



ATOMIC ENERGY OF CANADA LIMITED

First Quarter Financial Report

Consolidated Financial Statements (Unaudited)

**As at and for the three months ended
June 30, 2018 and June 30, 2017**

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MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER



As we continue to work toward our mission to drive nuclear opportunities for Canada, we are seeing tangible evidence of progress. Under our Government-owned, Contractor-operated model, Canadian Nuclear Laboratories (CNL) is managing our sites and bringing about important transformation in the areas of nuclear science and technology, environmental remediation, nuclear decommissioning and radioactive waste management. Building on a rich history of scientific achievements for Canada, the Chalk River site is being transformed into a world-class, nuclear science and technology campus. Old and outdated

buildings are coming down, and new infrastructure, as well as new science facilities are being planned for and constructed.

Nuclear innovation goes well beyond the production of nuclear energy, and has significant benefits in the areas of safety, security, health and the environment. Examples of progress being made at the Chalk River site include advancing research in alpha therapy, a new and promising cancer treatment that targets only the cancer cells, and not healthy cells. Cybersecurity of industrial control systems is also an important area of focus, and one that is being taken to a new level through the inauguration of CNL's National Innovation Centre for Cybersecurity.

We are also looking at opportunities around bringing a demonstration small modular reactor to one of our sites. Through a process launched by CNL this past spring, CNL is gathering information and challenging project proponents to address various issues in their planning, and to provide CNL and AECL with the necessary information to make informed decisions. The potential for small modular reactors is extremely exciting, but we have a responsibility to make sure that projects are technically feasible, bring value for Canada and Canadians, and most importantly, are safe for the environment, workers and the public.

CNL is also making progress in the area of decommissioning and waste management in order to address AECL's environmental responsibilities. Buildings are being decontaminated and demolished, but real progress in cleaning up contaminated lands and taking down large buildings can only take place if we have a safe and appropriate place to dispose of the radioactive waste. We know that members of the public have questions on some of the projects which are being proposed, and we continue to pay careful attention to engaging with, and listening to local stakeholders and Indigenous groups. We have a responsibility to protect the environment, and we believe that we share this goal with all concerned.

A handwritten signature in black ink that reads "Richard J. Sexton". The signature is written in a cursive, flowing style.

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 2018-19 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 Canadian Public Sector Accounting Standards (PSAS).

Management's Narrative Discussion was authorized for issuance by the Board of Directors on August 23, 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 Nuclear Laboratories (CNL) for the management and operation of its sites 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.

AECL's role is threefold: 1) to act as an agent of Government; 2) to support the Government's development of nuclear policy; and 3) to set priorities for CNL, oversee the contract and assess CNL's performance. AECL brings best value to Canada by providing effective oversight with a view to advancing 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 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 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 the Chalk River Laboratories and the Whiteshell Laboratories in

Manitoba. AECL is also responsible for the remediation and long-term management of sites contaminated with historic, low-level radioactive waste where the Government of Canada has accepted responsibility, most notably as part of the Port Hope Area Initiative. Responsible decommissioning and radioactive waste management is necessary in order to clean up AECL’s sites, protect the environment, 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, through the Government’s investment of \$1.2 billion over ten years, beginning in 2016.

Sites under the responsibility of AECL across Canada



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

First Quarter Highlights for 2018-19

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 for the detection and treatment of cancer has created radioactive waste. This waste is currently temporarily stored at the Chalk River Laboratories site, in Ontario.

In some cases, temporary waste storage dating back to the 1940s, 50s and 60s has led to the contamination of the surrounding soil. While this contamination is contained at the Chalk River site, it needs to be remediated in order to protect the environment.

Nuclear science and technology activities at various AECL sites across Canada have also led to buildings becoming contaminated. Some of them are now well beyond their useful life and need to be decontaminated and demolished in order to ensure safety. At the Chalk River site, building

decontamination and demolition will also pave the way for new science buildings which are being planned as part of the site's overall revitalization.

