

Financial Statements of

**TORONTO EAST HEALTH
NETWORK**

And Independent Auditor's Report thereon

Year ended March 31, 2026



KPMG LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Toronto East Health Network

Opinion

We have audited the financial statements of Toronto East Health Network (the Entity), which comprise:

- the statement of financial position as at March 31, 2026
- the statement of revenue and expenses for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2026, and its results of operations, its remeasurement gains and losses, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Matter - Comparative Information

The financial statements for the year ended March 31, 2025 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 27, 2025.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

May 26, 2026

TORONTO EAST HEALTH NETWORK

Statement of Financial Position
(In thousands of dollars)

March 31, 2026, with comparative information for 2025

	2026	2025
Assets		
Current assets:		
Cash (note 2)	\$ 36,061	\$ 21,179
Short-term investments (note 3)	151,561	186,228
Accounts receivable (note 4)	31,911	24,545
Inventory	2,086	1,719
Prepaid expenses and deposits	7,096	4,583
Other assets (note 7)	5,598	—
	<u>234,313</u>	<u>238,254</u>
Restricted cash (note 15(a))	7,202	6,523
Capital assets (note 5)	687,683	666,893
Long-term receivable (notes 6 and 14(a))	6,812	10,712
Other long-term assets (note 7)	928	1,571
	<u>\$ 936,938</u>	<u>\$ 923,953</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 82,789	\$ 77,524
Current portion of long-term debt (note 8)	4,248	2,518
Deferred revenue	79,800	85,918
Research funds (note 2)	3,246	3,068
	<u>170,083</u>	<u>169,028</u>
Long-term debt (note 8)	41,312	45,560
Asset retirement obligations (note 9)	1,429	1,374
Derivative liability (note 10)	383	411
Deferred capital grants and donations (note 11)	594,651	578,618
Employee future benefits liabilities (note 12)	18,015	16,996
Legal defence fund (note 15(a))	4,143	3,922
	<u>830,016</u>	<u>815,909</u>
Net assets:		
Invested in capital assets (note 16)	163,963	191,817
Internally restricted (note 7)	6,526	1,571
Unrestricted	(63,184)	(84,933)
	<u>107,305</u>	<u>108,455</u>
Accumulated remeasurement losses (note 10)	(383)	(411)
	<u>106,922</u>	<u>108,044</u>
Commitments and contingencies (note 15)		
	<u>\$ 936,938</u>	<u>\$ 923,953</u>

See accompanying notes to financial statements.

On behalf of the Board:

Catriona Read, Director

Pamela Steer, Director

TORONTO EAST HEALTH NETWORK

Statement of Revenue and Expenses
(In thousands of dollars)

Year ended March 31, 2026, with comparative information for 2025

	2026	2025
Revenue:		
Government agencies	\$ 408,998	\$ 376,767
Patient	28,964	27,615
Other	25,782	20,673
Amortization of deferred capital grants and donations (note 11)	22,583	19,460
Other votes programs (note 13)	18,967	17,970
Interest	1,879	1,940
Research	1,844	1,356
	<u>509,017</u>	<u>465,781</u>
Expenses:		
Salaries, wages and employee benefits (note 13)	327,074	294,910
Other supplies and expenses	86,623	81,403
Equipment and building amortization	29,139	27,482
Medical and surgical supplies	22,971	21,057
Drugs	21,791	19,586
Other votes programs (note 13)	19,769	17,970
Research	2,800	2,051
	<u>510,167</u>	<u>464,459</u>
(Deficiency) excess of revenue over expenses	<u>\$ (1,150)</u>	<u>\$ 1,322</u>

See accompanying notes to financial statements.

TORONTO EAST HEALTH NETWORK

Statement of Remeasurement Gains and Losses
(In thousands of dollars)

Year ended March 31, 2026

	2026	2025
Accumulated remeasurement losses, beginning of year	\$ (411)	\$ (2,339)
Change in unrealized gains attributable to derivatives	28	1,928
Accumulated remeasurement losses, end of year	\$ (383)	\$ (411)

See accompanying notes to financial statements.

