AECL
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ATOMIC ENERGY OF CANADA LIMITED

First Quarter Financial Report

Interim Condensed Consolidated Financial Statements (Unaudited)

As at and for the three months ended June 30, 2015 and June 30, 2014

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1 MESSAGE FROM THE CHIEF TRANSITION OFFICER

With the Government of Canada's announcement in Q1 that Canadian National Energy Alliance (CNEA) had been selected as the preferred bidder to manage and operate CNL under a Government-owned, Contractor-operated (GoCo) model, we are nearing the end of the restructuring of AECL and the beginning of a new paradigm for how AECL will fulfil its mandate, which remains to provide government and industry access to world-class science and technology, and to fulfil Canada's waste and decommissioning obligations.

CNEA has extensive international experience in site management, operations, decommissioning and waste management, and is composed of some of the world's most experienced nuclear engineering and management firms, including CH2M, Fluor, EnergySolutions, SNC-Lavalin and Rolls-Royce. This announcement sets in motion the final steps of the restructuring process, which will bring private-sector rigour and efficiency to the operation of CNL, while reducing risk and costs for Canadian taxpayers. The transfer of CNL ownership to CNEA is anticipated in summer 2015, and AECL is prepared to assume its new oversight role.

I would like to recognize the tremendous efforts of employees in realizing the monumental challenge of creating CNL, repositioning AECL as an oversight organization, and working with government to support the restructuring process, all while continuing to deliver on customer commitments.

Among other achievements this quarter, CNL successfully deployed its Modal Detection and Repositioning (MODAR) tool at a Canadian utility; developed a promising new catalyst that has nuclear and non-nuclear applications; and safely executed the initial retrievals of historic fuel from its waste management areas in support of the HEU Repatriation Project as part of the Global Threat Reduction Initiative - a broad international effort that aligns with Canada's international non-proliferation commitments. These are but some examples of the safe and productive work that continues even while we prepare to move forward under a GoCo model.

Finally, I'm pleased to report that CNL experienced zero Lost Time Injuries (LTI) in Q1, which represents over 2.3 million hours without an LTI, and affirms our ongoing focus on safety.

With new clarity on the futures of AECL and CNL, we are able to look forward and plan to leverage the new management model to make the most of the vast experience, expertise and know-how that is CNL and AECL. I would like conclude by expressing my deepest thanks to employees across AECL and CNL for their tremendous efforts in supporting the restructuring while safely and effectively delivering AECL and CNL business, and I look forward to the exciting possibilities that are on the horizon.

Jon Lundy
Chief Transition 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 first quarter of 2015-2016 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the 2014-2015 AECL Annual Financial Report for the year ended March 31, 2015.

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

Management's Narrative Discussion was authorized for issue by the Board of Directors on August 20, 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 over 3,500 employees at 12 sites across Canada, with most employees located at its Chalk River Laboratories. As of June 30, 2015, AECL employs 39 people including 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. In 2015 June, the Government of Canada announced that it had selected Canadian National Energy Alliance (CNEA) as the preferred bidder to manage and operate CNL. The procurement process underway will culminate in AECL entering into an agreement with CNEA to manage the operations of CNL. As part of the contract, the shares in CNL will be transferred to CNEA. Thereafter, AECL will be primarily responsible for the oversight of the GoCo contract.

CNL operations focus on three mandates, carried out on behalf of AECL:

- managing Canada's radioactive waste and decommissioning responsibilities;
- providing world-class nuclear science and technology capabilities and knowledge to support the federal government in its nuclear roles and responsibilities — from health protection and public safety to security and environmental protection; and
- providing access to industry, on a commercial basis, to 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.

The work of CNL is aligned with and supports 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. CNL structures its operations as follows:

Decommissioning & Waste Management	To safely and efficiently reduce the Government of Canada's radioactive liabilities, including associated risks to health, safety, security and the environment, at AECL and other Government of Canada sites through innovative solutions to infrastructure decommissioning, site remediation and waste management.
Science & Technology	To carry out operations necessary to sustain, develop, apply and build S&T capabilities in a cost-effective manner. This includes the provision of technical services and research and development products in support of: (i) Canada's federal roles, responsibilities and priorities; (ii) commercial services for third parties, and (iii) the other activities of CNL.
Capital	To meet the Government's commitment to site renewal by modernizing CNL infrastructure and enhancing its capabilities to provide safe and world-class nuclear science and technology.

