ATOMIC ENERGY OF CANADA LIMITED

Second Quarter Financial Report

Interim Condensed Consolidated Financial Statements (Unaudited)

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

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1 MESSAGE FROM THE PRESIDENT

The end of the second quarter brings with it several milestones in the evolution of AECL.

It marks the 12-month anniversary of AECL's refocus as a stand-alone federal science and technology organization and the halfway point in our current fiscal year's annual business cycle.

On both fronts, we have made significant advances in bringing value to our Shareholder, our public and private sector partners, our collaborators in education, and Canadians, as evidenced particularly during this second quarter.

In Q2, we continued to improve on every level, making 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.

Of particular importance, we continued the process of improving our health, safety, security and environmental approaches, launching a comprehensive assessment of our safety culture following the completion of an extensive survey on the subject. The combined results will provide senior management with significant insight on AECL's current safety culture and identify potential needed enhancements, to which we will respond accordingly.

We also evolved our management systems and processes, setting expectations for our managers and providing tools to enable them to appropriately guide their employees and execute our priorities.

During this period, we continued to enhance our ability to serve 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.

We proved to be a strategic member of Canada's emergency response capability, working cooperatively with participating government and private sector organizations from Canada, the United States and Great Britain to ensure a coordinated emergency response to address potential emergency scenarios.

We successfully transferred a shipment of highly-enriched uranium to the US as part of a fuel repatriation initiative between Canada and the US, and we signed an agreement with the US Department of Energy to support the fuel conversion of the Jamaican SLOWPOKE research reactor, as part of a joint Canada-US security partnership.

During the quarter, we also continued to deliver on our commitments and build on our value proposition for our private sector customers. As an important enabler of business innovation and technology transfer in Canada, AECL introduced to members of the Organization of CANDU Industries 12 new AECL technologies that are now available for commercialization. These technologies offer private industry the opportunity to capitalize on AECL's science and technology expertise and where appropriate, co-develop them with AECL.

Also of note, we successfully completed a baseline fuel channel inspection for Candu Energy Inc. of the Korean Wolsong 1 reactor during its first planned shutdown since its refurbishment by AECL. This enabled Korea Hydro and Nuclear Power to safely return Wolsong 1 to service.

On the related subject of CANDU reactor life extensions, AECL's Wrap-Up Office received final acceptance from New Brunswick Power of AECL's project scope on the Point Lepreau Refurbishment Project in New Brunswick. AECL, through its subcontractor Candu Energy Inc., is working on a number of non-critical path items that, once completed, will conclude its role on the project.

During this period, we also continued to build upon our collaborations with universities. Major gains were made in our health-related research that could ultimately contribute to advances in understanding and treating cardiovascular disease and the presence and impact of toxic aluminum in humans.

As a key generator of highly-qualified people, critical to a productive, innovative and safety-focused nuclear sector in Canada, we worked with the University Network of Excellence in Nuclear Engineering (UNENE) to develop a strategy that would expand UNENE's program to better utilize AECL's unique science and technology facilities and expertise.

And finally, we received positive news regarding a contractual dispute between AECL and Nordion Inc. relating to the discontinued development of the MAPLE reactors at our Chalk River site. The tribunal arbitrating the case affirmed AECL's position in the arbitration and dismissed Nordion's claim, thereby concluding a three-year arbitration process.

The second quarter was indeed a productive period for us, demonstrating our growth and accomplishment. Going forward, we will continue to support the Government of Canada's Phase 2 AECL restructuring initiative and work in a focused and determined manner to execute against our business plans, carrying out our tasks to the fullest of our capabilities.

We will also continue to live within our means, seeking efficiencies and cost reductions wherever possible; we will work to sustain and enhance our value to all of our stakeholders by stimulating business innovation and achieving our science and technology priorities; and, we will ready ourselves for any transition that may lie ahead.

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 second quarter and for the first six months 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 and the First Quarter Financial Report for the three-month period ended June 30, 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 November 22, 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 the Canadian nuclear sector remains safe and productive with access to science and technology resources to address emergent technological challenges, and that Canada maintains a strong nuclear power sector.
Nuclear Safety & Security	Ensures that federal activities, regulations and policies, related to nuclear or radiological issues, are supported by the necessary expertise and facilities.
Clean, Safe Energy	Involves the development of energy technologies that make a beneficial impact on Canada's use of clean energy.
Health, Isotopes & Radiation	Ensures that Canadians experience health benefits from nuclear science and technology.
Nuclear Environmental Stewardship	Ensures that Canada's federal nuclear sites are clean and healthy environments.
Nuclear Innovation Networks	Ensures that the Canadian science and technology communities can advance their innovation agendas through access to federal nuclear innovation infrastructure and expertise.
Mission-Ready Science & Technology Infrastructure	Ensures that scientists and engineers from AECL and its partner organizations have access to licensed facilities and services that enable nuclear innovation and production in a safe campus environment that is fully compliant with all legislation for conducting nuclear-related activities.
Internal Services	Provides the business and administrative support functions and infrastructure to enable the efficient and effective delivery of the above programs.

2.3 Highlights of Second Quarter 2012-2013

2.3.1 Health, Safety, Security and Environment

- AECL's lost-time injury (LTI) frequency rate for Q2 was tracking on target against the frequency target set for the fiscal year.

- AECL's LTI severity rate for Q2 was tracking substantially lower against the severity target set for the fiscal year.

- In Q2, AECL initiated a comprehensive review of its disability management programs and processes to ensure they are competitive, meet legal obligations, and are aligned with business objectives that include productivity and employee wellness. This multi-year project is being implemented to strengthen the integrity and consistency of our practices with respect to continuity of care for our employees and overall cost management.

- The CNSC conducted six inspections in Q2 at the Chalk River Laboratories as part of its routine regulatory oversight of AECL's nuclear facilities and programs. All six inspections determined the facilities and programs under review to be fully compliant with licensing requirements. Maintaining a safe campus environment that is fully compliant with all legislation ensures that scientists and engineers from AECL and beyond can access these facilities and services, and enables nuclear innovation and production.

