AECL
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ATOMIC ENERGY OF CANADA LIMITED

Third Quarter Financial Report

Interim Condensed Consolidated Financial Statements (Unaudited)

As at and for the three and nine months ended December 31, 2015 and December 31, 2014

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MESSAGE FROM THE CHIEF TRANSITION OFFICER

The third quarter of 2015-16 saw the completion of the restructuring of Atomic Energy of Canada Limited (AECL) with the full implementation of the Government-owned, Contractor-operated model. This occurred in late September 2015, when the shares of Canadian Nuclear Laboratories (CNL), the organization which manages and operates AECL’s nuclear laboratories, were transferred to Canadian National Energy Alliance, a private-sector entity. This followed the Government of Canada announcement, in June 2015, that Canadian National Energy Alliance had been selected as the preferred bidder to manage and operate AECL’s nuclear laboratories. Through the Government-owned, Contractor-operated model, Canadian National Energy Alliance is expected to bring private-sector rigour and efficiency to the operation of CNL, while reducing risk and costs for Canadian taxpayers.

AECL’s mandate continues to be to enable nuclear science and technology and to fulfill Canada’s radioactive waste and decommissioning responsibilities. Under the Government-owned, Contractor-operated model, AECL achieves this through a long-term contract with Canadian National Energy Alliance for the management and operation of CNL. Canadian National Energy Alliance brings extensive international experience in site management, operations, decommissioning and waste management that will advance AECL’s priorities over the coming years.

Efforts during the quarter have thus been focused on enabling a smooth transition at CNL while ensuring that it continued to safely operate and manage AECL’s sites. AECL management worked closely with CNL’s new management team to discuss priorities and facilitate the development of plans that will lead to a more efficient and effective organization, aligned with CNL’s vision and AECL’s priorities.

AECL has leveraged its experienced staff to deliver on its oversight role. Indeed the first few months of the Government-owned, Contractor-operated model provided an opportunity to establish the right relationship with CNL and to set the proper level of oversight that will bring value for money for Canadians.

From a CNL perspective, there has been important progress made in advancing decommissioning and waste management projects, including completing the first fuel transfer to the Fuel Packaging and Storage Facility, the near completion of the third Shielded Modular Above Ground Storage for low-level waste at the Chalk River site, and progress at remediating the Whiteshell site.

In science and technology, two important research facilities reached major milestones, with the pressure testing of the U2 Loop and the return to service of RD-14M – both of which make possible experiments to support the safety basis of current and future reactors.

Finally, reviews of CNL's safety and security posture, including IT security, are ongoing, and have already lead to the implementation of several initiatives which will further strengthen CNL's safety and security culture, with a focus on continuous improvement and learning.

I am pleased to report that in these early days of the Government-owned, Contractor-operated paradigm, both AECL and CNL are working hard to adapt to their new roles, and as such, further nuclear S&T and address Canada's radioactive waste responsibilities.

Jon Lundy
Chief Transition Officer, AECL

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 interim condensed consolidated financial statements for the third quarter of 2015-16 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the First and Second Quarter Financial Reports for 2015-16.

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

Management's Narrative Discussion was authorized for issue by the Board of Directors on February 24, 2016.

Our Business

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

Prior to September 13, 2015, the primary operations of AECL had been delivered by CNL, which had been operating as a wholly-owned subsidiary of AECL. With the entry into force of the Government-owned, Contractor-operated model, the shares of CNL were transferred from AECL to Canadian National Energy Alliance and CNL became a private-sector organization. CNL employs over 3,500 employees at 12 sites across Canada, with most employees located at the Chalk River Laboratories.

AECL continues as a Crown corporation headquartered in Chalk River, Ontario, and reporting to Parliament through the Minister of Natural Resources. As of December 31, 2015, AECL employed 42 full-time employees, including a small complement of staff in Oakville, Ontario within its Wrap-Up Office. The Wrap-Up office is responsible for the management of retained liabilities related to AECL's CANDU Reactor Division (Discontinued Commercial Operations), which was sold in October 2011 as part of the first phase of the restructuring of AECL.

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

1. Science and Technology
   To enable CNL to sustain, develop, apply and build S&T capabilities in a cost-effective manner. This includes CNL's ability to provide technical services and research and development products in support of: (i) Canada's federal roles, responsibilities and priorities; (ii) commercial services for third parties, and (iii) the other activities of CNL.

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

3. Capital Investments
   To meet the Government's commitment to site renewal by modernizing CNL infrastructure and enhancing its capabilities to provide safe and world-class nuclear science and technology and other nuclear services.

THIRD QUARTER HIGHLIGHTS FOR 2015-16

The third quarter of 2015-16 represented the first full quarter where AECL was operating under the Government-owned, Contractor-operated model. Indeed on September 13, 2015, the shares of CNL were transferred to the selected private-sector contractor, Canadian National Energy Alliance. With this transfer, CNL became a private-sector organization and AECL officially implemented the Government-owned, Contractor-operated model. Activities during this quarter were focused on enabling a smooth transition while ensuring continuous and safe operations at CNL. The main achievements are described by activity area below.

Science and Technology

The U2 Loop project continued to make good progress in its objective of bringing the Loop back to service. Part of the National Research Universal reactor, the U2 Loop is the only facility in the world capable of testing full-size CANDU fuel bundles in a high-temperature and high-pressure environment indicative of an operating reactor. The Loop thus serves as a valuable research and development tool for developing innovative nuclear materials and sustainable and proliferation-resistant nuclear fuels that can be used in advanced nuclear technologies. The U2 Loop has been successfully started up on several occasions, demonstrating the capacity for operation at the expected temperature and pressure. These operating tests represent an important milestone to support crew training and equipment performance assessments.

Furthermore, CNL added to its collaborations and contributions to federal science and technology priorities by establishing agreements for work related to nuclear forensics and nuclear safety. These projects will bring important work in 2016-17 and beyond.