2.3 First Quarter Highlights of 2015-2016

2.3.1 Health, Safety, Security and Environment

- CNL experienced zero Lost Time Injuries (LTI) in Q1, which represents over 2.3 million hours without an LTI. This progress was achieved through earlier interventions and timelier follow up with employees post-incident to provide transitional modified duties, as well as the provision of occupational nursing services to facilitate the Return-to-Work process.

- A site-wide evacuation exercise was successfully completed at the Chalk River Laboratories. Held every five years as a regulatory requirement, the large-scale exercise simulated an on-site emergency and included participation from departments across the company. The evacuation was completed safely, without incident, and provided important learning opportunities to ensure the continuous improvement of safety procedures and practices.

- Finally, CNL continues to help its employees manage this period of transition as the restructuring process nears completion. This quarter, multiple wellness workshops were held across CNL sites to offer staff personal support and professional guidance with respect to change management. CNL's wellness program helps to ensure employees work in a positive and professional environment in which everyone is treated with dignity and respect.

2.3.2 Missions

Decommissioning & Waste Management

- CNL safely executed the initial retrievals of historic fuel from its waste management areas in support of the HEU Repatriation Project. The project is part of the Global Threat Reduction Initiative, a broad international effort to consolidate HEU inventories in fewer locations around the world. The completion of this work aligns with Canada's international commitments concerning nuclear non-proliferation and provides a solution to permanently disposition these materials.

- In accordance with the Port Hope Area Initiative (PHAI) Governance Transition Plan, the PHAI Management Office has successfully transitioned 75% of major contracting authorities from Public Works and Government Services Canada (PWGSC) to CNL. Recommendations have also been received by CNL from PWGSC to award three new major contracts worth over $100 million that will advance key projects within the program. These accomplishments represent key milestones in the PHAI, which is fulfilling the Government of Canada's commitment for the clean-up and long-term, safe management of historic low-level radioactive waste in the municipalities of Port Hope and Clarington.

- Also in Q1, the remedial options assessment final report for the Great Bear River sites was successfully completed and submitted to Natural Resources Canada (NRCan). The completion of this work supports the development of a comprehensive and strategic plan for the cleanup of remaining uranium-ore impacted sites along the Northern Transportation Route, which is a federal responsibility. This work is being carried out through CNL's Low-Level Radioactive Waste Management Office (LLRWMO), which is coordinating the cleanup and long-term management of low-level radioactive waste on behalf of the Government of Canada.

- Finally, work plans for the demolition and remediation of CNL's Active Liquid Waste Treatment Centre and its Decontamination Centre at the Whiteshell Laboratories site were submitted to CNL's Safety Review Committee.

Science & Technology

- CNL successfully deployed its Modal Detection and Repositioning (MODAR) tool in a Canadian CANDU power plant. MODAR is a first-of-a-kind system that uses vibration technology to detect and reposition annulus spacers a critical component of CANDU reactor fuel channels used to maintain fuel channel integrity. The introduction of this innovative tool to the Canadian nuclear industry supports the safe operation of CANDU stations and provides utilities with a new capability to improve plant life management.

- CNL is leading the Canadian National Nuclear Forensics Capability Project, a three-year project sponsored by Defence Research and Development Canada's Centre for Security Science. Recent achievements include the development of guidelines for the network of nuclear forensics laboratories, the completion of a capability gap assessment, progress in the development of a prototype national nuclear forensics library, and participation in several national and international inter-comparison studies and exercises. The work is being carried out alongside multiple federal partners to ensure the security of nuclear materials.

- CNL demonstrated the performance of a promising new catalyst formulation for hydrogen-oxygen recombination that can be used for nuclear and non-nuclear applications, including chemical synthesis, hydrogen production, and the mitigation of hazards in hydrogen distribution systems.

- Working with L'Institut de Radioprotection et de Sûreté Nucléaire (IRSN) in France, CNL recently completed studies in its Biological Research Facility concerning the relative toxicity of doses from tritium. Results indicate that tritium ingested as water (HTO) produces fewer effects compared to organically bound tritium (OBT) for the same tissue radiation dose. These findings challenge current methods of dosimetry and risk estimation based on tissue dose alone, and represent important scientific progress in the understanding of toxicity for these isotopes.

