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, 2014 and September 30, 2013

Table of Contents

1 MESSAGE FROM THE PRESIDENT

The end of the second quarter of the 2014-2015 fiscal year brings with it a new beginning in the evolution of Atomic Energy of Canada Limited.

In Q3, AECL will transition its operations, employees and licences to a new subsidiary of AECL, known as Canadian Nuclear Laboratories (CNL). This represents a key milestone in the Government's restructuring of AECL, which will implement a Government-owned, Contractor-operated (GoCo) management model at the AECL Nuclear Laboratories.

This has been an undertaking of enormous scope for employees and departments across the entire company. In getting to this position, we have made innumerable arrangements to ensure the transition to CNL will be as seamless as possible for our employees, partners and shareholders. Once complete, AECL restructuring will ensure that Canadians continue to be well served by a cost-effective, world-class nuclear science and technology and decommissing and waste management organization focused on delivering meaningful results that benefit Canada.

Restructuring has been a journey measured in years, and there remains work yet to be done before completion. However, we have made some important strides this past quarter towards the realization of the Government's long-term expectations for the Nuclear Laboratories.

This work includes the submission of applications to our regulators requesting the transfer of our many licences and permits from AECL to CNL. It involves the transfer of AECL inventory and assets – everything from land and buildings to tools and equipment – that CNL will be permitted to use to carry out its missions. It also includes the segregation of data and records, communications with our stakeholders, labour relations and legal changes – the list goes on and on.

We also realized many other accomplishments in Q2 that align with the Government's expectations. With respect to our safety performance, I'm pleased to report that we have demonstrated continued quarter over quarter improvement through a steady decline in the total injury rate per month. This is the direct result of a renewed commitment by our employees, strong management involvement, and increased leadership presence in the field. Safety improvement is a continuous journey requiring unwavering attention; the evidence is clear – we are improving the safety of our operations.

Our business development efforts year to date also merit mention. While we're only midway through the year, we have already achieved our target for the year, with ten new customers. We expect this number to continue to grow before the end of the year. Through our proactive business development efforts, more and more companies, industries and associations are learning about our services and technologies. This progress also represents a shift in our mindset – AECL has become a more customer-focused organization, with a constant eye on results and our bottom line, and this has taken hold across the company.

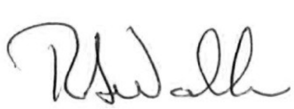
This is visible in the work we carried out on behalf of the nuclear industry. Among other achievements, AECL successfully completed the development of a sophisticated, automated tooling system known as the Modal Detection and Repositioning (MODAR) tool this quarter. MODAR uses vibration technology to detect and relocate annulus spacers, a critical component in a CANDU reactor, while the reactor is still operational. MODAR will be deployed at a Canadian utility in Q3.

A major milestone was also reached in the implementation of the Port Hope Area Initiative (PHAI). This quarter, the Port Granby Long Term Waste Management Facility contract was tendered, which will lead to one of the first long-term waste management facilities for radioactive waste in Canada. This milestone also represents the first time that a contract tendered by Public Works & Government Services Canada (PWGSC) will be awarded by another organization, CNL in this case. This is consistent with recent direction from Natural Resources Canada that CNL will assume full accountability for the management and delivery of PHAI on behalf of the Government of Canada.

With respect to AECL's infrastructure, we completed major improvement to the Class IV power supply at the Chalk River site. This extensive preventative maintenance and repair work included the first site-wide electrical outage at CRL, which was completed safely, without incident, and involved the efforts of the entire organization to successfully complete. Overall, the electrical outage was a critical activity designed to increase the reliability of the supply of Class IV power, thereby improving nuclear safety at our site.

Finally, AECL continued to support the Canadian and global health community this quarter through the provision of medical isotopes. AECL exceeded its molybdenum-99 (Mo-99) orders this quarter, meeting 121 per cent of its originally planned orders. Isotope production revenue and margins exceeded AECL's planning targets.

This was clearly an exceptionally busy and productive quarter. I believe that these achievements are indicative of significant progress in our commitment to excellence in safety, execution and innovation here at AECL. As we turn our attention to the future, Q3 will bring many changes with it as we break new ground in the transition to a GoCo business model. There's no doubt that we face both opportunities and challenges in the coming year. I am confident that we can meet this change head-on, and fully realize the potential that this new beginning represents.



Robert Walker
President & 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 Corporation 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 2014-2015 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the 2013-2014 AECL Annual Financial Report for the year ended March 31, 2014 and the First Quarter Financial Report for the three-month period ended June 30, 2014.

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 13, 2014.

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 3,250 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 Corporation'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 the business goals established in AECL's Corporate Plan. Management also maintains a small staff complement in Oakville, Ontario under the Wrap-Up Office to manage retained liabilities related to AECL's 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: act as an advisor to and agent of the Government of Canada in matters of public policy, produce medical isotopes, and manage legacy and historic wastes from the past development of nuclear technology in Canada.

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

AECL undertakes a series of Programs, identified below, that have been established to fulfil the Corporation's strategic outcome. These Programs are aligned with and support the Government of Canada's 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 2014-2015

2.3.1 Health, Safety, Security and Environment

- AECL's safety performance has demonstrated continued improvement through a steady decline in the total injury rate per month, including medical aid, first aid and lost time injuries. This has been attributed to strong management involvement and increased leadership presence in the field. Safety statistics are also regularly communicated to employees through a weekly summary report, offering leaders a key medium for transparent communication and engagement.

- This quarter, AECL also re-designated Controlled Area 1 (CA1) at its Chalk River Laboratories site to become a Supervised Area, resulting in the removal of the requirement for many staff to wear personal photo dosimeters in this area. Through this change, AECL experienced a significant decrease in the number of dosimeters that require monthly processing and realized an important productivity gain, all without compromising employee safety.

2.3.2 Programs

Nuclear Industry Capability

- AECL completed development of its Modal Detection and Repositioning (MODAR) tool, which uses vibration technology to detect and reposition annulus spacers, a critical component of CANDU reactor fuel channels used to maintain fuel channel integrity. The tooling system has now completed the last stage of its development and will be deployed in a Canadian utility in Q3.

