ATOMIC ENERGY OF CANADA LIMITED

First Quarter Financial Report

Consolidated Financial Statements (Unaudited)

As at and for the three months ended June 30, 2016 and June 30, 2015

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MESSAGE FROM THE ACTING CHIEF TRANSITION OFFICER

Under the new management model – the Government-owned, Contractor-operated (GoCo) model – AECL continues to drive performance through renewal and transformation. The first quarter of the 2016-17 fiscal year was particularly significant since it was the beginning of Canadian Nuclear Laboratories (CNL) – the private-sector contractor which operates and manages our sites and facilities on our behalf – working under its approved Annual Program of Work and Budget.

The Annual Program of Work and Budget is the main planning document that outlines the plan of work for CNL for the year – together with the associated budget – to deliver on AECL's priorities. This plan outlines specific activities and milestones that are expected to be delivered by CNL. Other performance targets for the contractor are outlined in a specific performance evaluation and measurement plan and will allow us to assess their effectiveness at transforming CNL into a world-class science organization.

For AECL, efforts during this quarter were placed on providing ongoing oversight of CNL as they advance key projects and initiatives, as well as on putting in place the right processes and tools to be able to effectively conduct our oversight activities.

Work is ramping up across AECL's sites, and CNL is tackling existing and new projects head on. The objectives are threefold: 1) to leverage the capabilities and expertise to advance nuclear science and technology for the benefit of Canadians and industry; 2) safely manage Canada's radioactive waste and decommissioning responsibilities; and 3) transform the Chalk River Laboratories into a world-class nuclear science complex.

As we advance on these objectives, we are also looking to the future. In the coming months, we will work with CNL to develop long-term plans that will be the basis for a vibrant, valuable and sustainable future - one that allows for a thriving nuclear science and technology mission while responsibly discharging our liabilities. We can continue to expect exciting developments as we move forward.

Richard J Sexton

Richard Sexton
Acting Chief Transition Officer

MANAGEMENT'S NARRATIVE DISCUSSION

Introduction

Management's Narrative Discussion is intended to provide the reader with a greater understanding of AECL's business, its business strategy and performance, its expectations for the future, and how it manages risk and capital resources. It is also intended to enhance the understanding of the unaudited consolidated financial statements for the first quarter of 2016-17 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents.

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 the Public Sector Accounting Standards (PSAS).

Management's Narrative Discussion was authorized for issue by the Board of Directors on November 15, 2016.

Our Business

AECL is a federal Crown corporation with the mandate to enable nuclear science and technology and fulfill Canada's radioactive waste and decommissioning responsibilities, reporting to Parliament through the Minister of Natural Resources. As of September 13, 2015, AECL has been delivering its mandate through a long-term, contractual arrangement with Canadian National Energy Alliance (CNEA) for the management and operation of CNL under a Government-owned, Contractor-operated model.

CNL employs over 3,500 employees at 12 sites across Canada, with most employees located at the Chalk River Laboratories.

As of June 30, 2016, AECL employed around 40 employees, including a small complement of staff in Oakville, Ontario within its Wrap-Up Office. The Wrap-Up office is responsible for the management of retained liabilities related to AECL's CANDU Reactor Division, which was sold in October 2011 as part of the first phase of the restructuring of AECL.

AECL's objective is to provide effective oversight of the Government-owned, Contractor-operated contract with the private-sector and to ensure that the objectives of government are met. It focuses its efforts and oversees CNL's activities in three main areas:

1. Science and Technology
   To enable CNL to sustain, develop, apply and build science and technology capabilities in a cost-effective manner. This includes CNL's ability to provide 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.

2. Decommissioning and Waste Management
   To safely and efficiently reduce the Government of Canada's radioactive waste liabilities, including associated risks to health, safety, security and the environment, at AECL and other Government of Canada sites. The focus is to support CNL in bringing innovative solutions to infrastructure decommissioning, site remediation and waste management.

3. Capital Investments
   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 and other nuclear services.

First Quarter Highlights for 2016-17

Science & Technology

Guidance was provided to CNL to advance the Federal Nuclear Science and Technology Work Plan, based on input from 13 federal departments and agencies. This confirmed federal priorities across the five existing theme areas – health, safety, security, energy, and environment – as well as CNL's ongoing role in nuclear science and technology for Canada.

CNL's commercial revenues and associated margins exceeded plan.

Decommissioning and Waste Management

CNL is addressing AECL's radioactive waste and decommissioning liability, which represents the estimated costs of cleaning-up existing waste areas, as well as safely decontaminating, demolishing and disposing of contaminated buildings and facilities. AECL's objective is to leverage the expertise and experience of CNL and its parent companies to address hazards in order to reduce risks and costs for Canada in a manner that is consistent with international best practices.

During the first quarter of 2016-17, CNL continued planning for a Near Surface Disposal Facility at the Chalk River Laboratories. Following an application to initiate the regulatory process, an Environmental Assessment process was officially launched. Two candidate sites have been identified and CNL is currently in the process of undertaking further environmental studies as well as engaging with local stakeholders. The Near Surface Disposal Facility will allow for the permanent disposal of AECL's contaminated materials, legacy wastes and reduce associated long-term maintenance and surveillance costs.

Environmental Assessment processes were also launched for the in-situ decommissioning of two of AECL reactors located in Manitoba and Ontario. The objective of the proposed projects is to address existing liabilities in a way that protects workers, the public and the environment, while reducing long-term costs for taxpayers.