- AECL rolled out a revised digging, drilling, cutting and coring procedure at its Chalk River site as part of its ongoing program evaluation and effort to reduce the risk of workplace injury related to this type of activity.

2.3.2 Program Activities

Nuclear Industry Capability

- In an effort to enable business innovation and capitalize on AECL's science and technology expertise, AECL introduced to members of the Organization of CANDU Industries (OCI) 12 new AECL technologies that are available for commercialization. The environmental, nuclear security and equipment monitoring and diagnostics technologies have applications in non-power nuclear reactors and can be prepared for market through several different working arrangements, including co-development opportunities. The technologies were presented to OCI member companies during an OCI Suppliers Day workshop hosted by AECL in mid-September. Discussions on development opportunities are continuing.

- AECL successfully completed a baseline fuel channel inspection for Candu Energy Inc. of the recently-refurbished Wolsong 1 reactor for Korea Hydro and Nuclear Power (KHNP) in South

Korea. It was the first time that a fuel channel inspection had been carried out on a refurbished CANDU reactor returned to service. The inspection was performed during Wolsong 1's first planned shutdown since returning to full operation in July 2011. AECL's inspection determined that the fuel channels were performing as expected and associated regulatory requirements had been met, enabling KHNP to restart the reactor.

Nuclear Safety and Security

- In the second quarter, the last of four quarterly safety culture surveys was completed and a comprehensive assessment was launched. The assessment will include over 100 interviews with AECL staff and focus group sessions. The combined results will provide additional insight into the current safety culture and identify any potential need for enhancements. These assessments will be compared to the 2008 benchmark, with a final report available by the end of Q3.

- AECL radiation protection staff participated in the final trial of a research project by the Centre for Security Science, part of Defence Research & Development Canada (DRDC). The project involved the controlled explosion of a simulated bomb (a radiological dispersion device or RDD) at DRDC's Suffield research centre in Alberta. During the trial, scientific information was collected that will help researchers better understand RDDs and their impact and contribute to enhanced nuclear security in Canada and around the world. AECL's role was to lead the set up and operation of the personnel access control point. The trial is an example of the ongoing cooperation between various participating government and private sector organizations from Canada, the United States and Great Britain and a common goal to enhance the prevention of, response to and recovery from potential nuclear safety and security events.

Clean, Safe Energy

- An advanced mathematical model was developed by AECL that will enhance the development of future catalysts used in passive autocatalytic recombiners (PARs). PARs are used to reduce or eliminate the risk of hydrogen explosions in nuclear plants and other facilities that use hydrogen. These devices are being targeted for use in increasingly hazardous applications, which requires that their catalysts be robust and react appropriately under challenging conditions. The model accurately predicts catalyst behaviour and recombiner performance, a significant advancement that will contribute to development activities aimed at improving their performance.

- AECL and the United States Department of Energy's National Nuclear Security Administration signed an agreement in Q2 to work together to convert the Jamaican SLOWPOKE research reactor core from highly-enriched uranium (HEU) to low-enriched uranium (LEU). Early reactor technology used HEU fuel as it was more difficult to achieve comparable power levels using LEU. Modern reactor designs, however, can use more efficient LEU fuels while maintaining comparable power levels. This makes conversion an attractive option and reduces the usage of HEU nuclear material. The project is part of the US-Canada Security and

Prosperity Partnership and the Global Threat Reduction Initiative (GTRI). Conversion of the Jamaican SLOWPOKE reactor to LEU fuel is a major milestone in the GTRI's non-proliferation effort to convert all research reactors, worldwide, to LEU fuel.

- AECL and several Canadian universities are exploring opportunities to collaborate on the development of a Canadian small supercritical water reactor (SCWR) concept for localized power generation for smaller grid applications (<400 megawatts) and hydrogen production for industrial applications. Supported by the Canadian Centre for Nuclear Innovation (CCNI), AECL experts and the University of Saskatchewan (U of S) hosted a workshop in Q2 to introduce the small reactor concept and related research and development programs to graduate students, professors, researchers and CCNI officials. AECL and U of S also began drafting a research agreement that will utilize undergraduate and graduate programs to support conceptual design of various small SCWR components and R&D. Training workshops, supported by the CCNI, are also being planned for students and researchers at the universities of Saskatchewan and Regina to become familiar with AECL analytical tools for nuclear reactor design and safety analyses.

Health, Isotopes and Radiation

- AECL continued to support the global health community, meeting 100% of its molybdenum medical isotope orders in Q2.

- A decision was received by AECL from the arbitration tribunal adjudicating a contractual dispute between AECL and Nordion Inc., formerly MDS (Canada) Inc. The arbitration related to claims asserted by Nordion Inc. regarding the 2008 decision by AECL to discontinue development of two medical isotope-producing reactors (the MAPLE reactors) at AECL's Chalk River Laboratories site. The majority of the tribunal affirmed AECL's position in the arbitration. In the result, Nordion's claim was dismissed. The decision concludes a three-year arbitration process. AECL is reviewing and analyzing all aspects of the decision to ensure a thorough understanding of the implications. Both parties are subject to confidentiality obligations relating to the process, including details of the decision.

- In partnership with the University of Ottawa Heart Institute, AECL is investigating the mechanisms by which radiation-induced changes in cardiovascular disease are produced. In order to do this, it was necessary to develop new scanning methods that could be used to follow the development of atherosclerotic plaques in animals. These methods would be used to back up studies based on the examination of mouse tissues removed at necropsy. During Q2, AECL and the university developed and tested two new methods for this purpose. The methods were validated and are now being used for the main studies, which will take an additional two years to complete.

- AECL, in partnership with McMaster University in Hamilton, helped to optimize a method used to determine aluminum content in patients with Alzheimer's disease. To ascertain their aluminum level, a patient places their hand in a neutron beam. For its part in the project, AECL optimized the production of neutrons at the appropriate energy level, thereby allowing the studies to be undertaken using a radiation dose to the hand that was within acceptable regulated limits. AECL and McMaster are now discussing a possible aluminum industry project to assess the build-up of this neurotoxic metal in its workforce and in aluminum welders. Other medical applications of the same technology are also being evaluated.

