



ATOMIC ENERGY OF CANADA LIMITED

Third Quarter Financial Report

Consolidated Financial Statements (Unaudited)

**As at and for the three and nine months ended
December 31, 2017 and December 31, 2016**

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MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

AECL, as a federal Crown corporation, delivers an important mandate that contributes to the Government's innovation, clean growth and environmental objectives. Through the work of Canadian Nuclear Laboratories (CNL), which manages AECL sites under a Government-owned, Contractor-operated (GoCo) model, we continue to see nuclear science and technology activities being delivered in the areas of health, nuclear safety and security, energy, and environment.

In fact, the Chalk River Laboratories, Canada's largest science and technology complex, are undergoing an important transformation that will position them as a world-class, state-of-the-art, nuclear science and technology campus. The Government of Canada is investing \$1.2 billion over ten years to realize this transformation, with new and renewed science and infrastructure buildings and facilities being constructed.

To realize this vision, CNL has articulated a vision for the site. This includes proposals for new and renewed buildings – some of which have been inaugurated and others for which the planning is currently underway – and the decommissioning and remediation of old, obsolete and contaminated buildings and lands. With new laboratory facilities being erected, we also need to responsibly take care of the legacy radioactive waste and contamination that is present at the Chalk River site. Activities to that effect are well underway and include the decontamination and decommissioning of several buildings, and the proposal to build a near surface disposal facility at the Chalk River site for the disposal of AECL's low-level radioactive waste. This facility is essential to enabling the remediation of contaminated lands and the decommissioning and demolition of outdated buildings at the site and will enable the placement of debris and contaminated materials in an engineered and modern facility. During this quarter, CNL continued to engage with the public, stakeholders and Indigenous groups as part of the Environmental Assessment process that is underway.

Significant progress was also made by CNL in advancing the remediation as part of the Port Hope Area Initiative, with waste emplacement beginning at the Port Hope Project. The objective of this initiative is to remediate historic low-level radioactive waste contamination in the municipalities of Port Hope and Clarington, in Ontario. Indeed AECL is responsible for Canada's long-term commitment to clean up low-level radioactive waste in the community, remediate historically contaminated lands and safely manage radioactive waste. Long-term waste management facilities are being constructed to safely store the contaminated materials.

AECL continued to oversee CNL's performance of these activities as part of its effort to bring value for money for Canada. This report highlights some of the significant progress accomplished during the third quarter of 2017-18 by CNL on behalf of AECL.



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 third 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 issuance by the Board of Directors on February 22, 2018.

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.

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, AECL retains ownership of the sites, facilities, intellectual property and liabilities. CNL, a private-sector organization, manages AECL's sites and facilities on a day-to-day basis under a contract with AECL. 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 contain and reduce risks and costs. AECL's role is threefold: 1) to act as an agent of Government; 2) to provide advice and support related to nuclear policy to Canada; and 3) to set priorities for CNL, oversee the contract and assess CNL's performance to bring 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

The primary objective is to safely and responsibly address the environmental responsibilities and liabilities which have been created as a result of decades of nuclear science and technology activities and medical isotope production at AECL sites. This requires the decontamination and decommissioning of redundant structures and buildings, the remediation of contaminated lands

and the management and disposal of radioactive waste at AECL sites, primarily at Chalk River Laboratories and Port Hope in Ontario and Whiteshell Laboratories in Manitoba. Responsible decommissioning and radioactive waste management is necessary in order to clean up AECL's sites and make way for new buildings that will support the ongoing nuclear science and technology mission at the Chalk River site.

2. Nuclear Laboratories

The Chalk River Laboratories are Canada's largest science and technology complex and host to more than 2,800 employees including a large number of engineers, scientists and technical staff. The work undertaken at the laboratories supports Canada's federal roles, responsibilities and priorities in the areas of health, energy, the environment, safety and security. The laboratories also provide services to third parties on a commercial basis. The Chalk River site is currently undergoing an important renewal and modernization that will transform the site into a modern, world-class nuclear science and technology campus, thanks to a \$1.2 billion over ten years investment by the federal government, beginning in 2016-17.

