Estate No.: 11-254489

In the Matter of the Bankruptcy of
Douglas Lighting Controls Inc.
of the City of Burnaby in the Province of British Columbia

TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS ON PRELIMINARY ADMINISTRATION

I BACKGROUND

Douglas Lighting Controls Inc. ("**DLC**" or the **"Company"**) is a privately held corporation incorporated under the *Business Corporations Act* (British Columbia). DLC was in the business of developing and designing lighting control systems for commercial buildings, school buildings, airports, hospitals, campuses and sports complexes across North America.

On March 22, 2011, DLC amalgamated with PDM Electrical Products Limited but retained the name Douglas Lighting Controls Inc. The Company's registered office and principal place of business was leased premises located at 3605 Gilmore Way, Burnaby, British Columbia (the "**Burnaby Premises**"). The Company has a second leased office located at 7000 Cote de Liesse Road, St Laurent, Quebec (the "**St Laurent Premises**"). During the last 12 months, DLC employed 39 full-time employees and none of the employees were unionized.

DLC is a wholly owned subsidiary of Universal Douglas Lighting Americas Inc. ("**UDLA**"), a private corporation based in Nashville, Tennessee and organized under the laws of the state of Delaware. Universal Lighting Technologies, Inc. ("**ULT**") is also a subsidiary of ULDA. DLC relied upon ULT to manufacture and provide order fulfilment for DLC's sales to customers.

ULT also had a wholly-owned subsidiary, Componentes Universales de Matamoros, S.A. DE C.V. ("**Componentes**"), a corporation organized under the laws of Mexico. DLC, ULT and Componentes were originally owned by Panasonic Corp. before being acquired by Atar Capital in 2021, which combined the companies to form Universal Douglas Lighting Americas Inc.

DLC, ULT and Componentes (collectively the "**Borrowers**") entered into a sale of accounts and security agreement with FGI Worldwide LLC ("**FGI**") on March 12, 2021, for a credit facility of up to USD$25,000,000 (as amended and restated by the second amendment to such agreement dated September 16, 2021,the "**Credit Facility**") in return for first priority security interest in and to all of the assets of the Borrowers, including a charge over all of the assets of DLC. DLC also provided a guarantee in favour of FGI to which it guaranteed the obligations of the Borrowers under the Credit Facility.

ULT had incurred significant net losses in 2022 and 2023, which were funded in part by equity injections from Atar Capital. In late 2022, the ULT received an equity injection of approximately USD $3 million from Atar Capital in order to improve the Group's overall liquidity position.

In January 2023, Atar Capital advised the UDLA it would cease continued funding due to UDLA's continued losses and financial outlook. On January 25, 2023, Riveron Consulting LLC ("**Riveron**") was retained by

UDLA as Chief Restructuring Officer to review and assess strategic options available to the business, including a potential sale of some or all of the business.

On February 17, 2023, the Borrowers entered into a forbearance agreement with FGI. However due to UDLA’s sustained losses and tight liquidity, a turnaround or sale of UDLA was not considered feasible in the circumstances. As a result, UDLA, (including its direct subsidiary, DLC, were neither able to support operations nor satisfy the terms of the Credit Facility. Accordingly, Atar Capital, FGI, Riveron, and UDLA management collectively determined that the best way to preserve value for all stakeholders was to effectuate a wind down of the business. In March 2023, DLC ceased operations and announced the closure of their facilities. DLC began to layoff its employees starting in March 2023.

As a result of the foregoing, on June 13, 2023 (the “**Date of Bankruptcy**”), DLC filed an assignment in bankruptcy pursuant to the the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”). KPMG Inc. was appointed trustee (the “**Trustee**”) of DLC’s bankrupt estate by the Official Receiver, subject to affirmation by the creditors at the first meeting of creditors.

On June 16th, 2023, all known creditors of DLC were provided with notice of the first meeting of creditors, a list of creditors, a proof of claim form and a form of proxy. On June 20th, 2023, notice of the bankruptcy and the first meeting of creditors was published in the National Post.

The activities of the Trustee since its appointment have primarily consisted of statutory work in accordance with the provisions of the BIA.

II CAUSES OF BANKRUPTCY

While historically profitable, the Company’s financial performance significantly declined in FY23 due to the lasting impact of the Covid-19 pandemic which resulted in supply chain shortages, delays and high costs. A summary of the Company’s unaudited financial results for the prior three fiscal years is set out below:

(in CAD $000s)	FY21	FY22	FY23
Revenue	$ 22,853	$ 22,565	$ 24,928
COGS	10,658	12,602	15,659
Gross Profit	12,195	9,963	9,269
Total SG&A Expenses	11,457	9,950	10,200
Net Profit / (Loss)	**$ 738**	**$ 13**	**$ (931)**

In fiscal 2021, the Company had a net profit of approximately $738,000. However, in fiscal 2022, the Company’s net profit decreased to approximately breakeven. In fiscal 2023, DLC incurred a net loss of approximately $931,000 due to the aforementioned supply chain challenges and increased operating costs. As a result, the Company’s deteriorating financial performance, coupled with the liquidity constraints faced by UDLA, resulted in DLC experiencing a liquidity crisis.

The Trustee understands that without access to the Credit Facility, and continued manufacturing and order fulfillment from ULT, DLC would not have been able to continue as a going concern and would no longer have been able to meet its obligations as they became due.