Nuclear Environmental Stewardship

- AECL continued to make excellent progress on fuel repatriation initiatives announced by Prime Minister Stephen Harper at the Nuclear Security Summits in 2010 and 2012. This included a shipment in Q2 of highly-enriched uranium to a secure US Department of Energy site.

- AECL and Enterprise Cape Breton Corporation (ECBC) entered into an agreement in Q2 to complete the decommissioning and remediation of storage buildings and lands associated with AECL's former heavy-water plant site in Glace Bay, Nova Scotia. Under the agreement, AECL will also manage the process to transfer those sites to ECBC for their future potential use. The project is expected to be completed by the end of 2013-2014.

- In Q2, AECL engaged contractors to assess the condition of specific buried waste packages in designated waste management areas at the Chalk River Laboratories site. AECL has since begun to review the findings to determine appropriate remediation plans commensurate with the environmental risk, helping to assure a clean and healthy environment on site.

- AECL and the Canadian Nuclear Safety Commission (CNSC) formally issued a protocol for updating the licences for the Douglas Point and NPD (Ontario) and Gentilly-1 (Québec) prototype reactor facilities. AECL holds multi-year licences to provide continuous surveillance of the permanently-shutdown reactors and their sites. The process is being undertaken to incorporate new CNSC licensing requirements that will further enhance the safety and security of the sites.

Nuclear Innovation Networks

- AECL and representatives from the University Network of Excellence in Nuclear Engineering (UNENE) undertook planning in Q2 to expand areas for collaboration using AECL's unique science and technology facilities and expertise. UNENE is an alliance of universities, nuclear power utilities, AECL, and government research and regulatory agencies. Its mandate is to support and develop nuclear education and research capabilities in Canadian universities. Greater utilization of AECL's laboratories would enhance students' capabilities in the field and contribute to a sustainable supply of qualified nuclear engineers and scientists to meet the needs of the Canadian nuclear industry. AECL and UNENE have since set out a series of actions to define technical work that could be undertaken at AECL's laboratories. These new and expanded areas for collaboration are to be included in a Q4 plan, with work commencing in the first quarter of 2013-2014.

Mission-Ready Science & Technology Infrastructure

- Major projects to consolidate and relocate Chalk River staff and resources into modern facilities continued to progress well in Q2. A building renovation to include a new hydrogen isotope technologies laboratory was fully underway and detailed design was proceeding on schedule for a new research laboratory complex. The completion of the projects, funded through Project New Lease, will help enable AECL to retain its leadership in hydrogen research and development, develop and expand its expertise and commercial base, and meet ongoing commitments to global customers.

- AECL held a workshop in Q2 engaging AECL experts who explored possible safety improvements to Chalk River facilities to ensure they can withstand a potential extreme external event, beyond their original design. The workshop, which will be followed by systematic analyses in Q3, is part of AECL's ongoing participation in Fukushima-related nuclear safety reviews and improvement initiatives for national and international regulators and agencies. Analyses conducted in 2011-2012 confirmed that safety at the Chalk River Laboratories during potential extreme external events is adequate. These additional activities are being undertaken in the interest of continuous safety improvement.

Internal Services

- Supplier engagement is a key element of AECL's supply chain and innovation strategies. In September, AECL hosted the annual Organization of CANDU Industries (OCI) Suppliers Day trade show, attended by more than 50 OCI member companies, and led a joint workshop to discuss innovation in Canada's nuclear supply chain. The events were an excellent opportunity to build relationships with representatives from the Canadian nuclear supply chain and to explore new commercial and technology development opportunities.

- AECL's 2012 Annual Financial Report was tabled in Parliament in August 2012.

2.3.3 Commercial Operations (Discontinued Operations)

- In Q2, AECL received final acceptance by New Brunswick Power of its project scope on the Point Lepreau Refurbishment Project in New Brunswick. AECL, through its subcontractor Candu Energy Inc., is working on a number of non-critical path items that, once completed, will conclude its role on the project.

- In late September, the Québec government announced its decision to permanently shut down the Gentilly-2 nuclear reactor in Québec at the end of 2012 and decommission it over the next several decades. Subsequent to the end of the quarter, on October 2, 2012, utility owner Hydro-Québec terminated its contract with AECL to extend the life of the Gentilly-2 reactor. AECL has since sought declaratory relief in the Superior Court of Québec to clarify the contractual rights and obligations of each party on termination.

2.3.4 Financial

- AECL's comprehensive net income was $50 million in Q2 2012-2013 compared to a $766 million comprehensive net loss in the same period of the previous year. The $816 million variance relates to the quarterly revaluation of the decommissioning and waste management liability.

  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 September 30, 2012 was 0.01% lower than the previous quarter-end rate while the discount rate at September 30, 2011 was 0.78% lower than the June 30, 2011 rate. As a result, AECL's reported liability increased by $23 million in this quarter compared to $906 million in Q2 2011-2012. The estimated undiscounted future decommissioning and waste management costs did not change significantly in either period.

- The Government of Canada provided significant financial support to allow the 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:

  - $5 million to support Enhanced CANDU 6® reactor development as per the Asset Purchase Agreement with Candu Energy Inc.

  - $99 million to support ongoing Chalk River site operations and 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.

  - $29 million for decommissioning and waste management activities.

