AECL
EACL

ATOMIC ENERGY OF CANADA LIMITED

First Quarter Financial Report

Consolidated Financial Statements (Unaudited)

As at and for the three months ended
June 30, 2017 and June 30, 2016

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MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

As we pursue our journey on the Government-owned, Contractor-operated (GoCo) model, we continue to see early benefits of transformation on multiple fronts. Canadian Nuclear Laboratories (CNL), which operates our sites on our behalf, is leading the revitalization of the Chalk River Laboratories, advancing environmental remediation work at the Port Hope Area Initiative and continuing the safe decontamination, dismantling and decommissioning with a mission to close the Whiteshell site in Manitoba.

Building on its long-term vision to transform the Chalk River Laboratories into a world-class, nuclear science and technology campus, CNL recently launched a Request for Expression of Interest on Small Modular Reactors. The objective is to garner information from all stakeholders – from technology developers to the supply chain, host communities and end users – on this technology and better inform CNL's and AECL's position with respect to the development of small modular reactors. This is in line with CNL's vision to become a hub for small modular reactor technology.

At the Chalk River Laboratories, the physical transformation of the site continued. In 2016-17 alone, more than 30 buildings were demolished, and in this quarter three buildings were demolished, along with the water tower, an important feature of the site. This important milestone not only contributed to changing the skyline of the site, but also signaled the ongoing revitalization which will see many more buildings and structures come down over the coming years, making way for new and renewed science infrastructure. Indeed we expect significant transformation in the coming years as CNL implements a $1.2 billion infrastructure renewal program for new and renewed science facilities, as well as site support infrastructure.

CNL also continued planning and public engagement, including engagement with Indigenous groups, to advance the proposed near surface disposal facility. This facility is a key project that will enable the remediation of contaminated lands and the decommissioning and demolition of outdated buildings at the Chalk River site. The project will allow for AECL's liabilities to be addressed and risks reduced as radioactive waste will be safely emplaced in an engineered facility, the design of which is aligned with international standards and best practices.

Through these activities, AECL continued to execute its oversight role through the use of robust processes and procedures – both formal and informal – to manage the contract, performance objectives, and the contractual relationship with CNL in order to bring value for money for Canada.

This report highlights some of the significant progress accomplished during the first quarter of 2017-18 by CNL through the GoCo model.

Richard J. Sexton

Richard J. Sexton
President and Chief Executive 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 2017-18 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 Public Sector Accounting Standards (PSAS).

Management’s Narrative Discussion was authorized for issue by the Board of Directors on August 28, 2017.

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. AECL receives federal funding to deliver on its mandate and reports to Parliament through the Minister of Natural Resources. It also leverages the unique capabilities at its sites to support industry and other third parties on commercial terms (i.e. on a full cost recovery basis).

AECL delivers its mandate through a long-term, contractual arrangement with Canadian National Energy Alliance (CNEA) for the management and operation of Canadian Nuclear Laboratories (CNL) under a Government-owned, Contractor-operated model. Under this model, while AECL retains ownership of the facilities, assets, intellectual property and liabilities, CNL, a private-sector organization, manages AECL’s sites and facilities on a day-to-day basis. This model has been successfully used both in the United Kingdom and in the United States to bring private-sector rigour and efficiency in order to reduce risks and costs. AECL’s role is to set priorities for CNL, oversee the contract and assess CNL’s performance to ensure value for money for Canada. AECL acts as a ‘smart buyer’ and plays a challenge function with a view to advancing its priorities in the most effective and efficient manner, while maintaining safety, security and the protection of the environment.

There are two main areas of focus:

1. Decommissioning and Waste Management
   To safely and efficiently reduce the Government of Canada's radioactive waste liabilities. Through the Government-owned, Contractor-operated model, AECL leverages the expertise and experience of CNL to bring innovative, cost-effective solutions to infrastructure decommissioning, site remediation and radioactive waste management at AECL sites and other sites for which the Government has accepted responsibility.

2. Nuclear Laboratories
   The objective is to support: (i) Canada's federal roles, responsibilities and priorities;
   (ii) commercial services for third parties; and,
   (iii) capital projects and other corporate activities at the nuclear laboratories. Work in this area includes the renewal and modernization of the Chalk River site to enhance CNL's ability to provide safe, cost-effective and world-class science and technology as well as other services for Canada and commercial clients.