- CNL successfully completed its annual planned extended NRU maintenance outage on schedule and without incident. With over 1,000 activities performed this year, the annual outage enables CNL to complete many large, complex maintenance and improvement activities, as well as in-vessel inspections. This outage and ongoing facility upgrades have resulted in significant performance improvements in reactor operations, including 96 per cent reliability in the operation of NRU in the first quarter of 2015-2016. Overall, this work ensures that NRU is readily available for internal and external customers, and is operated safely and compliantly in support of CNL's science and technology programs.

- CNL participated in a trade mission to the Republic of Korea on behalf of Canada's nuclear sector to foster greater exports and collaboration. Arranged by the Organization of Canadian Nuclear Industries (OCI), in partnership with the Government of Ontario, the trade mission delegation included 18 leading Canadian nuclear suppliers and industry partners. CNL President and CEO, Dr. Robert Walker, led bilateral discussions with executives of the Korea Atomic Energy Research Institute (KAERI) concerning collaboration opportunities in support of the CANDU Owners Group (COG). Overall, the trade mission was an important opportunity for CNL to renew and deepen its ties with a strong nuclear partner and to explore business development opportunities.

Capital

- Construction activities have been accelerated for CNL's new laboratory complex. Scheduled for completion in 2017, the laboratory will offer CNL employees and its partners a state-of-the-art collaborative and inter-disciplinary facility to conduct cutting-edge nuclear research and innovation. Once completed, the world-class facility will extend and enhance CNL's capabilities as Canada's premiere nuclear science and technology organization to the benefit of Canadians and the nuclear industry.

- CNL continues to execute an ambitious capital program to revitalize the infrastructure at its Chalk River Laboratories site. This quarter included: completion of a new parking lot; installation of new chlorinators and commissioning new equipment in the powerhouse; construction activities for the repair and replacement of underground firewater piping; and advanced refurbishment and maintenance preparations for a new transformer in one of its buildings. These investments in CNL's site infrastructure ensure the safe and reliable availability of its science and technology infrastructure, while assuring the health and safety of employees, the community and environment.

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 first quarter financial position reflected comprehensive income of $727 million compared to a $319 million comprehensive loss in the same period of the previous year. Of the $1,046 million variance, $1,114 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 June 30, 2015 was 0.32% higher than the March 31, 2015 rate while the interest rate at June 30, 2014 was 0.18% lower than the March 31, 2014 rate. As a result, AECL's reported liability decreased by $762 million in the first quarter of 2015-2016 compared to an increase in the liability of $352 million in Q1 2014-2015.

- 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:

  - $70 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.

  - $40 million for decommissioning and waste management activities.

- AECL receives Government of Canada support for its activities through the approval of AECL's Corporate Plan by the Governor in Council. As at the date of this Management's Narrative Discussion, the 2015-2016 Corporate Plan was not yet approved by the Government of Canada. However, results are generally tracking with the 2015-2016 approved budget.

2.3.5 Outlook

- 2015-2016 major priorities and deliverables are described in AECL's 2014-2015 Annual Financial Report in the "Management's Discussion and Analysis" section. These priorities and deliverables have not materially changed in the first three months of 2015-2016.

2.4 Forward-Looking Statements

This Management's Narrative Discussion has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of AECL for the quarter ended June 30, 2015 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

For the three month period ended June 30 *($ millions)*		**2015**		**2014**
Revenue and Funding				
Revenue	$	20	$	30
Parliamentary appropriations		35		77
Cost recoveries from third parties and other		5		4
Decommissioning and waste management funding		40		46
Total revenue and funding	$	100	$	157
Gross margin	$	6	$	16
Operating expenses	$	81	$	78
Financial expenses	$	50	$	57
Net (loss) income before Revaluation gain (loss) on decommissioning and waste management provision and other	$	(43)	$	10

2.5.1.1 Revenue

In Q1 2015-2016, the Nuclear Laboratories generated $20 million in revenue related to its support for the nuclear industry capability, compared to $30 million in Q1 2014-2015. Revenue included isotope sales, commercial technology sales, nuclear waste management, and research and development activities performed for the CANDU Owners Group (COG). The reported decline can be attributed primarily to decreased isotope and heavy water sales, as well as decreased work performed for Candu Energy Inc.

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 $35 million of Parliamentary appropriations in the first quarter of 2015-2016, compared to Q1 2014-2015 of $77 million. The first quarter variance is primarily related to improved net working capital requirements, with a decrease in trade receivables and an increase in accounts payable. In addition, the cash balance at March 31, 2015 was drawn down in the quarter, reducing appropriations that would otherwise be required to cover operating expenses.