AECL Sites Across Canada



On behalf of AECL, CNL manages and operates several sites across Canada including the Chalk River Laboratories

Third Quarter Highlights for 2017-18

Decommissioning and Waste Management

AECL is responsible for safely addressing environmental responsibilities and liabilities which are the result of more than 60 years of nuclear science and technology activities at its sites. For example, the production of medical isotopes, which are used in the detection and treatment of cancer, has over the years produced radioactive waste which needs to be addressed. Similarly, nuclear science activities have led to the contamination of buildings which, having reached the end of their useful life, must be decontaminated and demolished.

AECL is also responsible for the remediation and safe, long-term management of historic, low-level radioactive waste at sites in Canada for which the Government of Canada has accepted responsibility. This includes activities related to the Low-Level Radioactive Waste Management Office and the delivery of the Port Hope Area Initiative. In both cases, remediation is required in order to address liabilities associated with past radioactive waste management practices which are no longer considered acceptable, and for which the current owner does not exist and/or cannot reasonably be held responsible.

Activities necessary to address these liabilities include cleaning-up existing radioactive waste areas, safely decontaminating, demolishing and disposing of buildings and facilities, and remediating contaminated lands. AECL has asked CNL to carry out these activities on its behalf using international best practices. This is done at several sites across Canada. Notable accomplishments for the second quarter of 2017-18 are presented below.

The Chalk River Laboratories has multiple buildings and facilities which require decontamination, decommissioning and demolition, and some areas where contaminated soils need to be remediated. These facilities and buildings are no longer needed to meet operational needs as they are beyond their design life and can be made safer through controlled decontamination and decommissioning. Remaining contaminated materials and demolition debris needs to be disposed of in purpose-built, engineered facilities. Similarly, contaminated lands that are remediated also need to be disposed of safely, in facilities that will contain the contaminants and protect the environment for the long term.

AECL has asked CNL to plan for, and carry out the necessary activities in order to reduce the risks to workers and the environment. CNL's work in this respect includes the decommissioning of a number of buildings at the Chalk River site, and a proposal to build a near surface disposal facility at the site in order to responsibly and safely dispose of AECL's low-level radioactive waste. The radioactive waste intended for the disposal facility is either currently stored on site, will be created as a result of land remediation and decommissioning activities at the Chalk River site and other smaller AECL sites across Canada, or will be produced as nuclear science and technology activities continue to be performed at the Chalk River site in the coming decades. It is also expected that a small percentage of radioactive waste to be disposed in the facility will come from hospitals and universities (as a result, for example, of nuclear medicine activities).

During the third quarter of 2017-18, CNL continued its engagement activities with local stakeholders, including site tours and information sessions, as well as outreach to, and meetings with, Indigenous groups on the proposed Near Surface Disposal Facility (NSDF) in order to provide information and obtain input. Based in part on input received to date from stakeholders and Indigenous groups, CNL has re-evaluated its proposal for the NSDF and has made the decision to only include low-level radioactive waste in the facility. The original proposal provided for 1% of the waste to include intermediate-level waste; it has now been determined that waste intended for disposal in the facility will only include low-level radioactive waste, as set out in the guidelines of the International Atomic Energy Agency. Intermediate-level waste will continue to be managed in interim storage at the Chalk River Laboratories until a long-term disposal solution for this category of radioactive waste has been developed and approved.

Meanwhile, work continued at the Chalk River Laboratories to address decommissioning needs and safely manage existing waste. During the third quarter of 2017-18, eight redundant structures were demolished, thereby reducing the site's overall liabilities and operating costs, and making way for new infrastructure.

Also at the Chalk River Laboratories, transfers of stored fuel to the new Fuel Packaging & Storage Facility continued ahead of schedule. This facility is used to safely store used fuel – transferring it from its existing below-ground storage which has degraded over the years, to a new, state-of-the-art above

ground storage facility. This will allow for the continued, safe management of used fuel while a permanent disposal solution is being developed by the Nuclear Waste Management Organization.