TORONTO EAST HEALTH NETWORK

Statement of Changes in Net Assets (In thousands of dollars)

Year ended March 31, 2026

	Invested in capital assets (note 16)	Internally restricted (note 7)	Unrestricted	2026 Total	2025 Total
Balance, beginning of year	\$ 191,817	\$ 1,571	\$ (84,933)	\$ 108,455	\$ 107,133
Excess (deficiency) of revenue over expenses	(6,556)	–	5,406	(1,150)	1,322
Accretion expense for asset retirement obligation (note 9)	(55)	–	55	–	–
Net additions to capital assets	49,929	–	(49,929)	–	–
Net capital grants and donations received (note 11)	(38,616)	–	38,616	–	–
Withdrawal from restricted cash for the Ken & Marilyn Thomson Patient Care Centre (note 2)	(813)	–	813	–	–
Reductions in restricted short-term investments the Ken & Marilyn Thomson Patient Care Centre (note 3)	(34,261)	–	34,261	–	–
Repayment of debt (note 8)	2,518	–	(2,518)	–	–
Additions to other assets	–	4,955	(4,955)	–	–
Balance, end of year	\$ 163,963	\$ 6,526	\$ (63,184)	\$ 107,305	\$ 108,455

See accompanying notes to financial statements.

TORONTO EAST HEALTH NETWORK

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2026

	2026	2025
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenue over expenses	\$ (1,150)	\$ 1,322
Items not affecting cash:		
Amortization of capital assets	29,139	27,482
Amortization of deferred capital grants and donations (note 11)	(22,583)	(19,460)
Amortization of asset retirement obligations (note 9)	55	54
Loss on disposal of capital assets (note 5)	3,279	11,349
Legal defence fund liability, net	221	419
Employee future benefits expense (note 12)	1,995	1,786
	10,956	22,952
Change in non-cash operating working capital:		
Accounts receivable	(7,366)	129,865
Inventory	(367)	617
Prepaid expenses and deposits	(2,513)	(249)
Other assets	(5,598)	–
Accounts payable and other accrued liabilities	9,670	7,424
Research funds	178	447
Deferred revenue	(6,118)	16,089
Employee future benefits paid (note 12)	(976)	(718)
	(2,134)	176,427
Capital activities:		
Net additions to capital assets, net of change in accounts payable and other accrued liabilities relating to capital asset additions and assets through capital leases of \$4,405 (2025 - \$5,396)	(57,613)	(79,609)
Financing activities:		
Net capital grants, includes write-off of grants of \$817 (2025 - \$743) (note 11)	38,616	53,763
Decrease of due to Project Co.	–	(168,158)
Decrease (increase) in long-term receivables	3,900	(2,722)
Decrease (increase) in other long-term assets	643	(1,571)
Addition to long-term debt	–	44,263
Repayment of debt	(2,518)	(485)
	40,641	(74,910)
Investing activities:		
Sale (purchase) of short-term investments	34,667	(17,997)
Contributions to legal defence fund, net	(679)	(283)
	33,988	(18,280)
Increase in cash	14,882	3,628
Cash, beginning of year	21,179	17,551
Cash, end of year	\$ 36,061	\$ 21,179

See accompanying notes to financial statements.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2026

Toronto East Health Network (the "Hospital") is a community teaching hospital located in southeast Toronto. The Hospital is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

The Hospital's operations are funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ministry of Health ("MOH") and Ontario Health ("OH"), a Crown agency of the Government of Ontario. Effective April 1, 2021, OH assumed all responsibilities of the previous Toronto Central Local Health Integration Network ("TC LHIN") and Cancer Care Ontario as it relates to the Hospital. In addition, all agreements between the Hospital and the TC LHIN and Cancer Care Ontario were transferred to OH.

1. Significant accounting policies:

(a) Financial statement presentation:

Management has prepared these financial statements in accordance with Canadian public sector accounting standards ("PSAS") for government not-for-profit organizations, using the deferral method of reporting restricted contributions. The financial statements do not include the assets, liabilities or operations of Toronto East Health Network Foundation (the "Foundation"), which is a related non-controlled organization (note 15).

(b) Description of net assets:

Invested in capital assets net assets represents the net book value of the Hospital's capital assets, less any related long-term debt, capital leases and unamortized capital grants and donations and asset retirement obligations ("AROs").

Unrestricted net assets represent the deficiency of revenues over expenses accumulated from the ongoing operations of the Hospital since its inception less amounts invested in capital assets and amounts internally restricted.

Internally restricted net assets represent net assets for the Hospital's portion of the redevelopment project, which pertains to the multi-year project approved by MOH.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

1. Significant accounting policies (continued):

(c) Revenue recognition:

Under the Health Insurance Act (Ontario) and Regulations thereto, the Hospital is primarily funded by the Province of Ontario in accordance with budget arrangements established by the MOH through OH. Operating funding with no restrictions is recorded as revenue in the fiscal year to which it relates. Restricted contributions are recognized as revenue in the year in which the related eligible expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, and collection is reasonably assured.