Finally, the RD-14M facility – a unique, large-scale R&D facility important in understanding safety aspects of heat and water flow in CANDU reactors – was brought back into full operation following electrical upgrades. This makes possible experiments to support the safety basis for current and future reactor designs.

Decommissioning and Waste Management

The first fuel transfer was successfully completed at the Fuel Packaging and Storage facility. This facility is used to remove fuel from existing tile holes that show signs of corrosion and place it in an above-ground storage facility. Going forward, additional fuel and canisters from AECL's tile holes will be safely retrieved, transferred, remediated, repackaged, stored and monitored.

Construction of the third Shielded Modular Above Ground Storage (SMAGS) at the Chalk River site is nearing completion and is expected to undergo final commissioning before the end of the fiscal year. The facility will contribute to the ongoing waste management requirements associated with operating a nuclear site by safely storing low-level radioactive waste.

At the Whiteshell Laboratories, work has begun to remove contamination underneath building 300, previously a research and development complex, as part of the decommissioning of the site. This included building tunnels to remediate contaminated soil and decontaminate crawlspaces.

Site preparation activities have begun for the construction of the long-term waste management facility at the Port Granby Project, part of the Port Hope Area Initiative, in Ontario. The construction of an engineered above-ground mound disposal facility is part of AECL's program to clean-up and find safe, long-term management solutions for the historic low-level radioactive waste in the area.

Site Operations (includes Health, Safety, Security and the Environment as well as Capital Infrastructure)

The drive to achieve improved safety standards and performance continued with several initiatives achieved in the third quarter of 2015-16. A detailed traffic study of the Chalk River site was conducted and has resulted in several short-term recommendations that have already been implemented, with additional opportunities planned to be addressed in the fourth quarter of 2015-16 and into the next fiscal year. The focus on "Rapid Learning" from events and near events has been formalized into active daily conference calls with full site representation. This enables the sharing of learning opportunities, and provides a forum for CNL's senior leadership to interact and reinforce the learning and improving aspects to event response.

Furthermore, steps were taken to improve the physical security at the Chalk River Laboratories, including heightened site access control. Similarly, CNL IT completed a thorough assessment against national standards for increased cyber security protection and implemented improvements.

Work continues ahead of schedule and on budget in the construction of building 350, an important new science building that will allow employees to conduct cutting-edge research. The new state-of-the-art facility will enable teams to work collaboratively and facilitate an interdisciplinary approach to conducting science and technology for the benefit of Canadians and industry. During the third quarter of 2015-16, the substantial building superstructure was completed and many of the internal services were installed and are progressing well. The facility is expected to be completed in fiscal year 2016-17.

Implementation of the Government-owned, Contractor-operated Model

Following the transfer of the shares of CNL to Canadian National Energy Alliance on September 13, 2015, work continued to enable a smooth transition at CNL. This included working with CNL to discuss priorities and expectations, and oversee the development of various deliverables such as plans and administrative processes and systems.

Commercial Operations (Discontinued Operations)

AECL's Wrap-Up Office continues to address outstanding obligations arising from the divestiture of its Candu Reactor Division (Discontinued Commercial Operations) which was sold to Candu Energy Inc., a subsidiary of SNC-Lavalin, in October 2011. This includes the commercial and legal work required to defend, assert and settle outstanding claims. The Wrap-Up Office also continues to manage its outstanding obligations related to the life extension projects through its subcontractor, Candu Energy Inc.

Financial Overview

AECL's third quarter financial results reflected a comprehensive loss of $187 million compared to a $729 million comprehensive loss in the same period of the previous year. In both quarters the reported losses were due to the quarterly revaluation of the decommissioning and waste management liability.

The decommissioning and waste management liability is re-valued quarterly on a discounted or net present value basis using the interest rate in effect at the end of the quarter. When the reference interest rate for discounting decreases, the reported liability increases. Conversely, when the interest rate for discounting increases, the reported liability decreases. In both cases, the change in liability impacts AECL's reported net income or net loss, but is a non-cash income or expense and does not impact AECL's funding requirements for the reporting year.

The interest rate at December 31, 2015 was 0.06% lower than the September 30, 2015 rate, while the interest rate at December 31, 2014 was 0.34% lower than the September 30, 2014 rate. As a result, AECL's reported liability increased by $148 million in the third quarter of 2015-16 compared to an increase in the liability of $747 million in the third quarter of 2014-15.

The Government of Canada provides funding for AECL to advance its priorities and deliver on its planned activities. Funding for the first three quarters of 2015-16 was provided through Parliamentary appropriations as well as transfers from Natural Resources Canada for the delivery of the Nuclear Legacy Liabilities Program, the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative. Some of the more significant funded initiatives during the quarter included:

- $33 million to support ongoing Chalk River site operations and regulatory, health, safety and environmental needs, as well as science and technology activities;
- $61 million for decommissioning and waste management activities at the Chalk River and Whiteshell sites and environmental remediation programs primarily in Port Hope; and
- $42 million for capital infrastructure renewal.

Going forward, all funding for AECL to deliver on its mandate and priorities will be provided directly through Parliamentary appropriations, consistent with the objectives of the restructuring.

AECL receives Government of Canada support for its activities through the approval of AECL's Corporate Plan by the Governor in Council. As at the date of this Management's Narrative Discussion, the 2015-16 Corporate Plan was not yet approved by the Government of Canada due the transitional nature of this fiscal year as well as other external factors. Aside from the spending on Decommissioning and Waste Management activities being lower than planned, results are generally tracking with the 2015-16 approved budget.

Outlook

2015-16 major priorities and deliverables are described in AECL's 2014-15 Annual Financial Report in the "Management's Discussion and Analysis" section. These priorities and deliverables have not materially changed in the first nine months of 2015-16.

Forward-Looking Statements

This Management's Narrative Discussion has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of AECL for the quarter ended December 31, 2015, and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes.

