ATOMIC ENERGY OF CANADA LIMITED

Third Quarter Financial Report

Interim Condensed Consolidated Financial Statements (Unaudited)

As at and for the three and nine months ended December 31, 2014 and December 31, 2013

Table of Contents

1 MESSAGE FROM THE PRESIDENT 3

2 MANAGEMENT'S NARRATIVE DISCUSSION 5

2.1 INTRODUCTION 5
2.2 OUR BUSINESS 5
2.3 HIGHLIGHTS OF THIRD QUARTER 2014-2015 7
2.3.1 Health, Safety, Security and Environment 7
2.3.2 Programs 7
2.3.3 Commercial Operations (Discontinued Operations) 10
2.3.4 Financial 10
2.3.5 Outlook 11
2.4 FORWARD-LOOKING STATEMENTS 11
2.5 FINANCIAL REVIEW BY ORGANIZATION 12
2.5.1 Nuclear Laboratories 12
2.5.2 Commercial Operations (Discontinued Operations) 14
2.6 CONSOLIDATED CASH FLOW AND WORKING CAPITAL 15
2.6.1 Operating Activities 15
2.6.2 Investing Activities 15
2.7 HIGHLIGHTS OF THE CONSOLIDATED BALANCE SHEET 16
2.8 MANAGEMENT OF RISKS AND UNCERTAINTIES 16

3 MANAGEMENT'S RESPONSIBILITY 17

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 18

1 MESSAGE FROM THE PRESIDENT

The launch this quarter of Canadian Nuclear Laboratories (CNL) as a wholly owned subsidiary of AECL marks a new beginning in the history of Canada's premier nuclear science and technology organization. It also represents a new era of nuclear science and technology here in Canada.

Over the years, AECL has repeatedly transformed itself to meet the needs of Canadians and our customers around the world. The creation of CNL is another chapter in this remarkable history. With a renewed focus on key national priorities, the Government of Canada's significant capital investment in our infrastructure, and a careful transition towards private sector management and practices, we will continue to confront the complex challenges that Canada faces through the development of cutting-edge nuclear science and technology.

This milestone would not have been possible without the vision, direction and commitment of our Shareholder and largest customer, the Government of Canada. Recognizing the expertise and unique facilities at AECL, the Government is restructuring AECL to put in place the conditions for Canada's entire nuclear industry to succeed, while reducing cost and risk for Canadian taxpayers over time. The establishment of CNL, operating under a Government-owned, Contractor-operated (GoCo) management model, will be the culmination of this vision.

With the launch of the subsidiary complete, CNL is now focused on three mandates: managing Canada's radioactive waste and decommissioning responsibilities; ensuring that Canada's world-class nuclear science and technology capabilities and knowledge continue to support the federal government in its nuclear roles and responsibilities; and providing access to industry, on a commercial basis, to address its need for in-depth nuclear science and technology expertise.

In turn, AECL is preparing for its new oversight role of the GoCo contract, expected to come into effect in the fall of 2015.

This has clearly been an undertaking of enormous scope. It involved extensive work carried out by internal services organizations across the company, including Human Resources, Finance, Legal, IT and Corporate Affairs. The organization worked throughout Q3 to ensure the transition to CNL was successful, as we continued to meet our customer deliverables and commitments, including our support for the broader nuclear industry.

Among other activities this quarter, CNL commenced irradiation testing of a specialty alloy for annulus spacers in Q3, a critical component used in CANDU reactors to ensure the integrity of the fuel channels. CNL also performed the latest in a series of destructive tests as part of its Fuel Channel Life Management project. The results of these tests support important utility decisions concerning reactor refurbishment and operations.

CNL continued to promote its nuclear services and capabilities to other industries in Q3. We organized and participated in a business development webinar to promote our material sciences capabilities to the auto sector. Hosted by the Auto Parts Manufacturing Association, the webinar included a number of automotive companies from Canada, the United States and Italy, demonstrating the interest in CNL services from non-nuclear organizations.

We also participated in an international nuclear forensics exercise that was organized by the International Technical Working Group on Nuclear Forensics. As the lead organization for the network of four Canadian federal laboratories, CNL coordinated the Canadian response to a series of questions based on the interpretation of analysis results. The exercise was a clear demonstration of the strength – and the importance – of laboratory interoperability in Canada.