AECL Sites Across Canada

CNL manages several AECL sites across Canada including the Chalk River Laboratories, Canada's largest science and technology complex.

First Quarter Highlights for 2017-18

Decommissioning and Waste Management

AECL has a radioactive waste and decommissioning liability and a contaminated sites liability, which need to be addressed in order to reduce risks. Activities necessary to address these liabilities include cleaning-up existing waste areas, safely decontaminating, demolishing and disposing of contaminated buildings and facilities, and remediating affected lands, as appropriate. AECL's objective is to leverage the expertise and experience of CNL and its parent affiliate companies to cost effectively reduce risks and liabilities for Canada in a manner that is consistent with international best practices.

The Chalk River Laboratories has multiple buildings and facilities which require decontamination, decommissioning and demolition, and some areas which require contaminated soils to be remediated. These facilities and buildings are no longer needed to meet operational needs and contribute to high site costs through ongoing monitoring, maintenance, energy consumption, etc.

AECL has asked CNL to plan for, and carry on the necessary activities in order to address these liabilities. CNL's work in this respect includes the decommissioning of a number of these facilities at the Chalk River site, and a proposal to build a near surface disposal facility at the site in order to appropriately, responsibly and safely dispose of radioactive waste which is either currently stored on site or will be created as a result of remediation and decommissioning activities at AECL's Chalk River site and other smaller sites across Canada. During the first quarter of 2017-18, CNL continued its engagement activities with local stakeholders, with presentations to local municipal and county councils, meetings with Indigenous groups and open houses in local areas on both sides of the Ottawa River.

Also at the Chalk River Laboratories, transfers of stored fuel to the new Fuel Packaging & Storage Facility continued on schedule. This facility is used to safely store degraded fuel removed from existing tile holes (below ground storage) and safely place them in an above-ground storage facility. CNL successfully and safely retrieved, transferred, and repackaged, the used fuel in the new storage facility in order to reduce environmental hazards.

Another key project currently underway to reduce AECL's radioactive waste liabilities concerns the repatriation of highly enriched uranium to the United States. The material has been used at the Chalk River Laboratories primarily in the production of the medical isotope molybdenum-99. This material requires high levels of security as well as costly and complicated storage. As part of the Global Threat Reduction Initiative (an initiative which aims at reducing proliferation risks by consolidating highly-enriched uranium inventories in fewer locations around the world), AECL is working with the United States Department of Energy and CNL to return (repatriate) this material to the United States for conversion and reuse. This initiative provides for a safe, secure, timely and permanent solution to Canada's long-term management of this material. Shipments of fuel rods containing highly-enriched uranium, as well as shipments of target-residue material, to the Savanah River site in the United States were safely completed during the first quarter of 2017-18 as planned.

In Manitoba, work continued to decommission the Whiteshell site, which was previously an active nuclear research laboratory. This includes the decontamination and demolition of structures and planning for the in situ decommissioning (i.e. immobilizing and leaving in place) of the WR-1 research reactor. The proposal to decommission the research reactor in situ is in line with international best practice and provides a safe, environmentally sound, and more cost effective approach to address AECL's liability when compared with the removal and disposal of contaminated reactor components. The proposal, led by CNL, is currently undergoing an Environmental Assessment.

Finally, at the Port Hope Area Initiative, where historic low-level radioactive waste contamination in the municipalities of Port Hope and Clarington is being remediated, CNL continued with property investigations, construction and waste emplacement activities. The Port Hope Area Initiative is delivering on Canada's long-term commitment to clean up low-level radioactive waste in the community, restore historically contaminated lands and safely manage radioactive waste.

Nuclear Laboratories

CNL has started implementing its long-term vision for the Chalk River Laboratories which involves transforming the site into a world-class, state-of-the-art nuclear science and technology campus. A Request for Expression of Interest on Small Modular Reactors (SMRs) was launched with a view to building an understanding of the existing capabilities, technology gaps, needs and requirements both from technology developers and other stakeholders, and overall market interest. This is part of CNL's broader goal to position itself as a key partner in the development and deployment of SMRs.