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

Financial Review – Continuing Operations

Financial information reported under Continuing Operations primarily includes the operations of CNL, which as of September 13, 2015 has been operating under contract with AECL as per the Government-owned, Contractor-operated model. Prior to that date, CNL operated as a wholly-owned subsidiary of AECL. During the first nine months of 2015-16, AECL undertook activities to establish itself as an oversight organization in preparation for the implementation of the Government-owned, Contractor-operated model.

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
($ millions)	**2015**	2014	**2015**	2014
Revenue and Funding				
Revenue	**$ 36**	$ 26	**$ 82**	$ 109
Parliamentary appropriations	**38**	80	**143**	181
Cost recoveries from third parties and other	**12**	5	**23**	15
Decommissioning and waste management funding	**49**	42	**146**	133
Total revenue and funding	**$ 135**	$ 153	**$ 394**	$ 438
Gross margin	**$ 18**	$ 11	**$ 37**	$ 42
Operating expenses	**$ 14**	$ 81	**$ 171**	$ 240
Contractual expenses	**$ 91**	$ -	**$ 102**	$ -
Financial expenses	**$ 52**	$ 54	**$ 155**	$ 168
Net (loss) income before Revaluation (loss) gain on decommissioning and waste management provision and other	**$ (39)**	$ 5	**$ (75)**	$ (32)

Revenue

In the third quarter of 2015-16, $36 million in revenue was generated related to isotope sales, commercial technology sales, nuclear waste management, and research and development activities, compared to $26 million for the same period in 2014-15. On a year-to-date basis (first nine months of the year), revenues were $82 million in 2015-16 compared to $109 million in the first nine months of 2014-15. The reported increase in the third quarter can be attributed primarily to increased heavy water and isotope sales in the quarter. The decline in the year-to-date can be attributed primarily to decreased heavy water sales, and decreased research and development for commercial customers.

Parliamentary Appropriations

AECL receives Parliamentary appropriations to deliver on its missions and priorities. AECL recognized $38 million of Parliamentary appropriations in the third quarter of 2015-16, compared to $80 million for the same period in 2014-15. On a year-to-date basis, AECL recognized $143 million of Parliamentary appropriations, compared to $181 million for the same period in 2014-15. The third quarter variance is primarily related to differences in the timing of when appropriations were received and recognized on a cash basis between the two years and higher cash receipts from commercial revenue received in the quarter compared to the prior year.

Cost Recoveries from Third Parties and Other

AECL fulfills Canada's obligations to address historic low-level radioactive wastes through the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office. Up to September 13, 2015, when the Government-owned, Contractor-operated model came into effect, AECL undertook those activities on a cost recovery basis for Natural Resources Canada, with the work being delivered by CNL. This is presented as "Cost Recoveries from Third Parties" and includes $12 million in the third quarter of 2015-16 and $23 million for the year-to-date period to support both program offices' initiatives. The funding increased over the prior period due to an increase in work at the Port Hope site.

As of September 13, 2015, AECL took over responsibility for fulfilling the Government's obligations with respect to historic low-level radioactive wastes. Going forward, funding for those activities will be provided directly to AECL through Parliamentary appropriations.

Decommissioning and Waste Management Funding

AECL is responsible for addressing radioactive waste and decommissioning liabilities at AECL sites. Up to September 13, 2015, when the Government-owned, Contractor-operated model came into effect, AECL undertook these activities on a cost recovery basis for Natural Resources Canada (under the auspice of the Nuclear Legacy Liabilities Program), with the work being delivered by CNL. This is presented as "Decommissioning and Waste Management Funding" and includes $49 million in the third quarter of 2015-16 and $146 million on a year-to-date basis. This is generally comparable to the amounts received for the same periods in the previous fiscal year.

Gross Margin

Gross margin increased from $11 million in the third quarter of 2014-15 to $18 million for the same period in 2015-16. On a year-to-date basis, gross margin decreased from $42 million to $37 million. These changes stems primarily from the changes in revenues described above.

Operating Expenses and Contractual Expenses

With the transfer of the shares of CNL to CNEA on September 13, 2015, the contractual arrangement with CNEA and CNL came into effect. As a result, for the third quarter of 2015-16, AECL made payments to CNL as per the terms of this contractual arrangement. Those, as well as AECL's own operating expenses for the third quarter, total $105 million in the third quarter of 2015-16, as compared to expenses of a similar nature of $81 million in the third quarter of 2014-15. On a year-to-date basis, operating expenses and contractual expenditures were $273 million in 2015-16 compared to the $240 million of operating costs in 2014-15.

Financial Expenses

Financial expenses primarily include the increase in the net present value of the decommissioning and waste management provision. Financial expenses in the third quarter of 2015-16 of $52 million were lower than the $54 million reported during the same period in 2014-15. On a year-to-date basis, financial expenses were $155 million compared to $168 million in 2014-15. This variance is due to the lower interest rate in effect at 2015 March compared to 2014 March.

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

AECL reported net loss before Revaluation (loss) gain on decommissioning and waste management of $39 million in the third quarter compared to a $5 million net income in the third quarter of 2014-15. On a year-to-date basis, a net loss before Revaluation (loss) gain on decommissioning and waste management of $75 million was reported compared to a net loss of $32 million in 2014-15. The third quarter variances result mainly from the changes in Parliamentary appropriations drawn in 2015-16 as described above.

Financial Review – Discontinued Operations

($ millions)	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2015	Nine Months Ended December 31, 2014
Total revenue	**$ -**	$ -	**$ -**	$ -
Parliamentary appropriations	**$ -**	$ -	**$ -**	$ 36
Gross margin	**$ -**	$ -	**$ -**	$ -
Operating expenses	**$ 5**	$ -	**$ 8**	$ (13)
Net (loss) income from discontinued operations	**$ (5)**	$ -	**$ (8)**	$ 49

Revenue

Certain life extension projects retained by AECL as at the date of the sale of the Commercial Operations business to Candu Energy Inc. continued to be wound down. As a result, there has been no revenue recorded during the third quarter or year-to-date of 2015-16.