The extent to which the MOH/OH funding has been received, with the stipulated requirement that the Hospital provide specific services, and these services have not yet been provided, the funding is deferred until such time as the services are performed. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MOH/OH.

Contributions externally restricted for the purchase of capital assets are deferred and amortized on a straight-line basis, at a rate corresponding with the amortization rate of the related capital assets.

Some MOH/OH revenue is tied to patient volume and activity. Revenue is, therefore, based on estimated patient volumes pending MOH/OH confirmation. In addition, revenue linked to programs not yet underway has been deferred. The unrecognized revenue is included as deferred revenue.

Grants and funding authorized by the MOH and/or OH as of the end of the fiscal year, and for which a specific purpose or use has been identified, are recognized as revenue when there is reasonable assurance that the Hospital has complied with, and will continue to comply with, the conditions necessary to earn the grants and/or funding. The recognition of revenue associated with such grants and funding requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final grants and funding approved is subject to the funders' reconciliation process and could differ from these estimates.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

1. Significant accounting policies (continued):

Grants and funding for which revenue has been earned but not received as at the end of the fiscal year are recognized as accounts receivable. Where a portion of a grant or funding relates to a future fiscal period, it is deferred and included as deferred revenue.

(d) Financial instruments:

Financial assets and liabilities are recognized when the Hospital becomes a party to the contractual provisions of the financial instrument.

The carrying value of financial instruments reported on the statement of financial position of the Hospital are measured as follows:

Cash	Fair value
Short-term investments	Fair value
Restricted cash	Fair value
Accounts receivable	Amortized cost
Long-term receivable	Amortized cost
Other assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. Transaction costs on financial assets measured at fair value are expensed as incurred.

(e) Interest expense:

Interest on long-term debt is recorded using the effective interest rate method.

(f) Cash:

Cash consists of cash on hand.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

1. Significant accounting policies (continued):

(g) Short-term investments:

Short-term investments consist of short-term highly liquid investments that are readily convertible to known amounts of cash with a short-term maturity of 12 months or less from the date of acquisition.

(h) Inventory:

Inventory, which includes Hospital medical, surgical and other supplies are valued at the lower of average cost or replacement value.

(i) Capital assets:

Capital assets are recorded at cost and amortization is provided on a straight-line basis over their estimated useful life at the following rates:

Buildings	40 to 50 years
Building renovations	20 to 40 years
Leasehold improvements	Over the term of the lease
Electronic patient records	10 to 20 years
Equipment	3 to 20 years
Equipment under capital lease	Shorter of the lease term and estimated useful life

Costs relating to construction-in-progress including the Ken & Marilyn Thomson Patient Care Centre ("K&MTPCC") are reclassified to the appropriate capital asset category and amortization is commenced once the asset is operational.

(j) Other assets:

Other assets include costs that are directly attributable to the implementation of software-as-a-service applications, which are recognized as other assets until the system is substantially ready for use. Upon commencement of use, these amounts are expensed over the term of the service agreement.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

1. Significant accounting policies (continued):

(k) Asset retirement obligations:

AROs are provisions for legal obligations for the retirement of the Hospital's capital assets that are either in productive use or no longer in productive use.

An ARO liability is recognized when, as at the financial reporting date:

- there is a statutory, contractual, or legal obligation to incur retirement costs in relation to a capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

AROs are recognized by the Hospital in the period in which an obligation arises for statutory, contractual, or legal obligations associated with the retirement of capital assets when those obligations result from the acquisition, construction, development, or normal operation of the capital assets. The obligations are measured initially at management's best estimate of the present value of the estimated future cash flows required to settle the retirement obligation. For capital assets that are still in productive use, there is a corresponding increase to the carrying value of the related tangible capital asset. For assets that are not recorded or are no longer in productive use, the liability is expensed in the period. In subsequent periods, the liability is accreted over time and adjusted for changes in the liability estimate, as applicable or timing of the future cash flows. The capitalized asset retirement costs are amortized on the same basis as the related capital asset, and accretion expense is included in the statement of revenue and expenses.