CNL once again hosted the International Technical Meeting on Small Reactors in Ottawa. The third meeting welcomed over 100 participants from around the world to exchange information and ideas on small nuclear reactor technology. This technical meeting helps fulfill CNL objectives within its Clean, Safe Energy Program, which seeks to develop technologies that make a beneficial impact on Canada's use of clean energy.

Looking externally, CNL issued its Call for Proposals for collaborations with third-parties that support its science and technology priorities. In total, 25 proposals were received as part of this initiative, which brings together university researchers, private companies and government laboratories to advance nuclear science. Through these and other collaboration initiatives, AECL is supporting the development of highly qualified people and private sector innovation.

Finally, we continue to invest in infrastructure improvements through our major capital projects. In Q3, our prime contractor accelerated construction of our new world-class laboratory complex, we entered the final commissioning phase of our new Hydrogen Isotopes Technology Laboratory, and reached a final agreement to supply natural gas to our Chalk River site. These capital investments help to extend and enhance our capabilities at an important time in our history.

It's clear that CNL's initial quarter of work was both busy and successful. It's also a sign of things to come.

As we turn our attention to the future, CNL will leverage its past success as a Crown corporation with a proud history of cutting-edge nuclear science and technology that spans over six decades. We have a promising new era before us, and I'm confident that CNL will build on AECL's rich history and continue to apply nuclear science and technology to the benefit of Canadians for many more decades to come.

Robert Walker
President & Chief Executive Officer, AECL

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 third quarter and for the first nine 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 Second Quarter Financial Report for the three and six-month periods ended September 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 February 13, 2015.

2.2 Our Business

AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources Canada. AECL is headquartered in Chalk River, Ontario. In 2014 November, AECL transferred its primary operations to its wholly owned subsidiary, Canadian Nuclear Laboratories (CNL). CNL employs approximately 3,400 employees at 12 sites across Canada, most of which are located at its Chalk River Laboratories site. AECL now employs 27 people as of December 31, 2014. This includes a small complement of staff in Oakville, Ontario within its Wrap-Up Office, which manages retained liabilities related to AECL's Commercial Operations business as at the date of its sale in October 2011.

AECL is currently undergoing restructuring that will see the implementation of a Government-owned, Contractor-operated (GoCo) management model for CNL. A procurement process is underway that will culminate in AECL entering into an agreement with a private sector contractor to manage the operations of CNL. As part of the contract, the shares in CNL will be transferred to the contractor. Thereafter, AECL will be primarily responsible for the oversight of the contract for the management of CNL.

CNL operations focus on three missions:

- Managing Canada's radioactive waste and decommissioning responsibilities accumulated during the more than 60 years of nuclear research and development at the Chalk River and Whiteshell Laboratories.

- Ensuring that Canada's world-class nuclear science and technology capabilities and knowledge continue to support the federal government in its nuclear roles and responsibilities — from health protection and public safety to security and environmental protection.

- Providing access to industry, on a commercial basis, to address its need for in-depth nuclear science and technology expertise.

CNL'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.

CNL is responsible for achieving the business goals established by AECL. The company 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. CNL also generates revenue through the provision of nuclear science and technology services.

CNL 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 Third Quarter 2014-2015

2.3.1 Health, Safety, Security and Environment

- CNL's Lost Time Injury rate decreased 35 per cent in Q3 compared to the same period in 2013. This decline can be attributed to additional oversight, enhanced engagement by line management and improvements to CNL's Return to Work program and practices. CNL also realized a significant reduction in its Lost Time Severity rate, with a 45 per cent improvement in lost days this fiscal year to date when compared to the previous year.

- CNL developed and implemented a Restructuring Transition Wellness Plan designed to support employees through its transition to the GoCo management model. The program focuses on leadership training and education, the promotion of CNL's health and wellness programs, and ongoing initiatives that included wellness fairs, information sessions and community wellness partnerships.

- In Q3, CNL engaged a new disability management service provider through a competitive procurement process. The new provider offers CNL employees a wide range of resources to facilitate a healthy return to work, and streamlines and strengthens administration processes within the program. The implementation of the program is scheduled for March 2015.

- CNL continues to dedicate resources to the improvement of its safety and security programs and practices. CNL held its Safety Summit for managers this quarter, its annual meeting for managers and union leaders to review and assess the company's progress on its journey to excellence in all matters of safety. CNL also continued to strengthen its Safety Advisory Board (SAB) through the addition of new members. SAB provides high-level oversight and advice to CNL leadership to ensure compliance with industry best practices in areas of Health, Safety, Security and the Environment (HSSE).