Operating Expenses

Operating expenses include the cost of staff and third-party service providers to address the retained liabilities resulting from the sale of the Commercial Operations business in 2011-12 and costs to support the completion of the Enhanced CANDU Reactor development program. The $21 million increase over the 2014-15 year-to-date is the result of the recovery of insurance proceeds recognized in the first quarter of 2014-15.

Consolidated Cash Flow and Working Capital

	Three Months Ended December 31,		Nine Months Ended December 31,	
($ millions)	**2015**	2014	**2015**	2014
Cash from operating activities	**$ 62**	$ 29	**$ 247**	$ 100
Cash used in investing activities	**(44)**	(22)	**(109)**	(55)
Cash				
Increase	**18**	7	**138**	45
Balance at beginning of the period	**196**	87	**76**	49
Balance at end of the period	**$ 214**	$ 94	**$ 214**	$ 94

Overall, AECL's closing cash position for the third quarter of 2015-16 increased to $214 million compared to the balance at the close of the third quarter of 2014-15 of $94 million. The third quarter and year-to-date variance is primarily due to receipt of funding late in the third quarter for the anticipated fourth quarter contractual expenditures to CNL. That funding was treated as Deferred funding.

Operating Activities

Operating activities generated a net cash inflow of $62 million in the third quarter of 2015-16, compared to $29 million during the same period in 2014-15. On a year-to-date basis, operating activities resulted in a net cash inflow of $247 million compared to $100 million in the same period the previous year. The increase in cash inflow is due to the timing of receipt of the quarterly funding draw as described above.

Investing Activities

Investing activities used cash of $44 million in the third quarter of 2015-16 compared to $22 million used in the same period in 2014-15. On a year-to-date basis, investing activities used cash of $109 million compared to $55 million used in the same period the previous year. These increases are primarily due to the accelerated construction activities for a new laboratory complex at the Chalk River Laboratories site.

Highlights of the Consolidated Balance Sheet

($ millions)	December 31, 2015	March 31, 2015	Variance In $	Variance By %
Assets	**$ 1,131**	$ 951	$ 180	19%
Liabilities	**10,627**	10,737	(110)	-1%
Shareholder's deficit	**9,496**	9,786	(290)	-3%

AECL closed the third quarter of 2015-16 with Assets of $1,131 million, which represents a $180 million increase in Assets from March 31, 2015. This variance is mainly the result of increased cash received from Parliamentary appropriations for the anticipated contractual expenditures to CNL that was treated as Deferred funding as described above.

The decrease in Liabilities of $110 million can be attributed primarily to the change in the Decommissioning and waste management provision of $383 million, which mainly resulted from the increase from March 2015 in the interest rate used to estimate the reported liability. This is partly offset by the increase in Deferred funding as described above.

Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2014-15 Annual Financial Report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices as noted in the 2014-15 Annual Financial Report have not materially changed in the first nine months of 2015-16.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations," and for such internal controls as Management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.

Jon Lundy
Chief Transition Officer
February 29, 2016
Chalk River, Canada

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	Notes		**December 31, 2015**		March 31, 2015
Assets					
Current					
Cash		**$**	**214,087**	$	75,912
Trade and other receivables	10		**53,535**		63,067
Current portion of long-term receivables			**32,168**		30,958
Inventory			**6,970**		25,884
			306,760		195,821
Non Current					
Long-term receivables			**44,570**		68,836
Investments held in trust			**47,793**		47,805
Heavy water inventory			**216,604**		221,283
Property, plant and equipment	4		**502,279**		405,769
Intangible assets			**13,336**		11,319
		$	**1,131,342**	$	950,833
Liabilities					
Current					
Trade and other payables	7, 10	**$**	**46,666**	$	117,606
Customer advances and obligations			**2,150**		3,165
Provisions	5, 10		**19,476**		16,784
Current portion of decommissioning and waste management provision	6		**237,600**		229,500
Deferred funding	8		**156,684**		-
Due to Canadian Nuclear Laboratories	11		**72,880**		-
Restructuring provision	10		**1,599**		3,090
			537,055		370,145
Non Current					
Decommissioning and waste management provision	6		**9,353,377**		9,744,713
Deferred capital funding	8		**474,750**		372,175
Deferred decommissioning and waste management funding			**238,691**		220,510
Employee benefits	7		**23,411**		29,144
			10,627,284		10,736,687
Shareholder's deficit					
Share capital			**15,000**		15,000
Contributed capital			**182,527**		207,763
Deficit			**(9,693,469)**		(10,008,617)
			(9,495,942)		(9,785,854)
		$	**1,131,342**	$	950,833
Commitments, Contingencies and Obligations	13				