Significant progress was made to advance the Port Hope Area Initiative during this quarter. AECL and CNL, along with local and federal representatives, broke ground on the Port Granby long-term management facility in late April, as part of the Port Granby Project. The Port Granby Project will address a long-standing environmental issue by safely relocating 450,000 cubic metres of historic low-level radioactive waste away from the receding Lake Ontario shoreline for safe, long-term storage in the engineered above ground mound facility being built approximately 700 metres north of the lake. This important milestone advances Canada's long-term commitment to clean up low-level radioactive waste in the community, restore historically contaminated lands and return them to a naturalized landscape.

Capital Investments

As part of its long-term planning efforts, CNL is in the process of developing an integrated plan for the Chalk River site that meets the needs of the ongoing science and technology and decommissioning missions, while transforming the site towards a right-sized, sustainable and world-class science campus.

Key projects currently underway include:

- The construction of building 350, a modern, flexible science and technology facility that will allow employees to conduct cutting-edge research, is nearing completion, with substantial completion expected at the end of Q2. The building will be Leadership in Energy and Environment Design (LEED®) silver certified and feature over 137,000 square feet of laboratory space, office and meeting rooms. Among other capabilities, the new complex will house CNL's Chemistry and Corrosion Materials Loops Facility, Decontamination and Chemical Cleaning Facility, and the Chemical and Corrosion Autoclave Test Facility.
- Installation of a natural gas pipeline and conversion of the site Powerhouse and other key facilities (including B350) on the Chalk River site is proceeding ahead of schedule. The conversion to natural gas will substantially reduce the operating cost of the Chalk River site.
- Repurposing of Building 215 to accommodate the Tritium laboratory is proceeding in order to vacate the existing building which does not effectively meet modern requirements. This facility upgrade will enable a new laboratory environment, to leverage existing capabilities, and grow CNL's science and technology stature.
- Installation of a supply of domestic water is proceeding on schedule and will address current deficiencies with the supply of potable water for food preparation, sanitary and personal facilities and safe drinking water at the Chalk River site to conform to current provincial and/or federal standards.

Financial Overview

AECL's first quarter financial results reflected a surplus of $47 million compared to a $24 million deficit in the same period of the previous year.

The Government of Canada provides funding for AECL to advance its priorities and deliver on its mandate. Funding for the first quarter of 2016-17 was provided through Parliamentary appropriations. Some of the more significant funded initiatives during the quarter included:

- $70 million to support ongoing science and technology activities, including the operation of the National Research Universal reactor;
- $80 million for decommissioning and waste management activities at the Chalk River and Whiteshell sites and environmental remediation programs primarily in Port Hope; and
- $33 million for capital infrastructure renewal.

AECL's planned activities are set out in its Corporate Plan. The 2016-17 year-to-date results are generally comparable to the planned results, and as such, AECL is on track to meet its commitments within budget. Priorities and deliverables have not materially changed in the first three months of 2016-17.

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, 2016, and should be read in conjunction with the unaudited 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.

Financial Review

($ millions)		Three Months Ended June 30, 2016		2015
Revenues				
Parliamentary appropriations	**$**	**183**	$	70
Commercial revenue		**35**		20
Interest income		**2**		1
Other funding		**-**		45
	$	**220**	$	136
Expenses				
Cost of sales	**$**	**25**	$	14
Operating expenses		**11**		81
Contractual expenses		**62**		-
Finance expenses		**72**		63
Wrap-Up Office activities		**3**		2
	$	**173**	$	160

Parliamentary Appropriations

AECL receives Parliamentary appropriations to deliver on its missions and priorities. AECL recognized $183 million of Parliamentary appropriations in the first quarter of 2016-17, compared to $70 million for the same period in 2015-16. The first quarter variance is primarily related to the fact that, following the implementation of the Government-owned, Contractor-operated model, AECL receives Parliamentary appropriations directly for delivering on its decommissioning and waste management mandate. In 2015-16, this funding was provided to AECL by Natural Resources Canada, and as such, was recognized by AECL as ‘Other funding’.

Commercial Revenue

In the first quarter of 2016-17, $35 million in revenue was generated related to isotope sales, commercial technology sales, nuclear waste management, and research and development activities, compared to $20 million for the same period in 2015-16. The reported increase can be attributed primarily to increased heavy water and isotope sales in the quarter.

Interest Income

Interest income is earned on long-term receivables, investments held in trust and on cash.

Other Funding

AECL fulfills Canada's obligations to address legacy waste associated with AECL sites and historic low-level radioactive wastes through the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office. Up to September 13, 2015, when the Government-owned, Contractor-operated model came into effect, AECL received funding from Natural Resources Canada for the related work being delivered by CNL. As of September 13, 2015, AECL took over responsibility for fulfilling the Government's obligations with respect to historic low-level radioactive wastes. In 2016-17, funding for those activities is provided directly to AECL through Parliamentary appropriations.

Cost of Sales

Cost of sales have increased with the increase in Commercial revenue noted above.

Operating Expenses and Contractual Expenses

With the implementation of the Government-owned, Contractor-operated model and the associated transfer of the shares of CNL to CNEA on September 13, 2015, the contractual arrangement with CNEA and CNL came into effect. As a result, for the first quarter of 2016-17, AECL made payments to CNL as per the terms of this contractual arrangement. Those, as well as AECL's own oversight expenses for the first quarter, total $73 million, compared to expenses of a similar nature of $81 million in the first quarter of 2015-16.