2.3.2 Programs

Nuclear Industry Capability

- CNL has commenced irradiation testing of a specialty alloy used for annulus spacers, a critical component used in CANDU reactors to ensure the integrity of the fuel channels. The irradiation testing is being carried out in CNL's NRU reactor and is important to assess the performance of the material. Once complete, the results will inform utility decisions concerning the use of the alloy in reactor refurbishments.

- CNL also performed the latest in a series of destructive tests as part of its Fuel Channel Life Management project on behalf of the CANDU Owners Group (COG). The testing was performed on a fuel channel pressure tube and fuel channel spacers that were removed from an operating reactor. The results will help to improve the understanding of fuel channel performance near end-of-life conditions, providing utilities with important information concerning extended operation and refurbishment.

Nuclear Safety and Security

- The Canadian National Nuclear Forensics Network completed an international nuclear forensics exercise. As the lead organization for the network of four Canadian federal laboratories, CNL coordinated the Canadian response to a series of questions based on the interpretation of analysis results. The exercise was a clear demonstration of the strength of laboratory interoperability in Canada, and results from individual laboratories will form the basis of an inter-comparison benchmark within Canada's national laboratory network.

- The first beta version of the next generation of thermalhydraulics code was released for external user testing by CNL. This computer code is used to analyze various operating conditions for Nuclear Power Plant systems, and was developed with a modern program architecture, advanced numerical schemes and high-resolution mathematical modeling capability. The release represents important progress towards the development of independent tools for use by Canada's nuclear regulator, the CNSC.

Clean, Safe Energy

- CNL participated in an interdepartmental working group with participants from departments and agencies across the federal government. The event was held to inform CNL activities to ensure its nuclear science and technology programs and projects align with national priorities. Overall, the workshop provided CNL with important insight into Government of Canada needs and priorities, which is now being used to guide CNL project planning for the 2015-2016 fiscal year.

- Also this quarter, CNL hosted the Third International Technical Meeting on Small Reactors in Ottawa. The meeting welcomed over 100 participants from around the world and provided attendees with the opportunity to exchange information and ideas on small nuclear reactor technology. This technical meeting helps fulfill CNL objectives within its Clean, Safe Energy Program, which seeks to develop energy technologies that make a beneficial impact on Canada's use of clean energy.

Health, Isotopes and Radiation

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

- Also this quarter, CNL published its annual Radiobiology, Radioecology and Dosimetry report. This report is the third in a series of CNL publications that provides extended abstracts describing the work carried out at the Chalk River Laboratories alongside national and international partners in the linked fields of radiobiology, radioecology and radiation dosimetry. The report also offers detailed information on the numerous CNL facilities and capabilities available to scientists and technologists at its Chalk River site.

Nuclear Environmental Stewardship

- In Q3, important progress was made in the transition of governance for the Port Hope Area Initiative (PHAI) project to CNL. These milestones included approval of the PHAI Governance Transition Plan, and the development of transition requirements for individual responsibilities from Public Works & Government Services Canada's (PWGSC) scope of work to CNL. All of this work aligns with the Government of Canada's restructuring plan for AECL, which will culminate with the implementation of a GoCo management model at CNL. In addition, the Port Granby Waste Water Treatment Plant, a PWGSC contract, achieved substantial completion in late Q3, which enables the subsequent transfer of the facility to CNL for long term operation.

Nuclear Innovation Networks

- CNL participated in a business development webinar to promote its material sciences capabilities. Hosted by the Auto Parts Manufacturing Association and featuring panelists from auto suppliers Nemak and General Motors, the webinar included a number of automotive companies from Canada, the United States and Italy, demonstrating the potential for CNL's nuclear science and technology services and capabilities in other industries.

- Also this quarter, CNL issued its external Call for Proposals for collaborations with third-parties that support its science and technology (S&T) priorities. In total, 25 proposals were received as part of this initiative, which brings together university researchers, private companies and government laboratories to advance nuclear S&T. Through these and other collaboration initiatives, AECL is supporting the development of highly qualified people and private sector innovation.

Mission-Ready Science & Technology Infrastructure

- CNL realized improvements to the planning and execution of its monthly maintenance outages for the NRU reactor. During Q3, CNL's performance demonstrated an increasing trend in the number of maintenance activities completed, which has a direct and beneficial impact on CNL's S&T programs. These maintenance activities ensure that the NRU reactor is safe and readily available to CNL and its partner organizations to enable nuclear research and development.