Another key project currently underway 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 Savannah River site in the United States continued to be safely completed during the third 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. During the third quarter of 2017-18, CNL submitted a draft Environmental Impact Statement, which was provided to the public as part of the Environmental Assessment process, and continued to engage with stakeholders, the public and Indigenous groups on its proposal through site tours and meetings.

Similarly, CNL continued to advance its proposal for the in situ decommissioning of the **Nuclear Power Demonstration reactor**. During the third quarter of 2017-18, CNL submitted a draft Environmental Impact Statement, and continued to engage with stakeholders, the public and Indigenous groups through outreach, site tours and meetings.

Finally, as part of 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. The Port Hope Area Initiative is delivering on Canada's long-term commitment to clean up low-level radioactive waste in the community, remediate historically contaminated lands and safely manage radioactive waste.

Activities in the third quarter of 2017-18 included the active commissioning of the Port Hope Waste Water Treatment Plant as well as the placement of the first truckloads of contaminated soil into the new engineered aboveground mound at the Port Hope Project. Waste transfer from sites in the rest of the community remains on schedule to begin in 2018. To date, 4,300 properties in the Municipality of Port Hope have been involved in some aspect of the Property Radiological Survey, which is testing approximately 4,800 properties for the presence or absence of historic low-level radioactive waste.

Nuclear Laboratories

AECL's objective is to leverage the vast experience and expertise at the Chalk River Laboratories to contribute to the government's science, innovation and clean energy objectives. Nuclear science and technology activities at the Chalk River Laboratories support the Federal Nuclear Science and Technology Work Plan, which helps the Government of Canada deliver on its responsibilities and priorities in the areas of health, nuclear safety and security, energy and the environment. To further grow and build the science expertise and capabilities at Chalk River, AECL has asked CNL to provide research and development products and services for third parties on a commercial basis.

AECL has asked CNL to develop a long-term vision for the Chalk River Laboratories in order to transform the site into a world-class, state-of-the-art nuclear science and technology campus. CNL's plans to that effect have been reviewed and approved by AECL. They entail, amongst other, the construction of an advanced nuclear material research centre, which will consolidate research activities into a modern facility and enable CNL to grow its stature nationally and internationally. Planning activities for this facility continued during the third quarter of 2017-18, including benchmarking with other facilities to leverage lessons learned and identify areas of complementarity with respect to facilities and capabilities.

AECL also continued to oversee the Federal Nuclear Science and Technology Work Plan, which is delivered by CNL. As part of this work plan, thirteen federal departments and agencies are working with AECL and CNL to identify priorities and areas of work in nuclear science and technology in order to support federal priorities and mandates 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 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 by CNL on time.

During the third quarter of 2017-18, CNL delivered important work in the area of nuclear science and technology for commercial partners. Work in support of the Candu Owner's Group continued to provide CANDU reactor operators with better understanding of materials properties in both normal and abnormal scenarios. This ultimately contributes to the ongoing, safe operations of the reactors. CNL is also exploring partnerships and commercial opportunities with respect to the Biological Research Facility, and leveraged existing facilities to perform work for commercial clients. For example, the Radiography Facility was used for the first time to perform irradiation of an electronic device. While revenue targets are expected to be met, AECL continues to monitor closely given risks associated with staffing levels. CNL is actively recruiting scientists in order to meet increasing work demands.

CNL also continued its efforts to attract partners in order to facilitate the development and deployment of small modular reactors. In the third quarter of 2017-18, efforts continued on further analysis and interpretation of the market feedback.