2.5.1.3 Cost Recoveries from Third Parties and Other

The Nuclear Laboratories manage 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 Q1 2015-2016 to support both program offices' initiatives. This level of funding is generally comparable to the same period 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 first quarter of 2015-2016 of $40 million was generally comparable to the $46 million received in Q1 2014-2015.

2.5.1.5 Gross Margin

Gross margin decreased from $16 million in Q1 2014-2015 to $6 million in Q1 2015-2016. This decrease stems primarily from the decreased revenues described above.

2.5.1.6 Operating Expenses

Total operating expenses for the Nuclear Laboratories of $81 million in Q1 2015-2016 were comparable to the $78 million in Q1 2014-2015.

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 Q1 2015-2016 of $50 million were lower than the $57 million reported in Q1 2014-2015. This variance is due to the lower interest rate in effect at 2015 March compared to 2014 March.

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

The Nuclear Laboratories reported a net loss before Revaluation (loss) gain on decommissioning and waste management of $43 million in Q1 2015-16 compared to a $10 million net income in Q1 2014-2015. This decrease was a result of the decrease in margins and changes in parliamentary appropriations drawn in 2015-16 as described above.

2.5.2 Commercial Operations (Discontinued Operations)

For the three month period ended June 30 *($ millions)*	2015	2014
Total revenue	$ -	$ -
Parliamentary appropriations	$ -	$ -
Gross margin	$ -	$ -
Operating expenses	$ 2	$ (11)
Net income (loss) from discontinued operations	$ (2)	$ 11

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. As a result, there has been no revenue recorded during the first quarter of 2015-2016.

2.5.2.2 Operating Expenses

Operating expenses include the cost of staff and third-party service providers to address the retained liabilities resulting from the sale of the Commercial Operations business in 2011-2012 and costs to support the completion of the Enhanced CANDU Reactor development program. The $13 million increase over the prior year's quarter is the result of insurance proceeds recognized in Q1 2014-2015.

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

For the three month period ended June 30 *($ millions)*		**2015**		2014
Cash from operating activities	$	17	$	53
Cash used in investing activities		(32)		(18)
Cash				
(Decrease) Increase		(15)		35
Balance at beginning of the period		76		49
Balance at end of the period	$	61	$	84

Overall, AECL's Q1 2015-2016 closing cash position decreased to $61 million compared to the balance at the close of Q1 2014-2015 of $84 million.

2.6.1 Operating Activities

Operating activities generated a net cash inflow of $17 million in Q1 2015-2016 compared to $53 million in Q1 2014-2015. The first quarter variance is primarily due to decreased cash received from Parliamentary appropriations.

2.6.2 Investing Activities

Investing activities used cash of $32 million in Q1 2015-2016 compared to $18 million used in Q1 2014-2015. The increase is primarily due to the accelerated construction activities for a new laboratory complex.

2.7 Highlights of the Consolidated Balance Sheet

($ millions)		**June 30, 2015**		March 31, 2015		Variance In $	Variance By %
Assets	$	957	$	951	$	6	1%
Liabilities		10,024		10,737		(713)	-7%
Shareholder's deficit		9,067		9,786		(719)	-7%

AECL closed Q1 2015-2016 with Assets of $957 million, which is generally comparable to the $951 million at March 31, 2015.

The decrease in Liabilities of $713 million can be attributed primarily to the change in the Decommissioning and waste management provision of $762 million, which mainly resulted from the increase in the interest rate used to estimate the reported liability.

2.8 Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2014-2015 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 2014-2015 Annual Financial Report have not materially changed in the first three months of 2015-2016.

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.

Jon Lundy
Chief Transition Officer
August 28, 2015
Chalk River, Canada

David Smith
Chief Financial Officer
August 28, 2015
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheets (Unaudited)

