



**IWK Health**

# Management Discussion & Analysis

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Fiscal Year April 1, 2025 - March 31, 2026

## Message from the CFO

One year into this role, I remain deeply honored to serve IWK Health, a cornerstone of care, innovation, and compassion for families across our region. As I look ahead to my second year as CFO, I see clearly that we have a long road in front of us and that now is the time for deliberate action and long-term planning to secure IWK's future.

For us at IWK Health, sound stewardship means far more than balancing books. It means ensuring this organization stays strong and resilient in delivering world-class care now and for generations to come. That strength is rooted not only in our people and innovation, but also in safe, reliable facilities. And while the future of healthcare isn't defined by bricks and mortar alone, a tertiary care institution like the IWK still fundamentally depends on a solid physical infrastructure. We cannot sustain excellence without renewing our ageing buildings. That is why we must now develop a strategic long-term plan for major assets like the Children's Building, and establish a sustainable, proactive model for maintaining and renewing our facilities. By doing so, we can ensure the IWK will continue to serve families well into the future.

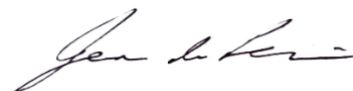
Our ability to meet these responsibilities depends on strong partnerships. We are grateful to the provincial government for its essential role in funding operations, and to the generous donors who, through the IWK Foundation, help us enhance patient care and drive innovation. This collective support is vital as we build on IWK's proud legacy while preparing for the future.

We achieved a balanced financial result again this year. As in the year prior, we continue to face significant pressures demanding sustained attention and investment. Chief among these is the state of our aging infrastructure and a growing

backlog of deferred maintenance. Rising healthcare costs continue to outpace general inflation, further limiting our financial flexibility. These trends make it clear we cannot rely on short-term fixes or business-as-usual approaches if we are to preserve and strengthen the IWK's vital services.

Even as we confront these challenges, we are taking steps to build a stronger future. This year saw two major modernization milestones: launching the new One Person One Record (OPOR) clinical information system and upgrading our core financial platform to SAP S/4HANA. These projects, while challenging, are essential for our long-run resilience and effectiveness.

I remain committed to working closely with our Board of Directors, leadership team, government partners, donors, and community to navigate this period of change. We will continue to make the tough but necessary choices and secure the investments required to protect the quality of care that Maritimers expect and deserve. With clarity of purpose and a united commitment, I am confident that together we will see the IWK through these challenges and ensure it remains a pillar of care for generations to come.



Jean du Plessis  
VP, Corporate Programs & Chief Financial Officer  
IWK Health

## Introduction & Purpose

The IWK Health Centre plays a unique and vital role in delivering specialized pediatric and maternal health services to families across the Maritimes. As both a center of excellence in care and a public institution, we are committed to transparency, accountability, and sound stewardship of the resources entrusted to us.

This Management Discussion and Analysis (MD&A) is intended to provide the public, government, and internal partners with a clear and accessible overview of IWK Health's financial position and performance for the fiscal year. It complements our audited financial statements by offering context, highlighting key drivers of financial results, and linking those results to our strategic priorities and operating realities.

As this report outlines, IWK continues to manage public funds with care and discipline, while also facing structural challenges, particularly in the form of aging infrastructure and underinvestment in capital renewal. These pressures shape how we plan, invest, and deliver care today and into the future.

## Financial Summary

For the year ended March 31, 2026, IWK Health reported total revenues of \$592 million and total expenses of \$492 million, resulting in an annual accounting surplus of \$100 million. This surplus does not reflect an operating gain, but rather the accounting treatment of capital funding. Under Public Sector Accounting Standards (PSAS), capital grants are recorded as revenue when received, while the corresponding capital expenditures are amortized over time. The result is a timing difference primarily from the construction of the new Emergency Department (ED) and revaluation of IWK's Asset Retirement Obligations (ARO) that produces an annual surplus in the current year.

From an operating perspective, IWK Health maintained balanced results, consistent with budget expectations and the organization's commitment to financial stewardship.

Compared to the prior year:

- Total revenue increased by \$101 million (23%), largely due to higher operating and capital grants.
- Total expenses increased by \$53 million (12%), reflecting growth in clinical programs as part of the Province's Action for Health Initiative.
- The annual surplus grew from \$52 million in 2025 to \$100 million in 2026, driven by timing differences related to capital activity including construction of the new ED and revaluation of ARO.
- These results reflect growth in operations alongside significant investment in new infrastructure.