- Also this quarter, CNL significantly increased its experimental and isotope production capabilities with the successful installation of a second Multi-Capsule Rod, a second Fast

Neutron Rod and a twelfth Cobalt Wafer rod into the NRU reactor. The completion of these installations paves the way for new isotope opportunities and increased revenue generation through new and existing supply agreements.

- CNL continues to invest in infrastructure improvements through its major capital projects. This quarter, CNL's contractor accelerated construction of its new world-class laboratory complex, we entered the final commissioning phase of its new state-of-the-art Hydrogen Laboratory, and we reached a final agreement to supply natural gas to CNL's Chalk River site. These capital investments help to extend and enhance CNL's capabilities as Canada's premiere nuclear science and technology organization to the benefit of Canadians and the nuclear industry.

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, CNL was successfully launched as a wholly-owned subsidiary of AECL. This accomplishment was a major milestone in the restructuring process and was the culmination of extensive work carried out by internal services organizations across the organization, including Human Resources, Finance, Legal, IT and Corporate Communications.

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 Q3 financial position reflected a comprehensive loss of $729 million in Q3 2014-2015 compared to a $280 million comprehensive income in the same period of the previous year. Of the $1,009 million variance, $1,014 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 December 31, 2014 was 0.34% lower than the September 30, 2014 rate while the interest rate at December 31, 2013 was 0.17% higher than the September 30, 2013 rate. As a result, AECL's reported liability increased by $747 million in the third quarter of 2014-2015 compared to a decrease in the liability of $267 million in Q3 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:

    - $101 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.

    - $42 million for decommissioning and waste management activities.

- 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 nine 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 December 31, 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

($ millions)	Three Months Ended December 31, **2014**	2013	Nine Months Ended December 31, **2014**	2013
Revenue and Funding				
Revenue	**$ 26**	$ 33	**$ 109**	$ 79
Parliamentary appropriations	**80**	56	**181**	234
Cost recoveries from third parties and other	**5**	6	**15**	17
Decommissioning and waste management funding	**42**	41	**133**	135
Total revenue and funding	**$ 153**	$ 136	**$ 438**	$ 465
Gross margin	**$ 11**	$ 16	**$ 42**	$ 32
Operating expenses	**$ 81**	$ 88	**$ 240**	$ 257
Financial expenses	**$ 54**	$ 53	**$ 168**	$ 156
Net income (loss) before Revaluation (loss) gain on decommissioning and waste management provision and other	**$ 5**	$ (20)	**$ (32)**	$ 10

2.5.1.1 Revenue

In Q3 2014-2015, the Nuclear Laboratories generated $26 million in revenue related to its support for the nuclear industry capability, compared to $33 million in Q3 2013-2014. On a year-to-date basis, revenues increased to $109 million in 2014-2015 from $79 million in the first nine 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 year-to-date can be attributed primarily to the increased isotope and heavy water sales, as well as increased work performed for COG.

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 $80 million of Parliamentary appropriations in the third quarter of 2014-2015, compared to Q3 2013-2014 of $56 million. On a year-to-date basis, the Corporation recognized $181 million of Parliamentary appropriations. In the comparable period of the previous year, $234 million in Parliamentary appropriations was recognized. The third quarter variance is primarily related to net working capital requirements with a decrease in accounts payable requiring additional cash. The year-to-date variance relates to increased commercial revenues and higher receipts from customers, providing additional cash and reducing government 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 CNL's cost recoveries. NRCan provided $5 million in funding in Q3 2014-2015 and $15 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 third quarter of 2014-2015 was $42 million and $133 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 decreased from $16 million in Q3 2013-2014 to $11 million in Q3 2014-2015. On a year-to-date basis, gross margin increased from $32 million to $42 million. As a percentage of sales, the gross margin results for the third quarter and year-to-date are generally comparable to the results for the same periods in the previous fiscal year.

2.5.1.6 Operating Expenses

Total operating expenses for the Nuclear Laboratories were $81 million in Q3 2014-2015 compared to $88 million in Q3 2013-2014. On a year-to-date basis, operating expenses decreased to $240 million from $257 million in 2013-2014. The third quarter and year-to-date variances relate 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. Financial expenses in Q3 2014-2015 of $54 million were comparable to the $53 million reported in Q3 2013-2014. On a year-to-date basis, financial expenses were $168 million, compared to $156 million in 2013-2014. This variance is 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 income before Revaluation (loss) gain on decommissioning and waste management of $5 million in the third quarter compared to a $20 million net loss in Q3 2013-2014. On a year-to-date basis, a net loss before Revaluation (loss) gain on decommissioning and waste management of $32 million was reported compared to a net income of $10 million in 2013-2014. These variances result mainly from the changes in parliamentary appropriations drawn in 2014-15 as described above.