(thousands of Canadian dollars)	Notes		June 30, 2015		March 31, 2015
Assets					
Current					
Cash		$	61,335	$	75,912
Trade and other receivables	10		40,631		63,067
Current portion of long-term receivables			31,343		30,958
Inventory			7,451		25,884
Assets held for sale	11		36,843		-
			177,603		195,821
Non Current					
Long-term receivables			61,018		68,836
Investments held in trust			47,459		47,805
Heavy water inventory			221,119		221,283
Property, plant and equipment	4		437,403		405,769
Intangible assets			11,937		11,319
		$	956,539	$	950,833
Liabilities					
Current					
Trade and other payables	7, 10	$	36,340	$	117,606
Customer advances and obligations	10		5,503		3,165
Provisions	5, 10		16,753		16,784
Current portion of decommissioning and waste management provision	6		254,300		229,500
Restructuring provision	10		3,054		3,090
Liabilities associated with assets held for sale	11		90,313		-
			406,263		370,145
Non Current					
Decommissioning and waste management provision	6		8,957,735		9,744,713
Deferred capital funding	8		407,218		372,175
Deferred decommissioning and waste management funding			226,441		220,510
Employee benefits	7		26,105		29,144
			10,023,762		10,736,687
Shareholder's deficit					
Share capital			15,000		15,000
Contributed capital			199,877		207,763
Deficit			(9,282,100)		(10,008,617)
			(9,067,223)		(9,785,854)
		$	956,539	$	950,833
Commitments, Contingencies and Obligations	12				

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

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

For the three months ended (thousands of Canadian dollars)	Notes	June 30, 2015	June 30, 2014
Nuclear Laboratories			
Revenue		$ **19,635**	$ 30,429
Cost of sales		**13,593**	14,789
Gross margin		**6,042**	15,640
Other funding	8	**45,350**	50,194
Operating expenses		**81,158**	77,979
Operating loss		**(29,766)**	(12,145)
Financial income	9	**1,434**	1,579
Financial expenses	9	**49,968**	57,054
Net loss before Parliamentary appropriations and Revaluation gain (loss) on decommissioning and waste management provision and other		$ **(78,300)**	$ (67,620)
Parliamentary appropriations	8	**34,957**	77,472
Net (loss) income before Revaluation gain (loss) on decommissioning and waste management provision and other		$ **(43,343)**	$ 9,852
Revaluation gain (loss) on decommissioning and waste management provision and other	6	**772,111**	(339,720)
Net income (loss) from continuing operations before discontinued operations		$ **728,768**	$ (329,868)
Discontinued Operations (Note 10)			
Operating (loss) income from discontinued operations	10	**(2,251)**	10,557
(Loss) income from discontinued operations before Parliamentary appropriations		**(2,251)**	10,557
Parliamentary appropriations for discontinued operations	8	**-**	-
Net (loss) income from discontinued operations		$ **(2,251)**	$ 10,557
Net income (loss)		$ **726,517**	$ (319,311)
Other comprehensive (loss) income			
Items that will not be reclassified to profit and loss:			
Other employee benefit plan actuarial (loss) gain		**-**	-
Other comprehensive (loss) income		**-**	-
Comprehensive income (loss)		$ **726,517**	$ (319,311)

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 June 30, 2015

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2015	$ 15,000	$ 207,763	$ (10,008,617)	$ (9,785,854)
Net loss attributable to Shareholder for the period	-	-	726,517	726,517
Other comprehensive loss	-	-	-	-
Comprehensive loss	-	-	726,517	726,517
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(1,955)	-	(1,955)
Balance at June 30, 2015	$ 15,000	$ 199,877	$ (9,282,100)	$ (9,067,223)

For the three months ended June 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 income attributable to Shareholder for the period	-	-	(319,311)	(319,311)
Other comprehensive income	-	-	-	-
Comprehensive income	-	-	(319,311)	(319,311)
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(973)	-	(973)
Balance at June 30, 2014	$ 15,000	$ 228,724	$ (8,062,457)	$ (7,818,733)

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

Interim Condensed Consolidated Cash Flow Statements
(Unaudited)

For the three months ended (thousands of Canadian dollars)	**June 30, 2015**	June 30, 2014
Operating activities		
Cash receipts from customers	**$ 56,441**	$ 60,311
Cash receipts from Parliamentary appropriations	**70,000**	88,000
Cash receipts for decommissioning and waste management activities	**46,894**	45,273
Cash paid to suppliers and employees	**(116,193)**	(95,392)
Cash paid for decommissioning activities	**(40,442)**	(45,627)
Interest received on investments (net)	**187**	126
Interest and bank charges paid	**(13)**	(10)
Cash from operating activities	**16,874**	52,681
Thereof from discontinued operations	**(4,204)**	1,619
Investing activities		
Acquisition of property, plant and equipment and intangible assets	**(31,451)**	(18,147)
Cash used in investing activities	**(31,451)**	(18,147)
Thereof from discontinued operations	**-**	-
Cash:		
(Decrease) Increase	**(14,577)**	34,534
Balance at beginning of the period	**75,912**	49,179
Balance at end of the period	**$ 61,335**	**$ 83,713**

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

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. The Nuclear Laboratories include the execution of work to address the decommissioning and waste management liability on behalf of the Government of Canada as well as the day-to-day operation of AECL sites. The activities of the Nuclear Laboratories are performed by Canadian Nuclear Laboratories Limited (CNL), AECL's wholly owned subsidiary since November 2014. 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 August 20, 2015.