(l) Impairment of long-lived assets:

When conditions indicate a capital asset no longer contributes to the Hospital's ability to provide services, or that the value of future economic benefits associated with the capital asset is less than its net book value, the cost of the capital asset will be reduced to reflect the decline in the asset's value.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

1. Significant accounting policies (continued):

(m) Employee future benefits liabilities:

Employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP"), which is a multi-employer best five consecutive year average pay defined benefit pension plan and are entitled to certain post-employment benefits. Contributions made to HOOPP are expensed as funded, as the plan is accounted for as a defined contribution plan.

The Hospital provides certain post-employment benefits, which includes health, dental, and life insurance. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method pro-rated on service, retirement ages of employees and expected health care costs. The discount rate used to determine the accrued benefit obligation was determined based on the provincial cost of borrowing rate recommended for hospital use as at March 31, 2026. The actuarial gains and losses are amortized over the average remaining service period of active employees. Past service costs are expensed when incurred.

(n) Contributed services

A substantial number of volunteers contribute a significant amount of time each year to the Hospital. Due to the difficulty in determining the fair value, these contributed services are not recognized or disclosed in the financial statements and related notes in the financial statements. Contributed materials are recorded at fair value when received.

(o) Use of estimates:

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect revenue and expenses during the reporting period, in addition to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements.

Actual results could differ from those estimates. Significant estimates included in the financial statements relate to revenue recognition, obligations for employee future benefits, allowance for doubtful accounts, accrued liabilities, deferred revenue, and estimated useful life of capital assets and the estimated costs of AROs.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

1. Significant accounting policies (continued):

The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by OH for the year ended March 31, 2008, and for subsequent years. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital's performance in a number of areas. If the Hospital does not meet its performance standards or obligations, Ministry/OH has the right to adjust funding received by the Hospital. Ministry/OH is not required to communicate funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of financial statements, the amount of Ministry/OH funding recognized during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

2. Cash:

	2026	2025
Unrestricted	\$ 32,080	\$ 16,563
Restricted funds - research	3,246	3,068
Restricted funds - K&MTPCC	735	1,548
	<u>\$ 36,061</u>	<u>\$ 21,179</u>

The Hospital has available an operating credit facility (the "Facility") with a single Canadian financial institution to finance working capital. The amount available under the Facility is \$12,000 (2025 - \$12,000) at prime less 0.25%. As at March 31, 2026, the Hospital had drawn a total of nil (2025 - nil) against this Facility.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

3. Short-term investments:

	2026	2025
Restricted - K&MTPCC	\$ 117,185	\$ 151,446
Unrestricted	34,376	34,782
	<u>\$ 151,561</u>	<u>\$ 186,228</u>

Short-term investments of \$117,185 (2025 - \$151,446) are restricted for K&MTPCC and comprised of term deposits and guaranteed investment certificates.

The effective yields on the term deposits and guaranteed investment certificates are between 2.72% and 3.45% per annum (2025 - 3.19% and 4.73%) and mature between April 28, 2026 and March 31, 2027 (2025 - April 8, 2025 and November 17, 2025).

4. Accounts receivable:

Accounts receivable consists of the following:

	2026	2025
Government agencies	\$ 15,492	\$ 10,339
Patient and other receivable	9,765	11,331
Government agencies - K&MTPCC receivable	3,443	–
Foundation - K&MTPCC receivable (note 14)	2,000	1,200
Foundation receivable (note 14)	1,211	1,675
	<u>\$ 31,911</u>	<u>\$ 24,545</u>

The Hospital has recorded as receivable from the Foundation of \$2,000 (2025 - \$1,200) and the MOH of \$3,443 (2025 - nil) to fund the completed portion of the project as at March 31, 2026 in connection with the completion of the K&MTPCC (note 5). The receivable is non-interest bearing and is anticipated to be received prior to March 31, 2027.

Patient and other receivable are shown net of an allowance for doubtful accounts of \$1,123 (2025 - \$1,223).

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

5. Capital assets:

			2026	2025
	Cost	Accumulated amortization	Net book value	Net book value
Land and land improvements	\$ 202	\$ –	\$ 202	\$ 202
Buildings and building renovations	735,321	(160,300)	575,021	543,480
Leasehold improvements	4,354	(4,354)	–	–
Equipment	249,383	(196,557)	52,826	52,500
Equipment under capital lease	9,277	(8,844)	433	685
Electronic patient records K&MTPCC	27,524	(25,143)	2,381	3,485
construction-in-progress	31,942	–	31,942	49,080
Other construction-in-progress	24,878	–	24,878	17,461
	\$ 1,082,881	\$ (395,198)	\$ 687,683	\$ 666,893

The Hospital, in conjunction with MOH, has undertaken a major capital redevelopment project to design, build, and maintain the K&MTPCC. The K&MTPCC will enable the Hospital to meet the healthcare needs of the community.