- As part of the COG Joint Project on Fuel Channel Life Management, two significant tests were completed in AECL's shielded facilities. Testing of fuel channel spacers from a Canadian utility was successfully completed to demonstrate the integrity of the material. A rising pressure burst test was also completed on a section of a pressure tube removed from a Canadian reactor to characterize the material, which provides useful information to utilities concerning plant life and refurbishments. All of this work demonstrates the important role AECL plays in support of the nuclear power sector.

Nuclear Safety and Security

- AECL established a new Software Quality Assurance Framework that supports an expanded range of scientific software development activities. The new processes accommodate emerging needs for advanced simulation and computational tools that have less stringent requirements than safety analyses codes, while continuing to support compliance to CSA standards for existing safety analysis software. The processes are anticipated to reduce costs, and training and qualification requirements, while improving compliance and increasing efficiencies.

- AECL successfully completed a three-year research project carried out on behalf of the Organisation for Economic Co-operation and Development (OECD) and the Nuclear Energy Association (NEA) that studied post-accident iodine behavior for partners that represent 11 countries. The work performed by AECL is an important contribution to worldwide efforts to improve safety analysis codes to inform mitigation and response measures for severe accidents such as Fukushima. Looking forward, there is international support to continue research activities in this area through future collaborative work.

Clean, Safe Energy

- AECL organized and participated in a workshop with the Canadian Nuclear Safety Commission (CNSC), National Research Council (NRC), Department of Defence, and Defence Research Development Canada (DRDC) to examine issues and barriers confronting the deployment of small reactors in Canada. The workshop is an example of the type of discussions with government departments that will inform Canada's future science and technology program.

- AECL hosted an International Atomic Energy Agency (IAEA) Research Coordination Meeting in order to share surveillance data and create an international database on heavy water reactor pressure tubes for use in the development of improved predictive models for deformation. Significant contributions to the database have been made by Argentina, India, Korea and Romania, in addition to Canada, thanks to the cooperation of Canadian nuclear utilities, demonstrating a strong commitment to international collaboration and continuous improvement in nuclear technology.

- AECL held an information exchange workshop this quarter with university researchers participating in the Generation IV Energy Technologies Program, an important project that is co-funded by the Natural Sciences and Engineering Research Council of Canada (NSERC), Natural Resources Canada (NRCan) and AECL. The workshop provides university researchers and graduate students with linkages between their research work and practical applications to better support the development of the Canadian Supercritical-Water-Cooled Reactor (SCWR) concept.

- Finally, a first-of-a-kind economic analysis of the Canadian SCWR concept was successfully completed in Q2, illustrating the economic viability and competitiveness of Canada's SCWR concept. The analysis demonstrated that the SCWR concept is a cost-effective option with respect to upfront capital costs, and is comparable to the Advanced Boiling Water reactor – which has the lowest cost compared to other Generation-III reactors – with respect to life-time costs.

Health, Isotopes and Radiation

- AECL successfully completed the definition phase of its Fukushima Response Project, an initiative that was developed to enhance AECL's Severe Accident Management Program

(SAMP) and to implement robust measures to improve AECL's emergency preparedness capabilities. Now complete, the project has identified criteria that will be used to respond in the event of a beyond design basis accident at the Chalk River Laboratories. The Fukushima Response Project now enters the implementation phase, which will direct the completion of key improvements and commitments as part of the lessons learned from Fukushima.

- AECL also continued to support the Canadian and global health community this quarter through the provision of the important diagnostic isotope, molybdenum-99 (Mo-99). AECL has exceeded its Mo-99 orders this quarter, meeting 121 per cent of its originally planned Mo-99 orders, and isotope production revenue and margins have exceeded AECL's planning targets. Overall, this work helps to support the health and well-being of Canadians and the world, and the fight against cancer and heart disease.

Nuclear Environmental Stewardship

- This quarter, the Nuclear Legacy Liabilities Program (NLLP) completed all eight of its project milestones, and three others will be achieved ahead of schedule in the coming months. As part of this work, the decommissioning of AECL's Heavy Water Upgrading Plant is progressing on schedule and on budget, and has been carried out safely with no injuries. The completion of these activities will result in less environmental risk for the lands and facilities under AECL's care and will support the restructuring process.

- Also in Q2, the Port Granby Long Term Waste Management Facility contract was successfully tendered. As the next large contract for the Port Hope Area Initiative (PHAI), this milestone will lead to one of the first long-term waste management facilities for radioactive waste in Canada. CNL will now assume full accountability for the planning and delivery of PHAI on behalf of the Government of Canada, ensuring that the Government's commitment to risk reduction in Canada is realized.

Nuclear Innovation Networks

- In Q2, AECL held a meeting with Compute Canada executives to explore partnership opportunities. An agreement in principle was reached that will allow AECL to access Compute Canada's high performance computing resources and systems for its studies, while AECL will provide guidance in the interpretation of government provisions covering the protection of information systems. This partnership provides AECL with increased exposure within the research community and improved talent acquisition opportunities, an important objective within its value proposition. A Memorandum of Understand is being developed to further advance the relationship.

- Already this fiscal year, AECL has leveraged $108.4 million of work from 171 collaborations with external parties. This includes 34 new partnerships plus the on-going leveraging of COG programs this fiscal year. The value of leveraged collaborations is expected to continue to grow throughout the remainder of the year, and surpass the value of $108.4 million in collaborative work from the previous year. These collaborations align with AECL's science and technology priorities, which help to address items of national importance for the public good.

Mission-Ready Science & Technology Infrastructure

- AECL completed major improvements to increase the reliability of the supply of Class IV power supply at its Chalk River site. This extensive preventative maintenance and repair work included the first site-wide electrical outage at CRL, which was completed safely, without incident, and involved the efforts of the entire Chalk River team.

- An electrical safety audit was conducted this quarter that confirmed that the electrical safety program at the Chalk River Laboratories is compliant with provincial and federal standards. No significant non-compliances were identified by the audit team. The program demonstrates AECL's ongoing commitment to continuous improvement, safety and the mitigation of electrical safety risks across the company.