2. Restructuring and Corporate Plan

The Government of Canada completed the first phase of its restructuring plan for AECL in 2011 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 focusing on the long-term mandate, governance and management structure of the Nuclear Laboratories. Natural Resources Canada 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 the Nuclear Laboratories based on a Government-owned, Contractor-operated model, known as a GoCo. The mandate for the Nuclear Laboratories going forward was 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 on a commercial basis.

To enable implementation of the new business model, a new entity, CNL, was incorporated as a wholly-owned subsidiary of AECL. In November 2014, most of the AECL employees and the operating licenses were transferred to CNL and CNL commenced delivery of services to AECL.

In June 2015, following the Request for Proposal (RFP) issued in January 2015, the Government of Canada announced that Canadian National Energy Alliance (CNEA) was selected as the preferred bidder to manage and operate CNL. This announcement sets in motion the final steps in the restructuring of AECL whereby AECL will enter into an agreement with CNEA that includes the transfer of ownership in CNL, anticipated to take place in the summer of 2015.

The Corporation will submit its 2015-2016 to 2019-2020 Corporate Plan to the Government of Canada after the procurement process is complete. The Corporate Plan will be aligned with the restructuring direction provided by the Shareholder.

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, 2015.

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 cash flows.

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, 2015). 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 and assumptions. 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, 2015.

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, 2015. The accounting policies have been applied consistently to the current and comparative quarters.

4. Property, Plant and Equipment

(thousands of Canadian dollars)		June 30, 2015		March 31, 2015
Balance - Beginning of period	$	405,769	$	335,789
Additions and transfers		38,953		116,761
Disposals and transfers		(832)		(33,950)
Other changes		(1,773)		7,903
Depreciation		(4,714)		(19,489)
Impairment		-		(1,245)
Balance - End of period	$	437,403	$	405,769

5. Provisions

(thousands of Canadian dollars)		June 30, 2015		March 31, 2015
Contract loss	$	5,025	$	5,025
Other provisions		11,728		11,759
	$	16,753	$	16,784

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)		June 30, 2015		March 31, 2015
Carrying amount - Beginning of period	$	9,744,713	$	7,535,142
Carrying amount - Beginning of period, current portion		229,500		214,500
Liabilities settled		(40,751)		(199,978)
Unwinding of discount		49,622		222,122
Effect of change in discount rate		(772,111)		2,114,073
Revision in estimate and timing of expenditures		-		71,592
Revision in estimate and timing of expenditures affecting Property, plant and equipment		(1,772)		7,903
Waste, decommissioning and site restoration costs from ongoing operations		2,834		8,859
Carrying amount - End of period		9,212,035		9,974,213
Less current portion		(254,300)		(229,500)
	$	8,957,735	$	9,744,713

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

The undiscounted future expenditures, adjusted for inflation, for the plan projects comprising the liability are $18,023.1 million (March 31, 2015 – $18,063.9 million). The provision is re-valued at the current discount rate in effect at each balance sheet date.

The provision as at June 30, 2015 was discounted using a rate of 2.31%. The opening balance as at March 31, 2015 was discounted using a rate of 1.99%.

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 gain, relating to the interest rate change, for the first quarter was $772,111 (Q1 2014-2015: $338,102 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 of $8.4 million (Q1 2014-2015: $8.4 million) were recognized as an expense in the year.

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, 2015. 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, 2015: $32.9 million) of which $26.1 million (March 31, 2015: $29.1 million) is recorded as Employee benefits under long-term liabilities, $3.8 million (March 31, 2015: $3.8 million) is recorded as Trade and other payables and $2.8 million in Liabilities associated with assets held for sale (Note 11).

The VTC included in the reported Employee benefits liability is $15.0 million (March 31, 2015: $15.0 million) and is payable in instances of future voluntary resignations and retirements. An estimate of the amounts expected to be paid in 2015-2016 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 (Q1 2014-2015: $1.4 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.