III FINANCIAL POSITION/ASSETS

As detailed in the Statement of Affairs, the Company's realizable assets consisted of; cash on hand, inventory, accounts receivable, prepaids, machinery and equipment and intangible assets, all with a combined estimated realizable value of $829,074 as at the Date of Bankruptcy. As noted in Section IV of this report, all of DLC's assets remain subject to the security interests of FGI pursuant to the Credit Facility.

A statutory claims process has been initiated by the Trustee, but at this time it remains uncertain what, if any, surplus funds available for distribution to the Company's proven unsecured creditors, after payment of the secured claims of FGI.

IV SECURED CREDITORS

The Company's Statement of Affairs indicates that the only known secured creditor was FGI as at the Date of Bankruptcy. As at such date, FGI was owed approximately $8,046,855 by the Borrowers and was granted security over the applicable charged property pursuant to the Credit Facility and the related loan and security documents.

The Trustee obtained independent, written legal opinion from Torys LLP ("**Torys**") and Clark Wilson LLP ("**CW**") with respect to the validity and enforceability of such security granted in favour of FGI. Subject to the customary qualifications and limitations included therein, Torys and CW are of the opinion that the security granted by DLC in favour of FGI is valid and enforceable against all of the assets of the Company.

V SECURITY FOR UNPAID WAGES – S.81.3 CLAIMS

The Trustee is not aware of any potential claims pursuant to section 81.3 of the BIA. Based on the Company's books and records, all amounts owing in respect of wages and/or vacation pay, as well as severance and termination pay, to the Company's former employees, were paid by DLC prior to the Date of Bankruptcy. The Trustee understands the funding for these amounts were provided by FGI to DLC prior to the Date of Bankruptcy.

The Trustee will comply with the requirements of the *Wage Earner Protection Program Act*, where applicable.

VI PREFERRED CREDITORS

The Company's Statement of Affairs indicates that there were no known preferred creditors as at the Date of Bankruptcy. The Trustee understands that as at the Date of Bankruptcy, all payments owing under the Burnaby Premises and the St Laurent Premises were up to date.

VII UNSECURED CREDITORS

The Company's Statement of Affairs indicates that there are approximately 127 unsecured creditors with claims totalling approximately $3,421,744.

VIII CLAIMS FILED

As at 9:00 a.m. on the date of this report, the Trustee has recorded Proof of Claims filed, as follows:

	Claims Filed (#)	Amount ($)	Proxies in Favour of Trustee (#)	Amount ($)
Secured	1	9,003,133.29	Nil	Nil
Preferred	Nil	Nil	Nil	Nil
Unsecured	6	1,401,615.46	Nil	Nil
TOTAL	**7**	10,404,748.75	**Nil**	**Nil**

IX CONSERVATORY AND PROTECTIVE MEASURES

In order to ensure that key information pertaining to the Company is properly safeguarded, the Trustee has retained three of the Company's former employees to assist the Trustee with, among other things, organizing and boxing the Company's books and efforts to be moved to an offsite location. It is the intention of the Trustee to further discuss the retention of these individuals with the Inspectors.

In order to realize value on the Company's furniture, fixtures and equipment (the "**FF&E**") located at the Burnaby Premises, the Trustee commenced a process to market the FF&E to prospective liquidators that were known to the Trustee as having interest in like assets. The Trustee commenced the process prior to the date of the First Meeting of Creditors in order to minimize the costs of incurring additional rent costs for the Burnaby Premises. As of the date of this report, the Trustee received 2 bids for the FF&E from the prospective interested parties and it is the intention of the Trustee to further discuss the sale of the FF&E with the Inspectors.

Further, the Trustee has also received unsolicited interest from third parties to acquire some or all of the Company's intangible assets (the "**IP Assets**") as part of ULT's realization efforts in the U.S. As of the date of this report, the Trustee was made aware of 1 non-binding letter of intent submitted to ULT by a prospective purchaser to acquire all of the intangible assets of ULT and DLC, including the IP Assets. There

have been other expressions of interest communicated to the Trustee. It is the intention of the Trustee to further discuss the potential sale of the IP Assets with the Inspectors.

X PREFERENCE PAYMENTS AND TRANSFERS UNDER VALUE

The Trustee has not performed a review of the Company’s books and records, with respect to potential fraudulent preferences, settlements or transfers at undervalue, as defined in the BIA. It is the intention of the Trustee to discuss the scope of its review with the Inspectors.

XI TRUSTEE’S FEES

In consideration for consenting to act in these proceedings, ULT provided a deposit to the Trustee in the amount of $84,750 (the “**Third Party Deposit**”) to guarantee payment of the Trustee’s fees and disbursements for statutory work in accordance with the provisions of the BIA, should insufficient funds be available from the Company’s estate. The Third Party Deposit is being held by the Trustee in an account segregated from the funds of the estate.

XII OTHER MATTERS

Further information relating to the Company’s bankruptcy proceedings may be obtained from KPMG’s website at https://kpmg.com/ca/en/home/services/advisory/deal-advisory/creditorlinks/douglas-lighting-controls-inc.html

Dated at Vancouver, British Columbia, this 27th day of June, 2023.

KPMG INC.
in its capacity as Trustee of the estate of
Douglas Lighting Controls Inc.,
and not in its personal capacity

Huey Lee, CIRP, LIT
Senior Vice President