- AECL also realized important improvements in the operation of the NRU reactor this quarter. Progressive improvements were realized in the execution of NRU maintenance outages, including the amount of work performed and adherence to scheduling. AECL also made progress towards the improved availability of NRU resources. This quarter, two Senior Reactor Shift Engineers (SRSEs) were certified, seven new operators began shift assignments and 21 new operations specialists began working in the facility. This ensures the reactor is operated safely and compliantly in support of AECL programs.

Internal Services

- In support of the Government of Canada's plan to implement a Government-owned, Contractor-operated (GoCo) management model at the AECL Nuclear Laboratories, extensive work was carried out in Q2 by internal services organizations across AECL, including Human Resources, Finance, IT and Corporate Communications. This work involved the planning, execution and implementation of a company-wide project that will culminate in Q3 with the transition of AECL operations to a new wholly owned subsidiary, Canadian Nuclear Laboratories, and the realization of a key milestone in the Government's restructuring of AECL.

2.3.3 Commercial Operations (Discontinued Operations)

AECL's Wrap-Up Office continues to address outstanding obligations arising from its Commercial Operations (Discontinued Operations), including the commercial and legal work required to defend, assert and settle outstanding claims. The Wrap-Up Office also continues to manage its outstanding obligations related to the life extension projects through its subcontractor, Candu Energy Inc.

2.3.4 Financial

- AECL's Q2 financial position reflected a comprehensive loss of $226 million in Q2 2014-2015 compared to a $319 million comprehensive income in the same period of the previous year. Of the $545 million variance, $521 million relates to the quarterly revaluation of the decommissioning and waste management liability.

  As per AECL reporting standards, the decommissioning and waste management liability is re-valued quarterly on a discounted or net present value basis using the interest rate in effect at the end of the quarter. When the interest rate decreases, the liability increases. Conversely, when the interest rate increases, the liability decreases. In both cases, the change in liability impacts the Corporation'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 interest rate at September 30, 2014 was 0.11% lower than the June 30, 2014 rate while the interest rate at September 30, 2013 was 0.18% higher than the June 30, 2013 rate. As a result, AECL's reported liability increased by $228 million in the second quarter of 2014-2015 compared to a decrease in the liability of $293 million in Q2 2013-2014.

- The Government of Canada provided funding to allow AECL to move forward with its planned activities in accordance with its Corporate Plan. Several of the more significant funded initiatives during the quarter were:

  - $38 million to support ongoing Chalk River site operations and regulatory, health, safety and environmental needs; science and technology activities; and capital infrastructure renewal and the Isotope Supply Reliability Program initiatives.

  - $46 million for decommissioning and waste management activities.

  - $36 million to support the Wrap-Up Office and Commercial Operations (Discontinued Operations) in addressing retained liabilities, EC6 development and operating costs.

- The 2014-2015 year-to-date results are generally comparable to the planned results presented and approved in AECL's 2014-2015 Corporate Plan. As such, AECL is on track to meet its commitments, within budget, and the financial performance measures for the current fiscal year as outlined in its 2014-2015 Corporate Plan.

2.3.5 Outlook

- 2014-2015 major priorities and deliverables are described in AECL's 2013-2014 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 2014-2015.

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, 2014 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 Financial Review by Organization

2.5.1 Nuclear Laboratories

	Three Months Ended September 30,		Six Months Ended September 30,	
($ millions)	**2014**	2013	**2014**	2013
Revenue and Funding				
Revenue	**$ 53**	$ 24	**$ 83**	$ 46
Parliamentary appropriations	**23**	102	**101**	178
Cost recoveries from third parties and other	**5**	5	**10**	11
Decommissioning and waste management funding	**46**	51	**91**	93
Total revenue and funding	**$ 127**	$ 182	**$ 285**	$ 328
Gross margin	**$ 15**	$ 9	**$ 31**	$ 16
Operating expenses	**$ 81**	$ 80	**$ 159**	$ 169
Financial expenses	**$ 57**	$ 53	**$ 114**	$ 103
Net income (loss) before Revaluation (loss) gain on decommissioning and waste management provision and other	**$ (47)**	$ 36	**$ (37)**	$ 30

2.5.1.1 Revenue

In Q2 2014-2015, the Nuclear Laboratories generated $53 million in revenue related to its support for the nuclear industry capability, compared to $24 million in Q2 2013-2014. On a year-to-date basis, revenues increased to $83 million in 2014-2015 from $46 million in the first six months of 2013-2014. Revenue included isotope sales, commercial technology sales, nuclear waste management, and research and development activities performed for the CANDU Owners Group (COG). The reported improvement in the second quarter and year-to-date can be attributed primarily to the sale of heavy water, as well as increased work performed for COG and increased isotope sales.

2.5.1.2 Parliamentary Appropriations

Appropriations are applied to the Nuclear Laboratories programs that are aligned with federal science and technology priorities. The Corporation recognized $23 million of Parliamentary appropriations in the second quarter of 2014-2015, compared to Q2 2013-2014 of $102 million. On a year-to-date basis the Corporation recognized $101 million of Parliamentary appropriations. In the comparable period of the previous year, $178 million in Parliamentary appropriations was recognized. The second quarter and year-to-date variances are primarily related to improved net working capital requirements with increased commercial revenues and higher accounts payable, freeing additional cash and reducing appropriations that would otherwise be required to cover operating expenses.

2.5.1.3 Cost Recoveries from Third Parties and Other

Nuclear Laboratories manages historic low-level radioactive wastes through the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office on a cost recovery basis for Natural Resources Canada (NRCan). The activities help to ensure sound environmental stewardship for Canada and represent the majority of AECL's cost recoveries. NRCan provided $5 million in funding in Q2 2014-2015 and $10 million for the year-to-date period to support both program offices' initiatives. This level of funding is generally comparable to the same periods in the previous fiscal year.

2.5.1.4 Decommissioning and Waste Management Funding

Nuclear Laboratories received funding for the Nuclear Legacy Liabilities Program (NLLP), a Government of Canada funded initiative to address radioactive waste and decommissioning liabilities associated with AECL sites. Funding recognized during the second quarter of 2014-2015 was $46 million and $91 million on a year-to-date basis, which is generally comparable to the amounts received for the same periods in the previous fiscal year.