- Consolidated revenues decreased to $60 million in Q2 2012-2013 from $126 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 projects 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 six 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 September 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

($ millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Revenue				
Nuclear Laboratories	**$ 23**	$ 17	**$ 40**	$ 29
Commercial Operations (Discontinued Operations)	**37**	109	**65**	170
Total revenue	**$ 60**	$ 126	**$ 105**	$ 199
Gross margin before funding				
Nuclear Laboratories	**$ 12**	$ 9	**$ 18**	$ 11
Commercial Operations (Discontinued Operations)	**53**	62	**57**	(14)
Total gross margin before funding	**$ 65**	$ 71	**$ 75**	$ (3)
Funding				
Parliamentary appropriations - operating	**$ 105**	$ 173	**$ 311**	$ 350
Parliamentary appropriations - capital	**12**	12	**20**	19
Other funding - operating	**29**	29	**56**	57
Cost recovery from third parties and other	**6**	4	**10**	7
Amortization of Deferred capital funding	**3**	2	**6**	5
Total funding	**$ 155**	$ 220	**$ 403**	$ 438
Net income (loss) by business entity before Parliamentary appropriations				
Nuclear Laboratories	**$ (91)**	$ (974)	**$ (659)**	$ (1,253)
Commercial Operations (Discontinued Operations)	**37**	35	**31**	(143)
Net loss before Parliamentary appropriations	**$ (54)**	$ (939)	**$ (628)**	$ (1,396)

2.5.1 Revenue

Consolidated revenue in Q2 decreased to $60 million from $126 million in Q2 2011-2012. On a year-to-date basis, consolidated revenues decreased from $199 million in 2011-2012 to $105 million this year. These variances are largely due to the sale of AECL's Commercial Operations in early Q3 2011-2012. Also contributing to the decrease was 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. The year-to-date variance was partially offset by the Q1 2011-2012 adjustment to reflect the terms of the subcontract agreement with Candu Energy Inc. to fulfil the obligations of AECL's remaining life extension contracts.

2.5.2 Gross Margin

Consolidated gross margin decreased in Q2 to $65 million from $71 million in the second quarter of the previous year. This variance reflects the reduction in gross margin earned from Services activity due to the sale of this business to Candu Energy Inc. in 2011-2012. This change in gross margin was partially offset by a reduction in estimated costs to close out certain life extension projects. This reduction has resulted in a reversal of costs previously charged to income and carried on the balance sheet as an accrued contract loss provision.

Year-to-date gross margins increased to $75 million from negative $3 million for the same period the previous year. This variance can be attributed to the activities noted in this section. It also reflects the Q1 2011-2012 adjustments to revenue and costs relating to the subcontract agreement with Candu Energy Inc. to complete AECL's life extension projects, also noted above.

2.5.3 Net Income / Loss before Parliamentary Appropriations by Operational Organization

Nuclear Laboratories reported a net loss of $91 million this quarter compared to a net loss of $974 million in Q2 2011-2012. On a year-to-date basis, Nuclear Laboratories reported a net loss of $659 million, compared to a $1,253 million net loss in the first half of 2011-2012.

These changes in loss, both prior to Parliamentary appropriations, are related to a non-cash adjustment to the Decommissioning and waste management provision. This adjustment is the result of a decrease, from the preceding quarter and fiscal-year, in the discount rate used to calculate the reported liability which is presented on a net present value basis.

The September 30, 2012 discount rate was 2.32%, a decrease of 0.01% and 0.34% from the previous quarter and year-end, respectively. Comparatively, the September 30, 2011 discount rate was 2.77%, representing decreases of 0.78% and 0.98% from the June 30, 2011 and March 31, 2011 rates in effect, respectively. In all cases, the undiscounted future decommissioning and waste management costs have not changed significantly and there is no immediate funding or cash impact.

Commercial Operations (Discontinued Operations) reported a net income of $37 million this quarter compared to a net income of $35 million in Q2 2011-2012. This increase in income is mainly due to the decrease in operating expenses resulting from the sale of the Commercial Operations business in Q3 2011-2012. This was partially offset by a decrease in gross margin, as noted in Section 2.5.2. Partial reversal in Q2 2011-2012 of the restructuring provision recorded in Q1 2011-2012 also impacted the prior year results.

Commercial Operations (Discontinued Operations) reported a $31 million net income year-to-date compared to a $143 million net loss in the same period of the previous year, both before Parliamentary appropriations. This difference was primarily driven by the variances noted in this section, net of the 2011-2012 year-to-date $40 million restructuring and impairment charges and the $93 million adjustment in Q1 2011-2012 to revenue and costs relating to AECL's subcontract agreement with Candu Energy Inc.

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

The 2012-2013 year-to-date results are generally comparable to the planned results presented and approved in AECL's 2012-2013 Corporate Plan. As such, AECL is on track to meet the financial 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

($ millions)	Three Months Ended September 30, 2012	2011	Six Months Ended September 30, 2012	2011
Revenue and Funding				
Revenue	**$ 23**	$ 17	**$ 40**	$ 29
Cost recoveries from third parties and other	**6**	4	**10**	7
Amortization of Deferred capital funding	**3**	2	**6**	5
Total revenue and funding	**$ 32**	$ 23	**$ 56**	$ 41
Gross margin before Parliamentary appropriations	**$ 12**	$ 9	**$ 18**	$ 11
Operating expenses	**$ 92**	$ 89	**$ 180**	$ 176
Net loss before decommissioning and Parliamentary appropriations	**$ (68)**	$ (71)	**$ (141)**	$ (149)
Decommissioning				
Funding	**$ 29**	$ 29	**$ 56**	$ 57
Revaluation loss on decommissioning and waste management liability and other	**(16)**	(894)	**(501)**	(1,084)
Financial expenses	**(36)**	(38)	**(73)**	(77)
Decommissioning net loss	**$ (23)**	$ (903)	**$ (518)**	$ (1,104)
Net loss before Parliamentary appropriations	**$ (91)**	$ (974)	**$ (659)**	$ (1,253)

2.6.1.1 Revenue

In Q2 2012-2013, the Nuclear Laboratories generated $23 million in revenue related to its support for the nuclear industry capability, compared to $17 million in Q2 2011-2012. On a year-to-date basis, revenues increased to $40 million in 2012-2013 from $29 million in the first six months of 2011-2012. Revenue included isotope sales, commercial technology sales, nuclear waste management, and research and development activities performed for the CANDU Owners Group. The improvement in both the quarter and year-to-date results can be attributed primarily to increased heavy water sales of $1 million in this quarter ($3 million year-to-date) and $5 million in revenue earned on work performed under contract for Candu Energy Inc. ($10 million year-to-date). These increases were partially offset by decreased isotope sales in this quarter and year-to-date, compared to the same periods in the previous year.

