470**		127,964
Investments held in trust			**40,076**		39,305
Heavy water inventory			**290,468**		290,599
Property, plant and equipment	4,10		**273,155**		263,277
Intangible assets			**1,610**		1,693
		$	**1,123,323**	$	1,146,896
Liabilities					
Current					
Trade and other payables	7,10	**$**	**128,089**	$	158,426
Customer advances and obligations	10		**210,840**		316,601
Provisions	5,10		**103,962**		121,500
Current portion of decommissioning and waste management provision	6		**143,100**		135,500
Current portion of long-term payables			**3,330**		6,660
Restructuring provision	10		**4,866**		6,026
			594,187		744,713
Decommissioning and waste management provision	6		**6,033,295**		5,543,030
Deferred capital funding	8,10		**197,453**		192,314
Deferred decommissioning and waste management funding			**152,937**		147,007
Employee benefits	7		**53,884**		53,860
			7,031,756		6,680,924
Shareholder's deficit					
Share capital			**15,000**		15,000
Contributed capital			**285,225**		291,867
Deficit			**(6,208,658)**		(5,840,895)
			(5,908,433)		(5,534,028)
		$	**1,123,323**	$	1,146,896

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

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(Unaudited)

For the three months ended (thousands of Canadian dollars)	**Notes**	**June 30, 2012**	June 30, 2011
Nuclear Laboratories			
Revenue		**$ 17,738**	$ 11,835
Cost of sales		**11,705**	9,177
Gross margin before funding		**6,033**	2,658
Funding	8	**6,983**	5,322
Gross margin		**13,016**	7,980
Operating expenses		**88,131**	87,758
Operating loss		**(75,115)**	(79,778)
Financial income	9	**1,991**	2,474
Financial expenses	9	**56**	187
Net loss before decommissioning and waste management and Parliamentary appropriations		**$ (73,180)**	$ (77,491)
Decommissioning and waste management			
Funding	8	**$ 26,927**	$ 27,252
Revaluation loss on decommissioning and waste management liability and other	6	**485,046**	190,207
Decommissioning and waste management loss before financial expenses		**(458,119)**	(162,955)
Financial expenses	9	**36,991**	39,015
Decommissioning and waste management net loss before Parliamentary appropriations		**(495,110)**	(201,970)
Net loss from continuing operations before Parliamentary appropriations and discontinued operations		**$ (568,290)**	$ (279,461)
Discontinued Operations (Note 10)			
Restructuring charge	10	**$ -**	$ 51,100
Impairment of non-current assets	4,10	**-**	7,939
Operating loss from discontinued operations	10	**5,739**	119,007
Loss from discontinued operations		**(5,739)**	(178,046)
Loss income before Parliamentary appropriations		**$ (574,029)**	$ (457,507)
Parliamentary appropriations	8	**$ 206,266**	$ 177,551
Other comprehensive income (loss)			
Other employee benefit plan actuarial gains (losses)		**-**	-
Other comprehensive income (loss)		**-**	-
Net and comprehensive loss		**$ (367,763)**	$ (279,956)

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

Interim Condensed Consolidated Statement of Changes in Shareholder's Deficit
(Unaudited)

For the three months ended June 30, 2012

(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2012	**$ 15,000**	**$ 291,867**	**$ (5,840,895)**	**$ (5,534,028)**
Net and comprehensive loss attributable to Shareholder for the period	-	-	(367,763)	(367,763)
Transfer to deferred decommissioning and waste management funding	-	(5,930)	-	(5,930)
Transfer to repayable contributions	-	(712)	-	(712)
Balance at June 30, 2012	**$ 15,000**	**$ 285,225**	**$ (6,208,658)**	**$ (5,908,433)**

For the three months ended June 30, 2011

(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2011	**$ 15,000**	**$ 325,533**	**$ (4,688,984)**	**$ (4,348,451)**
Net and comprehensive loss attributable to Shareholder for the period	-	-	(279,956)	(279,956)
Transfer to deferred decommissioning and waste management funding	-	(5,930)	-	(5,930)
Transfer to repayable contributions	-	(215)	-	(215)
Balance at June 30, 2011	**$ 15,000**	**$ 319,388**	**$ (4,968,940)**	**$ (4,634,552)**

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

Interim Condensed Consolidated Cash Flow Statement
(Unaudited)