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

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

(thousands of Canadian dollars)	Notes	Three Months Ended December 31, 2015	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2015	Nine Months Ended December 31, 2014
Continuing Operations					
Revenue		**$ 35,530**	$ 26,184	**$ 81,864**	$ 109,464
Cost of sales		**17,627**	15,199	**45,058**	67,925
Gross margin		**17,903**	10,985	**36,806**	41,539
Other funding	8	**60,703**	47,055	**169,245**	147,998
Operating expenses		**14,345**	81,114	**170,917**	240,186
Contractual expenses	11	**90,624**	-	**101,714**	-
Operating loss		**(26,363)**	(23,074)	**(66,580)**	(50,649)
Financial income	9	**1,246**	1,600	**4,055**	4,904
Financial expenses	9	**51,857**	54,425	**155,004**	168,079
Net loss before Parliamentary appropriations and Revaluation (loss) gain on decommissioning and waste management provision and other		**$ (76,974)**	$ (75,899)	**$ (217,529)**	$ (213,824)
Parliamentary appropriations	8	**37,542**	80,433	**142,896**	181,399
Net (loss) income before Revaluation (loss) gain on decommissioning and waste management provision and other		**$ (39,432)**	$ 4,534	**$ (74,633)**	$ (32,425)
Revaluation (loss) gain on decommissioning and waste management provision and other	6	**(142,975)**	(734,319)	**398,046**	(1,291,247)
Net (loss) income from continuing operations before discontinued operations		**$ (182,407)**	$ (729,785)	**$ 323,413**	$ (1,323,672)
Discontinued Operations (Note 10)					
Operating (loss) income from discontinued operations	10	**(4,691)**	456	**(8,265)**	12,723
(Loss) income from discontinued operations before Parliamentary appropriations		**(4,691)**	456	**(8,265)**	12,723
Parliamentary appropriations for discontinued operations	8	**-**	-	**-**	36,100
Net (loss) income from discontinued operations		**$ (4,691)**	$ 456	**$ (8,265)**	$ 48,823
Net (loss) income		**$ (187,098)**	$ (729,329)	**$ 315,148**	$ (1,274,849)
Other comprehensive (loss) income					
Items that will not be reclassified to profit and loss:					
Other employee benefit plan actuarial (loss) gain		**-**	-	**-**	-
Other comprehensive (loss) income		**-**	-	**-**	-
Comprehensive (loss) income		**$ (187,098)**	$ (729,329)	**$ 315,148**	$ (1,274,849)

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

Interim Condensed Consolidated Statements of Changes in Shareholder's Deficit (Unaudited)

(thousands of Canadian dollars)

For the three months ended December 31, 2015

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2015	**$ 15,000**	**$ 191,058**	**$ (9,506,371)**	**$ (9,300,313)**
Net loss attributable to Shareholder for the period	-	-	(187,098)	(187,098)
Other comprehensive loss	-	-	-	-
Comprehensive loss	-	-	(187,098)	(187,098)
Transfer to deferred decommissioning and waste management funding	-	(5,930)	-	(5,930)
Transfer to repayable contributions	-	(2,601)	-	(2,601)
Balance at December 31, 2015	**$ 15,000**	**$ 182,527**	**$ (9,693,469)**	**$ (9,495,942)**

For the three months ended December 31, 2014

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at September 30, 2014	**$ 15,000**	**$ 221,579**	**$ (8,288,666)**	**$ (8,052,087)**
Net loss attributable to Shareholder for the period	-	-	(729,329)	(729,329)
Other comprehensive loss	-	-	-	-
Comprehensive loss	-	-	(729,329)	(729,329)
Transfer to deferred decommissioning and waste management funding	-	(5,930)	-	(5,930)
Transfer to repayable contributions	-	(797)	-	(797)
Balance at December 31, 2014	**$ 15,000**	**$ 214,852**	**$ (9,017,995)**	**$ (8,788,143)**

For the nine months ended December 31, 2015

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2015	**$ 15,000**	**$ 207,763**	**$ (10,008,617)**	**$ (9,785,854)**
Net income attributable to Shareholder for the period	-	-	315,148	315,148
Other comprehensive loss	-	-	-	-
Comprehensive income	-	-	315,148	315,148
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(7,055)	-	(7,055)
Balance at December 31, 2015	**$ 15,000**	**$ 182,527**	**$ (9,693,469)**	**$ (9,495,942)**

For the nine months ended December 31, 2014

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2014	**$ 15,000**	**$ 235,628**	**$ (7,743,146)**	**$ (7,492,518)**
Net loss attributable to Shareholder for the period	-	-	(1,274,849)	(1,274,849)
Other comprehensive income	-	-	-	-
Comprehensive loss	-	-	(1,274,849)	(1,274,849)
Transfer to deferred decommissioning and waste management funding	-	(18,181)	-	(18,181)
Transfer to repayable contributions	-	(2,595)	-	(2,595)
Balance at December 31, 2014	**$ 15,000**	**$ 214,852**	**$ (9,017,995)**	**$ (8,788,143)**

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

Interim Condensed Consolidated Cash Flow Statements
(Unaudited)

(thousands of Canadian dollars)	Three Months Ended December 31, **2015**	Three Months Ended December 31, 2014	Nine Months Ended December 31, **2015**	Nine Months Ended December 31, 2014
Operating activities				
Cash receipts from customers	**$ 38,551**	$ 55,214	**$ 136,771**	$ 243,815
Cash receipts from Parliamentary appropriations	**115,429**	100,800	**402,155**	263,043
Cash receipts for decommissioning and waste management activities	**58,386**	49,219	**167,450**	132,250
Cash paid to suppliers and employees	**(102,478)**	(134,335)	**(313,375)**	(405,583)
Cash paid for decommissioning activities	**(48,645)**	(42,047)	**(146,117)**	(133,486)
Interest received on investments (net)	**201**	157	**570**	423
Interest and bank charges paid	**(10)**	(11)	**(57)**	(28)
Cash from operating activities	**61,434**	28,997	**247,397**	100,434
Thereof from discontinued operations	**(4,677)**	(17,512)	**(13,272)**	8,220
Investing activities				
Acquisition of property, plant and equipment and intangible assets	**(43,733)**	(22,076)	**(109,222)**	(55,534)
Cash used in investing activities	**(43,733)**	(22,076)	**(109,222)**	(55,534)
Thereof from discontinued operations	**-**	-	**-**	-
Cash:				
Increase	**17,701**	6,921	**138,175**	44,900
Balance at beginning of the period	**196,386**	87,158	**75,912**	49,179
Balance at end of the period	**$ 214,087**	$ 94,079	**$ 214,087**	$ 94,079

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine month periods ended December 31, 2015

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

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

AECL was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

AECL is a Schedule III Part I Crown corporation under the *Financial Administration Act* and an agent of Her Majesty in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. AECL receives funding from the Government of Canada and is exempt from income taxes in Canada.