2.6.1.2 Gross Margin

Gross margins increased from $9 million in Q2 2011-2012 to $12 million in Q2 2012-2013. On a year-to-date basis, gross margins increased from $11 million in 2011-2012 to $18 million in 2012-2013. These increases stem primarily from the increased revenues 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. Funding of $6 million in this quarter and $10 million for the year-to-date period was provided through Natural Resources Canada to support the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office. This level of funding represents an increase of $2 million and $3 million, respectively from the same periods in the previous fiscal year.

2.6.1.4 Operating Expenses

Total operating expenses for the Nuclear Laboratories were $92 million this quarter compared to $89 million in Q2 2011-2012. On a year-to-date basis, operating expenses increased to $180 million from $176 million in 2011-2012. The increase in expenses in both the quarter and year-to-date periods can be attributed to an $8 million increase in the Employee benefits liability resulting from the elimination of the voluntary termination compensation. This was partially offset by expenditures incurred in Q2 2011-2012 to complete the transition of AECL's head office and corporate services from Mississauga to Chalk River following the sale of the Commercial Operations business.

2.6.1.5 Net Loss before Decommissioning and Parliamentary Appropriations

Nuclear Laboratories reported a net loss before decommissioning of $68 million in this quarter compared to a $71 million net loss in Q2 2011-2012, both prior to Parliamentary appropriations. On a year-to-date basis, a net loss before decommissioning and Parliamentary appropriations of $141 million was incurred, compared to $149 million in 2011-2012. These changes in net loss were the result of increased costs, funding and gross margins, as described above.

2.6.1.6 Decommissioning Funding

Decommissioning funding recognized during this quarter was $29 million, consistent with funding provided in Q2 2011-2012. On a year-to-date basis, $56 million in funding was recognized, compared to $57 million in 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

Nuclear Laboratories reported a Revaluation loss on decommissioning and waste management liability and other of $16 million in this quarter compared to a loss of $894 million in Q2 2011-2012. On a year-to-date basis, the Revaluation loss on decommissioning and waste management liability and other was $501 million, compared to a loss of $1,084 million in 2011-2012. See Section 2.5.3 for further details on these variances.

Financial expenses in Q2 2012-2013 of $36 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 Q2 2011-2012, which were $38 million. On a year-to-date basis, financial expenses were $73 million, compared to $77 million in 2011-2012.

Overall, decommissioning activities resulted in a Q2 2012-2013 net loss of $23 million compared to a net loss of $903 million in Q2 2011-2012. The year-to-date loss in 2012-2013 totalled $518 million, compared to $1,104 million in 2011-2012. These losses were mainly the result of the adjustment to the discount rate used to calculate the decommissioning and waste management provision.

2.6.2 Commercial Operations (Discontinued Operations)

($ millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Revenue				
Reactor life extension	**$ 37**	$ 77	**$ 65**	$ 119
Services	**-**	32	**-**	51
Total revenue	**$ 37**	$ 109	**$ 65**	$ 170
Gross Margin				
Reactor life extension	**$ 53**	$ 47	**$ 57**	$ (36)
Services	**-**	15	**-**	22
Total gross margin	**$ 53**	$ 62	**$ 57**	$ (14)
Operating Expenses	**$ 16**	$ 46	**$ 26**	$ 89
Net income (loss) before Parliamentary appropriations and restructuring charges	**$ 37**	$ 16	**$ 31**	$ (103)
Restructuring and impairment charges	**-**	(19)	**-**	40
Net income (loss) before Parliamentary appropriations	**$ 37**	$ 35	**$ 31**	$ (143)

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 sale of the Commercial Operations business to Candu Energy Inc.

Total revenue decreased to $37 million in this quarter from $109 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. Revenue in the current quarter includes adjustments to reflect a reduction in the estimated costs to close out each of its existing life extension contracts.

On a year-to-date basis, total revenue decreased to $65 million from $170 million in the first six months of 2011-2012. This decrease reflects the Q2 2012-2013 variances, described above, and is partially offset by the Q1 2011-2012 adjustment to reflect the terms of the subcontract agreement with Candu Energy Inc.

2.6.2.2 Gross Margin

Gross margin decreased to $53 million this quarter from $62 million in Q2 2011-2012. This variance reflects reduced gross margin in this quarter for the Services business, with the sale of AECL's Commercial Operations, and for the retained life extension projects, of which several were substantially completed during the prior year. In addition to the positive impact on gross margin from the revenue adjustment described in Section 2.6.2.1, gross margin includes a reversal of costs that were previously charged to income and carried on the balance sheet as an accrued contract loss provision. This reversal of costs results from a reduction in the estimated costs to close out certain life extension projects.

On a year-to-date basis, gross margins increased to $57 million from negative $14 million in the same period last year. This increase is largely due to the second quarter variances, described above, that were offset by the Q1 2011-2012 adjustment to reflect the terms of the subcontract agreement with Candu Energy Inc. to complete AECL's life extension projects.

2.6.2.3 Operating Expenses

Operating expenses decreased by $30 million to $16 million in this quarter (Q2 2011-2012: $46 million). On a year-to-date basis, operating expenses were $26 million compared to $89 million in the same period last year. These decreases are directly attributable to the sale of the Commercial Operations.

2.6.2.4 Net Income / Loss before Parliamentary Appropriations and Restructuring Charges

Commercial Operations (Discontinued Operations) generated a net income of $37 million this quarter, a $21 million increase in income from the $16 million net income in Q2 2011-2012, both before Parliamentary appropriations and restructuring charges. This variance is primarily due to the reductions in gross margin and operating costs, both as described above.

On a year-to-date basis, Commercial Operations (Discontinued Operations) generated a net income before Parliamentary appropriations and restructuring charges of $31 million compared to a net loss of $103 million in the corresponding period of the previous year. This variance was primarily driven by the Q1 2011-2012 adjustments to revenues and costs resulting from the subcontract agreement with Candu Energy Inc. and was partially offset by the Q2 gross margin and operating expense variances noted above.