# Revenue Analysis

IWK Health received most of its funding from the provincial government, totaling \$533 million (90% of total revenue).

Most of the Provincial funding was received in the form of operating grants which consists of both core funding of \$318 million and initiative specific funding of \$96 million. Core funding is more stable and flexible in its application than initiative specific funding which is generally provided to advance specific programing and is earned only when spent on the program it was designated for.

Provincial capital grants consist of project-specific funding of \$111 million for infrastructure and equipment. Capital envelope grants, grants related to OPOR-required facility upgrades, as well as grants received by the province through the federal Investing in Canada Infrastructure Program (ICIP), were received for the maintenance of existing infrastructure and equipment (\$15.7 million). Required testing of facility fire safety systems resulted in further capital infrastructure funding for asbestos abatement (\$35 million). Capital funding was also received for new infrastructure and redevelopment projects (\$52.1 million), including construction of the new Emergency Department and Action for Health transformational initiatives.

Other provincial revenue and recoveries are typically received on a cost-recovery basis in support of patient care and other unplanned costs. This includes funding received for certain high-cost drugs, out-of-province patients, and urgent infrastructure repairs needed because of aging buildings.

Provincial revenue compared to the prior year:

- Provincial operating grants increased by \$57 million (16%), increasing in both core and initiative-specific funding.

- Provincial capital grants increased by \$49 million (80%), largely due to the progression of the Emergency Department development (\$14 million increase) and revaluation of IWK's asset retirement obligation (\$35 million).
- Provincial research and innovation grants decreased by \$0.1 million.
- Other Provincial revenue and recoveries decreased by \$4.9 million (38.9%), largely due to decreased one-time facility repairs (\$2.2 million).

IWK Health receives funding from sources other than the Province of Nova Scotia, including:

- The IWK Foundation, in the form of both capital grants totaling \$2.3 million and other revenue supporting patient care totaling \$6.2 million. This funding represents an increase of 31% over the prior year. This funding was used to support a number of initiatives, including integration and specialty equipment for the operating room redevelopment, priority medical equipment, fellowships, Integrated Youth Services, and the Pediatric Learning Health System.
- Retail services, totaling \$3 million. Parking revenues are now received primarily through the province and therefore are recognized as provincial revenue.
- Investment income earned on cash balances totaling \$1.9 million.
- Research and innovation grants from both the Federal government and other institutions.

# Operational Analysis

For the fiscal year ended March 31, 2026, IWK Health reported an annual surplus of \$100 million fully attributable to capital transactions including acquisition costs of \$114 million, offset by amortization of \$14 million. The surplus/deficit from operations was nil.

Costs totaling \$492 million were incurred to support IWK's mandate, an increase of 12%. The statement of operations reflects expenses by service comprised of:

- Nursing Inpatient Services costs of \$127 million related to inpatient care for patients admitted to hospital, an increase of 7%.
- Clinical and Operational Support Services costs of \$95 million for the provision and management of all physical assets and services necessary to support staffing, operation and maintenance, an increase of 17%. Services including admitting, clinical engineering, facilities, IT, in-service education, patient food services, and housekeeping fall within this category.
- Diagnostic and Therapeutic Services costs of \$86 million for professional and technical services that assist in the detection, assessment, and/or treatment of diseases, disabilities or injuries, an increase of 11% driven by high-cost drugs, an increased number of referred-out tests, and inflationary increases in medical supplies.
- Community Health Services costs of \$77 million for the provision of health services on an ambulatory or outreach basis to individuals, groups, and/or communities, an increase of 12% driven primarily by rollout of Integrated Youth Services programming across the province and growth within Provincial Preschool Autism Services.
- Ambulatory Care Services costs of \$58 million for specialized diagnostic, consultative, treatment and teaching services, an increase

of 17% driven by investments in surgical services to reduce wait-times, including \$5M increase in Surgical Access Transformation funding.