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. The NRU has been operating for 60 years and is slated to be shutdown permanently at the end of March 2018. While the production of the key medical isotope molybdenum-99 from the NRU reactor ended in October 2016, AECL has asked CNL to retain the capability to produce the isotope in the event of a worldwide shortage, which couldn't be mitigated through other means. In the meantime, the NRU continues to be fully operational for other purposes and the global supply of medical isotopes continues to meet demand without the need for the NRU to resume production. The future outlook also continues to be positive, as projected by the Organization for Economic Co-operation and Development (OECD) and the Association of Imaging Producers and Equipment Suppliers. During the third quarter of 2017-18, planning for the safe shutdown of the research reactor continued. CNL also continued to engage employees in its retain, retrain and redeploy program, which aims at retaining and retraining talented staff once NRU activities wind down.

Improvements to the Chalk River site infrastructure continued to progress. This includes the conversion of the site power house from oil to natural gas and other buildings from electricity to natural gas, which is already reducing the operating cost of the Chalk River site and its carbon footprint. Furthermore, the installation of a supply of domestic water 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 progressing well and will be ready for commissioning early in 2018. 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.

Finally, planning for new buildings in order to revitalize the Chalk River site continued to progress. Design and planning activities continued for:

- The Business Hub, which will consolidate key support functions such as Information Technology and digital technical reference storage in a modern, sustainable facility to foster research and business partnerships.
- The logistics and warehouse building, which will facilitate shipping and receiving at the Chalk River site and located at the outer gate area. The facility will increase security at the outer precinct of the site and reduce the need for non-CNL staff to be on site, thereby reducing administrative costs, improving logistics productivity and efficiency, improving inventory efficiency and turnover, and reducing site traffic and congestion.
- The maintenance building, which will consolidate maintenance resources, work management resources and equipment into a single, centralized location at the Chalk River site. This includes the consolidation of 32 maintenance shops into 3, which will allow CNL to achieve efficiencies and provide safer, more cost-effective support to the programs on site which require maintenance support services.

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 three and nine months ended December 31, 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

(\$ millions)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Revenues				
Parliamentary appropriations	\$ 187	\$ 168	\$ 490	\$ 498
Commercial revenue	26	21	63	85
Interest income	1	1	3	4
	214	190	556	587
Expenses				
Cost of sales	15	12	47	58
Operating expenses	33	12	65	33
Contractual expenses	76	79	240	242
Decommissioning, waste management and contaminated sites expenses	69	61	207	205
Wrap-Up Office activities	1	-	3	3
	\$ 194	\$ 164	\$ 562	\$ 541
Surplus (Deficit) for the period	\$ 20	\$ 26	\$ (6)	\$ 46

Parliamentary Appropriations

The Government of Canada provides funding quarterly for AECL to advance its priorities and deliver on its mandate. AECL recognized \$187 million of Parliamentary appropriations in the third quarter of 2017-18, compared to \$168 million for the same period in 2016-17. On a year-to-date basis, AECL

recognized \$490 million of Parliamentary appropriations, compared to \$498 million for the same period in 2016-17. The third quarter variance is primarily related to AECL requiring more cash for decommissioning, waste management and contaminated sites activities.

Commercial Revenue

In the third quarter of 2017-18, \$26 million in revenue was recognized, compared to \$21 million for the same period in 2016-17. On a year-to-date basis, revenues were \$63 million, compared to \$85 million in 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 increase in the quarter can be attributed to increased isotope sales for Cobalt, however the decrease year-to-date is the result of lower overall isotope sales, consistent with the Government's decision to cease production of molybdenum-99 from the NRU reactor 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 and year-to-date is comparable to the prior periods.

Cost of Sales

Cost of sales are consistent with the reported revenues for the periods, except for a decrease in the year-to-date margin as a result of the discontinuation of molybdenum-99 production in October 2016.

Operating Expenses

Operating expenses include AECL's oversight expenses and amortization of tangible capital assets. The \$33 million in the current period is higher than the previous year's quarter of \$12 million. On a year-to-date basis, operating expenses were \$65 million compared to \$33 million in the prior period. The current period and year-to-date variances are due primarily to increased amortization of tangible capital assets of \$8 million, as well as write-offs of items in trade and other receivables totalling \$7 million and \$10 million in construction in progress.