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

SOURCES AND USES OF CASH

($ millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Cash from operating activities	**$ 25**	$ 25	**$ 40**	$ 56
Cash used in investing activities	**(14)**	(15)	**(23)**	(23)
Cash and cash equivalents				
Increase	**11**	10	**17**	33
Balance at beginning of the period	**41**	42	**35**	19
Balance at end of the period	**$ 52**	$ 52	**$ 52**	$ 52

Overall, AECL's Q2 2012-2013 closing cash position of $52 million did not change from the same period in the previous year.

2.7.1 Operating Activities

Operating activities generated a net cash inflow of $25 million in both Q2 2012-2013 and Q2 2011-2012. On a year-to-year basis, operating activities resulted in a net cash inflow of $40 million compared to $56 million in the same period the previous year. The second quarter result and the year-to-date variance are both the result of decreased cash paid to suppliers, partially offset by decreased cash received from customers and Parliamentary appropriations.

2.7.2 Investing Activities

Investing activities used cash of $14 million in Q2 2012-2013. This expenditure level was comparable to the $15 million expenditure in Q2 2011-2012. On a year-to-date basis, investing activities used cash of $23 million, which represented no change from the same period in the prior year.

2.8 Highlights of the Consolidated Balance Sheet

($ millions)	September 30, 2012	March 31, 2012	Variance In $	Variance By %
Assets	**$ 1,153**	$ 1,147	$ 6	1%
Liabilities	**7,018**	6,681	337	5%
Shareholder's deficit	**5,865**	5,534	331	6%

AECL closed Q2 2012-2013 with assets of $1,153 million, which represents a $6 million increase in assets from March 31, 2012. This variance is mainly the result of an increase in Cash and Property, plant and equipment, which was partially offset by a decrease in Trade and other receivables.

The increase in Liabilities of $337 million can be attributed primarily to the change in the Decommissioning and waste management provision of $521 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 reductions in Customer advances and obligations, Provisions and Trade and other payables.

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

2.9 Funding

2.9.1 Parliamentary Appropriations

($ millions)	Three Months Ended September 30, **2012**	2011	Six Months Ended September 30, **2012**	2011
Parliamentary appropriations - operating	**$ 104**	$ 173	**$ 311**	$ 350
Parliamentary appropriations - capital				
Capital infrastructure refurbishment project funding	**$ 12**	$ 12	**$ 20**	$ 19
Total Parliamentary appropriations - capital	**$ 12**	$ 12	**$ 20**	$ 19
Total Parliamentary appropriations	**$ 116**	$ 185	**$ 331**	$ 369

AECL receives Parliamentary appropriations to support planned activities. In the current quarter, the Corporation received a sum of $130 million. Of this amount, $116 million was recognized in the quarter and the balance of $14 million, relating to future expenditures, was deferred. In the comparable period in the previous year, $185 million was received and recognized. On a year-to-date basis, $345 million in Parliamentary appropriations was received and $331 million was recognized, compared to $369 million received and recognized in the same period in the previous year. 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 September 30, 2012.

2.9.2 Other Funding

($ millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Other funding				
Cost recoveries from third parties and other	**$ 6**	$ 4	**$ 10**	$ 7
Amortization of Deferred capital funding	**3**	2	**6**	5
Decommissioning and waste management	**29**	29	**56**	57
Total Other Funding	**$ 38**	$ 35	**$ 72**	$ 69

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 six 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
November 29, 2012
Chalk River, Canada

Steven Halpenny
Chief Financial Officer
November 29, 2012
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheet
(Unaudited)

(thousands of Canadian dollars)	Notes		**September 30, 2012**		March 31, 2012
Assets					
Current					
Cash and cash equivalents		**$**	**51,930**	$	35,439
Trade and other receivables	10		**326,198**		338,121
Current portion of long-term receivables			**21,934**		21,319
Inventory			**28,214**		29,179
			428,276		424,058
Long-term receivables			**116,584**		127,964
Investments held in trust			**40,532**		39,305
Heavy water inventory			**290,467**		290,599
Property, plant and equipment	4,10		**275,802**		263,277
Intangible assets			**1,539**		1,693
		$	**1,153,200**	$	1,146,896
Liabilities					
Current					
Trade and other payables	7,10	**$**	**104,060**	$	152,273
Customer advances and obligations	10		**191,803**		316,601
Provisions	5,10		**75,254**		121,500
Current portion of decommissioning and waste management provision	6		**148,100**		135,500
Deferred funding	8		**14,400**		-
Current portion of long-term payables			**-**		6,660
Current portion of employee benefits	7		**30,353**		6,153
Restructuring provision	10		**4,316**		6,026
			568,286		744,713
Decommissioning and waste management provision	6		**6,051,559**		5,543,030
Deferred capital funding	8,10		**205,961**		192,314
Deferred decommissioning and waste management funding			**159,257**		147,007
Employee benefits	7		**33,359**		53,860
			7,018,422		6,680,924
Shareholder's deficit					
Share capital			**15,000**		15,000
Contributed capital			**278,039**		291,867
Deficit			**(6,158,261)**		(5,840,895)
			(5,865,222)		(5,534,028)
		$	**1,153,200**	$	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)