- Corporate Support Services of \$28 million to support administering health services, an increase of 20% as a result of new positions in Equity, Diversity, Inclusion, Reconciliation, and Accessibility (EDIRA) and Health Sustainability portfolios, Action for Health retention initiatives, one-time funding to support safety and reduction in workplace violence and increase in bad debt expense driven by OPOR billing issues.
- Research and Innovation costs of \$20 million related to formally organized research, an increase of 2%.

Schedule A of the financial statements reflect costs by type. Most expenses, \$357 million (73%) are salary and benefit costs supporting both day-to-day operations and special programs, including Action for Health initiatives. Costs related to compensation remain consistent as a proportion of total expenses when compared to prior year's costs of \$318 million (73%). Other costs incurred relate primarily to patient care supplies, facility operations, equipment maintenance, and administrative supplies and other costs. Impacts from both inflation and supply chain are especially notable in services and other contracts (increased \$3.9 million or 19%) - mainly attributed to operational and start-up costs for Integrated Youth Services (IYS) sites) and equipment, medical and surgical supplies (increased \$3.8 million or 17%, maintenance and premises expenses (increased \$3.6 million or 21%).

# Capital and Infrastructure

Investment in capital infrastructure, equipment and systems is critical to patient and staff safety, maximizing efficiencies, and keeping current with best practices. During the year, IWK Health invested \$114 million in capital projects, an increase of \$49.5 million (76.7%) over the prior year. Investment in capital outpaced the depreciation due to the one-time funding received for construction of IWK's new emergency department, asset retirement obligations, Action for Health initiatives, and ventilation upgrades. Without the receipt of funding for these specific projects, depreciation of \$13.6 million would have surpassed base envelope funding of \$12.3 million which is intended to maintain capital infrastructure and equipment.

Redevelopment projects advanced during the fiscal year include:

- Emergency Department redevelopment, \$49 million
- Leasehold Space Improvements for Richmond Yard & Spring Garden modernization \$2.89 million
- One Person One Record infrastructure \$4.8 million
- Ventilation upgrades, \$5.5 million
- Roofing upgrades, \$2.1 million

Significant medical equipment replacements include:

- Operating room integration equipment, \$2.2 million
- Ventilators, \$0.9 million
- Genetic sequencer, \$0.7 million
- Diagnostic Imaging equipment \$2.6 million

IWK Health facilities portfolio consists of both IWK owned buildings and leased properties in the community. Upgrades and improvements made to

leased facilities are typically amortized over the term of the lease while IWK owned buildings are amortized over their estimated useful life. At March 31, 2026 the net book value of IWK owned buildings building service equipment, and leasehold improvements was \$221.8 million with an average estimated remaining useful life of 22 years assuming continued investment in building repairs and maintenance at the current rate. The building's net book value increased in the current year as a result of recognizing an additional \$35 million in asbestos-related asset retirement obligation (ARO). A significant investment in infrastructure renewal and preventative maintenance is required to extend the facilities useful life beyond the current estimate as a result of years of deferred maintenance. Increased instances of flooding and emergency unplanned repairs are expected to continue until a more significant investment in the building and its systems is made. In addition, a significant portion of the facility's major equipment and building service equipment has exceeded its expected useful life and will require near-term replacement to maintain safe and reliable operations.

The IWK Children's Building contains asbestos, a material that represents a health hazard if disturbed. There is a legal requirement to perform abatement activities in asbestos containing areas upon renovation or demolition of the building. The estimated cost of remediation activities upon demolition of the building is capitalized as part of the cost of the building. As a result of updated information, management's estimate of the cost of asbestos abatement activities has increased by \$35 million. The increase in ARO is driven by requirements for abatement to address Fire Marshal orders which changes measurement from demolition cost to renovation cost.

# Financial Position and Liquidity

The statement of financial position reports net debt of \$6 million at March 31, 2026 as liabilities of \$200 million exceeded financial assets of \$194 million. Net debt is a financial liquidity metric that measures a company's ability to pay all its debts if they were due today.

Financial assets include:

- Cash of \$41 million, comprised of restricted (\$39.8 million) and unrestricted (\$1.2 million) cash.
- Total receivables of \$153 million, comprised of provincial and federal government accounts amounting to \$141.4 million, amounts owed from the IWK Foundation of \$2.5 million, and other accounts receivable of \$9.1 million comprised mostly of patient, insurance, employee and other external health organizations.