CNL continues to deliver the Federal Nuclear Science and Technology Work Plan managed by AECL, performing nuclear science and technology in support of core federal priorities and mandates of thirteen federal departments and agencies in the areas of health, energy, safety and security, and the environment. Projects from the Federal Nuclear Science and Technology Work Plan continue to attract national and international interest, leveraging research with other programs such as the Canadian Safety and Security Program, the Generation IV International Forum, the International Atomic Energy Agency and the recently signed Cooperative Action Plan between the Department of Energy of the United States of America, Natural Resources of Canada and AECL on nuclear energy research and development. Project milestones continue to be achieved on time.

As part of its responsibilities for managing and operating AECL's sites, CNL operates the National Research Universal (NRU) reactor, Canada's largest nuclear research reactor located at the Chalk River Laboratories. Consistent with the Government of Canada's strategy, CNL ceased the routine production of the key medical isotope molybdenum-99 (Mo-99) from the NRU reactor in October 2016. In early 2015, the Government of Canada asked AECL, as a contingency, to retain the capacity to produce Mo-99 between October 2016 and March 2018 in case of a worldwide shortage. The NRU continues to be fully operational during this 'contingency period' for other purposes, and as such, production of Mo-99 could be resumed rapidly to address a significant, prolonged shortage.

That said, the global outlook for medical isotopes has improved over recent years. The latest projections from the Organisation for Economic Co-operation and Development (OECD) and the Association of Imaging Producers and Equipment Suppliers indicate that the global supply of Mo-99 is expected to be sufficient to meet global demand over the coming years.

Improvements to the Chalk River site infrastructure continued to progress. This includes the installation of a natural gas pipeline which will substantially reduce the operating cost of the Chalk River site, and the installation of a supply of domestic water which will address current deficiencies with the supply of potable water for food preparation, sanitary and personal facilities and safe drinking water. The new tritium laboratory, which is being built in an existing building, is also progressing well. The new laboratory will provide several upgrades and will enable CNL to leverage its expertise in tritium management to continue to grow its science and technology stature.

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, 2017, 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

	Three Months Ended June 30,	
($ millions)	**2017**	2016
Revenues		
Parliamentary appropriations	**$ 170**	$ 183
Commercial revenue	**17**	35
Interest income	**1**	2
	188	220
Expenses		
Cost of sales	**12**	25
Operating expenses	**14**	11
Contractual expenses	**81**	62
Decommissioning, waste management and contaminated sites expenses	**69**	72
Wrap-Up Office activities	**2**	3
	$ 178	$ 173

Parliamentary Appropriations

The Government of Canada provides funding for AECL to advance its priorities and deliver on its mandate. AECL recognized $170 million of Parliamentary appropriations in the first quarter of 2017-18, compared to $183 million for the same period in 2016-17. The first quarter variance is primarily related to AECL requiring less cash for capital and supplier payments.

Commercial Revenue

In the first quarter of 2017-18, $17 million in revenue was recognized, compared to $35 million for the same period in 2016-17. Revenue included isotope sales, commercial technology sales, nuclear waste management and research and development activities performed by CNL for commercial customers. The reported decrease in the first quarter can be attributed primarily to decreased isotope sales in the current period, consistent with the Government's decision to cease production of Mo-99 in October 2016.

Interest Income

Interest income is earned on cash, short-term investments from appropriations and investments held in trust. Income earned in the quarter is comparable to the prior period.

Cost of Sales

Cost of sales are consistent with the reported revenue for the period.

Operating Expenses

Operating expenses include AECL's oversight expenses and amortization of tangible capital assets. The $14 million in the current period is slightly higher than the previous year's quarter due to increased amortization of tangible capital assets.

Contractual Expenses

AECL delivers its mandate through a long-term contract with CNL for the management and operation of its sites. CNL expenditures are reported by AECL as Contractual expenses. Expenses in this category for the first quarter total $81 million, compared to $62 million in the first quarter of 2016-17. The reported increase is largely due to a reduction in, and timing of, commercial revenue generating activities, the resources for which would otherwise have been reported as Cost of sales.

Decommissioning, Waste Management and Contaminated Sites Expenses

Decommissioning, waste management and contaminated sites expenses consist of financial expenses and the revaluation (gain) loss, if any, on these reported liabilities. Financial expenses reflect the increase in the net present value (accretion of discount) of these reported liabilities. Decommissioning, waste management and contaminated sites expenses in the first quarter of 2017-18 of $69 million are comparable to that of the same period in 2016-17.