(thousands of Canadian dollars)	Notes	Three Months Ended September 30				Six Months Ended September 30			
			2012		2011		**2012**		2011
Nuclear Laboratories									
Revenue		**$**	**22,604**	$	17,013	**$**	**40,342**	$	28,848
Cost of sales			**10,366**		8,303		**22,071**		17,480
Gross margin before funding			**12,238**		8,710		**18,271**		11,368
Funding	8		**8,854**		6,433		**15,837**		11,755
Gross margin			**21,092**		15,143		**34,108**		23,123
Operating expenses			**91,914**		88,728		**180,045**		176,486
Operating loss			**(70,822)**		(73,585)		**(145,937)**		(153,363)
Financial income	9		**2,338**		2,453		**4,329**		4,927
Financial expenses	9		**23**		154		**79**		341
Net loss before decommissioning and waste management and Parliamentary		**$**	**(68,507)**	$	(71,286)	**$**	**(141,687)**	$	(148,777)
Decommissioning and waste management									
Funding	8	**$**	**28,687**	$	29,368	**$**	**55,614**	$	56,620
Revaluation loss on decommissioning and waste management liability and other	6		**15,758**		893,926		**500,804**		1,084,133
Decommissioning and waste management income (loss) before financial expenses			**12,929**		(864,558)		**(445,190)**		(1,027,513)
Financial expenses	9		**35,522**		37,860		**72,513**		76,875
Decommissioning and waste management net loss before Parliamentary appropriations			**(22,593)**		(902,418)		**(517,703)**		(1,104,388)
Net loss from continuing operations before Parliamentary appropriations and discontinued operations		**$**	**(91,100)**	$	(973,704)	**$**	**(659,390)**	$	(1,253,165)
Discontinued Operations (Note 10)									
Restructuring charge	10	**$**	**-**	$	(19,376)	**$**	**-**	$	31,724
Impairment of non-current assets	4,10		**-**		331		**-**		8,270
Operating income (loss) from discontinued operations	10		**36,927**		16,182		**31,188**		(102,825)
Income (loss) from discontinued operations			**36,927**		35,227		**31,188**		(142,819)
Loss income before Parliamentary appropriations		**$**	**(54,173)**	$	(938,477)	**$**	**(628,202)**	$	(1,395,984)
Parliamentary appropriations	8	**$**	**104,570**	$	172,795	**$**	**310,836**	$	350,346
Other comprehensive income (loss)									
Other employee benefit plan actuarial gains (losses)			**-**		-		**-**		-
Other comprehensive income (loss)			**-**		-		**-**		-
Net and comprehensive income (loss)		**$**	**50,397**	$	(765,682)	**$**	**(317,366)**	$	(1,045,638)

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 September 30, 2012
(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at June 30, 2012	**$ 15,000**	**$ 285,225**	**$ (6,208,658)**	**$ (5,908,433)**
Net and comprehensive income attributable to Shareholder for the period	-	-	50,397	50,397
Transfer to deferred decommissioning and waste management funding	-	(6,320)	-	(6,320)
Transfer to repayable contributions	-	(866)	-	(866)
Balance at September 30, 2012	**$ 15,000**	**$ 278,039**	**$ (6,158,261)**	**$ (5,865,222)**

For the three months ended September 30, 2011
(thousands of Canadian dollars)

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at June 30, 2011	**$ 15,000**	**$ 319,388**	**$ (4,968,940)**	**$ (4,634,552)**
Net and comprehensive loss attributable to Shareholder for the period	-	-	(765,682)	(765,682)
Transfer to deferred decommissioning and waste management funding	-	(6,320)	-	(6,320)
Transfer to repayable contributions	-	(77)	-	(77)
Balance at September 30, 2011	**$ 15,000**	**$ 312,991**	**$ (5,734,622)**	**$ (5,406,631)**

For the six months ended September 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	-	-	(317,366)	(317,366)
Transfer to deferred decommissioning and waste management funding	-	(12,250)	-	(12,250)
Transfer to repayable contributions	-	(1,578)	-	(1,578)
Balance at September 30, 2012	**$ 15,000**	**$ 278,039**	**$ (6,158,261)**	**$ (5,865,222)**

For the six months ended September 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	-	-	(1,045,638)	(1,045,638)
Transfer to deferred decommissioning and waste management funding	-	(12,250)	-	(12,250)
Transfer to repayable contributions	-	(292)	-	(292)
Balance at September 30, 2011	**$ 15,000**	**$ 312,991**	**$ (5,734,622)**	**$ (5,406,631)**

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

Interim Condensed Consolidated Cash Flow Statement
(Unaudited)

(thousands of Canadian dollars)	Three Months Ended September 30 **2012**	2011	Six Months Ended September 30 **2012**	2011
Operating activities				
Cash receipts from customers	**$ (12,488)**	$ 80,201	**$ (27,680)**	$ 163,654
Cash receipts from Parliamentary appropriations	**130,845**	185,258	**345,145**	368,931
Cash receipts for decommissioning and waste management activities	**27,570**	30,138	**66,044**	63,935
Cash paid to suppliers and employees	**(92,834)**	(240,913)	**(288,486)**	(483,968)
Cash paid for decommissioning activities	**(28,533)**	(29,480)	**(55,554)**	(56,607)
Interest received on investments (net)	**283**	105	**335**	197
Interest and bank charges paid	**(11)**	(12)	**(18)**	(25)
Cash from operating activities	**24,832**	25,297	**39,786**	56,117
Thereof from discontinued operations	**18,274**	10,449	**21,886**	18,936
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	**(13,804)**	(15,550)	**(21,695)**	(22,972)
Cash used in investing activities	**(13,804)**	(15,550)	**(23,295)**	(22,972)
Thereof from discontinued operations	**-**	(4,867)	**(1,600)**	(6,032)
Cash and cash equivalents:				
Increase	**11,028**	9,747	**16,491**	33,145
Balance at beginning of the period	**40,902**	41,961	**35,439**	18,563
Balance at end of the period	**$ 51,930**	$ 51,708	**$ 51,930**	$ 51,708

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 and six-month periods ended September 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, 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 November 22, 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 initiative 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 (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 and the unaudited interim condensed consolidated financial statements for the three-month period ended June 30, 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)		September 30, 2012		March 31, 2012
Balance - Beginning of period	**$**	**263,277**	$	238,735
Additions and transfers		**33,630**		72,992
Disposals and transfers		**(18,569)**		(41,400)
Other changes		**6,335**		18,376
Depreciation		**(8,871)**		(16,786)
Impairment		**-**		(8,640)
Balance - End of period	**$**	**275,802**	$	263,277

5. Provisions

(thousands of Canadian dollars)		September 30, 2012		March 31, 2012
Contract loss	**$**	**56,340**	$	99,639
Other provisions		**18,914**		21,861
	$	**75,254**	$	121,500

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)		September 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		**(56,235)**		(124,311)
Unwinding of discount		**73,740**		152,388
Effect of change in discount rate		**500,764**		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		**2,860**		12,044
Carrying amount - End of period		**6,199,659**		5,678,530
Less current portion		**(148,100)**		(135,500)
	$	**6,051,559**	$	5,543,030

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

The provision as at September 30, 2012 was discounted using a rate of 2.32%. 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 second quarter was $15,687 (Q2 2011-2012: $888,590) and for the year-to-date was $500,764 (year-to-date 2011-2012: $1,078,962).