Contractual Expenses

AECL delivers its mandate through a long-term contract with CNEA for the management and operation of its sites. CNL expenditures are reported by AECL as Contractual expenses. Expenses in this category for the third quarter total \$76 million, compared to \$79 million in the third quarter of 2016-17. Year-to-date expenses in this category total \$240 million compared to \$242 million in the previous period in 2016-17.

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 third quarter of 2017-18 of \$69 million and year-to-date of \$207 million are comparable to that of the same periods 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.

Surplus (Deficit) for the Period

Consistent with AECL's financial reporting framework, appropriations are recognized as received in a given period and may be greater or less than the reported expenditures for the same period. For instance, amounts received to fund decommissioning, waste management and contaminated sites expenditures are recorded as Parliamentary appropriations revenue in the current period while the related expenditures are drawn down from the associated liabilities previously recorded on the Consolidated Statement of Financial Position. And with respect to tangible capital assets, Parliamentary appropriations revenue includes amounts to fund the purchase and construction of these assets in the period while the related expenditures are capitalized, and so the reported operating expenses include only the amortization of existing tangible capital assets.

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. As such, AECL is on track to meet its commitments within budget. Priorities and deliverables have not materially changed in the first nine months of 2017-18.

Consolidated Cash Flow and Working Capital

(\$ millions)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Cash provided by operating transactions	\$ 94	\$ 50	\$ 331	\$ 272
Cash applied to capital transactions	(27)	(34)	(85)	(116)
Cash				
Increase	67	16	246	156
Balance at beginning of the period	216	225	37	85
Balance at end of the period	\$ 283	\$ 241	\$ 283	\$ 241

Operating Transactions

Operating transactions generated a net cash inflow of \$94 million in the third quarter of 2017-18, compared to \$50 million during the same period in 2016-17. On a year-to-date basis, operating activities resulted in a net cash inflow of \$331 million compared to \$272 million during the same period the previous year. The variance in the quarter and the year-to-date is the result of receiving higher Parliamentary Appropriations for fourth quarter activities than in the previous period.

Capital Transactions

Capital transactions used cash of \$27 million in the third quarter of 2017-18 compared to \$34 million in the same period in 2016-17. On a year-to-date basis, capital activities used cash of \$85 million compared to \$116 million used in the same period in the previous year. The decrease is primarily due to the fact that 2016-17 included substantial construction activities for a new science and technology facility (the Harriet Brooks building) at the Chalk River site, which was largely completed in 2016-17.

Highlights of the Consolidated Statement of Financial Position

<i>(\$ millions)</i>	December 31, 2017	March 31, 2017	Variance In \$	Variance By %
Financial Assets	\$ 592	\$ 475	\$ 117	25%
Liabilities	8,246	8,053	193	2%
Non-Financial Assets	645	596	49	8%
Accumulated Deficit	(7,009)	(6,982)	(27)	0%

AECL closed the third quarter of 2017-18 with Financial Assets of \$592 million, which represents a \$117 million increase from March 31, 2017. This variance is mainly the result of increased cash received from Parliamentary appropriations as the appropriations for the fourth quarter of 2017-18 were received just prior to the end of the current quarter and was treated as Deferred funding.

The increase in Liabilities of \$193 million can be attributed primarily to the increase in Deferred funding as described above.