2.5.2 Commercial Operations (Discontinued Operations)

	Three Months Ended December 31,		Nine Months Ended December 31,	
($ millions)	**2014**	2013	**2014**	2013
Total revenue	**$ -**	$ 13	**$ -**	$ 32
Parliamentary appropriations	**$ -**	$ 34	**$ 36**	$ 34
Gross margin	**$ -**	$ (3)	**$ -**	$ 16
Operating expenses	**$ -**	$ 10	**$ (13)**	$ 31
Net income from discontinued operations	**$ -**	$ 21	**$ 49**	$ 18

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 December 31,		Nine Months Ended December 31,	
($ millions)	**2014**	2013	**2014**	2013
Cash from operating activities	**$ 29**	$ 28	**$ 100**	$ 87
Cash used in investing activities	**(22)**	(20)	**(55)**	(56)
Cash				
Increase	**7**	8	**45**	31
Balance at beginning of the period	**87**	59	**49**	36
Balance at end of the period	**$ 94**	$ 67	**$ 94**	$ 67

Overall, AECL's Q3 2014-2015 closing cash position increased to $94 million compared to the balance at the close of Q3 2013-2014 of $67 million.

2.6.1 Operating Activities

Operating activities generated a net cash inflow of $29 million in Q3 2014-2015 which is comparable to the $28 million in Q3 2013-2014. On a year-to-date basis, operating activities resulted in a net cash inflow of $100 million compared to $87 million in the same period the previous year. The year-to-date variance is a result of increased cash received from customers, partially offset by increased cash paid to suppliers and decreased cash received from Parliamentary appropriations.

2.6.2 Investing Activities

Investing activities used cash of $22 million in Q3 2014-2015 which is comparable to the $20 million used in Q3 2013-2014. On a year-to-date basis, investing activities used cash of $55 million which is comparable to the $56 million used in the same period the previous year.

2.7 Highlights of the Consolidated Balance Sheet

($ millions)	**December 31, 2014**	March 31, 2014	Variance In $	Variance By %
Assets	**$ 1,011**	$ 1,062	$ (51)	-5%
Liabilities	**9,799**	8,555	1,244	15%
Shareholder's deficit	**8,788**	7,493	1,295	17%

AECL closed Q3 2014-2015 with Assets of $1,011 million, which represents a $51 million decrease 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 $1,244 million can be attributed primarily to the change in the Decommissioning and waste management provision of $1,326 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 nine 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
February 27, 2015
Chalk River, Canada