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 AECL and are referred to as 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 as planned.

Outlook

AECL's planned activities are set out in its Corporate Plan. The 2017-18 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 2017-18.

Consolidated Cash Flow and Working Capital

	Three Months Ended June 30,	
($ millions)	**2017**	2016
Cash provided by operating transactions	**$ 110**	$ 168
Cash applied to capital transactions	**(26)**	(44)
Cash		
Increase	**84**	124
Balance at beginning of the period	**37**	85
Balance at end of the period	**$ 121**	$ 209

Operating Transactions

Operating transactions generated a net cash inflow of $110 million in the first quarter of 2017-18, compared to $168 million during the same period in 2016-17. The variance is the result of lower appropriations and receipts from customers, and increased cash paid for decommissioning activities in 2017-18 compared to the prior period.

Capital Transactions

Capital transactions used cash of $26 million in the first quarter of 2017-18 compared to $44 million in the same period in 2016-17. The decrease is primarily due to the fact that the first quarter of 2016-17 included substantial construction activities for a new science and technology facility at the Chalk River site, which was largely completed in 2016-17.

Highlights of the Consolidated Statement of Financial Position

($ millions)	**June 30, 2017**	March 31, 2017	Variance In $	Variance By %
Financial Assets	**$ 454**	$ 475	$ (21)	-4%
Liabilities	**8,044**	8,053	(9)	0%
Non-Financial Assets	**610**	596	14	2%
Accumulated Deficit	**(6,980)**	(6,982)	2	0%

AECL closed the first quarter of 2017-18 with Financial Assets of $454 million, which represents a $21 million decrease from March 31, 2017. This variance is mainly the result of decreased cash received from Parliamentary appropriations and trade receivables that were collected during the quarter.

The decrease in Liabilities of $9 million can be attributed primarily to spending against the contaminated sites liability that exceeded the accretion in the liability.

The increase in Non-Financial Assets of $14 million is mainly a result of increased spending toward tangible capital assets.

Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2016-17 Annual Report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices as noted in the 2016-17 Annual Report have not materially changed in the first three months of 2017-18.

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 J. Sexton
President and Chief Executive Officer
August 29, 2017
Chalk River, Canada

David J. Smith
Chief Financial Officer
August 29, 2017
Chalk River, Canada

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position (Unaudited)

As at

(thousands of Canadian dollars)	Notes	**June 30, 2017**	March 31, 2017
Financial Assets			
Cash		**$ 121,354**	$ 37,024
Long-term disposal of waste fund		**19,702**	16,556
Investments held in trust		**50,686**	50,329
Trade and other receivables	3	**58,694**	70,909
Appropriations receivable	9	**-**	94,430
Inventories held for resale		**4,352**	4,369
Heavy water inventory		**199,512**	201,153
		454,300	474,770
Liabilities			
Accounts payable and accrued liabilities	4	**72,222**	71,511
Employee future benefits	5	**24,724**	25,160
Due to Canadian Nuclear Laboratories		**115,708**	111,663
Deferred decommissioning and waste management funding		**275,443**	269,512
Decommissioning and waste management provision	6	**6,492,865**	6,492,243
Contaminated sites liability	7	**1,061,723**	1,081,866
Customer advances and obligations		**1,232**	545
		8,043,917	8,052,500
Net Debt		**(7,589,617)**	(7,577,730)
Non-Financial Assets			
Tangible capital assets	8	**608,361**	594,674
Prepaid expenses		**1,249**	842
		609,610	595,516
Accumulated Deficit		**(6,980,007)**	(6,982,214)
Accumulated deficit is comprised of:			
Accumulated operating deficit		**(6,980,810)**	(6,983,092)
Accumulated remeasurement gains		**803**	878
		$ (6,980,007)	$ (6,982,214)

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

Consolidated Statement of Operations and Accumulated Deficit (Unaudited)