2.5.1.5 Gross Margin

Gross margin increased from $9 million in Q2 2013-2014 to $15 million in Q2 2014-2015. On a year-to-date basis, gross margin increased from $16 million to $31 million. This increase stems primarily from the increased revenues described above and a higher gross margin as percentage of revenue for products and services sold in this quarter and year-to-date compared to those sold in the same periods of the prior year.

2.5.1.6 Operating Expenses

Total operating expenses for the Nuclear Laboratories were $81 million in Q2 2014-2015 compared to $80 million in Q2 2013-2014. On a year-to-date basis, operating expenses decreased to $159 million from $169 million in 2013-2014. The year-to-date variance relates mostly to the inclusion of a greater portion of the site operating costs appropriately assigned to AECL's decommissioning liability as described in AECL's Annual Financial Report for the year ended March 31, 2014.

2.5.1.7 Financial Expenses

Financial expenses primarily include the increase in the net present value of the decommissioning and waste management provision (due to the passage of time). Financial expenses in Q2 2014-2015 of $57 million were greater than the $53 million reported in Q2 2013-2014. On a year-to-date basis, financial expenses were $114 million, compared to $103 million in 2013-2014. These variances are due to the higher Decommissioning and waste management provision recorded at 2014 March compared to 2013 March as described in AECL's Annual Financial Report for the year ended March 31, 2014.

2.5.1.8 Net (Loss) Income Before Revaluation (Loss) Gain on Decommissioning and Waste Management

Nuclear Laboratories reported a net loss before Revaluation (loss) gain on decommissioning and waste management of $47 million in the second quarter compared to a $36 million net income in Q2 2013-2014. On a year-to-date basis, a net loss before Revaluation (loss) gain on decommissioning and waste management of $37 million was reported compared to a net income of $30 million in 2013-2014. These variances result mainly from the decrease in parliamentary appropriations drawn in 2014-15 as described above.

2.5.2 Commercial Operations (Discontinued Operations)

($ millions)	Three Months Ended September 30, **2014**	2013	Six Months Ended September 30, **2014**	2013
Total revenue	**$ -**	$ (1)	**$ -**	$ 19
Parliamentary appropriations	**$ 36**	$ -	**$ 36**	$ -
Gross margin	**$ -**	$ (4)	**$ -**	$ 19
Operating expenses	**$ (2)**	$ 9	**$ (12)**	$ 21
Net income from discontinued operations	**$ 38**	$ (13)	**$ 48**	$ (3)

2.5.2.1 Revenue

Certain life extension projects retained by AECL as at the date of the sale of the Commercial Operations business to Candu Energy Inc continued to be wound down. There has been no revenue recorded during 2014-2015 due to this decrease in activity.

2.5.2.2 Parliamentary Appropriations

Parliamentary appropriations of $36 million recognized in 2014-2015 reflect funding received to close out life extension projects.

2.5.2.3 Gross Margin

Gross margin of $nil in 2014-2015 reflects the reduction in revenue recorded, as described above, and corresponding reduction in costs associated with the close out of the life extension projects.

2.5.2.4 Operating Expenses

Operating expenses recorded in 2014-2015 relate to adjustments of contract provisions with customers resulting from the close out of each of its life extension projects.

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

	Three Months Ended September 30,				Six Months Ended September 30,			
($ millions)		**2014**		2013		**2014**		2013
Cash from operating activities	**$**	**19**	$	33	**$**	**71**	$	59
Cash used in investing activities		**(16)**		(15)		**(33)**		(36)
Cash								
Increase		**3**		18		**38**		23
Balance at beginning of the period		**84**		41		**49**		36
Balance at end of the period	**$**	**87**	$	59	**$**	**87**	$	59

Overall, AECL's Q2 2014-2015 closing cash position increased to $87 million compared to the balance at the close of Q2 2013-2014 of $59 million.

2.6.1 Operating Activities

Operating activities generated a net cash inflow of $19 million in Q2 2014-2015 compared to $33 million in Q2 2013-2014. The second quarter variance is a result of decreased cash received from Parliamentary appropriations, partially offset by increased cash received from customers. On a year-to-date basis, operating activities resulted in a net cash inflow of $71 million compared to $59 million in the same period the previous year. The year-to-date variance is a result of increased cash received from customers and decreased cash paid to suppliers, partially offset by decreased cash received from Parliamentary appropriations.

2.6.2 Investing Activities

Investing activities used cash of $16 million in Q2 2014-2015 which is comparable to the $15 million used in Q2 2013-2014. On a year-to-date basis, investing activities used cash of $33 million which is comparable to the $36 million used in the same period the previous year.

2.7 Highlights of the Consolidated Balance Sheet

($ millions)	**September 30, 2014**	March 31, 2014	Variance In $	Variance By %
Assets	**$ 1,011**	$ 1,062	$ (51)	-5%
Liabilities	**9,063**	8,555	508	6%
Shareholder's deficit	**8,052**	7,493	559	7%

AECL closed Q2 2014-2015 with Assets of $1,011 million, which represents a $51 million decrease in Assets from March 31, 2014. This variance is mainly the result of the adjustment to reflect the settlement of retained liabilities associated with life extension projects.

The increase in Liabilities of $508 million can be attributed primarily to the change in the Decommissioning and waste management provision of $580 million, which mainly resulted from the decrease in the interest rate used to estimate the reported liability, partially offset by the above mentioned adjustment to reflect the legal settlement.

2.8 Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2013-2014 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 2013-2014 Annual Financial Report have not materially changed in the first six months of 2014-2015.