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 in this area for the first quarter of 2018-19 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 must be removed through controlled decontamination and decommissioning. The objective is to address these hazards now in order to reduce risks and protect the environment.

That said, contaminated materials and demolition debris need to be disposed of in purpose-built, engineered facilities. Similarly, waste from contaminated lands that are remediated also needs 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).

The proposal to build a near surface disposal facility aims to provide better long-term protection of the Ottawa River and the surrounding environment. The highly-engineered, multi-layer protection facility will isolate the low-level radioactive waste from the environment and offer significantly improved containment and further protection of the environment than what is currently the case at the Chalk River site.

Near surface disposal is an internationally-accepted and proven method of disposing of low-level radioactive waste. The facility would allow for the permanent disposal of the vast majority of AECL's waste currently in interim storage, as well as waste which will be generated as a result of contaminated land remediation activities, decommissioning activities and continued operations of the nuclear laboratories. Overall, the facility will help protect the environment as contaminated materials and soil will be moved to a safe and highly-engineered facility, designed to contain the contaminants.

During the first quarter of 2018-19, CNL continued its engagement activities with stakeholders, including site tours and information sessions, as well as outreach to, and meetings with, Indigenous groups on the proposed Near Surface Disposal Facility, in order to provide information and obtain input. CNL has also been reviewing, reflecting and responding to the questions that it received on its proposal as part of the Environmental Assessment process. CNL is taking the time to review all questions received from the public, Indigenous groups, the Canadian Nuclear Safety Commission and other regulators and is preparing responses in order to address them and, as appropriate, adjust its approach.

Meanwhile, work continued at the Chalk River Laboratories to address decommissioning priorities whilst safely managing existing waste. During the first quarter of 2018-19, efforts have been focused on stabilizing and removing low-level radioactive waste and other contaminated material from a number of structures.

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 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 first quarter of 2018-19 as planned.

CNL also began the installation of a new ground-water treatment system at one of the existing legacy waste management areas to ensure the protection of the environment and to prevent contamination from spreading further. As noted above, ultimately this area will be remediated and the contaminated materials will be sent to the proposed Near Surface Disposal Facility.

In Manitoba, work continued to decommission the **Whiteshell site**, which was previously an active nuclear research laboratory. Work 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 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 first quarter of 2018-19, CNL worked to address and respond to the comments and questions it received from the public, Indigenous groups, the Canadian Nuclear Safety Commission and other regulators as part of the Environmental Assessment process. It also 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 first quarter of 2018-19, CNL prepared responses to the comments and questions it received as part of the Environmental Assessment process. It also continued to engage with stakeholders, the public and Indigenous groups on its proposal through 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.

An important milestone was reached in the first quarter of 2018-19 when the first truckloads of waste scheduled to be removed from the community were placed in the Port Hope Long-term Waste Management Facility. Similar to what is proposed to be built at the Chalk River site, the facility is an engineered near-surface facility that is designed to contain the contaminants and protect the environment.

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, approved by AECL, entail the revitalization of the site through the demolition of old and outdated buildings and the construction of new facilities that will enable the site and its researchers to thrive. One of the key new facilities being proposed is the 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 first quarter of 2018-19, including progressing design concepts and engaging with the Canadian Nuclear Safety Commission.

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.

As part of its efforts to attract partners in order to facilitate the development and deployment of Small Modular Reactors (SMR), CNL launched an Invitation for Application. This initiative is an open invitation for any proponents of SMR projects to engage formally with CNL, through an evaluation process to potentially site their demonstration SMR at a CNL-managed site. Information garnered through this process will allow CNL to evaluate the technical and business merits of proposed designs, assess the financial viability of the projects, and review the necessary national security and integrity requirements. The objective is to understand the full implications of potential partnerships in order to assess whether there are benefits for CNL and for Canada more broadly.

In addition, CNL officially opened the new National Innovation Centre for Cybersecurity in Fredericton, New Brunswick. This brand new, multi-million dollar research facility represents a major addition to Canada's national cybersecurity capabilities. The new centre will provide CNL with the ability to simulate an operating facility in its entirety, in order to help customers find vulnerabilities in their security systems without operational disruptions.