For the three months ended

(thousands of Canadian dollars)	Notes	2018 Budget	**June 30, 2017**	June 30, 2016
Revenues				
Parliamentary appropriations	9	$ 966,368	**$ 169,570**	$ 182,720
Commercial revenue		77,800	**16,843**	34,858
Interest income		4,000	**1,050**	1,849
		1,048,168	**187,463**	219,427
Expenses				
Cost of sales		42,790	**11,956**	25,124
Operating expenses		52,293	**13,991**	10,543
Contractual expenses	10	339,181	**80,889**	62,034
Decommissioning, waste management and contaminated sites expenses		283,897	**68,865**	71,699
Wrap-Up Office activities		12,000	**1,806**	3,211
		730,161	**177,507**	172,611
Surplus for the period		318,007	**9,956**	46,816
Accumulated operating deficit, beginning of period		(6,983,092)	**(6,983,092)**	(7,337,278)
Transfer to deferred decommissioning and waste management funding		(18,000)	**(5,931)**	(5,931)
Transfer to repayable contributions		(5,000)	**(1,743)**	(1,826)
Accumulated operating deficit, end of period		$ (6,688,085)	**$ (6,980,810)**	$ (7,298,219)

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

Consolidated Statement of Remeasurement Gains and Losses (Unaudited)

For the three months ended

(thousands of Canadian dollars)		**June 30, 2017**		June 30, 2016
Accumulated remeasurement gains, beginning of period	**$**	**878**	$	1,301
Remeasurement (losses) gains arising during the period				
Unrealized (losses) gains on Investments held in trust		**(63)**		387
Reclassifications to the Consolidated Statement of Operations and Accumulated Deficit				
Realized gains on Investments held in trust		**(12)**		(29)
Net remeasurement (losses) gains for the period		**(75)**		358
Accumulated remeasurement gains, end of period	**$**	**803**	$	1,659

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

Consolidated Statement of Change in Net Debt (Unaudited)

For the three months ended

(thousands of Canadian dollars)	Notes	2018 Budget	**June 30, 2017**	June 30, 2016
Surplus for the period		$ 318,007	**$ 9,956**	$ 46,816
Tangible capital assets				
Acquisition of tangible capital assets	8	(165,000)	**(22,918)**	(33,165)
Amortization of tangible capital assets	8	35,350	**9,238**	5,837
Disposal of tangible capital assets	8	-	**(7)**	-
		(129,650)	**(13,687)**	(27,328)
Non-financial assets				
Changes in prepaid expenses		-	**(407)**	(425)
Net remeasurement (losses) gains for the period		-	**(75)**	358
Decrease (increase) in net debt		188,357	**(4,213)**	19,421
Net debt at beginning of period		(7,577,730)	**(7,577,730)**	(7,843,195)
Transfer to deferred decommissioning and waste management funding		(18,000)	**(5,931)**	(5,931)
Transfer to repayable contributions		(5,000)	**(1,743)**	(1,826)
Net debt at end of period		$ (7,412,373)	**$ (7,589,617)**	$ (7,831,531)

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

Consolidated Statement of Cash Flows (Unaudited)

For the three months ended

(thousands of Canadian dollars)	**June 30, 2017**	June 30, 2016
Operating transactions		
Cash receipts from Parliamentary appropriations	**$ 264,000**	$ 349,716
Cash receipts from customers	**30,150**	39,354
Cash paid to suppliers	**(89,799)**	(139,392)
Cash paid to employees	**(5,564)**	(5,058)
Cash paid for decommissioning, waste management and contaminated sites activities	**(88,358)**	(77,133)
Interest received	**225**	286
Cash provided by operating transactions	**110,654**	167,773
Capital transactions		
Acquisition of tangible capital assets	**(26,324)**	(44,040)
Cash applied to capital transactions	**(26,324)**	(44,040)
Increase in cash	**84,330**	123,733
Cash at beginning of period	**37,024**	84,553
Cash at end of period	**$ 121,354**	$ 208,286

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 enable nuclear science and technology and manage Canada's radioactive waste and decommissioning activities. Since 2015, AECL has been delivering 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.

AECL also manages the retained liabilities associated with its former CANDU Reactor Division (Commercial Operations), which was sold to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin, on October 2, 2011. These activities are referred to as the Wrap-up Office.

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.

AECL's 2017-2018 to 2021-2022 Corporate Plan received Governor in Council approval in the fourth quarter of the 2016-17 fiscal year. The Corporate Plan is aligned with the direction provided by AECL's sole shareholder, the Government of Canada, and reflects AECL's priorities under the Government-owned, Contractor-operated model.