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 & Chief Executive Officer
November 28, 2014
Chalk River, Canada

Steven Halpenny
Chief Financial Officer
November 28, 2014
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(thousands of Canadian dollars)	Notes		**September 30, 2014**		March 31, 2014
Assets					
Current					
Cash		**$**	**87,158**	$	49,179
Trade and other receivables	10		**89,315**		188,713
Current portion of long-term receivables			**30,148**		23,886
Inventory			**24,702**		25,835
			231,323		287,613
Long-term receivables			**84,639**		80,913
Investments held in trust			**44,613**		44,116
Heavy water inventory			**281,547**		304,910
Property, plant and equipment	4		**357,995**		335,789
Intangible assets			**10,683**		8,892
		$	**1,010,800**	$	1,062,233
Liabilities					
Current					
Trade and other payables	7,10	**$**	**111,564**	$	108,010
Customer advances and obligations	10		**17,795**		13,690
Provisions	5,10		**36,392**		151,873
Current portion of decommissioning and waste management provision	6		**207,500**		214,500
Restructuring provision	10		**3,332**		3,472
			376,583		491,545
Decommissioning and waste management provision	6		**8,121,862**		7,535,142
Deferred capital funding	8		**328,176**		302,997
Deferred decommissioning and waste management funding			**208,260**		196,009
Employee benefits	7		**28,006**		29,058
			9,062,887		8,554,751
Shareholder's deficit					
Share capital			**15,000**		15,000
Contributed capital			**221,579**		235,628
Deficit			**(8,288,666)**		(7,743,146)
			(8,052,087)		(7,492,518)
		$	**1,010,800**	$	1,062,233

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

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

(thousands of Canadian dollars)	Notes	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Six Months Ended September 30, 2014	Six Months Ended September 30, 2013
Nuclear Laboratories					
Revenue		**$ 52,851**	$ 24,198	**$ 83,280**	$ 45,881
Cost of sales		**37,937**	15,630	**52,726**	30,000
Gross margin		**14,914**	8,568	**30,554**	15,881
Funding	8	**50,749**	56,914	**100,943**	104,568
Operating expenses		**81,093**	80,088	**159,072**	169,351
Operating loss		**(15,430)**	(14,606)	**(27,575)**	(48,902)
Financial income	9	**1,725**	1,867	**3,304**	3,750
Financial expenses	9	**56,600**	53,024	**113,654**	102,837
Net loss before Parliamentary appropriations and Revaluation (loss) gain on decommissioning and waste management provision and other		**$ (70,305)**	$ (65,763)	**$ (137,925)**	$ (147,989)
Parliamentary appropriations	8	**23,494**	101,570	**100,966**	177,668
Net (loss) income before Revaluation (loss) gain on decommissioning and waste management provision and other		**$ (46,811)**	$ 35,807	**$ (36,959)**	$ 29,679
Revaluation (loss) gain on decommissioning and waste management provision and other	6	**(217,208)**	296,516	**(556,928)**	1,008,739
Net (loss) income from continuing operations before discontinued operations		**$ (264,019)**	$ 332,323	**$ (593,887)**	$ 1,038,418
Discontinued Operations (Note 10)					
Operating income (loss) from discontinued operations	10	**1,710**	(13,253)	**12,267**	(2,685)
Income (loss) from discontinued operations before Parliamentary appropriations		**1,710**	(13,253)	**12,267**	(2,685)
Parliamentary appropriations for discontinued operations	8	**36,100**	-	**36,100**	-
Net income (loss) from discontinued operations		**$ 37,810**	$ (13,253)	**$ 48,367**	$ (2,685)
Net (loss) income		**$ (226,209)**	$ 319,070	**$ (545,520)**	$ 1,035,733
Other comprehensive income (loss)					
Items that will not be reclassified to profit and loss:					
Other employee benefit plan actuarial gain (loss)		**-**	-	**-**	-
Other comprehensive income (loss)		**-**	-	**-**	-
Total comprehensive (loss) income		**$ (226,209)**	$ 319,070	**$ (545,520)**	$ 1,035,733

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

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

(thousands of Canadian dollars)

For the three months ended September 30, 2014

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at June 30, 2014	**$ 15,000**	**$ 228,724**	**$ (8,062,457)**	**$ (7,818,733)**
Net loss attributable to Shareholder for the period	-	-	(226,209)	(226,209)
Transfer to deferred decommissioning and waste management funding	-	(6,320)	-	(6,320)
Transfer to repayable contributions	-	(825)	-	(825)
Balance at September 30, 2014	**$ 15,000**	**$ 221,579**	**$ (8,288,666)**	**$ (8,052,087)**

For the three months ended September 30, 2013

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at June 30, 2013	**$ 15,000**	**$ 257,299**	**$ (7,218,311)**	**$ (6,946,012)**
Net income attributable to Shareholder for the period	-	-	319,070	319,070
Transfer to deferred decommissioning and waste management funding	-	(6,320)	-	(6,320)
Transfer to repayable contributions	-	(1,118)	-	(1,118)
Balance at September 30, 2013	**$ 15,000**	**$ 249,861**	**$ (6,899,241)**	**$ (6,634,380)**

For the six months ended September 30, 2014

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2014	**$ 15,000**	**$ 235,628**	**$ (7,743,146)**	**$ (7,492,518)**
Net loss attributable to Shareholder for the period	-	-	(545,520)	(545,520)
Transfer to deferred decommissioning and waste management funding	-	(12,251)	-	(12,251)
Transfer to repayable contributions	-	(1,798)	-	(1,798)
Balance at September 30, 2014	**$ 15,000**	**$ 221,579**	**$ (8,288,666)**	**$ (8,052,087)**

For the six months ended September 30, 2013

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2013	**$ 15,000**	**$ 264,071**	**$ (7,934,974)**	**$ (7,655,903)**
Net income attributable to Shareholder for the period	-	-	1,035,733	1,035,733
Transfer to deferred decommissioning and waste management funding	-	(12,250)	-	(12,250)
Transfer to repayable contributions	-	(1,960)	-	(1,960)
Balance at September 30, 2013	**$ 15,000**	**$ 249,861**	**$ (6,899,241)**	**$ (6,634,380)**

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

Interim Condensed Consolidated Cash Flow Statements
(Unaudited)