AECL is domiciled in Canada and its address is Chalk River Laboratories, Chalk River, Ontario, K0J 1J0.

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by AECL's Board of Directors on February 24, 2016.

2. Restructuring and Corporate Plan

The Government of Canada has restructured AECL to reduce risks and costs to Canadian taxpayers. The first phase of the restructuring was completed in 2011 with the sale of AECL's CANDU Reactor Division (Commercial Operations) to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. As a result, AECL's commercial operations have been presented as discontinued operations in its financial reporting (see Note 10).

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

In June 2015, following a procurement process led by Natural Resources Canada and Public Works and Government Services Canada, the Government of Canada announced that CNEA had been selected as the preferred bidder to manage and operate CNL. The contract with CNEA came into effect on September 13, 2015, and the shares of CNL were transferred from AECL to CNEA. With this last step, the restructuring of AECL was completed. Upon transferring the shares, AECL recorded a loss of $2.8 million in Operating expenses in the unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss) associated with the investment in CNL.

Given this restructuring process, AECL's 2015-16 to 2019-20 Corporate Plan has not yet been approved by the Government of Canada. It will do so in the coming months, and the plan will reflect AECL's new role under the Government-owned, Contractor-operated model.

3. Basis of Preparation

a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34. As permitted under IAS 34, these unaudited interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with AECL's audited consolidated financial statements for its fiscal year ended March 31, 2015.

AECL's unaudited interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as of the balance sheet date.

b) Basis of Presentation

AECL's unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, which are measured at fair value, and Employee benefits and the Decommissioning and waste management provision, which are measured based on the discounted value of expected future cash flows.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is AECL's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands, except where otherwise indicated.

c) Basis of Consolidation

Subsidiaries are entities controlled by AECL. The financial statements of subsidiaries are included in AECL's financial statements from the date that control commences until the date that control ceases.

These unaudited interim condensed consolidated financial statements include the accounts of AECL's wholly-owned subsidiaries, Canadian Nuclear Laboratories, incorporated in Canada in 2014 (for the period up to September 13, 2015), AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; AECL Technologies B.V., incorporated in the Netherlands in 1995; and its interest in AECL's Nuclear Fuel Waste Act Trust Fund, a structured entity (as defined in Note 4(a) of AECL's audited annual consolidated financial statements for its fiscal period ended March 31, 2015). All inter-company transactions have been eliminated upon consolidation.

d) Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IAS 34 guidelines requires the use of certain critical accounting estimates and assumptions. It also requires Management to exercise its judgment in the process of applying AECL's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3(c) of AECL's audited annual consolidated financial statements for the year ended March 31, 2015.

e) Significant Accounting Policies

Significant accounting policies applied in these unaudited interim condensed consolidated financial statements are disclosed in Note 4 of AECL's audited annual consolidated financial statements for the year ended March 31, 2015. The accounting policies have been applied consistently to the current and comparative quarters.

4. Property, Plant and Equipment

(thousands of Canadian dollars)	**December 31, 2015**	March 31, 2015
Balance - Beginning of period	**$ 405,769**	$ 335,789
Additions and transfers	**120,164**	116,761
Disposals and transfers	**(7,085)**	(33,950)
Other changes	**(969)**	7,903
Depreciation	**(15,600)**	(19,489)
Impairment	**-**	(1,245)
Balance - End of period	**$ 502,279**	$ 405,769

5. Provisions

(thousands of Canadian dollars)	**December 31, 2015**	March 31, 2015
Contractual	**$ 5,025**	$ 5,025
Other provisions	**14,451**	11,759
	$ 19,476	$ 16,784

6. Decommissioning and Waste Management Provision

(thousands of Canadian dollars)	**December 31, 2015**	March 31, 2015
Carrying amount - Beginning of period	**$ 9,744,713**	$ 7,535,142
Carrying amount - Beginning of period, current portion	**229,500**	214,500
Liabilities settled	**(146,226)**	(199,978)
Unwinding of discount	**154,992**	222,122
Effect of change in discount rate	**(398,046)**	2,114,073
Revision in estimate and timing of expenditures	**-**	71,592
Revision in estimate and timing of expenditures affecting Property, plant and equipment	**(969)**	7,903
Waste, decommissioning and site restoration costs from ongoing operations	**7,013**	8,859
Carrying amount - End of period	**9,590,977**	9,974,213
Less current portion	**(237,600)**	(229,500)
	$ 9,353,377	$ 9,744,713

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

The undiscounted future expenditures, adjusted for inflation, for the plan projects comprising the liability are $17,924.7 million (March 31, 2015 – $18,063.9 million). The provision is re-valued at the current discount rate in effect at each balance sheet date.

The provision as at December 31, 2015 was discounted using a rate of 2.15%. The opening balance as at March 31, 2015 was discounted using a rate of 1.99%.

The effect of a change in the interest rate on the provision is recognized in Revaluation (loss) gain on decommissioning and waste management provision and other in the Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss). The total charge, relating to the interest rate change, for the third quarter was $142,975 (Q3 2014-15: $735,209) and for the year-to-date was a $398,046 gain (year-to-date 2014-15: $1,291,428 charge).