A notable event that occurred on March 31, 2018, was the shutdown of the National Research Universal (NRU) reactor, Canada's largest nuclear research reactor located at the Chalk River Laboratories. Since 1957, this one-of-a-kind research reactor was at the centre of many scientific breakthroughs. It contributed directly and indirectly to Canada's nuclear technology – the CANDU reactor, and the associated \$6 billion industry, and was integral to the use and production of medical isotopes that benefitted over a billion people. Research at the NRU led to Nobel-prizes, and enabled technological and industrial advances that Canadians enjoy each and every day. During the first quarter of 2018-19, activities proceeded to bring the reactor in a safe shutdown state, including defueling activities.

Looking to new science infrastructure, the new tritium laboratory continued to progress, with active commissioning now underway. 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.

Improvements to the Chalk River site infrastructure continued to progress. This includes the conversion of the last remaining buildings to natural gas as part of a larger project that saw the site power house converted from oil to natural gas, and multiple other buildings from electricity to natural gas. This contributed to reducing the Chalk River site's carbon footprint by 27% while also reducing overall operating costs. Furthermore, following the installation of a 10 km water line between the town of

Deep River and the Chalk River site, water from Deep River was brought on site as part of the system testing, with full transition expected in the next quarter. This addresses deficiencies with the supply of potable water for safe drinking.

Finally, planning for new buildings in order to revitalize the Chalk River site continued to progress 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 months ended June 30, 2018, and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes.

The Management's Narrative Discussion contains forward-looking statements with respect to AECL based on assumptions that Management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are difficult to predict, may ultimately require revision.

Financial Review

(\$ millions)	Three Months Ended	
	June 30,	
	2018	2017
Revenues		
Parliamentary appropriations	\$ 126	\$ 170
Commercial revenue	32	17
Interest income	1	1
	159	188
Expenses		
Cost of sales	21	12
Operating expenses	16	16
Contractual expenses	64	81
Decommissioning, waste management and contaminated sites expenses	68	69
	169	178
(Deficit) surplus for the period	\$ (10)	\$ 10

Parliamentary Appropriations

The Government of Canada provides funding quarterly for AECL to advance its priorities and deliver on its mandate. AECL recognized \$126 million of Parliamentary appropriations in the first quarter of 2018-19, compared to \$170 million for the same period in 2017-18. The first quarter variance is primarily

related to AECL requiring less cash for the National Research Universal (NRU) reactor consistent with the shutdown of the reactor in March 2018, as well as for capital activities.

Commercial Revenue

In the first quarter of 2018-19, \$32 million in revenue was recognized, compared to \$17 million for the same period in 2017-18. 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, as well as increased research and development activities.

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 revenues for the period.

Operating Expenses

Operating expenses include AECL's oversight expenses, Wrap-Up Office activities and amortization of tangible capital assets. The \$16 million in the current period is consistent with the previous year's quarter.

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 \$64 million, compared to \$81 million in the first quarter of 2017-18. The first quarter variance is largely the result of decreased spending on the NRU reactor consistent with the shutdown of the reactor in March 2018.

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 2018-19 of \$68 million are comparable to that of the same period in 2017-18.

(Deficit) Surplus 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. 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, therefore 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 2018-19 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 three months of 2018-19.

Consolidated Cash Flow and Working Capital

<i>(\$ millions)</i>	Three Months Ended	
	June 30,	
	2018	2017
Cash provided by operating transactions	\$ 269	\$ 110
Cash applied to capital transactions	(19)	(26)
Increase in cash	250	84
Balance at beginning of the period	38	37
Balance at end of the period	\$ 288	\$ 121

Operating Transactions

Operating transactions generated a net cash inflow of \$269 million in the first quarter of 2018-19, compared to \$110 million during the same period in 2017-18. The variance in the quarter is the result of receiving Parliamentary appropriations for the second quarter of 2018-19 just prior to the end of the current quarter versus the previous period where it was received after the second quarter had started.