(thousands of Canadian dollars)	Three Months Ended September 30, **2014**	2013	Six Months Ended September 30, **2014**	2013
Operating activities				
Cash receipts from customers	**$ 128,290**	$ 30,345	**$ 188,601**	$ 98,592
Cash receipts from Parliamentary appropriations	**74,243**	118,143	**162,243**	203,143
Cash receipts for decommissioning and waste management activities	**37,758**	36,973	**83,031**	96,992
Cash paid to suppliers and employees	**(175,856)**	(101,024)	**(271,248)**	(246,524)
Cash paid for decommissioning activities	**(45,812)**	(51,598)	**(91,439)**	(93,484)
Interest received on investments (net)	**140**	124	**266**	226
Interest and bank charges paid	**(7)**	(10)	**(17)**	(21)
Cash from operating activities	**18,756**	32,953	**71,437**	58,924
Thereof from discontinued operations	**20,168**	17,790	**25,732**	6,502
Investing activities				
Acquisition of property, plant and equipment and intangible assets	**(15,311)**	(15,442)	**(33,458)**	(35,517)
Cash used in investing activities	**(15,311)**	(15,442)	**(33,458)**	(35,517)
Thereof from discontinued operations	**-**	-	**-**	-
Cash:				
Increase	**3,445**	17,511	**37,979**	23,407
Balance at beginning of the period	**83,713**	41,357	**49,179**	35,461
Balance at end of the period	**$ 87,158**	$ 58,868	**$ 87,158**	$ 58,868

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, 2014

(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 unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on November 13, 2014.

2. Restructuring and Corporate Plan

The Government of Canada completed the first phase of its restructuring plan for AECL in 2011-2012 with the sale of the Corporation's Commercial Operations business to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. The restructuring of AECL has resulted in the presentation of its 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 restructuring initiative is focusing on the long-term mandate, governance and management structure of the Nuclear Laboratories. Natural Resources Canada, in collaboration with Public

Works and Government Services Canada (PWGSC), is leading the restructuring on behalf of the Minister of Natural Resources.

In February 2013, the Government of Canada announced its intention to contract with the private sector for the management of AECL based on a Government owned, Contractor operated model, known as a GoCo. Under this model, activities at the Nuclear Laboratories will be focused on managing Canada's radioactive waste and decommissioning responsibilities, performing science and technology activities to meet federal core obligations and supporting Canada's nuclear industry through access to world-class facilities and expertise on a commercial basis

In March 2014, a Request for Response Evaluation (RFRE) was issued to invite interested bidders to pre-qualify for the procurement process based on a set of financial, technical and security requirements. This pre-qualification process will ensure that interested bidders that advance in the procurement process have the necessary skills and experience to manage facilities as complex as those of the AECL Nuclear Laboratories. Interested bidders who qualify through the RFRE process and meet mandatory national security requirements will be able to submit a bid as part of the Request for Proposal (RFP) stage.

In May 2014, a Certificate of Incorporation was issued under the Canada Business Corporation Act for the incorporation of the Site Operating Company, Canadian Nuclear Laboratories Limited, which will function initially as an AECL subsidiary before share transfer.

AECL's 2014-2015 Corporate Plan received Governor in Council approval in the first quarter of the 2014-2015 fiscal year. The Corporate Plan is aligned with the restructuring direction provided by the Shareholder and these unaudited interim condensed consolidated financial statements have been prepared without making any assumptions as to the final outcomes of the second phase of the restructuring. As such, they do not contemplate any changes to AECL's existing activities.

3. Basis of Preparation

a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34. As permitted under IAS 34, these unaudited 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, 2014.

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

These 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 Corporation's financial statements from the date that control commences until the date that control ceases.

These unaudited interim condensed consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, Canadian Nuclear Laboratories Limited, incorporated in Canada in 2014; AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; AECL Technologies B.V., incorporated in the Netherlands in 1995; and its interest in AECL's Nuclear Fuel Waste Act Trust Fund, a structured entity (as defined in Note 4(a) of the Corporation's audited annual consolidated financial statements for its fiscal period ended March 31, 2014). 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 audited annual consolidated financial statements for the year ended March 31, 2014.

e) Significant Accounting Policies

Significant accounting policies applied in these unaudited interim condensed consolidated financial statements are disclosed in Note 4 of the Corporation’s audited annual consolidated financial statements for the year ended March 31, 2014. The accounting policies have been applied consistently to the current and comparative quarters with the exception of certain reclassifications as disclosed in Note 12.

4. Property, Plant and Equipment

(thousands of Canadian dollars)	**September 30, 2014**	March 31, 2014
Balance - Beginning of period	**$ 335,789**	$ 286,371
Additions and transfers	**33,796**	102,498
Disposals and transfers	**(3,439)**	(29,968)
Other changes	**1,049**	(2,342)
Depreciation	**(9,200)**	(18,082)
Impairment	**-**	(2,688)
Balance - End of period	**$ 357,995**	$ 335,789

5. Provisions

(thousands of Canadian dollars)	**September 30, 2014**	March 31, 2014
Contract loss	**$ 6,775**	$ 15,595
Other provisions	**29,617**	136,278
	$ 36,392	$ 151,873

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)	**September 30, 2014**	March 31, 2014
Carrying amount - Beginning of period	**$ 7,535,142**	$ 7,765,040
Carrying amount - Beginning of period, current portion	**214,500**	205,000
Liabilities settled	**(97,466)**	(212,908)
Unwinding of discount	**113,654**	210,151
Effect of change in discount rate	**556,219**	(829,768)
Revision in estimate and timing of expenditures	**2,256**	600,812
Revision in estimate and timing of expenditures affecting Property, plant and equipment	**-**	(2,342)
Waste, decommissioning and site restoration costs from ongoing operations	**5,058**	13,657
Carrying amount - End of period	**8,329,362**	7,749,642
Less current portion	**(207,500)**	(214,500)
	$ 8,121,862	$ 7,535,142

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

The provision as at September 30, 2014 was discounted using a rate of 2.67%. The opening balance as at March 31, 2014 was discounted using a rate of 2.96%.

The effect of a change in the interest rate on the provision is recognized in Revaluation (loss) gain on decommissioning and waste management provision and other in the unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss). The total charge, relating to the interest rate change, for the second quarter was $218,117 (Q2 2013-2014: $296,531 gain) and for the year-to-date was $556,219 (year-to-date 2013-2014: $1,011,526 gain).

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:

(thousands of Canadian dollars)	Three Months Ended September 30, **2014**	2013	Six Months Ended September 30, **2014**	2013
Payments by employees	**$ 5,161**	$ 4,977	**$ 10,635**	$ 9,899
Payments by employer	**$ 7,711**	$ 8,785	**$ 16,150**	$ 17,134

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(m) of the annual audited consolidated financial statements dated March 31, 2014. 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 $32.3 million (March 31, 2014: $33.4 million) of which $28.0 million (March 31, 2014: $29.1 million) is recorded as Employee benefits under long-term liabilities and $4.3 million (March 31, 2014: $4.3 million) is recorded as Trade and other payables.