2. Significant Accounting Policies

a) Basis of Accounting

These consolidated quarterly 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, 2017.

Both financial and non-financial assets are reported on the Consolidated 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 (or debt), but rather are added to the net financial assets (or debt) to determine the accumulated surplus (deficit).

Measurement Uncertainty

The preparation of the consolidated quarterly 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 quarterly 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 2017-18 budget is reflected in the Consolidated Statement of Operations and Accumulated Deficit and the Consolidated Statement of Change in Net Debt. Budget data presented in these consolidated financial statements is based upon the 2017-18 projections and estimates contained within the 2017-18 to 2021-22 Corporate Plan.

b) Basis of Consolidation

Subsidiaries are entities controlled by AECL. The financial statements of subsidiaries are included in the consolidated quarterly financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies of AECL. These consolidated quarterly financial statements include the accounts of AECL's wholly-owned but inactive subsidiary, AECL Technologies B.V., incorporated in the Netherlands in 1995.

3. Trade and Other Receivables

(thousands of Canadian dollars)		**June 30, 2017**		March 31, 2017
Trade receivables	**$**	**16,594**	$	18,058
Less: allowance for doubtful accounts		**(3,419)**		(3,419)
Net trade receivables		**13,175**		14,639
Other receivables:				
Unbilled revenue		**8,014**		7,632
Consumption taxes receivable		**8,966**		11,825
Contract receivables from customers in respect of the financing of products and services, maturing through 2019 at fixed repayment amounts		**21,302**		28,096
Finance lease receivable		**6,139**		7,619
Other receivables		**1,098**		1,098
	$	**58,694**	$	70,909

4. Accounts Payable and Accrued Liabilities

(thousands of Canadian dollars)		**June 30, 2017**		March 31, 2017
Trade payables	**$**	**8,587**	$	5,864
Other payables and accrued expenses		**17,759**		19,027
Accrued payroll liabilities		**1,235**		3,555
Amounts due to related parties		**37,574**		35,832
Amounts due to Shareholder		**554**		1,080
Provisions		**5,977**		6,013
Restructuring provision		**536**		140
	$	**72,222**	$	71,511

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 12 of the annual audited consolidated financial statements dated March 31, 2017).

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 and disputes with suppliers.

5. 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 made on account of current service are as follows:

	Three Months Ended June 30,			
(thousands of Canadian dollars)		**2017**		2016
Payments by employees	**$**	**307**	$	213
Payments by employer		**1,518**		782

The Government of Canada holds a statutory obligation for the payment of benefits relating to the PSPP. 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 Future Benefits

AECL provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 3(i) of the annual audited consolidated financial statements dated March 31, 2017. 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 $24.7 million (March 31, 2017: $25.2 million).

The VTC included in the reported Employee future benefits liability is $10.3 million (March 31, 2017: $10.5 million) and is payable in instances of future voluntary resignations and retirements.

AECL's total expense for employee future benefits was $0.6 million for this quarter (Q1 2016-17: $0.9 million).

6. Decommissioning and Waste Management Provision

AECL has an obligation to decommission its nuclear facilities and other assets in order to address its liabilities, reduce risk, and protect the environment. A portion of the liabilities relate to obligations stemming from activities undertaken prior to the creation of AECL in 1952.

(thousands of Canadian dollars)	**June 30, 2017**	March 31, 2017
Carrying amount - Beginning of period	**$ 6,492,243**	$ 6,763,423
Liabilities settled	**(65,490)**	(250,002)
Unwinding of discount	**62,966**	262,387
Revision in estimate and timing of expenditures	**-**	(293,390)
Waste, decommissioning and site restoration costs from ongoing operations	**3,146**	9,825
Carrying amount - End of period	**$ 6,492,865**	$ 6,492,243

The undiscounted future expenditures, adjusted for inflation, for the planned projects comprising the liability are $16,474.4 million (March 31, 2017: $16,539.9 million).

The provision as at June 30, 2017 and March 31, 2017 were discounted using a rate of 3.88%.

7. Contaminated Sites Liability

AECL has the responsibilities for the implementation of the Government of Canada's commitments with respect to the Port Hope Area Initiative and Low-Level Radioactive Waste Management Office.