For the three months ended (thousands of Canadian dollars)	**June 30, 2012**	June 30, 2011
Operating activities		
Cash receipts from customers	**$ (15,192)**	$ 83,453
Cash receipts from Parliamentary appropriations	**214,300**	183,673
Cash receipts for decommissioning and waste management activities	**38,474**	33,797
Cash paid to suppliers and employees	**(195,652)**	(243,055)
Cash paid for decommissioning activities	**(27,021)**	(27,127)
Interest received on investments (net)	**52**	92
Interest and bank charges paid	**(7)**	(13)
Cash from operating activities	**14,954**	30,820
Thereof from discontinued operations	**3,612**	8,487
Investing activities		
Proceeds on disposal of discontinued operations	**6,134**	-
Payment of proceeds on disposal of discontinued operations to Shareholder	**(7,734)**	-
Acquisition of property, plant and equipment and intangible assets	**(7,891)**	(7,422)
Cash used in investing activities	**(9,491)**	(7,422)
Thereof from discontinued operations	**-**	(1,165)
Cash and cash equivalents:		
Increase	**5,463**	23,398
Balance at beginning of the period	**35,439**	18,563
Balance at end of the period	**$ 40,902**	$ 41,961

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three month period ended June 30, 2012

(Expressed in thousands of Canadian dollars)

(UNAUDITED)

1. The Corporation

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

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

AECL conducts its business through the Nuclear Laboratories and the Wrap-Up Office, which manages the retained liabilities associated with AECL's Commercial Operations (Discontinued Operations) sold on October 2, 2011. These organizations aid in resource allocation decisions and assess operational and financial performance. Nuclear Laboratories includes the management of the Decommissioning and Waste Management liability on behalf of the Government of Canada. AECL is domiciled in Canada and its address is Chalk River Laboratories, Chalk River, Ontario, K0J 1J0.

These interim condensed consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on August 23, 2012.

2. Restructuring and Corporate Plan

The Government of Canada completed the first phase of its restructuring plan for AECL in 2011-2012 when it sold AECL's Commercial Operations to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. This first restructuring phase has resulted in the presentation of Commercial Operations as discontinued operations (Note 10).

In February 2012, the Government of Canada formally launched the second phase of its AECL restructuring plan in relation to the Nuclear Laboratories.

The Government of Canada's gathering of information to support the restructuring has been attained through consultations internal and external to the Government of Canada and through benchmarking and costing analysis. The Government of Canada is focusing on the long-term mandate, governance and management structure of the Nuclear Laboratories.

AECL's 2012-2013 Corporate Plan received Governor in Council approval in the first quarter of the 2012-2013 fiscal year. The Corporate Plan and these financial statements have been prepared without making any assumptions as to the outcomes of the second phase of the restructuring. As such, they do not contemplate any changes to AECL's existing activities.

Should the Government of Canada's decisions relating to the AECL Phase 2 restructuring affect the Corporation's structure, mandate or future financial situation, there may be a need to revisit the strategies outlined in the Corporate Plan and the related financial statement preparation (Note 3). Any future impact resulting from the second phase of the restructuring, which may cause the existing activities of the Corporation to be classified as held for sale, are not reflected in these financial statements.

3. Basis of Preparation

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "IAS 34." As permitted under IAS 34, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended March 31, 2012.

The Corporation's interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as of the balance sheet date.

b) Basis of Presentation

The Corporation's interim condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments and derivative financial instruments, which are measured at fair value.

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

c) Basis of Consolidation

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; AECL Technologies B.V., incorporated in the Netherlands in 1995; and its interest in a Trust Fund, a Special Purpose Entity (as defined in Note 4(e) of the Corporation's annual consolidated financial statements for its fiscal period ended March 31, 2012). All inter-company transactions have been eliminated upon consolidation.

d) Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IAS 34 guidelines requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Corporation's accounting policies. 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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3(c) of the Corporation's annual consolidated financial statements for the year ended March 31, 2012.

e) Significant Accounting Policies

Significant accounting policies applied in these interim condensed consolidated financial statements are disclosed in Note 4 of the Corporation's annual consolidated financial statements for the year ended March 31, 2012. The accounting policies have been applied consistently to the current and comparative quarters.