7. Employee Benefits

a) Pension Plan

Employees of AECL participate in the Public Service Pension Plan (PSPP). The PSPP is a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the employer to cover current service cost. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. Total contributions of $0.5 million (Q3 2014-15: $9.8 million) were recognized as an expense in the quarter and for the year-to-date contributions of $15.8 million (year-to-date 2014-15: $25.9 million) were recognized as an expense. The changes in contributions between 2014-15 and 2015-16 are due to the implementation of the Government-owned, Contractor-operated model, whereby the ownership of AECL's then-subsidiary, CNL, was transferred to CNEA. As at the date of this transfer, employees of CNL became employees of a private-sector organization. While existing CNL employees are entitled to a three year transitional period in the PSPP, the employer contributions are being made by CNL. AECL's contributions noted above are for its small workforce which is responsible for providing contractual oversight of the Government-owned, Contractor-operated model.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two per cent of pensionable service, multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and are indexed to inflation.

b) Employee Benefits

AECL provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(m) of the annual audited consolidated financial statements dated March 31, 2015. The defined benefit obligation is funded as benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation of $26.8 million (March 31, 2015: $32.9 million) of which $23.4 million (March 31, 2015: $29.1 million) is recorded as Employee benefits under long-term liabilities, and $3.4 million (March 31, 2015: $3.8 million) is recorded as Trade and other payables.

The VTC included in the reported Employee benefits liability is $14.5 million (March 31, 2015: $15.0 million) and is payable in instances of future voluntary resignations and retirements. An estimate of the amounts expected to be paid in 2015-16 is based on AECL's most recent actuarial valuation and is included in Trade and other payables.

AECL's total expense for employee benefits was $0.8 million for this quarter (Q3 2014-15: $0.4 million). On a year-to-date basis, the total expense for employee benefits was $3.1 million (year-to-date 2014-15: $2.7 million).

8. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations, which include Statutory Funding, to ensure funds are spent in a manner consistent with the basis for which they were approved. Approved Main Estimates and Supplementary Estimates include amounts for the operations of the Nuclear Laboratories, including the safe operations of the Chalk River Laboratories. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations business.

For the three and nine months ended December 31, 2015, Parliamentary appropriations were received and recognized as follows:

(thousands of Canadian dollars)	Three Months Ended December 31, **2015**	Three Months Ended December 31, 2014	Nine Months Ended December 31, **2015**	Nine Months Ended December 31, 2014
Parliamentary appropriations - Continuing Operations, operating				
Continuing Operations, operating	**$ 32,561**	$ 76,509	**$ 129,029**	$ 170,036
Amortization of deferred capital funding	**4,981**	3,924	**13,867**	11,363
Parliamentary appropriations - Continuing Operations, operating	**37,542**	80,433	**142,896**	181,399
Parliamentary appropriations - Discontinued Operations, operating	**-**	-	**-**	36,100
Parliamentary appropriations - capital				
Capital infrastructure refurbishment	**41,565**	24,291	**116,442**	56,907
Total Parliamentary appropriations	**$ 79,107**	$ 104,724	**$ 259,338**	$ 274,406

In Q3 2015-16, AECL received $176 million and recognized a sum of $79 million (Q3 2014-15: $101 million received and $105 million recognized). On a year-to-date basis, AECL received $471 million and recognized $259 million in Parliamentary appropriations (year-to-date 2014-15: $263 million received and $274 million recognized).

The differences between received and recognized Parliamentary appropriations relate to amounts recorded as Deferred funding, the portion of appropriations recorded as Other funding, and the recording of Amortization of deferred capital funding. Capital funding is received as funds are required but is recognized simultaneously with the depreciation of the related asset in AECL's Unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss). The difference between received and recognized Parliamentary appropriations are detailed as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(thousands of Canadian dollars)	**2015**	2014	**2015**	2014
Differences between received and recognized Parliamentary appropriations				
Deferred funding	**$ 156,684**	$ -	**$ 156,684**	$ -
Deferred funding in the previous period	**(115,380)**	-	**-**	-
Amortization of deferred capital funding	**(4,981)**	(3,924)	**(13,867)**	(11,363)
Appropriations recorded as Other funding	**60,654**	-	**69,508**	-
Differences between received and recognized Parliamentary appropriations	**$ 96,977**	$ (3,924)	**$ 212,325**	$ (11,363)

There were no Parliamentary appropriations receivable as at December 31, 2015.

b) Other Funding

Other funding was recognized as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(thousands of Canadian dollars)	**2015**	2014	**2015**	2014
Operating funding				
Cost recoveries from third parties and other	**$ 12,058**	$ 5,008	**$ 23,228**	$ 14,561
Decommissioning and waste management	**48,645**	42,047	**146,017**	133,437
	$ 60,703	$ 47,055	**$ 169,245**	$ 147,998

c) Deferred Capital Funding

Deferred capital funding arises from Government appropriations used by AECL for capital investments. The reported balances are derived as follows:

(thousands of Canadian dollars)		**December 31, 2015**
Deferred capital funding		
Deferred capital funding as at March 31, 2015	**$**	**372,175**
Capital funding received during the period		**116,442**
Amortization of Deferred capital funding		**(13,867)**
Deferred capital funding as at December 31, 2015	**$**	**474,750**

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

9. Financial Income and Expenses

(thousands of Canadian dollars)	**Three Months Ended December 31, 2015**	Three Months Ended December 31, 2014	**Nine Months Ended December 31, 2015**	Nine Months Ended December 31, 2014
Financial income				
Interest on long-term receivables	**$ 1,045**	$ 1,443	**$ 3,485**	$ 4,481
Interest on investments and other	**201**	157	**570**	423
	$ 1,246	$ 1,600	**$ 4,055**	$ 4,904
Financial expenses				
Unwinding of discount on decommissioning and waste management provision net of trust fund income	**$ 51,857**	$ 54,425	**$ 155,004**	$ 168,079

10. Discontinued Operations

On October 2, 2011, the Government of Canada sold AECL's Commercial Operations to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin, at which point Candu Energy Inc. assumed full ownership and day-to-day operational control over the Commercial Operations.

The sale involved certain AECL-owned assets to Candu Energy Inc. and an exchange of undertakings among the three parties (AECL, SNC-Lavalin and the Government of Canada). A Restructuring provision was recorded for $36.5 million, of which $34.9 million has been paid as of December 31, 2015 (March 31, 2015: $33.4 million) and $1.6 million remained to complete the process (March 31, 2015: $3.1 million).