(thousands of Canadian dollars)	**June 30, 2017**	March 31, 2017
Carrying amount - Beginning of period	**$ 1,081,866**	$ 1,109,493
Liabilities settled	**(26,042)**	(84,378)
Unwinding of discount	**5,899**	24,409
Revision in estimate and timing of expenditures	**-**	32,342
Carrying amount - End of period	**$ 1,061,723**	$ 1,081,866

The nature of the Port Hope Area Initiative liability is the clean-up and local, long-term, safe management of historic low-level radioactive waste in the municipalities of Port Hope and Clarington, in Ontario. This waste consists mainly of past process residues containing uranium and radium, and associated contaminated soils, the result of activities of a former federal Crown corporation and its private sector predecessors. The implementation phase is forecasted to be complete in 2023-24, with long-term monitoring and maintenance expected to continue for 30 years after implementation. The liability is discounted using net present value techniques at a rate of 2.18%. The estimated total undiscounted expenditures are $1,187.5 million (March 31, 2017: $1,213.5 million).

The Low-Level Radioactive Waste Management Office 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). Historic low-level radioactive waste is material contaminated with low levels of radioactivity that resulted from past practices, no longer considered acceptable by today's standards, for which the original owner can no longer be reasonably held responsible.

8. Tangible Capital Assets

(thousands of Canadian dollars)

	Construction in progress	Land and land improvements	Buildings	Reactors, Machinery and Equipment	Total
Cost at March 31, 2017	**$ 184,512**	**$ 82,654**	**$ 416,808**	**$ 447,238**	**$ 1,131,212**
Additions and transfers	22,918	25	156	299	23,398
Disposals and transfers	(480)	-	-	-	(480)
Cost at June 30, 2017	**206,950**	**82,679**	**416,964**	**447,537**	**1,154,130**
Amortization at March 31, 2017	-	**34,765**	**193,311**	**308,462**	**536,538**
Increase in amortization	-	969	2,288	5,981	9,238
Disposals	-	-	(7)	-	(7)
Amortization at June 30, 2017	-	**35,734**	**195,592**	**314,443**	**545,769**
Net carrying amount at March 31, 2017	**184,512**	**47,889**	**223,497**	**138,776**	**594,674**
Net carrying amount at June 30, 2017	**$ 206,950**	**$ 46,945**	**$ 221,372**	**$ 133,094**	**$ 608,361**

9. Parliamentary Appropriations

AECL segregates its Parliamentary appropriations, which includes Statutory Funding, to ensure funds are spent in a manner consistent with the purpose 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. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of AECL's Commercial Operations in 2011 (Wrap-up Office).

Parliamentary appropriations were recognized as follows:

(thousands of Canadian dollars)	Three Months Ended June 30 **2017**	2016
Parliamentary appropriations for operating and capital expenditures		
Amount received during the period for operating and capital expenditures	**$ 264,000**	$ 349,716
Amount receivable from a previous period	**(94,430)**	(19,400)
Amount received related to the next period (Deferred funding)	**-**	(147,596)
Total Parliamentary appropriations recognized	**$ 169,570**	$ 182,720

In Q1 2017-18, AECL received $264 million and recognized a sum of $170 million (Q1 2016-17: $350 million received and $183 million recognized). The difference between received and recognized Parliamentary appropriations relate to amounts received but related to either a previous or subsequent quarter.

The amounts approved for operating and capital expenditures totaled $970 million for the year ending March 31, 2018 and $845 million for the year ended March 31, 2017 based on the approved reprofile.

10. 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 expenses were incurred:

(thousands of Canadian dollars)		Three Months Ended June 30, 2017		2016
Contractual amounts paid or payable	**$**	**204,473**	$	194,928
Less: Costs charged to Decommissioning and waste management provision and Contaminated sites liability		**(90,933)**		(79,890)
Less: Costs charged to Construction in progress		**(22,918)**		(32,498)
Less: Costs classified as Cost of sales		**(9,733)**		(20,506)
Contractual expenses	**$**	**80,889**	$	62,034

Contractual amounts paid or payable on account of the current year include fees paid to CNEA, in accordance with the long-term contractual arrangement between AECL and CNEA and CNL.

11. Comparative Figures

Certain of the June 30, 2016 comparative figures have been reclassified to conform to the financial statement presentation adopted in the 2017-18 fiscal year.

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