Steven Halpenny
Chief Financial Officer
February 27, 2015
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(thousands of Canadian dollars)	Notes	**December 31, 2014**	March 31, 2014
Assets			
Current			
Cash		**$ 94,079**	$ 49,179
Trade and other receivables	10	**69,271**	188,713
Current portion of long-term receivables		**30,523**	23,886
Inventory		**24,723**	25,835
		218,596	287,613
Long-term receivables		**77,011**	80,913
Investments held in trust		**45,289**	44,116
Heavy water inventory		**281,013**	304,910
Property, plant and equipment	4	**377,349**	335,789
Intangible assets		**12,004**	8,892
		$ 1,011,262	$ 1,062,233
Liabilities			
Current			
Trade and other payables	7,10	**$ 91,420**	$ 108,010
Customer advances and obligations	10	**16,174**	13,690
Provisions	5,10	**21,306**	151,873
Current portion of decommissioning and waste management provision	6	**216,100**	214,500
Restructuring provision	10	**3,240**	3,472
		348,240	491,545
Decommissioning and waste management provision	6	**8,860,076**	7,535,142
Deferred capital funding	8	**348,543**	302,997
Deferred decommissioning and waste management funding		**214,190**	196,009
Employee benefits	7	**28,356**	29,058
		9,799,405	8,554,751
Shareholder's deficit			
Share capital		**15,000**	15,000
Contributed capital		**214,852**	235,628
Deficit		**(9,017,995)**	(7,743,146)
		(8,788,143)	(7,492,518)
		$ 1,011,262	$ 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 December 31, 2014	Three Months Ended December 31, 2013	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Nuclear Laboratories					
Revenue		**$ 26,184**	$ 33,468	**$ 109,464**	$ 79,349
Cost of sales		**15,199**	17,835	**67,925**	47,835
Gross margin		**10,985**	15,633	**41,539**	31,514
Funding	8	**47,055**	47,020	**147,998**	151,588
Operating expenses		**81,114**	87,627	**240,186**	256,978
Operating loss		**(23,074)**	(24,974)	**(50,649)**	(73,876)
Financial income	9	**1,600**	1,726	**4,904**	5,476
Financial expenses	9	**54,425**	53,189	**168,079**	156,026
Net loss before Parliamentary appropriations and Revaluation (loss) gain on decommissioning and waste management provision and other		**$ (75,899)**	$ (76,437)	**$ (213,824)**	$ (224,426)
Parliamentary appropriations	8	**80,433**	56,462	**181,399**	234,130
Net income (loss) before Revaluation (loss) gain on decommissioning and waste management provision and other		**$ 4,534**	$ (19,975)	**$ (32,425)**	$ 9,704
Revaluation (loss) gain on decommissioning and waste management provision and other	6	**(734,319)**	279,227	**(1,291,247)**	1,287,966
Net (loss) income from continuing operations before discontinued operations		**$ (729,785)**	$ 259,252	**$ (1,323,672)**	$ 1,297,670
Discontinued Operations (Note 10)					
Operating income (loss) from discontinued operations	10	**456**	(13,111)	**12,723**	(15,796)
Income (loss) from discontinued operations before Parliamentary appropriations		**456**	(13,111)	**12,723**	(15,796)
Parliamentary appropriations for discontinued operations	8	**-**	33,700	**36,100**	33,700
Net income (loss) from discontinued operations		**$ 456**	$ 20,589	**$ 48,823**	$ 17,904
Net (loss) income		**$ (729,329)**	$ 279,841	**$ (1,274,849)**	$ 1,315,574
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		**$ (729,329)**	$ 279,841	**$ (1,274,849)**	$ 1,315,574

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 December 31, 2014

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2014	**$ 15,000**	**$ 221,579**	**$ (8,288,666)**	**$ (8,052,087)**
Net loss attributable to Shareholder for the period	-	-	(729,329)	(729,329)
Transfer to deferred decommissioning and waste management funding	-	(5,930)	-	(5,930)
Transfer to repayable contributions	-	(797)	-	(797)
Balance at December 31, 2014	**$ 15,000**	**$ 214,852**	**$ (9,017,995)**	**$ (8,788,143)**

For the three months ended December 31, 2013

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2013	**$ 15,000**	**$ 249,861**	**$ (6,899,241)**	**$ (6,634,380)**
Net income attributable to Shareholder for the period	-	-	279,841	279,841
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(1,050)	-	(1,050)
Balance at December 31, 2013	**$ 15,000**	**$ 242,880**	**$ (6,619,400)**	**$ (6,361,520)**

For the nine months ended December 31, 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	-	-	(1,274,849)	(1,274,849)
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(2,595)	-	(2,595)
Balance at December 31, 2014	**$ 15,000**	**$ 214,852**	**$ (9,017,995)**	**$ (8,788,143)**

For the nine months ended December 31, 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	-	-	1,315,574	1,315,574
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(3,010)	-	(3,010)
Balance at December 31, 2013	**$ 15,000**	**$ 242,880**	**$ (6,619,400)**	**$ (6,361,520)**

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 December 31, 2014	2013	Nine Months Ended December 31, 2014	2013
Operating activities				
Cash receipts from customers	**$ 55,214**	$ 46,818	**$ 243,815**	$ 145,410
Cash receipts from Parliamentary appropriations	**100,800**	105,700	**263,043**	308,843
Cash receipts for decommissioning and waste management activities	**49,219**	43,612	**132,250**	140,604
Cash paid to suppliers and employees	**(134,335)**	(126,801)	**(405,583)**	(373,325)
Cash paid for decommissioning activities	**(42,047)**	(41,251)	**(133,486)**	(134,735)
Interest received on investments (net)	**157**	107	**423**	333
Interest and bank charges paid	**(11)**	(9)	**(28)**	(30)
Cash from operating activities	**28,997**	28,176	**100,434**	87,100
Thereof from discontinued operations	**(17,512)**	18,075	**8,220**	11,573
Investing activities				
Acquisition of property, plant and equipment and intangible assets	**(22,076)**	(20,242)	**(55,534)**	(55,759)
Cash used in investing activities	**(22,076)**	(20,242)	**(55,534)**	(55,759)
Thereof from discontinued operations	**-**	-	**-**	-
Cash:				
Increase	**6,921**	7,934	**44,900**	31,341
Balance at beginning of the period	**87,158**	58,868	**49,179**	35,461
Balance at end of the period	**$ 94,079**	$ 66,802	**$ 94,079**	$ 66,802

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 nine month periods ended December 31, 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 its wholly owned subsidiary, the Canadian 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 February 13, 2015.