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:

	Three Months Ended September 30		Six Months Ended September 30	
(thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Payments by employees	**$ 4,342**	$ 6,542	**$ 8,646**	$ 13,001
Payments by employer	**$ 8,270**	$ 13,058	**$ 16,102**	$ 25,526

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 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 $63.7 million (March 31, 2012: $60 million) of which $33.4 million (March 31, 2012: $53.9 million) is recorded as Employee benefits under long-term liabilities and $30.3 million (March 31, 2012: $6.1 million) is recorded as Current portion of employee benefits in Current liabilities.

The VTC included in the reported Employee benefits liability is $40.1 million and is payable in instances of future voluntary resignations and retirements. Consistent with Government of Canada expectations of federal agencies or Crown corporations, AECL began eliminating this benefit in fiscal 2012-2013.

As the elimination of the VTC is agreed upon and implemented, employees eligible for payment of the accrued benefits are offered three options with respect to the timing of the payments. This impacts the reported net present value of the Employee benefits liability. 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. AECL has increased its Employee benefit obligation by $8 million in this quarter to reflect its estimate of the number of employees expected to elect to receive their entire payment in 2012-2013. The Current portion of employee benefits includes the expected payments under this scenario.

The Corporation's total expense for employee benefits was $1.2 million for this quarter (Q2 2011-2012 excluding restructuring adjustments: $2.2 million). On a year-to-date basis, the total expense for employee benefits was $2.6 million (year-to-date 2011-2012 excluding restructuring adjustments: $4.3 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 and six months ended September 30, 2012, Parliamentary appropriations were recognized as follows:

	Three Months Ended September 30		Six Months Ended September 30	
(thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Parliamentary appropriations - operating	**$ 104,570**	$ 172,795	**$ 310,836**	$ 350,346
Parliamentary appropriations - capital				
Capital infrastructure refurbishment project funding	**$ 11,875**	$ 12,463	**$ 19,909**	$ 18,585
Total Parliamentary appropriations	**$ 116,445**	$ 185,258	**$ 330,745**	$ 368,931

While $130,845 of Parliamentary appropriations was received in Q2 (Year-to-date: $345,145), $116,445 has been recognized (Year-to-date: $330,745) with the difference of $14,400 recorded as Deferred funding. All amounts received in the three and six months ended September 30, 2011 were recognized in income.

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

b) Other Funding

Other funding was recognized as follows:

	Three Months Ended September 30		Six Months Ended September 30	
(thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Operating funding				
Cost recoveries from third parties and other	**$ 5,487**	$ 4,339	**$ 9,575**	$ 7,440
Amortization of Deferred capital funding	**3,367**	2,094	**6,262**	4,315
	$ 8,854	$ 6,433	**$ 15,837**	$ 11,755
Decommissioning and waste management	**28,687**	29,368	**55,614**	56,620
	$ 37,541	$ 35,801	**$ 71,451**	$ 68,375

c) Deferred Capital Funding

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

(thousands of Canadian dollars)	**September 30 2012**
Deferred capital funding	
Deferred capital funding as at March 31, 2012	**$ 192,314**
Capital funding recognized during the period	**19,909**
Amortization of Deferred capital funding	**(6,262)**
Deferred capital funding as at September 30, 2012	**$ 205,961**

(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

(thousands of Canadian dollars)	Three Months Ended September 30		Six Months Ended September 30	
	2012	2011	**2012**	2011
Financial income				
Interest on long-term receivables	**$ 2,054**	$ 2,348	**$ 3,993**	$ 4,730
Interest on investments and other	**284**	105	**336**	197
	$ 2,338	$ 2,453	**$ 4,329**	$ 4,927
Financial expenses				
Interest on long-term payables	**$ 23**	$ 154	**$ 79**	$ 341
Unwinding of discount on decommissioning and waste management provision net of trust fund income	**35,522**	37,860	**72,513**	76,875

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 the first quarter of this fiscal year.

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, $0.3 million was recognized in Q2 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 $32.2 million has been paid as of September 30, 2012 and $4.3 million remained to complete the process.

The restructuring expense recorded in Q2 2011-2012 was an expense reversal of $19.4 million which served to reduce the $51.1 million provision that had been recorded in the first quarter of 2011-2012. The $51.1 million recorded in Q1 2011-2012 represented Management's best estimate at that time 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.

In late September, the Québec government announced that the Gentilly-2 nuclear reactor in Québec would be permanently shut down by the end of 2012 and decommissioned over the next several decades. Subsequent to the end of the quarter, on October 2, 2012, utility owner Hydro-Québec terminated its contract with AECL to extend the life of the Gentilly-2 reactor. This contract represented one of the liabilities retained by the Government of Canada and AECL upon the sale of Commercial Operations. AECL has since sought declaratory relief in the Superior Court of Québec to determine the contractual rights and obligations of each party on termination. The impact of the termination of the contract has been reflected in these interim condensed consolidated financial statements.

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

Results of Discontinued Operations

	Three Months Ended September 30		Six Months Ended September 30	
(thousands of Canadian dollars)	**2012**	2011	**2012**	2011
Revenue	**$ 36,896**	$ 108,779	**$ 64,637**	$ 170,015
Cost of sales	**(15,969)**	46,375	**7,283**	184,119
Gross margin	**52,865**	62,404	**57,354**	(14,104)
Operating expenses	**15,938**	46,222	**26,166**	88,721
Commercial Operations income (loss) before Parliamentary appropriations	**$ 36,927**	$ 16,182	**$ 31,188**	$ (102,825)

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	$	277,382
Property, plant and equipment		780
Liabilities		
Trade and other payables	$	26,435
Customer advances and obligations		187,869
Provisions		73,754
Deferred funding		14,400
Restructuring provision		4,316
Deferred capital funding		175

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 Enhanced CANDU Reactor development program. As at September 30, 2012, $30 million of this amount had been expensed and $27 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 September 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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