Financial Expenses

Financial expenses include the increase in the net present value of the decommissioning and waste management provision. Financial expenses in the first quarter of 2016-17 of $72 million were higher than the $63 million reported during the same period in 2015-16. This variance is due to the increase of the liability as a result of the transfer of the contaminated sites liability associated with the Port Hope Area Initiative to AECL from Natural Resources Canada during 2015-16.

Wrap-Up Office Activities

At the date of the divestiture of the assets of its commercial division to Candu Energy Inc. in 2011, AECL retained certain liabilities. These are being managed by the Wrap-up Office. Operating expenses for the Wrap-up Office include the cost of staff and third-party service providers to address the retained liabilities. These activities continue to be wound down.

Consolidated Cash Flow and Working Capital

($ millions)		Three Months Ended June 30, 2016		2015
Cash from operating activities	$	**168**	$	17
Cash used in capital activities		**(44)**		(31)
Cash				
Increase (Decrease)		**124**		(14)
Balance at beginning of the period		**84**		76
Balance at end of the period	**$**	**208**	$	62

Overall, AECL's closing cash position for the first quarter of 2016-17 increased to $208 million compared to the balance at the close of the first quarter of 2015-16 of $62 million. The first quarter variance is primarily due to receipt of funding, late in the quarter, for the anticipated second quarter contractual expenditures to CNL. That funding was treated as Deferred funding.

Operating Activities

Operating activities generated a net cash inflow of $168 million in the first quarter of 2016-17, compared to $17 million during the same period in 2015-16. The increase in cash is due to the timing of receipt of the second quarter funding as described above.

Capital Activities

Capital activities used cash of $44 million in the first quarter of 2016-17 compared to $31 million used in the same period in 2015-16. The increase is primarily due to the accelerated construction activities for a new laboratory complex at the Chalk River Laboratories site.

Highlights of the Consolidated Statements of Financial Position

($ millions)		June 30, 2016		March 31, 2016		Variance In $	Variance By %
Financial Assets	$	**582**	$	481	$	101	21%
Liabilities		**8,414**		8,324		90	1%
Non-Financial Assets		**534**		506		28	5%
Accumulated Deficit		**(7,298)**		(7,337)		39	-1%

AECL closed the first quarter of 2016-17 with Financial Assets of $582 million, which represents a $101 million variance from March 31, 2016. This variance is mainly the result of increased cash received from Parliamentary appropriations for the anticipated contractual expenditures to CNL that was treated as Deferred funding as described above.

The increase in Liabilities of $90 million can be attributed primarily to the increase in Deferred funding as described above.

The increase in Non-Financial Assets of $28 million is mainly a result of spending toward tangible capital assets.

Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2015-16 Annual Financial Report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices as noted in the 2015-16 Annual Financial Report have not materially changed in the first three months of 2016-17.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these 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 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 consolidated quarterly financial statements.

Based on our knowledge, these unaudited 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 consolidated quarterly financial statements.

Richard Sexton
Acting Chief Transition Officer
November 29, 2016
Chalk River, Canada

David Smith
Chief Financial Officer
November 29, 2016
Chalk River, Canada

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position (Unaudited)

(thousands of Canadian dollars)	Notes	**June 30, 2016**	March 31, 2016	April 1, 2015
Financial Assets				
Cash		**208,286**	84,553	75,912
Long-term disposal of waste fund		**8,835**	3,538	-
Investments held in trust		**50,047**	49,320	47,805
Trade and other receivables	5	**38,652**	54,552	59,581
Long-term receivables		**60,737**	68,579	99,794
Inventory		**6,785**	7,242	25,884
Heavy Water Inventory		**209,199**	212,968	221,283
		582,541	480,752	530,259
Liabilities				
Accounts payable and accrued liabilities	6	**62,486**	62,926	133,666
Employee future benefits	7	**27,174**	27,898	35,798
Due to Canadian Nuclear Laboratories		**58,100**	114,287	-
Deferred funding		**147,596**	-	-
Deferred decommissioning and waste management funding		**250,942**	245,011	220,510
Decommissioning and waste management provision	8	**6,767,535**	6,763,423	6,487,228
Contaminated sites liability	9	**1,099,947**	1,109,493	-
Customer advances and obligations		**650**	909	3,165
		8,414,430	8,323,947	6,880,367
Net Financial Debt		**(7,831,889)**	(7,843,195)	(6,350,108)
Non-Financial Assets				
Tangible capital assets	10	**532,816**	505,487	410,558
Prepaid expenses		**854**	430	3,486
		533,670	505,917	414,044
Accumulated Deficit		**(7,298,219)**	(7,337,278)	(5,936,064)

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

Consolidated Statements of Operations and Accumulated Deficit (Unaudited)

For the three months ended

(thousands of Canadian dollars)	**Notes**	2016-17 Budget	**June 30, 2016**	June 30, 2015
Revenues				
Parliamentary appropriations	11	689,049	**182,720**	70,000
Commercial revenue		67,500	**34,858**	19,635
Interest income		5,800	**1,849**	1,088
Other funding	11	-	**-**	45,350
		762,349	**219,427**	136,073
Expenses				
Cost of sales		37,125	**25,124**	13,593
Operating expenses		47,000	**10,543**	81,108
Contractual expenses	12	327,347	**62,034**	-
Finance expenses		198,592	**71,699**	62,918
Wrap-Up Office activities		6,800	**3,211**	2,251
		616,864	**172,611**	159,870
Surplus (Deficit) for the period		145,485	**46,816**	(23,797)
Accumulated deficit, beginning of period		(7,337,278)	**(7,337,278)**	(5,936,064)
Transfer to deferred decommissioning and waste management funding		(24,501)	**(5,931)**	(5,931)
Transfer to repayable contributions		-	**(1,826)**	(1,955)
Accumulated deficit, end of period		(7,216,294)	**(7,298,219)**	(5,967,747)