The increase in Non-Financial Assets of \$49 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 nine 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

February 22, 2018

Chalk River, Canada



David J. Smith

Chief Financial Officer

February 22, 2018

Chalk River, Canada

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position (Unaudited)

As at

<i>(thousands of Canadian dollars)</i>	Notes	December 31, 2017	March 31, 2017
Financial Assets			
Cash		\$ 283,241	\$ 37,024
Long-term disposal of waste fund		24,857	16,556
Investments held in trust		50,500	50,329
Trade and other receivables	3	37,814	70,909
Appropriations receivable	9	-	94,430
Inventories held for resale		4,028	4,369
Heavy water inventory		191,231	201,153
		591,671	474,770
Liabilities			
Accounts payable and accrued liabilities	4	75,018	71,511
Employee future benefits	5	24,447	25,160
Due to Canadian Nuclear Laboratories		130,652	111,663
Deferred funding	9	232,500	-
Deferred decommissioning and waste management funding		287,694	269,512
Decommissioning and waste management provision	6	6,473,172	6,492,243
Contaminated sites liability	7	1,020,199	1,081,866
Customer advances and obligations		2,557	545
		8,246,239	8,052,500
Net Debt		(7,654,568)	(7,577,730)
Non-Financial Assets			
Tangible capital assets	8	645,321	594,674
Prepaid expenses		-	842
		645,321	595,516
Accumulated Deficit		(7,009,247)	(6,982,214)
Accumulated deficit is comprised of:			
Accumulated operating deficit		(7,009,295)	(6,983,092)
Accumulated remeasurement gains		48	878
		\$ (7,009,247)	\$ (6,982,214)

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

Consolidated Statement of Operations and Accumulated Deficit (Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	2018	Three Months Ended		Nine Months Ended	
		Budget	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Revenues						
Parliamentary appropriations	9	\$ 966,368	\$ 187,100	\$ 167,980	\$ 489,970	\$ 498,296
Commercial revenue		77,800	25,594	20,817	62,501	85,145
Interest income		4,000	1,137	729	3,078	3,886
		1,048,168	213,831	189,526	555,549	587,327
Expenses						
Cost of sales		42,790	15,393	11,796	46,768	58,409
Operating expenses		52,293	33,005	12,358	64,749	33,478
Contractual expenses	10	339,181	76,329	79,384	239,802	241,546
Decommissioning, waste management and contaminated sites expenses		283,897	68,865	61,197	206,596	204,595
Wrap-Up Office activities		12,000	1,141	(218)	3,497	3,419
		730,161	194,733	164,517	561,412	541,447
Surplus (Deficit) for the period		318,007	19,098	25,009	(5,863)	45,880
Accumulated operating deficit, beginning of period		(6,983,092)	(7,022,319)	(7,332,511)	(6,983,092)	(7,338,581)
Transfer to deferred decommissioning and waste management funding		(18,000)	(5,931)	(5,930)	(18,182)	(18,181)
Transfer to repayable contributions		(5,000)	(143)	(1,010)	(2,158)	(3,560)
Accumulated operating deficit, end of period		\$ (6,688,085)	\$ (7,009,295)	\$ (7,314,442)	\$ (7,009,295)	\$ (7,314,442)

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

Consolidated Statement of Remeasurement Gains and Losses (Unaudited)

<i>(thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Accumulated remeasurement (losses) gains, beginning of period	\$ (206)	\$ 1,844	\$ 878	\$ 1,301
Remeasurement gains (losses) arising during the period				
Unrealized gains (losses) on Investments held in trust	300	(1,166)	(817)	(594)
Reclassifications to the Consolidated Statement of Operations and Accumulated Deficit				
Realized gains on Investments held in trust	(46)	(115)	(13)	(144)
Net remeasurement gains (losses) for the period	254	(1,281)	(830)	(738)
Accumulated remeasurement gains, end of period	\$ 48	\$ 563	\$ 48	\$ 563