Capital Transactions

Capital transactions used cash of \$19 million in the first quarter of 2018-19 compared to \$26 million in the same period in 2017-18.

Highlights of the Consolidated Statement of Financial Position

<i>(\$ millions)</i>	June 30, 2018	March 31, 2018	Variance In \$	Variance By %
Financial Assets	\$ 595	\$ 451	\$ 144	32%
Liabilities	8,128	7,967	161	2%
Non-Financial Assets	647	646	1	0%
Accumulated Deficit	(6,886)	(6,869)	(17)	0%

AECL closed the first quarter of 2018-19 with Financial Assets of \$595 million, which represents a \$144 million increase from March 31, 2018. This variance is mainly the result of increased cash received from Parliamentary appropriations as the appropriations for the second quarter of 2018-19 were received just prior to the end of the current quarter and treated as Deferred funding.

The increase in Liabilities of \$161 million can be attributed primarily to the increase in Deferred funding as described above.

Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2017-18 Annual Report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices as noted in the 2017-18 Annual Report have not materially changed in the first three months of 2018-19.

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 23, 2018

Chalk River, Canada



David J. Smith

Chief Financial Officer

August 23, 2018

Chalk River, Canada

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position (Unaudited)

As at

<i>(thousands of Canadian dollars)</i>	Notes	June 30, 2018	March 31, 2018
Financial Assets			
Cash		\$ 288,042	\$ 37,580
Long-term disposal of waste fund		27,682	25,992
Investments held in trust		50,774	50,658
Trade and other receivables	3	40,245	40,606
Appropriations receivable	9	-	103,825
Inventories held for resale		3,770	3,936
Heavy water inventory		184,821	188,643
		595,334	451,240
Liabilities			
Accounts payable and accrued liabilities	4	66,231	77,196
Employee future benefits	5	22,883	23,200
Due to Canadian Nuclear Laboratories		108,828	117,042
Deferred funding	9	227,400	-
Deferred decommissioning and waste management funding		293,624	287,694
Decommissioning and waste management provision	6	6,452,717	6,473,301
Contaminated sites liability	7	956,452	988,243
		8,128,135	7,966,676
Net Debt		(7,532,801)	(7,515,436)
Non-Financial Assets			
Tangible capital assets	8	645,400	644,353
Prepaid expenses		1,857	1,985
		647,257	646,338
Accumulated Deficit		(6,885,544)	(6,869,098)
Accumulated deficit is comprised of:			
Accumulated operating deficit		(6,885,180)	(6,868,978)
Accumulated remeasurement losses		(364)	(120)
		\$ (6,885,544)	\$ (6,869,098)

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

<i>(thousands of Canadian dollars)</i>	Notes	2019 Budget	June 30, 2018	June 30, 2017
Revenues				
Parliamentary appropriations	9	\$ 1,043,473	\$ 126,514	\$ 169,570
Commercial revenue		84,600	31,645	16,843
Interest income		3,000	1,100	1,050
		1,131,073	159,259	187,463
Expenses				
Cost of sales		54,990	20,839	11,956
Operating expenses		69,139	16,372	15,797
Contractual expenses	10	320,880	63,670	80,889
Decommissioning, waste management and contaminated sites expenses		268,950	68,127	68,865
		713,959	169,008	177,507
(Deficit) surplus for the period		417,114	(9,749)	9,956
Accumulated operating deficit, beginning of period		(6,868,978)	(6,868,978)	(6,983,092)
Transfer to deferred decommissioning and waste management funding		(6,000)	(5,930)	(5,931)
Transfer to repayable contributions		(5,000)	(523)	(1,743)
Accumulated operating deficit, end of period		\$ (6,462,864)	\$ (6,885,180)	\$ (6,980,810)

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

<i>(thousands of Canadian dollars)</i>	June 30, 2018	June 30, 2017
Accumulated remeasurement (losses) gains, beginning of period	\$ (120)	\$ 878
Remeasurement losses arising during the period		
Unrealized losses on Investments held in trust	(244)	(63)
Reclassifications to the Consolidated Statement of Operations and Accumulated Deficit		
Realized gains on Investments held in trust	-	(12)
Net remeasurement losses for the period	(244)	(75)
Accumulated remeasurement (losses) gains, end of period	\$ (364)	\$ 803