4. Property, Plant and Equipment

(thousands of Canadian dollars)		June 30, 2012		March 31, 2012
Balance - Beginning of period	**$**	**263,277**	$	238,735
Additions and transfers		**9,555**		72,992
Disposals and transfers		**(1,445)**		(41,400)
Other changes		**6,061**		18,376
Depreciation		**(4,293)**		(16,786)
Impairment		**-**		(8,640)
Balance - End of period		**273,155**		263,277

5. Provisions

(thousands of Canadian dollars)		June 30,2012		March 31, 2012
Contract loss	**$**	**82,124**	$	99,639
Other provisions		**21,838**		21,861
	$	**103,962**	$	121,500

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)		June 30, 2012		March 31, 2012
Carrying amount - Beginning of period	**$**	**5,543,030**	$	4,117,635
Carrying amount - Beginning of period, current portion		**135,500**		136,900
Liabilities settled		**(27,235)**		(124,311)
Unwinding of discount		**37,762**		152,388
Effect of change in discount rate		**485,077**		1,218,705
Revision in estimate and timing of expenditures		**-**		164,107
Revision in estimate and timing of expenditures affecting Property, plant and equipment		**-**		1,062
Waste, decommissioning and site restoration costs from ongoing operations		**2,261**		12,044
Carrying amount - End of period		**6,176,395**		5,678,530
Less current portion		**(143,100)**		(135,500)
	$	**6,033,295**	$	5,543,030

The provision is re-valued at the current discount rate in effect at each balance sheet date.

The provision as at June 30, 2012 was discounted using a rate of 2.33%. The opening balance as at March 31, 2012 was discounted using a rate of 2.66%.

The effect of a change in the discount rate on the provision is recognized in Revaluation loss on decommissioning and waste management liability and other in the Interim Condensed Consolidated Statement of Comprehensive Income (Loss). The total charge for the first quarter was $485,077 (Q1 2011-2012: $190,372).

7. Employee Benefits

a) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan (PSPP). The PSPP is a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution.

Total contributions made on account of current service are as follows:

For the three month period ended June 30 *(thousands of Canadian dollars)*	**2012**	2011
Payments by employees	**$ 4,304**	$ 6,459
Payments by employer	**$ 7,832**	$ 12,468

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, multiplied by 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

The Corporation provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(n) of the annual consolidated financial statements dated March 31, 2012. The defined benefit obligation is not funded, as funding is provided when benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation of $60 million (March 31, 2012: $60 million) of which $53.9 million (March 31, 2012: $53.9 million) is recorded as employee benefits and $6.1 million (March 31, 2012: $6.1 million) is recorded in Trade and other payables.

The VTC included in the reported Employee benefits liability is $42.3 million and is payable in instances of future voluntary resignations and retirements. Consistent with Government of Canada expectations of Agencies or Crown corporations, AECL plans to eliminate this benefit commencing in fiscal 2012-2013.

As the elimination of the VTC is agreed upon and implemented, employees eligible for payment of the accrued benefits will be offered three options with respect to the timing of the payments. This impacts the reported net present value of the Employee benefits liability. Given that affected staff will have up to six months to decide on their payment option, it is not yet possible to calculate the impact of the payment options selected by employees. The greatest potential impact would be experienced if all employees chose to receive the entire payment in 2012-2013. Under this scenario, AECL has determined, through actuarial evaluation, that the increase in AECL's reported Employee benefit obligation would be $10.7 million.

The Corporation's total expense for employee benefits was $1.4 million for this quarter (Q1 2011-2012 excluding restructuring adjustments: $2.1 million).

8. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations to ensure funds are spent in a manner consistent with the basis for which they were approved. Parliamentary appropriations are made up of Approved Main and Approved Supplementary Estimates and Statutory Funding. Approved Main and Approved Supplementary Estimates include amounts for Facilities, Nuclear Operations and Research and Development. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations business.