A Project Agreement was entered into on February 6, 2018 between the Hospital and Ellisdon Infrastructure MGH Inc. ("Project Co"). Project Co will design, engineer, construct, and commission the new patient care centre to provide the Hospital with a complete and operational facility. The construction's guaranteed price is \$411,018 of which the Hospital's local share is \$62,000. On October 22, 2022, the Hospital entered into a Settlement Agreement with Project Co for \$26,000 to fund additional costs incurred as a result of Project Co's response to public health measures implemented during the COVID-19 pandemic, which impacted the performance of its obligations under the Project Agreement. An Amended Project Agreement was entered into on September 12, 2024 for \$50,000 to fund additional project scope for K&MTPCC, including the conversion of a former mental health unit to an inpatient unit, as well as other deferred tasks.

The redevelopment project achieved substantial completion in October 2024. In December 2025, the Hospital completed the renovation of the inpatient unit as outlined in the Amended Project Agreement. Total project costs amounted to \$542,005 (2025 - \$501,489), of which \$516,450 (2025 - \$477,090) was capitalized as buildings and building improvements, and \$25,554 (2025 - \$24,398) was capitalized as equipment. The remaining deferred tasks are in progress, with completion expected by August 2026.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

5. Capital assets (continued):

Deferred capital grants and donations of \$532,461 (2025 - \$492,361) is included in the statement of financial position and are being recognized at the same rate as which amortization is incurred.

Amortization expense for the fiscal year ended March 31, 2026, relating to the K&MTPCC is \$14,922 (2025 - \$13,554). Deferred capital grant recognition for fiscal year ended March 31, 2026, relating to the K&MTPCC is \$14,915 (2025 - \$13,443).

Interest capitalized on funds held for K&MTPCC for this fiscal year is \$26,626 (\$21,530 in 2025), of which \$1,094 (2025 - \$509) has been amortized in the statement of revenue and expenses.

During the year, the Hospital recorded a write down of partially depreciated assets with a net book value of \$3,279 (\$11,478 in 2024). The write down includes cancelled capital projects and demolished wings within the Hospital legacy building with a net book value of \$3,279, and furniture & equipment with a net book value of nil.

6. Long-term receivable:

In connection with the completion of the K&MTPCC (note 5), the Hospital has recorded a long-term receivable from the Foundation to fund the project as at March 31, 2026. This non-interest-bearing receivable will be received subsequent to March 31, 2027.

	2026	2025
Foundation (note 14)	\$ 6,812	\$ 10,712

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

7. Other assets:

As of March 31, 2026, the Hospital has recognized other assets related to the implementation of cloud-based software applications. These costs, which include vendor fees and implementation resources, will be amortized over the term of the service contract once the systems are expected to be operational in fiscal 2026 and fiscal 2027.

	2026	2025
Short term	\$ 5,598	\$ —
Long term	928	1,571
	<u>\$ 6,526</u>	<u>\$ 1,571</u>

8. Long-term debt:

The long-term debt consists of:

	2026	2025
Bank loan, bears interest at a rate of Canadian Overnight Repo Rate Average ("CORRA") plus 0.40% or Royal Bank Prime rate plus 0% with monthly payments of principal and interest until May 2032	\$ 3,342	\$ 3,827
Bank loan, bears interest at a rate of CORRA + 0.29% per annum or Royal Bank Prime rate plus 0% due on October 13, 2027 (i)	36,784	36,784
Bank loan, bears interest at a rate of CORRA + 0.34% per annum or Royal Bank Prime rate plus 0% due on October 12, 2029 (ii)	5,434	7,467
	<u>45,560</u>	<u>48,078</u>
Less current portion	4,248	2,518
	<u>\$ 41,312</u>	<u>\$ 45,560</u>

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

8. Long-term debt (continued):

Principal payments required in the next five years and thereafter are as follows:

2027	\$ 4,248
2028	38,979
2029	526
2030	539
2031	554
Thereafter	714
	<hr/> \$ 45,560 <hr/>

Interest expense recorded in the statement of revenue and expenses related to long-term debt is \$91 (2025 - \$104) and \$977 (2025 - \$725) as capitalized interest expense on the statement of financial position.