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

Consolidated Statement of Change in Net Debt (Unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	2018	Three Months Ended		Nine Months Ended	
		Budget	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Surplus (Deficit) for the period		\$ 318,007	\$ 19,098	\$ 25,009	\$ (5,863)	\$ 45,880
Tangible capital assets						
Acquisition of tangible capital assets	8	(165,000)	(34,573)	(37,095)	(89,894)	(106,616)
Amortization of tangible capital assets	8	35,350	9,427	7,950	28,530	20,263
Disposal of tangible capital assets	8	-	809	88	1,031	226
Write-down of tangible capital assets	15	-	9,686	-	9,686	-
		(129,650)	(14,651)	(29,057)	(50,647)	(86,127)
Non-financial assets						
Changes in prepaid expenses		-	1,317	597	842	420
Net remeasurement gains (losses) for the period		-	254	(1,281)	(830)	(738)
Decrease (increase) in net debt		188,357	6,018	(4,732)	(56,498)	(40,565)
Net debt at beginning of period		(7,577,730)	(7,654,512)	(7,893,829)	(7,577,730)	(7,843,195)
Transfer to deferred decommissioning and waste management funding		(18,000)	(5,931)	(5,930)	(18,182)	(18,181)
Transfer to repayable contributions		(5,000)	(143)	(1,010)	(2,158)	(3,560)
Net debt at end of period		\$ (7,412,373)	\$ (7,654,568)	\$ (7,905,501)	\$ (7,654,568)	\$ (7,905,501)

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

Consolidated Statement of Cash Flows (Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
<i>(thousands of Canadian dollars)</i>	2017	2016	2017	2016
Operating transactions				
Cash receipts from Parliamentary appropriations	\$ 232,500	\$ 191,407	\$ 816,900	\$ 709,103
Cash receipts from customers	62,149	38,519	98,466	114,837
Cash paid to suppliers	(93,750)	(100,275)	(286,781)	(285,887)
Cash paid to employees	(2,312)	(1,892)	(11,716)	(10,915)
Cash paid for decommissioning, waste management and contaminated sites activities	(105,327)	(78,505)	(287,334)	(255,949)
Interest received	555	337	1,231	800
Cash provided by operating transactions	93,816	49,591	330,766	271,989
Capital transactions				
Acquisition of tangible capital assets	(26,608)	(33,561)	(84,549)	(115,996)
Cash applied to capital transactions	(26,608)	(33,561)	(84,549)	(115,996)
Increase in cash	67,208	16,030	246,217	155,993
Cash at beginning of period	216,033	224,516	37,024	84,553
Cash at end of period	\$ 283,241	\$ 240,546	\$ 283,241	\$ 240,546

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended December 31, 2017

(Expressed in thousands of Canadian dollars)

(Unaudited)

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 Government-owned, Contractor-operated model, whereby Canadian Nuclear Laboratories (CNL), a private-sector organization, operates and manages AECL's sites on its behalf pursuant to a contractual arrangement.

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 debt (or net financial assets), but rather are added to the net debt (or net financial assets) 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

<i>(thousands of Canadian dollars)</i>	December 31, 2017	March 31, 2017
Trade receivables	\$ 16,421	\$ 18,058
Less: allowance for doubtful accounts	(3,419)	(3,419)
Net trade receivables	13,002	14,639
Other receivables:		
Unbilled revenue	8,511	7,632
Consumption taxes receivable	9,306	11,825
Contract receivables from customers in respect of the financing of products and services, maturing through 2019 at fixed repayment amounts	6,995	28,096
Finance lease receivable	-	7,619
Other receivables	-	1,098
	\$ 37,814	\$ 70,909

4. Accounts Payable and Accrued Liabilities

<i>(thousands of Canadian dollars)</i>	December 31, 2017	March 31, 2017
Trade payables	\$ 8,187	\$ 5,864
Other payables and accrued expenses	20,297	19,027
Accrued payroll liabilities	1,901	3,555
Amounts due to related parties	38,545	36,912
Provisions	6,088	6,153
	\$ 75,018	\$ 71,511

The Amounts due to related parties represent royalty revenues and 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:

<i>(thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Payments by employees	\$ 176	\$ 163	\$ 695	\$ 563
Payments by employer	443	368	2,509	1,576

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 \$24.4 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 (Q3 2016-17: \$(0.4) million). On a year-to-date basis, the total expense for employee benefits was \$1.5 million (year-to-date 2016-17: \$1.9 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.