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

<i>(thousands of Canadian dollars)</i>	Notes	2019 Budget	June 30, 2018	June 30, 2017
(Deficit) surplus for the period		\$ 417,114	\$ (9,749)	\$ 9,956
Tangible capital assets				
Acquisition of tangible capital assets	8	(146,722)	(12,384)	(22,918)
Amortization of tangible capital assets	8	46,823	10,478	9,238
Other changes	8	-	859	(7)
		(99,899)	(1,047)	(13,687)
Non-financial assets				
Changes in prepaid expenses		-	128	(407)
Net remeasurement losses for the period		-	(244)	(75)
Decrease in net debt		317,215	(10,912)	(4,213)
Net debt at beginning of period		(7,515,436)	(7,515,436)	(7,577,730)
Transfer to deferred decommissioning and waste management funding		(6,000)	(5,930)	(5,931)
Transfer to repayable contributions		(5,000)	(523)	(1,743)
Net debt at end of period		\$ (7,209,221)	\$ (7,532,801)	\$ (7,589,617)

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

Consolidated Statement of Cash Flows (Unaudited)

For the three months ended

<i>(thousands of Canadian dollars)</i>	June 30, 2018	June 30, 2017
Operating transactions		
Cash receipts from Parliamentary appropriations	\$ 457,739	\$ 264,000
Cash receipts from customers	31,948	30,150
Cash paid to suppliers	(96,244)	(89,799)
Cash paid to employees	(4,398)	(5,564)
Cash paid for decommissioning, waste management and contaminated sites activities	(120,502)	(88,358)
Interest received	690	225
Cash provided by operating transactions	269,233	110,654
Capital transactions		
Acquisition of tangible capital assets	(18,771)	(26,342)
Cash applied to capital transactions	(18,771)	(26,342)
Increase in cash	250,462	84,312
Cash at beginning of period	37,580	37,024
Cash at end of period	\$ 288,042	\$ 121,336

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2018

(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 2018-2019 to 2022-2023 Corporate Plan received Governor in Council approval in the first quarter of the 2018-19 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, 2018.

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 2018-19 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 2018-19 projections and estimates contained within the 2018-19 to 2022-23 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 subsidiary, AECL Technologies B.V., incorporated in the Netherlands in 1995 (for the period up to June 23, 2017, when the corporation was dissolved).

3. Trade and Other Receivables

<i>(thousands of Canadian dollars)</i>	June 30, 2018	March 31, 2018
Trade receivables	\$ 23,151	\$ 16,576
Less: allowance for doubtful accounts	(3,419)	(3,419)
Net trade receivables	19,732	13,157
Other receivables:		
Unbilled revenue	9,833	10,594
Consumption taxes receivable	10,680	9,460
Contract receivables from customers in respect of the financing of products and services, maturing through 2018-19 at fixed repayment amounts	-	7,095
Other receivables	-	300
	\$ 40,245	\$ 40,606

4. Accounts Payable and Accrued Liabilities

<i>(thousands of Canadian dollars)</i>	June 30, 2018	March 31, 2018
Trade payables	\$ 6,023	\$ 7,927
Other payables and accrued expenses	12,329	20,364
Accrued payroll liabilities	1,021	2,380
Amounts due to related parties	39,083	38,603
Provisions	6,014	6,053
Customer advances and obligations	1,761	1,869
	\$ 66,231	\$ 77,196

The Amounts due to related parties represent royalty revenues and cash proceeds from the sales of heavy water (Note 9 of the annual audited consolidated financial statements dated March 31, 2018).

Provision amounts are short-term in nature, are not discounted and include exposure to claims related to life extension projects, as well as lawsuits, 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	
	June 30,	
	2018	2017
Payments by employees	\$ 248	\$ 307
Payments by employer	522	1,518

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) Other Employee Future Benefits

AECL provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 2(h) of the annual audited consolidated financial statements dated March 31, 2018. 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 \$22.9 million (March 31, 2018: \$23.2 million).