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

Consolidated Statements of Change in Net Financial Debt (Unaudited)

For the three months ended

(thousands of Canadian dollars)	**Notes**	2016-17 Budget	**June 30, 2016**	June 30, 2015
Surplus (deficit) for the period		145,485	**46,816**	(23,797)
Tangible capital assets				
Acquisition of tangible capital assets	10	(167,600)	**(33,165)**	(39,456)
Amortization of tangible capital assets	10	24,000	**5,837**	5,431
		(143,600)	**(27,328)**	(34,025)
Non-financial assets				
Changes in prepaid expenses		-	**(425)**	1,544
Decrease (increase) in net debt		1,885	**19,063**	(56,278)
Net debt at beginning of period		(7,843,195)	**(7,843,195)**	(6,350,108)
Transfer to deferred decommissioning and waste management funding		(24,501)	**(5,931)**	(5,931)
Transfer to repayable contributions		-	**(1,826)**	(1,955)
Net debt at end of period		(7,865,811)	**(7,831,889)**	(6,414,272)

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

Consolidated Statements of Cash Flows (Unaudited)

For the three months ended

(thousands of Canadian dollars)	**June 30, 2016**	June 30, 2015
Operating transactions		
Cash receipts from Parliamentary appropriations	**330,316**	70,000
Cash receipts from customers	**58,754**	49,994
Cash receipts for decommissioning and waste management activities	**-**	46,894
Cash paid to suppliers	**(139,392)**	(38,558)
Cash paid to employees	**(5,058)**	(71,201)
Cash paid for decommissioning activities	**(77,133)**	(40,442)
Interest received	**286**	187
Cash provided by operating transactions	**167,773**	16,874
Capital transactions		
Acquisition of tangible capital assets	**(44,040)**	(31,451)
Cash applied to capital transactions	**(44,040)**	(31,451)
Increase (decrease) in cash and cash equivalents	**123,733**	(14,577)
Cash and cash equivalents at beginning of period	**84,553**	75,912
Cash and cash equivalents at end of period	**208,286**	61,335

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

1. The Corporation

Atomic Energy of Canada Limited (AECL) is a federal Crown corporation whose mandate is to fulfill the Government's waste and decommissioning responsibilities, provide nuclear expertise to support federal roles and responsibilities, and offer services to users of the Nuclear Laboratories on commercial terms. AECL delivers its mandate through a long-term contract with Canadian National Energy Alliance (CNEA) for the management and operation of Canadian Nuclear Laboratories (CNL) under a Government-owned, Contractor-operated model. This contract came into effect on September 13, 2015. Prior to this date, CNL operated as a wholly-owned subsidiary of AECL.

AECL also manages the retained liabilities associated with its former CANDU Reactor Division (Commercial Operations), which were sold to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin, on October 2, 2011.

AECL 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*. AECL 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. AECL receives funding from the Government of Canada and is exempt from income taxes in Canada.

2. Restructuring and Corporate Plan

The Government of Canada has restructured AECL to reduce risks and costs to Canadian taxpayers. The first phase of the restructuring was completed in 2011 with the sale of the assets of AECL's CANDU Reactor Division (Commercial Operations) to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin.

The second phase of the restructuring focused on AECL's Nuclear Laboratories, with the objective of implementing a Government-owned, Contractor-operated business model. As part of the implementation of this model, AECL incorporated a wholly-owned subsidiary, CNL. In November 2014, virtually all of AECL's employees were transferred to CNL, and CNL became the operator of the Nuclear Laboratories. AECL proceeded to establish itself as a small organization to provide oversight of the contractual arrangement under this model.

In June 2015, following a procurement process led by Natural Resources Canada and Public Works and Government Services Canada, the Government of Canada announced that CNEA had been selected as the preferred bidder to manage and operate CNL. The contract with CNEA came into effect on September 13, 2015, and the shares of CNL were transferred from AECL to CNEA. Under this contractual arrangement AECL retains ownership of the sites, facilities and assets and provides funding to CNL to manage and operate the sites and to undertake the program of work to fulfill AECL's mandate. This includes the provision of services to third party customers on behalf of AECL. AECL pays CNEA fees based on CNEA's achievement of established performance criteria and measures. With the transition to the Government-owned, Contractor-operated business model, the restructuring of AECL is now complete. Upon transferring the shares, AECL recorded a loss of $2.8 million in operating expenses in the Consolidated Statements of Operations and Accumulated Deficit associated with the investment in CNL. No portion of the loss is attributable to measuring the investment at fair value.

AECL's 2016-2017 to 2020-2021 Corporate Plan received Governor in Council approval in the first quarter of the 2016-17 fiscal year. The Corporate Plan is aligned with the restructuring direction provided by the Shareholder and reflects AECL's new role under the Government-owned, Contractor-operated model.

3. Significant Accounting Policies

a) Adoption of New Accounting Standards

Effective April 1, 2016, AECL adopted the Public Sector Accounting Standards (PSAS). See Note 4 for more details.

b) Basis of Accounting

These consolidated financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) established by the Public Sector Accounting Board (PSAB), and reflect the policies below.