The VTC included in the reported Employee benefits liability is $15.8 million (March 31, 2014: $15.8 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. An estimate of the amounts expected to be paid in 2014-2015 is based on the Corporation's most recent actuarial valuation and is included in Trade and other payables.

The Corporation's total expense for employee benefits was $0.9 million for this quarter (Q2 2013-2014: $1.2 million). On a year-to-date basis, the total expense for employee benefits was $2.3 million (year-to-date 2013-2014: $2.5 million).

8. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations, which include Statutory Funding, to ensure funds are spent in a manner consistent with the basis for which they were approved. Approved Main Estimates include amounts for Facilities and Nuclear Operations and Research and Development. Approved Supplementary Estimates are in support of the operation and maintenance of the Chalk River Laboratories and are used as an augmentation to the Main Estimates. 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, 2014, Parliamentary appropriations were received and recognized as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
(thousands of Canadian dollars)	**2014**	2013	**2014**	2013
Parliamentary appropriations - Nuclear Laboratories, operating				
Nuclear Laboratories, operating	**$ 19,724**	$ 98,218	**$ 93,527**	$ 170,977
Amortization of deferred capital funding	**3,770**	3,352	**7,439**	6,691
Parliamentary appropriations - Nuclear Laboratories, operating	**23,494**	101,570	**100,966**	177,668
Parliamentary appropriations - Discontinued Operations, operating	**36,100**	-	**36,100**	-
Parliamentary appropriations - capital				
Capital infrastructure refurbishment	**18,419**	19,925	**32,616**	32,166
Total Parliamentary appropriations	**$ 78,013**	$ 121,495	**$ 169,682**	$ 209,834

In Q2 2014-2015, the Corporation received $74 million and recognized a sum of $78 million (Q2 2013-2014: $118 million received and $121 million recognized). On a year-to-date basis the Corporation received $162 million and recognized $170 million in Parliamentary appropriations (year-to-date 2013-2014: $203 million received and $210 million recognized).

The differences between received and recognized Parliamentary appropriations relate to the recording of Amortization of deferred capital funding. Capital funding is received as funds are required but is recognized simultaneously with the depreciation of the related asset in AECL's Interim Condensed Consolidated Statements of Comprehensive Income (Loss).

There were no Parliamentary appropriations receivable as at September 30, 2014.

b) Other Funding

Other funding was recognized as follows:

(thousands of Canadian dollars)	**Three Months Ended September 30, 2014**	Three Months Ended September 30, 2013	**Six Months Ended September 30, 2014**	Six Months Ended September 30, 2013
Operating funding				
Cost recoveries from third parties and other	**$ 5,132**	$ 5,496	**$ 9,553**	$ 11,315
Decommissioning and waste management	**45,617**	51,418	**91,390**	93,253
	$ 50,749	$ 56,914	**$ 100,943**	$ 104,568

c) Deferred Capital Funding

Deferred capital funding arises from Government appropriations used by the Corporation for capital investments. The reported balances are derived as follows:

(thousands of Canadian dollars)	**September 30, 2014**
Deferred capital funding	
Deferred capital funding as at March 31, 2014	**$ 302,997**
Capital funding received during the period	**32,616**
Amortization of Deferred capital funding	**(7,439)**
Other changes	**2**
Deferred capital funding as at June 30, 2014	**$ 328,176**

(thousands of Canadian dollars)	March 31, 2014
Deferred capital funding	
Deferred capital funding as at March 31, 2013	$ 238,860
Capital funding received	77,784
Amortization of Deferred capital funding	(13,647)
Deferred capital funding as at March 31, 2014	$ 302,997

9. Financial Income and Expenses

(thousands of Canadian dollars)	Three Months Ended September 30, **2014**	2013	Six Months Ended September 30, **2014**	2013
Financial income				
Interest on long-term receivables	**$ 1,585**	$ 1,743	**$ 3,038**	$ 3,524
Interest on investments and other	**140**	124	**266**	226
	$ 1,725	$ 1,867	**$ 3,304**	$ 3,750
Financial expenses				
Unwinding of discount on decommissioning and waste management provision net of trust fund income	**$ 56,600**	$ 53,024	**$ 113,654**	$ 102,837

10. Discontinued Operations

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

The sale involved certain AECL-owned assets to Candu Energy Inc. and an exchange of undertakings among the three parties (AECL, SNC-Lavalin and the Government of Canada). 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. All proceeds from the sale of the assets were remitted to the Receiver General of Canada.

A Restructuring provision was recorded for $36.5 million, of which $33.2 million has been paid as of September 30, 2014 (March 31, 2014: $33.0 million) and $3.3 million remained to complete the process (March 31, 2014: $3.5 million).

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

Results of Discontinued Operations

(thousands of Canadian dollars)	Three Months Ended September 30, **2014**	2013	Six Months Ended September 30, **2014**	2013
Revenue	**$ (1)**	$ (1,241)	**$ 2**	$ 19,422
Cost of sales	**(4)**	2,586	**9**	771
Gross margin	**3**	(3,827)	**(7)**	18,651
Operating expenses	**(1,707)**	9,426	**(12,274)**	21,336
Operating income from discontinued operations	**$ 1,710**	$ (13,253)	**$ 12,267**	$ (2,685)

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

(thousands of Canadian dollars)	**September 30, 2014**	March 31, 2014
Assets		
Trade and other receivables	**$ 28,723**	$ 121,848
Liabilities		
Trade and other payables	**$ 5,182**	$ 11,365
Customer advances and obligations	**11,116**	11,301
Provisions	**34,542**	150,023
Restructuring provision	**3,332**	3,472

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, 2014, $73 million (Q2 2013-2014: $66 million) of this amount had been expensed and $73 million (Q2 2013-2014: $58 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

In the second quarter of the 2013-2014 fiscal year, the Corporation voluntarily changed its accounting policy relating to the disclosure of Parliamentary appropriations in its Interim Condensed Consolidated Statements of Comprehensive Income (Loss) in accordance with IAS 8. As a result, the Q2 2013-2014 Parliamentary appropriations recognized in income of $98 million (year-to-date 2013-2014: $171 million) have been allocated and disclosed separately in the Nuclear Laboratories and Discontinued Operations sections of the Interim

Condensed Consolidated Statements of Comprehensive Income (Loss). This change in policy has been made in order to better reflect the use of the funds received.