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 Canadian Nuclear Laboratories Limited, a wholly owned subsidiary of AECL.

In November 2014, Canadian Nuclear Laboratories was launched and assumed full responsibility for all day-to-day operations of AECL sites. The transfer of the CNL shares to the contractor is anticipated to take place in the fall of 2015.

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)	**December 31, 2014**	March 31, 2014
Balance - Beginning of period	**$ 335,789**	$ 286,371
Additions and transfers	**61,402**	102,498
Disposals and transfers	**(8,090)**	(29,968)
Other changes	**2,436**	(2,342)
Depreciation	**(14,188)**	(18,082)
Impairment	**-**	(2,688)
Balance - End of period	**$ 377,349**	$ 335,789

5. Provisions

(thousands of Canadian dollars)	**December 31, 2014**	March 31, 2014
Contract loss	**$ 5,071**	$ 15,595
Other provisions	**16,235**	136,278
	$ 21,306	$ 151,873

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)	**December 31, 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	**(143,679)**	(212,908)
Unwinding of discount	**169,252**	210,151
Effect of change in discount rate	**1,291,428**	(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	**7,277**	13,657
Carrying amount - End of period	**9,076,176**	7,749,642
Less current portion	**(216,100)**	(214,500)
	$ 8,860,076	$ 7,535,142

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

The undiscounted future expenditures for the plan projects comprising the liability are $10,554.3 million (March 31, 2014 $10,695.6 million) in current dollars.

The provision as at December 31, 2014 was discounted using a rate of 2.33%. 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 third quarter was $735,209 (Q3 2013-2014: $275,915 gain) and for the year-to-date was $1,291,428 (year-to-date 2013-2014: $1,287,441 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:

		Three Months Ended			Nine Months Ended	
		December 31,			December 31,	
(thousands of Canadian dollars)		**2014**	2013		**2014**	2013
Payments by employees	**$**	**6,580**	$ 6,231	**$**	**17,214**	$ 16,130
Payments by employer	**$**	**9,782**	$ 10,469	**$**	**25,932**	$ 27,602

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 $32.7 million (March 31, 2014: $33.4 million) of which $28.4 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 $0.4 million for this quarter (Q3 2013-2014: $0.5 million). On a year-to-date basis, the total expense for employee benefits was $2.7 million (year-to-date 2013-2014: $3.0 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 nine months ended December 31, 2014, Parliamentary appropriations were received and recognized as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(thousands of Canadian dollars)	**2014**	2013	**2014**	2013
Parliamentary appropriations - Nuclear Laboratories, operating				
Nuclear Laboratories, operating	**$ 76,509**	$ 53,192	**$ 170,036**	$ 224,169
Amortization of deferred capital funding	**3,924**	3,270	**11,363**	9,961
Parliamentary appropriations - Nuclear Laboratories, operating	**80,433**	56,462	**181,399**	234,130
Parliamentary appropriations - Discontinued Operations, operating	**-**	33,700	**36,100**	33,700
Parliamentary appropriations - capital				
Capital infrastructure refurbishment	**24,291**	18,808	**56,907**	50,974
Total Parliamentary appropriations	**$ 104,724**	$ 108,970	**$ 274,406**	$ 318,804

In Q3 2014-2015, the Corporation received $101 million and recognized a sum of $105 million (Q3 2013-2014: $106 million received and $109 million recognized). On a year-to-date basis the Corporation received $263 million and recognized $274 million in Parliamentary appropriations (year-to-date 2013-2014: $309 million received and $319 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 December 31, 2014.

b) Other Funding

Other funding was recognized as follows:

(thousands of Canadian dollars)	Three Months Ended December 31, **2014**	2013	Nine Months Ended December 31, **2014**	2013
Operating funding				
Cost recoveries from third parties and other	**$ 5,008**	$ 5,614	**$ 14,561**	$ 16,929
Decommissioning and waste management	**42,047**	41,406	**133,437**	134,659
	$ 47,055	$ 47,020	**$ 147,998**	$ 151,588