For the three months ended June 30, 2012, Parliamentary appropriations were received and recognized as follows:

(thousands of Canadian dollars)		**2012**		2011
Parliamentary appropriations - operating	**$**	**206,266**	$	177,551
Parliamentary appropriations - capital				
Capital infrastructure refurbishment project funding	**$**	**8,034**	$	6,122
Total Parliamentary appropriations	**$**	**214,300**	$	183,673

There were no Parliamentary appropriations receivable as at June 30, 2012.

b) Other Funding

Other funding was recognized as follows:

For the three month period ended June 30 *(thousands of Canadian dollars)*		2012		2011
Operating funding				
Cost recoveries from third parties and other	**$**	**4,088**	$	3,101
Amortization of Deferred capital funding		**2,895**		2,221
	$	**6,983**	$	5,322
Decommissioning and waste management		**26,927**		27,252
	$	**33,910**	$	32,574

c) Deferred Capital Funding

Deferred capital funding was provided to the Corporation through appropriations from its Shareholder as follows:

(thousands of Canadian dollars)		**June 30 2012**
Deferred capital funding		
Deferred capital funding as at March 31, 2012	**$**	**192,314**
Capital funding recognized during the period		**8,034**
Amortization of Deferred capital funding		**(2,895)**
Deferred capital funding as at June 30, 2012	**$**	**197,453**

(thousands of Canadian dollars)		March 31, 2012
Deferred capital funding		
Deferred capital funding as at March 31, 2011	$	156,973
Capital funding recognized during the year		45,427
Amortization of Deferred capital funding		(10,086)
Deferred capital funding as at March 31, 2012	$	192,314

9. Financial Income and Expenses

For the three month period ended June 30 *(thousands of Canadian dollars)*		**2012**		2011
Financial income				
Interest on long-term receivables	**$**	**1,939**	$	2,382
Interest on investments and other		**52**		92
	$	**1,991**	$	2,474
Financial expenses				
Interest on long-term payables	**$**	**56**	$	187
Unwinding of discount on decommissioning and waste management provision net of trust fund income		**36,991**		39,015

10. Discontinued Operations

On October 2, 2011, the Government of Canada sold AECL's Commercial Operations to SNC-Lavalin subsidiary Candu Energy Inc., 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). A suite of agreements executed at the close of the transaction covers such matters as intellectual property and the new provision of inter-company services between AECL and Candu Energy Inc. It also includes sub-contracting agreements relating to the existing life extension projects, whereby Candu Energy Inc. will complete the contracts as a sub-contractor to AECL, which retains contractual responsibility.

The sale price for the AECL-owned assets was adjusted for closing working capital balances as at the date of the transaction. All proceeds from the sale of the assets were remitted to the Receiver General of Canada in this quarter.

Carrying the assets at fair value less costs to sell in accordance with IFRS 5 (non-current assets held for sale and discontinued operations) resulted in an impairment charge of $8.6 million, which was recognized in the 2011-2012 financial results. Of the total impairment charge, $7.9 million was recognized in Q1 2011-2012.

On the closing date, Candu Energy Inc. hired 1,522 Commercial Operations personnel, including full-time and contract employees, and 390 AECL employees received termination notices from AECL. A Restructuring provision was recorded for $36.5 million, of which $31.6 million has been paid as of June 30, 2012 and $4.9 million remained to complete the process.

The restructuring expense recorded in Q1 2011-2012 for $51.1 million was based on SNC-Lavalin's initial estimate to offer employment to 1,200 Commercial Operations full-time and contract employees. The restructuring provision consists mainly of estimated termination benefits for affected employees.

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

Results of Discontinued Operations

For the three month period ended June 30 *(thousands of Canadian dollars)*		**2012**		2011
Revenue	**$**	**27,741**	$	61,236
Cost of sales		**23,252**		137,744
Gross margin		**4,489**		(76,508)
Operating expenses		**10,228**		42,499
Commercial Operations loss before Parliamentary appropriations	**$**	**(5,739)**	$	(119,007)

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

(thousands of Canadian dollars)		
Assets		
Trade and other receivables	$	263,188
Property, plant and equipment		5,251
Liabilities		
Trade and other payables	$	43,192
Customer advances and obligations		206,543
Provisions		102,462
Restructuring provision		4,866
Deferred capital funding		184

11. Commitment and Contingency

As part of the sale of AECL's Commercial Operations, the Government of Canada, through AECL, began providing Candu Energy Inc. with up to $75 million to support the completion of the EC6 development program. As at June 30, 2012, $26 million of this amount had been expensed and $22 million had been paid by AECL. Additionally, under certain conditions outlined in the contract with Candu Energy Inc., AECL may be responsible for reimbursing Candu Energy Inc. for certain costs.

12. Comparative Figures

Certain of the June 30, 2011 comparative figures have been reclassified to conform to the financial statement presentation adopted in the 2012-2013 fiscal year.

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