The entire Commercial Operations are considered a discontinued operation. Income and cash flows for the Commercial Operations (Discontinued Operations) are reported separately in these unaudited interim condensed consolidated financial statements in accordance with IFRS 5.

Results of Discontinued Operations

	Three Months Ended December 31,		Nine Months Ended December 31,	
(thousands of Canadian dollars)	**2015**	2014	**2015**	2014
Revenue	**$ 102**	$ -	**$ 105**	$ 2
Cost of sales	**-**	(87)	**-**	(78)
Gross margin	**102**	87	**105**	80
Operating expenses	**4,793**	(369)	**8,370**	(12,643)
Operating income from discontinued operations	**$ (4,691)**	$ 456	**$ (8,265)**	$ 12,723

The following balances included in the Unaudited Interim Condensed Consolidated Balance Sheets relate to ongoing projects and restructuring costs included in Discontinued Operations:

(thousands of Canadian dollars)	**December 31, 2015**	March 31, 2015
Assets		
Trade and other receivables	**$ 115**	$ -
Liabilities		
Trade and other payables	**$ 742**	$ 4,384
Customer advances and obligations	**-**	90
Provisions	**18,616**	16,659
Restructuring provision	**1,599**	3,090

11. Contractual Arrangement

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

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

The following contractual expenditures were incurred:

	Three Months Ended December 31,		Nine Months Ended December 31,	
(thousands of Canadian dollars)	**2015**	2014	**2015**	2014
Contractual amounts paid or payable	**$ 195,221**	$ -	**$ 220,754**	$ -
Less: Costs charged to Decommissioning and waste management provision (see Note 6)	**(48,646)**	-	**(56,082)**	-
Less: Costs charged to Construction in progress	**(41,565)**	-	**(46,146)**	-
Less: Costs classified as Cost of sales	**(14,386)**	-	**(16,812)**	-
Contractual expenses	**$ 90,624**	$ -	**$ 101,714**	$ -

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

The balance due to CNL at December 31, 2015 was $72.9 million and represents funding owing for allowable costs incurred by CNL.

The CNL balances included in AECL's Consolidated Balance Sheets at March 31, 2015 are as follows:

(thousands of Canadian dollars)	**March 31, 2015**
Assets	
Cash	**$ 8,700**
Trade and other receivables	**7,216**
Inventory	**18,196**
Liabilities	
Trade and other payables	**$ 68,107**
Employee benefits	**3,308**

12. Financial Instruments and Financial Risk Management

Financial assets and liabilities

Financial assets and financial liabilities in the Unaudited Interim Condensed Consolidated Balance Sheets were as follows:

(thousands of Canadian dollars)	**Assets at fair value through profit or loss**	**Loans and receivables**	**Other financial liabilities**	**Total**
December 31, 2015				
Cash	**$ -**	**$ 214,087**	**$ -**	**$ 214,087**
Investments held in trust	**47,793**	**-**	**-**	**47,793**
Trade and other receivables	**-**	**53,535**	**-**	**53,535**
Long-term receivables	**-**	**76,738**	**-**	**76,738**
Trade and other payables	**-**	**-**	**(46,666)**	**(46,666)**
Customer advances and obligations	**-**	**-**	**(2,150)**	**(2,150)**
Total	**$ 47,793**	**$ 344,360**	**$ (48,816)**	**$ 343,337**

(thousands of Canadian dollars)	**Assets at fair value through profit or loss**	**Loans and receivables**	**Other financial liabilities**	**Total**
March 31, 2015				
Cash	$ -	$ 75,912	$ -	$ 75,912
Investments held in trust	47,805	-	-	47,805
Trade and other receivables	-	63,067	-	63,067
Long-term receivables	-	99,794	-	99,794
Trade and other payables	-	-	(117,606)	(117,606)
Customer advances and obligations	-	-	(3,165)	(3,165)
Total	$ 47,805	$ 238,773	$ (120,771)	$ 165,807

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Except for Long-term receivables, the carrying value of all financial assets and financial liabilities approximates fair value as at December 31, 2015 and March 31, 2015, due to their short-term nature. The fair value of the long-term portion of the long-term receivables is $45 million (March 31, 2015: $72 million) and is estimated by calculating a discounted cash flow using the long-term interest rate in effect at the end of the reporting period (Level 2). The long-term interest rate is based on the Government of Canada's long term benchmark bond yields adjusted for market and credit risk.

Fair value hierarchy

The following table analyzes financial instruments measured at fair value, by valuation method. AECL uses the following hierarchy to classify fair value measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of levels 1, 2, and 3. For the reporting periods ended December 31, 2015 and March 31, 2015, there were no transfers between levels.

	December 31, 2015				March 31, 2015			
(thousands of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
Investments held in trust - Cash equivalents	**$ 24**	**$ -**	**$ -**	**$ 24**	$ 1,187	$ -	$ -	$ 1,187
Investments held in trust - Bonds	**-**	**47,769**	**-**	**47,769**	-	46,618	-	46,618
Total assets	**$ 24**	**$ 47,769**	**$ -**	**$ 47,793**	$ 1,187	$ 46,618	$ -	$ 47,805

There are no financial liabilities measured at fair value.

Risk factors

AECL's financial instruments are exposed to the same risk as disclosed in its audited annual consolidated financial statements for the year ended March 31, 2015.

13. Commitment and Contingency

As part of the sale of AECL's Commercial Operations, the Government of Canada, through AECL, agreed to provide Candu Energy Inc. with up to $75 million to support the completion of the Enhanced CANDU Reactor development program. As at December 31, 2015, $75 million (Q3 2014-15: $74 million) of this amount had been expensed and paid by AECL. Additionally, under certain conditions outlined in the contract with Candu Energy Inc., AECL may be responsible for reimbursing Candu Energy Inc. for certain costs.

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