<i>(thousands of Canadian dollars)</i>	December 31, 2017	March 31, 2017
Carrying amount - Beginning of period	\$ 6,492,243	\$ 6,763,423
Liabilities settled	(216,128)	(250,002)
Unwinding of discount	188,900	262,387
Revision in estimate and timing of expenditures	-	(293,390)
Waste, decommissioning and site restoration costs from ongoing operations	8,157	9,825
Carrying amount - End of period	\$ 6,473,172	\$ 6,492,243

The undiscounted future expenditures, adjusted for inflation, for the planned activities comprising the liability are \$16,323.8 million (March 31, 2017: \$16,539.9 million).

The provision was discounted using a rate of 3.88% as at December 31, 2017 and March 31, 2017.

7. Contaminated Sites Liability

AECL has the responsibility 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.

<i>(thousands of Canadian dollars)</i>	December 31, 2017	March 31, 2017
Carrying amount - Beginning of period	\$ 1,081,866	\$ 1,109,493
Liabilities settled	(79,364)	(84,378)
Unwinding of discount	17,697	24,409
Revision in estimate and timing of expenditures	-	32,342
Carrying amount - End of period	\$ 1,020,199	\$ 1,081,866

The nature of the Port Hope Area Initiative 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 \$1,134.1 million (March 31, 2017: \$1,213.5 million).

The balance of the contaminated sites liability represents the Low-Level Radioactive Waste Management Office which 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	89,894	25	(1,607)	9,635	97,947
Disposals and transfers	(8,053)	-	(1,238)	(2,299)	(11,590)
Write-downs	(9,686)	-	-	-	(9,686)
Cost at December 31, 2017	256,667	82,679	413,963	454,574	1,207,883
Accumulated amortization at March 31, 2017	-	34,765	193,311	308,462	536,538
Amortization	-	2,906	6,811	18,813	28,530
Disposals	-	-	(719)	(1,787)	(2,506)
Accumulated amortization at December 31, 2017	-	37,671	199,403	325,488	562,562
Net carrying amount at March 31, 2017	184,512	47,889	223,497	138,776	594,674
Net carrying amount at December 31, 2017	\$ 256,667	\$ 45,008	\$ 214,560	\$ 129,086	\$ 645,321

9. Parliamentary Appropriations

	Three Months Ended December 31,		Nine Months Ended December 31,	
<i>(thousands of Canadian dollars)</i>	2017	2016	2017	2016
Parliamentary appropriations for operating and capital expenditures				
Amount received during the period for operating and capital expenditures	\$ 232,500	\$ 191,407	\$ 816,900	\$ 709,103
Amount receivable from a previous period	-	-	(94,430)	(19,400)
Amount deferred from the previous period	187,100	167,980	-	-
Amount received related to the next period (Deferred funding)	(232,500)	(191,407)	(232,500)	(191,407)
Total Parliamentary appropriations recognized	\$ 187,100	\$ 167,980	\$ 489,970	\$ 498,296

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 funding profile.

10. Contractual Arrangement

Since 2015, AECL has been delivering its mandate through a Government-owned, Contractor-operated model whereby CNL operates and manages AECL's sites on its behalf.

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 its parent company, Canadian National Energy Alliance, ("Contractual amounts paid or payable") as per the terms of the contractual arrangement.

The following contractual expenses were incurred:

<i>(thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Contractual amounts paid or payable	\$ 230,287	\$ 206,536	\$ 660,578	\$ 656,414
Less: Costs charged to Decommissioning and waste management provision and Contaminated sites liability	(107,537)	(80,160)	(293,658)	(261,841)
Less: Costs charged to Construction in progress	(34,563)	(37,099)	(89,885)	(106,761)
Less: Costs classified as Cost of sales	(11,858)	(9,893)	(37,233)	(46,266)
Contractual expenses	\$ 76,329	\$ 79,384	\$ 239,802	\$ 241,546

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 December 31, 2016 comparative figures have been reclassified to conform to the financial statement presentation adopted in the 2017-18 fiscal year.



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