These consolidated quarterly financial statements should be read in conjunction with the annual audited consolidated financial statements dated March 31, 2016, as well as Note 4 relating to the transition to Public Sector Accounting Standards.

Both financial and non-financial assets are reported on the Statement of Financial Position. Non-financial assets are normally employed to provide future services, and are charged to expense through amortization or upon utilization. Non-financial assets are not taken into consideration when determining the net financial assets, but rather are added to the net financial assets (or debt) to determine the accumulated surplus (deficit).

Measurement Uncertainty

The preparation of the consolidated financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of financial assets, liabilities and non-financial assets at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Items requiring the use of significant estimates and assumptions include those related to the fair value of financial instruments, useful life and write-down of tangible capital assets, employee future benefits, contingent liabilities and provisions including the decommissioning and waste management provision and contaminated sites liability. Estimates and assumptions are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information as it becomes available. Where actual results differ from these estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

Budget Figures

The 2016-17 budget is reflected in the Consolidated Statements of Operations and Accumulated Deficit and the Consolidated Statements of Change in Net Financial Debt. Budget data presented in these consolidated financial statements is based upon the 2016-17 projections and estimates contained within the 2016-17 to 2020-21 Corporate Plan.

Budget figures have not been audited, and are presented for information purposes.

c) Employee Future Benefits

Substantially all of the employees of AECL are covered by the Public Service Pension Plan (the “Plan”), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and AECL to cover current service cost.

Pursuant to legislation currently in place, AECL has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of AECL.

AECL provides employee benefits such as voluntary termination compensation benefits and other benefits, including continuation of health and dental benefits during long-term disability, and self-insured workers’ compensation.

AECL reimburses Employment and Social Development Canada for workers’ compensation claims in accordance with the *Government Employees Compensation Act* for current payments billed by the provincial compensation boards.

Non-Pension Post-Employment Benefit Plans

AECL's net obligation with respect to its non-pension post-employment defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the Projected Unit Credit Method prorated on service and Management's best estimate of salary escalation, retirement ages of employees, mortality and expected employee turnover.

The discount rate is based on AECL's cost of borrowing as determined based on long-term Government of Canada bond yields. The Corporation amortizes any actuarial gains and losses arising from non-pension defined benefit plans into the Consolidated Statements of Operations and Accumulated Deficit over the expected average remaining service life.

Other Long-Term Employee Benefits

AECL's net obligation with respect to other long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. These benefits include self-insured workers' compensation benefits and health and dental care benefits during long-term disability.

That benefit is discounted to determine its present value. The discount rate is based on the Company's cost of borrowing as determined based on long-term Government of Canada bond yields. The calculation is performed using a combination of the Projected Unit Credit Method prorated on service and event-driven calculations for Workers' Compensation. Any actuarial gains and losses are amortized into the Consolidated Statements of Operations and Accumulated Deficit over the expected average remaining service life.

Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans if AECL has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and if the obligation can be estimated reliably.

d) Decommissioning and Waste Management Provision

AECL provides for its obligations to decommission nuclear facilities and to manage nuclear waste in order to satisfy regulatory requirements. The best estimate of an obligation is recognized in the period in which a reliable estimate can be determined and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provision takes into account current technological, environmental and regulatory requirements and is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the provision. The estimated future cash forecasts are adjusted for inflation using a rate that is derived on the basis of Consensus forecasts and Bank of Canada historical and target inflation rates.

As the provision is recorded based on a discounted value of the projected future cash flows, it is increased quarterly to reflect the passage of time by removing one quarter's discount. The unwinding of the discount is charged to Finance expenses in the Consolidated Statements of Operations and Accumulated Deficit.

The provision is reduced by actual expenditures incurred. The cost estimate is subject to periodic review and any material changes in the estimated amount or timing of the underlying future cash flows are recorded as an adjustment to the provision. Upon settlement of the liability, a gain or loss will be recorded. The provision includes future construction costs associated with certain enabling facilities, such as disposal facilities for nuclear waste.

Decommissioning costs of new assets are added to the carrying amount and depreciated over the related assets' useful lives. The effect of subsequent changes in estimating an obligation for which the provision was recognized as part of the cost of the asset is adjusted against the asset.

e) Contaminated Sites Liability

AECL recognizes a provision for contaminated sites when all of the following conditions are prevalent: an environmental standard exists; the level of contamination has been determined to exceed the environmental standard and AECL is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made at that time. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring.

f) Tangible Capital Assets

Tangible capital assets are recorded at cost less accumulated amortization, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to the construction and development, as well as the costs of dismantling and removing the items and restoring the site on which they are located.

Contributions in Aid of Construction relate to the contributions made for a pipeline to deliver natural gas to the Chalk River Site.

The cost of tangible capital assets in use is amortized on a straight-line basis over the estimated useful life, as follows:

Asset	Rate
Land Improvements	10-20 years
Buildings	20-40 years
Reactors	20-40 years
Machinery & Equipment	3-25 years
Software Costs	3 years
Contributions in Aid of Construction	40 years

Construction in progress represents assets that are not yet available for use and therefore are not subject to amortization. When complete, the constructed asset is transferred to the appropriate category of tangible capital asset and amortized at the rate applicable to that category. Amortization commences when the asset is put into use and ceases when it no longer provides any further economic benefit to AECL or when it is no longer in service.

When conditions indicate that a tangible capital asset no longer contributes to AECL's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is reduced to reflect the decline in the asset's value. The net write-down is then accounted for as an expense in the Consolidated Statements of Operations and Accumulated Deficit.