On October 14, 2021, the Hospital amended an existing credit facility agreement to finance the construction of the K&MTPCC. The three credit facilities include:

- (i) The first facility for \$37,000 is to finance holdback payments associated with the K&MTPCC. The facility bears interest at a rate of CORRA + 0.29% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 13, 2027.
- (ii) The second facility for \$15,500 is to finance general costs associated with the K&MTPCC. The facility bears interest at a rate of CORRA + 0.34% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 12, 2029.
- (iii) The third facility of \$10,000 for general corporate purposes. The facility bears interest at a rate of CORRA + 0.34% per annum or Royal Bank Prime rate plus 0%. Repayment will conclude on October 12, 2029. As at March 31, 2026, the Hospital has drawn nil (2025 - nil) against this facility.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

9. Asset retirement obligations:

The Hospital has buildings containing asbestos requiring remediation upon decommissioning. The Canadian Environmental Protection Act ("CEPA") governs the protection of the environment and human health with respect to the hazardous waste such as asbestos. There are regulations specifically regarding the handling of asbestos, such as the "Prohibition of Asbestos and Products Containing Asbestos Regulations" which are published under the authority of CEPA. In addition, the Canada Occupational Health and Safety Regulations (10.26.1 Schedule, Division II - Hazardous Substances Other than Hazardous Products) outlines requirements for asbestos exposure control plans, as well as requirements on disposal of asbestos and decontamination.

The estimated liability is the present value of the estimated future cash flows required to settle the AROs is estimated to be \$1,429 as at March 31, 2026 (2025 - \$1,374).

The present value of the obligation was calculated using a discount rate of 3.88% (2025 - 3.90%).

A reconciliation of the beginning and ending aggregate carrying amount of the liability is as follows:

	2026	2025
Balance, beginning of year	\$ 1,374	\$ 1,320
Accretion expense	55	54
Balance, end of year	\$ 1,429	\$ 1,374

10. Derivative liability:

In connection with the financing obtained for the purpose of the facility at 840 Coxwell Ave, the Hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0% or CORRA rate plus 0.40%, to a fixed rate of 2.54%. The start date of this interest rate swap was June 15, 2012, and has a maturity date of June 15, 2032.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

10. Derivative liability (continued):

On October 14, 2021, in connection with the financing obtained for the construction of the K&MTPCC, the Hospital entered into two additional interest rate swap agreements to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0% or CORRA rate plus 0.29% (note 8(i)), to a fixed rate of 2.22% and to modify the floating rate of interest on the loan from Royal Bank Prime rate less 0% or CORRA rate plus 0.34% (note 8(ii) and (iii)) to a fixed rate of 2.24%.

The notional value of the derivative financial instruments is \$45,560 (2025 - \$48,078). The fair value of the interest rate swap calculated using the discounted cash flow method at March 31, 2026 is a derivative liability of \$383 (2025 - \$411) and is reflected on the statement of financial position.

11. Deferred capital grants and donations:

Deferred capital grants and donations recorded for the year were as follows:

	2026	2025
Deferred capital grants and donations, beginning of year	\$ 578,618	\$ 544,315
Capital grants and donations received during the year	38,616	53,763
Amortization for the year	(22,583)	(19,460)
Deferred capital grants and donations, end of year	\$ 594,651	\$ 578,618

Included in deferred capital grants and donations is an amount of \$36,444 (2025 - \$53,611) related to either capital assets under construction/not yet operational or unspent capital funding.

During the year, the Hospital recorded a write-off of partially depreciated assets (note 5) that had associated deferred capital grants of \$817 (2025 - \$743).

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

12. Employee future benefits liabilities:

(a) Pension plan

Employees of the Hospital are eligible to be members of the HOOPP, a multi-employer best five consecutive year average pay defined benefit pension plan. Contributions made to the plan during the year by the Hospital amounted to \$18,463 (2025 - \$17,289). These amounts are included in the employee benefits expense in the statement of revenue and expenses. Should there be a contribution deficiency in the plan; the Hospital may be required to make additional contributions to cover these deficiencies. As at December 31, 2025, HOOPP was 109% funded (December 31, 2023 - 111% funded).

(b) Other post-employment benefits

Employees of the Hospital are entitled to certain post-employment benefits. The Hospital uses the accrued benefit cost method for post-employment benefits. This method uses current market rates to estimate the present value of the post-employment liabilities, based on actuarial valuations. The most recent actuarial valuation of the Hospital was as of March 31, 2024.