Parliamentary appropriations were received and recognized as follows:

For the three month period ended June 30 *(thousands of Canadian dollars)*	**2015**	2014
Parliamentary appropriations - Nuclear Laboratories, operating		
Nuclear Laboratories, operating	$ 30,624	$ 73,803
Amortization of deferred capital funding	4,333	3,669
Parliamentary appropriations - Nuclear Laboratories, operating	**34,957**	77,472
Parliamentary appropriations - Discontinued Operations, operating	-	-
Parliamentary appropriations - capital		
Capital infrastructure refurbishment	**39,376**	14,197
Total Parliamentary appropriations	**$ 74,333**	$ 91,669

In Q1 2015-2016, the Corporation received $70 million and recognized a sum of $74 million (Q1 2014-2015: $88 million received and $92 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 June 30, 2015.

b) Other Funding

Other funding was recognized as follows:

For the three month period ended June 30 *(thousands of Canadian dollars)*		2015		2014
Operating funding				
Cost recoveries from third parties and other	$	4,903	$	4,421
Decommissioning and waste management		40,447		45,773
	$	45,350	$	50,194

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)		June 30, 2015
Deferred capital funding		
Deferred capital funding as at March 31, 2015	$	372,175
Capital funding received during the period		39,376
Amortization of Deferred capital funding		(4,333)
Deferred capital funding as at June 30, 2015	$	407,218

(thousands of Canadian dollars)		March 31, 2015
Deferred capital funding		
Deferred capital funding as at March 31, 2014	$	302,997
Capital funding received		85,261
Amortization of Deferred capital funding		(16,083)
Deferred capital funding as at March 31, 2015	$	372,175

9. Financial Income and Expenses

For the three months ended June 30 *(thousands of Canadian dollars)*	2015	2014
Financial income		
Interest on long-term receivables	$ 1,247	$ 1,453
Interest on investments and other	187	126
	$ 1,434	$ 1,579
Financial expenses		
Unwinding of discount on decommissioning and waste management provision net of trust fund income	$ 49,968	$ 57,054

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 Restructuring provision was recorded for $36.5 million, of which $33.4 million has been paid as of June 30, 2015 (March 31, 2015: $33.4 million) and $3.1 million remained to complete the process (March 31, 2015: $3.1 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

For the three month period ended June 30 *(thousands of Canadian dollars)*	2015	2014
Revenue	$ 3	$ 3
Cost of sales	-	13
Gross margin	3	(10)
Operating expenses	2,254	(10,567)
Operating income from discontinued operations	$ (2,251)	$ 10,557

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)		June 30, 2015		March 31, 2015
Assets				
Trade and other receivables	$	3	$	-
Liabilities				
Trade and other payables	$	1,086	$	4,384
Customer advances and obligations		-		90
Provisions		16,628		16,659
Restructuring provision		3,054		3,090

11. Assets Held for Sale

In February 2013, the Government of Canada announced its intention to contract with the private sector for the management and operation of the Nuclear Laboratories based on a Government-owned, Contractor-operated model, known as a GoCo. Under the GoCo model, the assets, sites and facilities will continue to be owned by AECL but will be operated by a private-sector company.

To enable implementation of the new business model, a new entity, CNL, was incorporated as a wholly-owned subsidiary of AECL with the responsibility of managing and operating AECL's sites, facilities and assets commencing November 2014.

On June 26, 2015 the Government of Canada announced that Canadian National Energy Alliance (CNEA) was selected as the preferred bidder to manage and operate CNL. The restructuring is expected to close in Summer 2015 with the signing of a GoCo contract, resulting in the share ownership in CNL transferring from AECL to CNEA. Upon share transfer, CNL will cease to be a wholly-owned subsidiary of AECL. As a result, Management has classified the CNL assets and liabilities as "held for sale" in accordance with IFRS 5.

The assets and liabilities associated with items classified as held for sale in the Interim condensed consolidated balance sheets are as follows:

(thousands of Canadian dollars)		June 30, 2015
Assets		
Cash	$	6,888
Trade and other receivables		10,432
Inventory		19,523
	$	36,843
Liabilities		
Trade and other payables	$	87,480
Customer advances and obligations		7
Employee benefits		2,826
	$	90,313

12. 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 June 30, 2015, $74 million (Q1 2014-2015: $73 million) of this amount had been expensed and 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.

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