Financial liabilities include:

- Accounts payable and accrued liabilities of \$72 million comprised of amounts owed for compensation and benefits of \$39 million, trade payables of \$16 million, and accrued liabilities of \$17 million.
- Deferred revenue of \$40 million, related to funding received with unmet stipulations and was comprised of restricted donations of \$21 million, restricted funding for research projects of \$18 million, and capital project funding of \$1.2 million.
- Employee future benefits of \$34 million for actuarially estimated costs including non-vested sick-leave benefits of \$17 million, post-retiree health benefits of \$16.4 million, and retiring allowances of \$0.7 million. Employee future benefits are fully funded by the Province of Nova Scotia.

- Asset retirement obligations of \$50 million (2025 - \$15 million) for estimated future costs to safely dispose of asbestos and other regulated materials on retirement of IWK buildings. The increase in ARO is driven by requirements for abatement to address Fire Marshal orders which changes measurement from demolition cost to renovation cost. Asset retirement obligations are fully funded by the Province of Nova Scotia.

Non-financial assets totaled \$416 million and include:

- Tangible capital assets of \$410 million which includes land, buildings and leasehold improvements of \$220 million, equipment of \$28.5 million, IT assets of \$1.5 million, and projects in progress of \$160 million.
- Inventories held for use of \$3.5 million, consisting of medical and surgical supplies of \$2.1 million, drugs of \$1.1 million, and departmental supplies of \$0.3 million.
- Prepaid expenses of \$3 million.

Non-financial assets of \$416 million less net debt of \$6 million account for an accumulated surplus of \$410 million.

IWK Health enters into multi-year contracts, in support of day-to-day operations, as well as to avoid risk and take advantage of opportunities for favorable purchase terms. These commitments include contracts for the delivery of equipment, supplies, services and operating leases and are expected to become liabilities in the future as the related terms of service are fulfilled. Contractual obligations at March 31, 2026 are estimated at \$58 million over the next 5 years.

# Financial Risk and Uncertainty

## Funding and Government Support Risk

IWK Health relies heavily on core funding from the provincial government, as well as targeted funding from federal and other public sources. Changes to government priorities, fiscal constraints, or modifications to funding formulas may materially affect the Centre's ability to deliver services, invest in infrastructure, and pursue strategic initiatives.

The organization continues to engage proactively with government partners to advocate for sustainable, predictable funding models. Multi-year funding pressures, combined with inflationary cost growth in both operating and capital expenditures, heighten this risk.

## Infrastructure and Capital Investment Risk

Underinvestment in infrastructure over an extended period has created a backlog of capital needs across IWK facilities. A number of critical building systems are aging, and deferred maintenance poses potential risks to service continuity, safety, and compliance.

Failure to secure sufficient capital funding could result in unplanned service disruptions or increased operating costs. The organization is actively pursuing capital planning and prioritization strategies to mitigate these risks, while advocating for necessary reinvestment.

## Inflation and Cost Escalation Risk

Like many healthcare organizations, IWK is facing cost pressures due to inflation in goods, services, construction materials, and wages. Recent trends

in construction cost escalation may significantly impact the affordability of planned capital projects. Cost inflation in contracted services and clinical supplies may further pressure operating budgets in an environment of flat or marginally increasing funding.

## Workforce and Labour Market Risk

The broader labour market continues to experience volatility, including shortages of skilled clinical, technical, and support staff. Competitive pressures in compensation and recruitment may drive higher personnel costs or affect service delivery. The organization continues to work closely with HR partners and bargaining agents to mitigate these risks, with a focus on recruitment, retention, and workforce flexibility.

## Information Technology and Cybersecurity Risk

Healthcare systems are increasingly reliant on complex IT platforms and digital infrastructure, much of which is managed through shared service arrangements with provincial partners (CSDS and NSHA). Risks related to system availability, cybersecurity breaches, and digital obsolescence could impact clinical operations and administrative functions. IWK Health is working with provincial and local partners to strengthen IT risk management, governance, data strategy, cybersecurity posture, and system resilience.

## Supply Chain Disruption Risk

Global and domestic supply chain disruptions continue to affect availability and cost of certain clinical supplies, equipment, and pharmaceuticals. The organization is closely monitoring critical supply categories and maintaining contingency plans where feasible.