Useful lives are assessed annually and revisions to the useful life are made as required.

g) Parliamentary Appropriations

AECL receives Parliamentary appropriations for operating expenditures and tangible capital assets. These Parliamentary appropriations are free of any stipulations limiting their use, and are recorded as funding from the Government of Canada in the Consolidated Statements of Operations and Accumulated Deficit, up to the authorized amount, where eligibility criteria have been met.

4. Transition to Public Sector Accounting Standards

Effective April 1, 2016, AECL adopted Canadian Public Sector Accounting Standards (PSAS). These amended standards were adopted with retrospective restatement, and therefore the 2015-16 comparative figures have been restated. Key adjustments resulting from the adoption of these accounting standards are as follows:

a) Tangible Capital Assets

Computer software and contributions in aid of construction are included in the definition of a tangible capital asset under PSAS. The March 31, 2016 financial statements have been revised to reclassify computer software and contributions in aid of construction of $18.3 million, previously recorded as an intangible asset, to tangible capital assets. This reclassification did not result in any adjustments to AECL's accumulated surplus (deficit) or annual surplus (deficit), or the Statement of Cash Flow.

Under PSAS, the discount rate applied to any Asset Retirement Obligations should be based on the Government's cost of borrowing. The adjustment to the tangible capital assets is reflected in AECL's accumulated deficit upon transition.

AECL decided to use the first-time adopter exemption, and applied on a prospective basis from the date of transition, the condition for a write-down of a tangible capital asset. Following this application, no write-down was recognized.

b) Decommissioning & Waste Management Provision

Under PSAS, the discount rate applied to determine the present value of the liability should be consistent with PSAS, and based on the Government's cost of borrowing. The adjustment to the decommissioning and waste management provision of $3,487.0 million as of April 1, 2015 and $3,255.1 million as of March 31, 2016 as a result of this change is reflected in AECL's accumulated deficit upon transition.

c) Contaminated Sites Liability

Under PSAS, the discount rate applied to determine the present value of the liability should be consistent with PSAS, and based on the Government's cost of borrowing. The adjustment to the contaminated sites liability of $10.6 million as a result of the change in discount rate is reflected in AECL's accumulated deficit upon transition. In addition, $1,109.5 million previously recorded in the March 31, 2016 financial statements as part of the decommissioning and waste management provision has been reclassified to the contaminated sites liability.

d) Employee Future Benefits

According to PSAS, the actuarial gains and losses should be amortized over the expected average remaining service life of the related employee group. AECL has decided to use the first-time adopter exemption to recognize all cumulative actuarial gains and losses as at the date of transition to PSAS directly in accumulated deficit and as such has adjusted the balances as of April 1, 2015 and March 31, 2016.

Under PSAS, the discount rate for the non-funded benefits must be established by reference to AECL's cost of borrowing. As AECL does not borrow money, information on AECL's cost of borrowing is not readily available, and therefore, the average yield on Government of Canada long-term bonds is used as a proxy for the cost of borrowing. An actuarial valuation has been undertaken as at April 1, 2015 and a $2.8 million loss associated with the change in the borrowing rate recognized directly into accumulated surplus (deficit).

e) Deferred Capital Funding

Based on AECL's previous basis of accounting, Parliamentary appropriations used for the purchase of capital and intangible assets were recorded as deferred capital funding and amortized on the same basis and over the same periods as the related asset. Under PSAS, Parliamentary appropriations used for the purchase of tangible capital assets are recognized as revenue when authorized since the appropriations are not considered to have stipulations which meet the definition of a liability. As a result, the amount previously reported as deferred capital funding at April 1, 2015 of $372.2 million is reflected within AECL's opening accumulated deficit at April 1, 2015. Amortization of deferred capital funding for the fiscal year ended March 31, 2016, previously included in Parliamentary appropriations of $45.8 million, is not recognized under PSAS. Parliamentary appropriations received by AECL during the fiscal year ended March 31, 2016 for future capital acquisitions in the amount of $145.3 million are now included in Parliamentary appropriations. The amount recorded as deferred capital funding at March 31, 2016 of $471.7 million is also reflected in AECL's accumulated deficit at March 31, 2016.

f) Statement of Cash Flows

The presentation of AECL's Consolidated Cash Flow Statements has been revised to be consistent with PSAS, and reflect the change during the year in cash and cash equivalents. Cash paid to suppliers and to the employees is presented separately. Therefore, the cash paid to suppliers during the year ended March 31, 2016, under IFRS, which amounted to $513.1 million has been presented separately as cash paid to suppliers and cash paid to employees.

The acquisition of tangible capital assets, previously reflected as an investing activity, has been revised to be presented as a capital activity. The Consolidated Statements of Cash Flow has also been amended to be consistent with other presentation changes to the Consolidated Statements of Financial Position and the Consolidated Statements of Operations as stated above in *Deferred Capital Funding,* of this note.

g) Reclassification

Current assets and liabilities are not presented under PSAS. Therefore, the current portion of the other non-financial assets previously presented with the accounts receivable and the current portion of employee future benefits previously presented with the accounts payable and accrued liabilities were reclassified to the appropriate basis.