The VTC included in the reported Employee future benefits liability is \$9.6 million (March 31, 2018: \$9.6 million) and is payable in instances of future voluntary resignations and retirements.

AECL's total expense for employee future benefits was \$0.3 million for this quarter (Q1 2017-18: \$0.6 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.

	Three Months Ended	Year Ended
	June 30,	March 31,
<i>(thousands of Canadian dollars)</i>	2018	2018
Carrying amount - Beginning of period	\$ 6,473,301	\$ 6,492,243
Liabilities settled	(85,061)	(309,228)
Unwinding of discount	62,783	251,866
Revision in estimate and timing of expenditures	1,694	38,420
Carrying amount - End of period	\$ 6,452,717	\$ 6,473,301

The undiscounted future expenditures, adjusted for inflation, for the planned activities comprising the liability are \$15,847.8 million (March 31, 2018: \$15,932.9 million).

The provision was discounted using a rate of 3.88% as at June 30, 2018 and March 31, 2018.

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.

	Three Months Ended	Year Ended
	June 30,	March 31,
<i>(thousands of Canadian dollars)</i>	2018	2018
Carrying amount - Beginning of period	\$ 988,243	\$ 1,081,866
Liabilities settled	(37,135)	(107,083)
Unwinding of discount	5,344	23,595
Revision in estimate and timing of expenditures	-	(10,135)
Carrying amount - End of period	\$ 956,452	\$ 988,243

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 2.16%. The estimated total undiscounted expenditures are \$1,070.1 million (March 31, 2018: \$1,107.2 million).

AECL also has responsibility for 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 resulting from the processing and shipment of uranium and radium.

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, 2018	\$ 190,798	\$ 85,493	\$ 435,031	\$ 488,392	\$ 1,199,714
Additions and transfers	12,384	-	4,295	1,467	18,146
Disposals and transfers	(5,762)	(10)	(614)	(10,861)	(17,247)
Cost at June 30, 2018	197,420	85,483	438,712	478,998	1,200,613
Accumulated amortization at March 31, 2018	-	38,673	201,599	315,089	555,361
Increase in amortization	-	881	2,621	6,976	10,478
Disposals	-	(10)	(593)	(10,023)	(10,626)
Accumulated amortization at June 30, 2018	-	39,544	203,627	312,042	555,213
Net carrying amount at March 31, 2018	190,798	46,820	233,432	173,303	644,353
Net carrying amount at June 30, 2018	\$ 197,420	\$ 45,939	\$ 235,085	\$ 166,956	\$ 645,400

9. Parliamentary Appropriations

	Three Months Ended	
	June 30,	
<i>(thousands of Canadian dollars)</i>	2018	2017
Parliamentary appropriations for operating and capital expenditures		
Amount received during the period for operating and capital expenditures	\$ 457,739	\$ 264,000
Amount receivable from a previous period	(103,825)	(94,430)
Amount received related to the next period (Deferred funding)	(227,400)	-
Total Parliamentary appropriations recognized	\$ 126,514	\$ 169,570

The difference between received and recognized Parliamentary appropriations relates to amounts received but related to either a previous or subsequent quarter. The appropriations approved for operating and capital expenditures for the year ending March 31, 2019 total \$1,044 million.

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	
	June 30,	
	2018	2017
Contractual amounts paid or payable	\$ 213,892	\$ 204,473
Less: Costs charged to Decommissioning and waste management provision and Contaminated sites liability	(121,583)	(90,933)
Less: Costs charged to Construction in progress	(12,384)	(22,918)
Less: Costs classified as Cost of sales	(16,255)	(9,733)
Contractual expenses	\$ 63,670	\$ 80,889

Contractual amounts paid or payable 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, 2017 comparative figures have been reclassified to conform to the financial statement presentation adopted in the 2018-19 fiscal year.



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