Information about the Hospital's post-employment future benefits liabilities is as follows:

	2026	2025
Change in benefit obligation:		
Accrued benefit obligation, beginning of year	\$ 18,731	\$ 16,040
Current service cost	1,288	1,085
Interest cost	719	654
Benefits paid	(976)	(718)
Losses (gains) from actuarial experience	(73)	1,670
Accrued benefit obligation, end of year	19,689	18,731
Unamortized gains from actuarial experience	(1,674)	(1,735)
Accrued benefit liability	\$ 18,015	\$ 16,996

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

12. Employee future benefits liabilities (continued):

	2026	2025
Plan expense:		
Current service cost	\$ 1,288	\$ 1,085
Interest cost	719	654
Amortization of actuarial experience losses (gains), net	(12)	47
Net benefit expense	\$ 1,995	\$ 1,786

	2026	2025
Significant assumption on obligations:		
Discount rate	4.80%	4.50%
Average remaining service period of active employees to retirement who are expected to receive benefits under the benefits plan (years)	13	13
Dental cost increase	5.30% per annum	5.58% per annum
Extended health care ⁽¹⁾	5.30% per annum	5.12% per annum

⁽¹⁾ Changing annually based on the Canadian Institute of Actuaries Trend Rate Model 4.05% per annum in 2040.

13. Other votes programs:

Other votes programs represent Community Mental Health programs, Children's Mental Health Program, Ontario Health Team Program, Psychiatric Outpatient Medical Services Program, Primary Care programs, Community Alternate Level of Care and Home Care programs and Substance Abuse Program administered by the Hospital with funding from the MOH. With the exception of certain Home Care programs where funding is recognized based on volumes achieved, funding is generally provided to cover all operating expenses.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

14. Related entities:

(a) The Foundation:

The Foundation raises funds to support projects of the Hospital. The Hospital has an economic interest in the net assets of the Foundation. Excess of revenue over expenses generated by the Foundation are donated to the Hospital upon approval of the Foundation's Board of Directors.

The Hospital does not exercise control or significant influence over the Foundation; consequently, these financial statements do not include assets, liabilities and activities of the Foundation.

Deferred capital contributions and donations received from the Foundation during the year amounted to \$12,361 (2025 - \$11,312). A receivable of \$815 (2025 - \$1,400) relates to one capital grant. In addition, a receivable of \$8,812 (2025 - \$11,912) relates to capital grants for the K&MTPCC, of which \$2,000 (2025 - \$1,200) is recorded as a current receivable (note 4) and \$6,812 (2025 - \$10,712) is recorded as a long-term receivable (note 6).

During the year, the Foundation provided contributions of \$3,717 (2025 - \$3,361) to fund operating expenses paid by the Hospital on behalf of the Foundation, of which \$265 (2025 - \$245) is receivable as at March 31, 2026. This amount is expected to be reimbursed subsequent to year end. Operating, research, and education grants received from the Foundation during the year amounted to \$2,625 (2025 - \$2,395), of which \$131 (2025 - \$30) is receivable as at March 31, 2026.

Total amounts receivable from the Foundation as at March 31, 2026 were \$10,023 (2025 - \$13,587).

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

14. Related entities (continued):

(b) Mohawk Medbuy Corporation ("MMC"):

The Hospital is a member of MMC, a not-for-profit shared services organization, whose mandate is to provide supply chain services to the Hospital and its other members through a cost-saving model. It also provides certain information technology and is paid a service fee by its members to pay for supply chain services and to support and maintain the financial reporting systems. The objectives of MMC are to improve and maximize non-clinical efficiencies, resulting in savings that will be reinvested in direct patient care. During the year, the Hospital has paid \$2,620 (2025 - \$2,926) to MMC. In addition, the Hospital has paid \$1,817 (2025 - \$303) related to an enterprise resource and procurement system upgrade.

(c) Shared Hospital Laboratory:

The Hospital is a member of Shared Hospital Laboratory, a not-for-profit organization, whose mandate is to provide laboratory services to its member organizations. During the fiscal year, the Hospital paid \$1,239 (2025 - nil) to the organization in connection with laboratory services.