h) Summary of Financial Adjustments

(thousands of Canadian dollars)	Notes	
Accumulated deficit as at April 1, 2015, as previously reported per IFRS		**$ (9,785,854)**
Adjustment to Tangible capital assets	a)	(6,530)
Adjustment to Decommissioning and waste management provision	b)	3,486,985
Adjustment to Employee future benefits	d)	(2,840)
Adjustment to Deferred capital funding	e)	372,175
Accumulated deficit as at April 1, 2015, as restated per PSAS		**$ (5,936,064)**
Accumulated deficit as at March 31, 2016, as previously reported per IFRS		**$ (11,066,562)**
Adjustment to Tangible capital assets	a)	(3,842)
Adjustment to Decommissioning and waste management provision	b)	3,255,082
Adjustment to Contaminated sites liabilities	c)	10,569
Adjustment to Employee future benefits	d)	(4,217)
Adjustment to Deferred capital funding	e)	471,692
Accumulated deficit as at March 31, 2016, as restated per PSAS		**$ (7,337,278)**
Annual deficit as at March 31, 2016, as previously reported per IFRS		**$ (139,916)**
Adjustment to Parliamentary appropriations for capital funding		145,328
Adjustment to Parliamentary appropriations for amortization of deferred capital funding		(45,843)
Adjustment to Revaluation gain (loss) on decommissioning and waste management provision and other		(173,630)
Adjustment to Financial expenses		(45,129)
Adjustment to Operating expenses		(1,234)
Annual deficit as at March 31, 2016, as restated per PSAS		**$ (260,424)**

5. Trade and Other Receivables

(thousands of Canadian dollars)		June 30, 2016		March 31, 2016
Trade receivables	**$**	**20,134**	$	16,094
Less: allowance for doubtful accounts		**(3,419)**		(3,419)
Net trade receivables	**$**	**16,715**	$	12,675
Other receivables:				
Unbilled revenue		**9,601**		10,407
Consumption taxes receivable		**11,253**		9,911
Appropriations receivable		**-**		19,400
Other receivables		**1,083**		2,159
	$	**38,652**	$	54,552

6. Accounts Payable and Accrued Liabilities

(thousands of Canadian dollars)		June 30, 2016		March 31, 2016
Trade payables	**$**	**1,138**	$	562
Other payables and accrued expenses		**11,543**		10,699
Accrued payroll liabilities		**1,616**		2,810
Amounts due to related parties		**33,373**		31,548
Amounts due to Shareholder		**393**		381
Provisions		**13,917**		15,851
Restructuring provision		**506**		1,075
	$	**62,486**	$	62,926

The carrying values of trade and other payables are considered to be a reasonable approximation of fair value due to their short-term nature.

The Amounts due to Shareholder represent Royalty revenues. The Amounts due to related parties represent cash proceeds from the sales of heavy water (Note 19 of the annual audited consolidated financial statements dated March 31, 2016).

Provision amounts are short-term in nature and are not discounted and include exposure to claims related to life extension projects as well as lawsuits and legal claims, disputes with suppliers and an onerous lease.

7. Employee Future Benefits

a) Pension Plan

Employees of AECL 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 employer 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 $0.8 million (Q1 2015-16: $8.4 million) were recognized as an expense in the quarter. The changes in contributions between 2015-16 and 2016-17 are due to the implementation of the Government-owned, Contractor-operated model, whereby the ownership of AECL's then-subsidiary, CNL, was transferred to CNEA. As at the date of this transfer, employees of CNL became employees of a private-sector organization. While existing CNL employees are entitled to a three year transitional period in the PSPP, the employer contributions are being made by CNL. AECL's contributions noted above are for its small workforce which is responsible for providing contractual oversight of the Government-owned, Contractor-operated model.

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

AECL provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(n) of the annual audited consolidated financial statements dated March 31, 2016. The defined benefit obligation is funded as benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation of $27.2 million (March 31, 2016: $27.9 million).

The VTC included in the reported Employee benefits liability is $12.3 million (March 31, 2016: $12.7 million) and is payable in instances of future voluntary resignations and retirements. An estimate of the amounts expected to be paid in 2016-17 is based on AECL's most recent actuarial valuation.

AECL's total expense for employee benefits was $0.7 million for this quarter (Q1 2015-16: $0.9 million).

8. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)	**June 30, 2016**	March 31, 2016
Carrying amount - Beginning of period	**$ 6,763,423**	$ 6,487,228
Liabilities settled	**(64,243)**	(208,143)
Unwinding of discount	**65,597**	251,672
Revision in estimate and timing of expenditures	**-**	223,536
Waste, decommissioning and site restoration costs from ongoing operations	**2,758**	9,130
Carrying amount - End of period	**$ 6,767,535**	$ 6,763,423

As the discount rate has remained unchanged over the period, there is no change in the discount rate to report.

The undiscounted future expenditures, adjusted for inflation, for the plan projects comprising the liability are $17,549.4 million (March 31, 2016 – $17,613.6 million).

The provision as at June 30, 2016 and March 31, 2016 was discounted using a rate of 3.88%.

9. Contaminated Sites Liability

As part of the implementation of the Government-owned, Contractor-operated model, the responsibilities for the implementation of Canada's commitments with respect to the Port Hope Area Initiative, including all of the assets and liabilities, were transferred to AECL in 2015-16. This included an order in council (P.C. 2015-1027) that transferred administration of the real property associated with the Port Hope Area Initiative from the Minister of Natural Resources to AECL.

AECL recognizes and estimates a liability of $1,099.9 million (Q1 2015-16: $nil) for remediation as part of the Port Hope Area Initiative using a net present value technique. The nature of the liability is the cleanup and local, long-term, safe management of historic low-level radioactive waste in the municipalities of Port Hope and Clarington, in Ontario. The liability is discounted using net present value techniques at a rate of 2.20%. The estimated total undiscounted expenditures are $1,234.1 million (March 31, 2016: $1,249.8 million).