The Corporation has also reclassified the Amortization of deferred capital funding to conform to the financial statement presentation adopted in the 2013-2014 fiscal year. In the Q2 2013-2014 comparative figures, the $3 million (year-to-date 2013-2014: $7 million) of Amortization of deferred capital funding, has been reclassified from Funding to Parliamentary appropriations in the Nuclear Laboratories section of the Interim Consolidated Statements of Comprehensive Income (Loss) in order to better reflect the nature of this item.

The Corporation has reclassified certain figures in the Nuclear Laboratories section of the Interim Condensed Consolidated Statements of Comprehensive Income (Loss) in accordance with IAS 1. In this instance the Corporation has grouped the Funding (Q2 2013-2014: $51 million, year-to-date 2013-2014: $93 million) and Financial expenses (Q2 2013-2014: $53 million, year-to-date 2013-2014: $103 million) related to Decommissioning and waste management with those disclosed under Nuclear Laboratories. These reclassifications have been made to provide a clearer presentation of the Corporation's operational results. For both Funding and Financial expenses, the details of these grouped amounts remain available in Notes 8 and 9 of AECL's interim condensed consolidated financial statements, respectively.

Additionally, in Q2 2013-2014 the Corporation has reclassified costs relating to royalties earned amounting to $1.0 million (year-to-date 2013-2014: $2.1 million) from Operating expenses to Cost of Sales to conform to the consolidated financial statement presentation adopted in the 2013-2014 fiscal year. In Q2 2013-2014 the Corporation also reclassified $3.5 million between Revenue and Cost of Sales to conform to the consolidated financial statement presentation adopted in the 2013-2014 fiscal year. These reclassifications will better reflect the nature of these expenses.

(thousands of Canadian dollars)	Three Months Ended September 30 2013	adjustments		**2013 Restated**	Six Months Ended September 30 2013	adjustments		**2013 Restated**
Revenue	$ 20,753	$ 3,445	[1]	**$ 24,198**	$ 42,436	$ 3,445	[1]	**$ 45,881**
Cost of sales	11,183	4,447	[1, 2]	**15,630**	24,420	5,580	[1, 2]	**30,000**
Gross margin	$ 9,570	$ (1,002)		**$ 8,568**	$ 18,016	$ (2,135)		**$ 15,881**
Funding - Nuclear Laboratories								
Cost recoveries from third parties and other	$ 5,496	$ 51,418	[3]	**$ 56,914**	$ 11,315	$ 93,253	[3]	**$ 104,568**
Amortization of deferred capital funding	3,352	(3,352)	[4]	-	6,691	(6,691)	[4]	-
Funding - Nuclear Laboratories	8,848	$ 48,066		**56,914**	18,006	$ 86,562		**104,568**
Funding - Decommissioning and Waste Management	51,418	(51,418)	[3]	-	93,253	(93,253)	[3]	-
Total Funding	$ 60,266	$ (3,352)		**$ 56,914**	$ 111,259	$ (6,691)		**$ 104,568**
Operating Expenses	$ 81,090	$ (1,002)	[2]	**$ 80,088**	$ 171,486	$ (2,135)	[2]	**$ 169,351**
Financial Expenses - Nuclear Laboratories	$ -	$ 53,024	[5]	**$ 53,024**	$ -	$ 102,837	[5]	**$ 102,837**
Financial Expenses - Decommissioning and Waste Management	53,024	(53,024)	[5]	-	102,837	(102,837)	[5]	-
Total Financial Expenses	$ 53,024	$ -		**$ 53,024**	$ 102,837	$ -		**$ 102,837**
Parliamentary appropriations	$ 98,218	$ (98,218)	[6]	**$ -**	$ 170,977	$ (170,977)	[6]	**$ -**
Parliamentary appropriations - Nuclear Laboratories								
Amortization of deferred capital funding	-	3,352	[4]	**3,352**	-	6,691	[4]	**6,691**
Parliamentary appropriations - Nuclear Laboratories	-	98,218	[6]	**98,218**	-	170,977	[6]	**170,977**
Parliamentary appropriations - Nuclear Laboratories	98,218	3,352		**101,570**	170,977	6,691		**177,668**
Parliamentary appropriations - Discontinued Operations	-	-	[6]	-	-	-	[6]	-
Total Parliamentary appropriations	$ 98,218	$ 3,352		**$ 101,570**	$ 170,977	$ 6,691		**$ 177,668**
Net Income from continuing operations	$ 332,323	$ -		**$ 332,323**	$ 1,038,418	$ -		**$ 1,038,418**
Net Income from Discontinued Operations	(13,253)	-		**(13,253)**	(2,685)	-		**(2,685)**
Other comprehensive income (loss)	-	-		**-**	-	-		**-**
Total Comprehensive Income (Loss)	$ 716,663	$ -		**$ 319,070**	$ 716,663	$ -		**$ 1,035,733**

(1) Reclassification from Revenue to Cost of Sales
(2) Reclassification from Operating expenses to Cost of sales
(3) Reclassification from Decommissioning and Waste Management Funding to Funding
(4) Reclassification from Funding to Parliamentary appropriations
(5) Reclassification from Decommissioning and Waste Management Financial Expenses to Financial Expenses
(6) Allocation of Parliamentary appropriations to Nuclear Laboratories and Discontinued Operations

Atomic Energy of
Canada Limited
Chalk River Laboratories
Chalk River, Ontario
Canada   K0J1J0
Tel: 613.584.3311

Inquiries
Public requests for information
Toll free: 1-866-513-AECL (2325)
Email: Communications@aecl.ca

Visit Our Website
www.aecl.ca

ISSN: 1927-2227
CW-502400-REPT-018 Rev.0

Canada