15. Contingencies, commitments and guarantees:

- (a) The Hospital is a member of the Healthcare Insurance Reciprocal of Canada ("HIROC"). HIROC is a pooling of liability insurance risks of its members. All members of the pool pay annual premiums, which are actuarially determined. All members are subject to reassessment for losses, if any, experienced by the pool for the years in which they are members. No negative reassessments have been made to March 31, 2026.

Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligation for claims reserves and expenses and operating expenses. Each subscriber who has an excess of premium plus investment income over the obligation for their allocation of claims reserves and expenses and operating expenses may be entitled to receive distributions of their share of the unappropriated surplus at the time such distributions are declared by the Board of Directors at HIROC. The Hospital received \$1,797 (2025 - \$1,006) distributions as at March 31, 2026.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

15. Contingencies, commitments and guarantees (continued):

In 2014, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investigating and defending any claims, previously included in the insurance premium, will be borne by the Hospital. Under the agreement, the Hospital transfers funds to HIROC Management Limited, which acts as an agent to pay legal expenses on behalf of the Hospital. For the year ended March 31, 2026, the Hospital has cash restricted for these purposes of \$7,202 (2025 - \$6,523) and has estimated the liability of defence costs associated with claims arising subsequent to the start of the agreement as \$4,143 (2025 - \$3,922).

- (b) Minimum annual operating lease payments for leases which expire at various dates up to May 14, 2032, are as follows:

2027	\$ 2,721
2028	2,161
2029	2,046
2020	1,830
2031	260
2032 and thereafter	1,577
	<hr/>
	\$ 10,595

- (c) In the normal course of business, the Hospital enters into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

- (i) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of indemnification is not explicitly defined but is limited to the period over which the indemnified party served as a director or officer of the Hospital.
- (ii) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

15. Contingencies, commitments and guarantees (continued)

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability that stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Hospital has not made any significant payments under such or similar indemnification agreements and, therefore, no amount has been accrued in the statement of financial position with respect to these agreements. As well, the current inventory of contracts and agreements does not indicate any exposure to liability.

- (d) The nature of the Hospital's activities is such that there is usually litigation pending or in progress at any one time. With respect to claims as at March 31, 2026, it is management's position that the Hospital has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have a material effect on the Hospital's financial position.

16. Invested in capital assets:

Invested in capital assets is determined as follows:

	2026	2025
Capital assets	\$ 687,683	\$ 666,893
Less:		
Current portion of long-term debt	(4,248)	(2,518)
Long-term debt	(41,312)	(45,560)
Deferred capital grants and donations	(594,651)	(578,618)
AROs	(1,429)	(1,374)
Add:		
Restricted cash and short-term investments for K&MTPCC	117,920	152,994
	<u>\$ 163,963</u>	<u>\$ 191,817</u>

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

17. Financial instruments and risk management:

(a) Establishing fair value:

The fair value of the interest rate swap and related derivative liability is determined using the discounted cash flow method.

(b) Fair value hierarchy:

Financial instruments that are remeasured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The only financial instrument that is remeasured to fair value on a regular basis is the derivative liability arising from the interest rate swap (note 10). The valuation of the derivative liability is considered a Level 2 fair value measurement.

TORONTO EAST HEALTH NETWORK

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2026

17. Financial instruments and risk management (continued):

(c) Risk management

The Hospital, through its financial assets and liabilities has exposure to the following risks from its use of financial instruments:

(i) Credit risk:

The Hospital's principal financial assets that are subject to credit risk include cash, prepaid expenses, short-term investments, restricted cash, accounts receivable and long-term receivable. The carrying amounts of financial assets on the statement of financial position represents the Hospital's maximum credit exposure at the statement of financial position date.

The Hospital's credit risk is primarily attributable to its accounts receivable. The amounts recognized on the statement of financial position are net of allowance of doubtful accounts, estimated by the management of the Hospital based on previous experience and its assessment of the current economic environment. The credit risk on cash and short-term investments is limited because the counterparty is a chartered bank with a high credit rating assigned by national credit-rating agencies.

(ii) Liquidity risk:

Liquidity risk is the risk the Hospital will not be able to meet its financial obligations when they come due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating investing and financing activities and maintaining credit facilities to ensure it has sufficient funds to meet current and foreseeable financial requirements.

Accounts payable mature within six months. The maturities of other financial liabilities are provided in the notes to the financial statements related to these liabilities.

(iii) Interest rate risk:

The Hospital has long-term debt with floating and fixed rates. The interest rate risk on long-term debt with floating rates is mitigated through an interest rate swap contract (note 10).