As part of the Government-owned, Contractor-operated model, responsibility for the Low-Level Radioactive Waste Management Office has also transferred from Natural Resources Canada to AECL and includes all activities to address and manage historic low-level waste at sites in Canada for which the Government has assumed responsibility (excluding the Port Hope Area Initiative). A liability has not been recognized as insufficient information is available regarding the scope, required remediation activities and schedule to reasonably estimate the cost of the obligation.

(thousands of Canadian dollars)	**June 30, 2016**	March 31, 2016
Carrying amount - Beginning of period	**$ 1,109,493**	$ -
Liabilities settled	**(15,648)**	(31,310)
Unwinding of discount	**6,102**	13,295
Revision in estimate and timing of expenditures	**-**	16,894
Contributed liability	**-**	1,110,614
Carrying amount - End of period	**$ 1,099,947**	$ 1,109,493

10. Tangible Capital Assets

(thousands of Canadian dollars)	Construction in progress	Land and land improvements	Buildings	Reactors, Machinery and Equipment	**Total**
Cost at March 31, 2016	**$ 220,749**	**$ 83,249**	**$ 309,765**	**$ 427,189**	**$ 1,040,952**
Additions and transfers	33,165	73	1,596	482	35,316
Disposals and transfers	(2,150)	(323)	-	(1,727)	(4,200)
Cost at June 30, 2016	**251,764**	**82,999**	**311,361**	**425,944**	**1,072,068**
Depreciation at March 31, 2016	-	**41,617**	**187,824**	**306,024**	**535,465**
Increase in depreciation	-	794	1,714	3,329	5,837
Disposals	-	(323)	-	(1,727)	(2,050)
Depreciation at June 30, 2016	**-**	**42,088**	**189,538**	**307,626**	**539,252**
Net carrying amount at March 31, 2016	**220,749**	**41,632**	**121,941**	**121,165**	**505,487**
Net carrying amount at June 30, 2016	**$ 251,764**	**$ 40,911**	**$ 121,823**	**$ 118,318**	**$ 532,816**

11. 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 and Supplementary Estimates include amounts for the operations of the Nuclear Laboratories, including the safe operations of the Chalk River Laboratories, as well as decommissioning and waste management activities. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations business.

For the three months ended June 30, 2016, Parliamentary appropriations were received and recognized as follows:

(thousands of Canadian dollars)		Three Months Ended June 30, 2016		2015
Parliamentary appropriations for operating and capital expenditures				
Amount received during the period for operating and capital expenditures	**$**	**330,316**	$	70,000
Amount receivable at the end of the period		**-**		-
Amount deferred to the next period		**(147,596)**		-
		182,720		70,000
Statutory funding				
Amount received during the period		**-**		-
Amount receivable at the end of the period		**-**		-
		-		-
Total Parliamentary appropriations recognized	**$**	**182,720**	$	70,000

Following the implementation of the Government-owned, Contractor-operated model, AECL receives Parliamentary appropriations directly for delivering on its decommissioning and waste management mandate. In 2015-16, this funding was provided to AECL by Natural Resources Canada, and as such, was recognized by AECL as 'Other funding'.

In Q1 2016-17, AECL received $330 million and recognized a sum of $183 million (2015-16: $70 million received and recognized). The difference between received and recognized Parliamentary appropriations relate to amounts recorded as deferred funding.

The amounts approved for operating and capital expenditures for the years ending March 31, 2017 and 2016 totaled $969 million and $839 million, respectively.

Statutory funding approved for the years ending March 31, 2017 and 2016 totaled $nil and $17 million, respectively.

b) Other Funding

Other funding was recognized as follows:

(thousands of Canadian dollars)		Three Months Ended June 30, 2016		2015
Cost recoveries from third parties and other	**$**	**-**	$	4,903
Decommissioning and waste management		**-**		40,447
	$	**-**	$	45,350

As of September 13, 2015, AECL took over responsibility for fulfilling the Government's obligations with respect to legacy obligations associated with AECL sites as well as historic low-level radioactive wastes. As of this date, funding for those activities was provided directly to AECL through Parliamentary appropriations.

12. Contractual Arrangement

As of September 13, 2015, AECL has been delivering its mandate through a long-term contract with CNEA for the management and operation of CNL under a Government-owned, Contractor-operated model. Prior to this date, CNL operated as a wholly-owned subsidiary of AECL.

Under the Government-owned, Contractor-operated model, the assets, sites and facilities continue to be owned by AECL, but are being managed and operated by a private-sector company. As such, AECL makes payments to CNL and CNEA ("Contractual amounts paid or payable") as per the terms of the contractual arrangement.

The following contractual expenditures were incurred:

	Three Months Ended June 30,	
(thousands of Canadian dollars)	**2016**	2015
Contractual amounts paid or payable	**$ 194,928**	$ -
Less: Costs charged to Decommissioning and waste management provision (see Notes 8, 9)	**(79,890)**	-
Less: Costs charged to Construction in progress	**(32,498)**	-
Less: Costs classified as Cost of sales	**(20,506)**	-
Contractual expenses	**$ 62,034**	$ -

Contractual amounts paid or payable include all allowable expenses of CNL as well as fees paid to CNEA, in accordance with the long-term contractual arrangement between AECL and CNEA and CNL.

The balance due to CNL at June 30, 2016 was $58.1 million and represents funding owing for allowable costs incurred by CNL.

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