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)	**December 31, 2014**
Deferred capital funding	
Deferred capital funding as at March 31, 2014	**$ 302,997**
Capital funding received during the period	**56,907**
Amortization of Deferred capital funding	**(11,363)**
Other changes	**2**
Deferred capital funding as at December 31, 2014	**$ 348,543**

(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 December 31, 2014	2013	Nine Months Ended December 31, 2014	2013
Financial income				
Interest on long-term receivables	**$ 1,443**	$ 1,619	**$ 4,481**	$ 5,143
Interest on investments and other	**157**	107	**423**	333
	$ 1,600	$ 1,726	**$ 4,904**	$ 5,476
Financial expenses				
Unwinding of discount on decommissioning and waste management provision net of trust fund income	**$ 54,425**	$ 53,189	**$ 168,079**	$ 156,026

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 $33.3 million has been paid as of December 31, 2014 (March 31, 2014: $33.0 million) and $3.2 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 December 31, **2014**	2013	Nine Months Ended December 31, **2014**	2013
Revenue	**$ -**	$ 12,896	**$ 2**	$ 32,318
Cost of sales	**(87)**	15,873	**(78)**	16,644
Gross margin	**87**	(2,977)	**80**	15,674
Operating expenses	**(369)**	10,134	**(12,643)**	31,470
Operating income from discontinued operations	**$ 456**	$ (13,111)	**$ 12,723**	$ (15,796)

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)	**December 31, 2014**	March 31, 2014
Assets		
Trade and other receivables	**$ 19,643**	$ 121,848
Liabilities		
Trade and other payables	**$ 2,512**	$ 11,365
Customer advances and obligations	**11,157**	11,301
Provisions	**19,456**	150,023
Restructuring provision	**3,240**	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 December 31, 2014, $74 million (Q3 2013-2014: $72 million) of this amount had been expensed and $74 million (Q3 2013-2014: $68 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 Q3 2013-2014 the Corporation has reclassified costs relating to royalties earned amounting to $1.2 million (year-to-date 2013-2014: $3.3 million) from Operating expenses to Cost of Sales to conform to the consolidated financial statement presentation adopted in the 2013-2014 fiscal year. In Q3 2013-2014 the Corporation also reclassified $2.8 million (year-to-date 2013-2014: $6.2 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.

	Three Months Ended December 31			Nine Months Ended December 31		
(thousands of Canadian dollars)	2013	adjustments	**2013 Restated**	2013	adjustments	**2013 Restated**
Revenue	$ 30,709	$ 2,759 (1)	**$ 33,468**	$ 73,145	$ 6,204 (1)	**$ 79,349**
Cost of sales	13,868	3,967 (1, 2)	**17,835**	38,288	9,547 (1, 2)	**47,835**
Gross margin	$ 16,841	$ (1,208)	**$ 15,633**	$ 34,857	$ (3,343)	**$ 31,514**
Operating Expenses	$ 88,835	$ (1,208) (2)	**$ 87,627**	$ 260,321	$ (3,343) (2)	**$ 256,978**
Net Income from continuing operations	$ 259,252	$ -	**$ 259,252**	$ 1,297,670	$ -	**$ 1,297,670**
Net Income from Discontinued Operations	20,589	-	**20,589**	17,904	-	**17,904**
Other comprehensive income (loss)	-	-	**-**	-	-	**-**
Total Comprehensive Income (Loss)	$ 279,841	$ -	**$ 279,841**	$ 1,315,574	$ -	**$ 1,315,574**

(1) Reclassification from Revenue to Cost of Sales
(2) Reclassification from Operating expenses to Cost of sales

13. Subsequent Event

On February 6, 2015 the Government of Canada announced its decision to support the operation of the NRU reactor until March 2018, subject to relicensing. Previously, Management had assumed that the NRU would be operational until 2021. The assumed timing of the shutdown of the NRU has a significant impact on the decommissioning and waste management liability, as the presence of an operating reactor is a key assumption underlying the attribution of indirect site operating and support costs included in the liability estimate. The change in the assumed shutdown date to March 31, 2018 increases the attribution of indirect costs to decommissioning activities, resulting in an increase to the reported liability of $35 million, the impact of which has not been reflected in AECL's unaudited interim condensed consolidated financial statements.

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-019 Rev.0