

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF PUERTO RICO**

IN RE:

SAN JUAN OIL COMPANY INC.

DEBTOR

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CASE NO. 15-09593 EAG

CHAPTER 11

**DISCLOSURE STATEMENT
DATED: August 24, 2016**

**TO THE HONORABLE COURT,
CREDITORS AND OTHER PARTIES IN INTEREST:**

The debtor herein, as debtor in possession, through the undersigned attorney, submit their Disclosure Statement as of August 24, 2016, together with the proposed Plan of Reorganization.

Respectfully submitted, in San Juan, P.R. this 24th of August, 2016.

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1. INTRODUCTION AND BANKRUPTCY PROVISIONS

1.1 BANKRUPTCY CODE PROVISIONS FOR POST PETITION DISCLOSURE:

Section 1125 of the Bankruptcy Code requires that a debtor makes post petition disclosure in the form of a disclosure statement which provides "adequate information" to its creditors before debtor or a party acting on its behalf may solicit acceptances of a Chapter 11 plan of reorganization. Creditors are urged to consult with their attorney, or with each other, and to review all of the pleadings and other documents on file with the U.S. Bankruptcy Court in order to fully understand the disclosures made herein, regarding Debtor's proposed Plan of Reorganization (hereafter referred to as the Plan) and any other pertinent matters in this case. A copy of the Plan prepared is attached to this Disclosure Statement.

1.2 DISCLAIMER:

Creditors are advised that the financial information contained in this Disclosure Statement has not been the object of an audit and is not certified by independent public accountants, except where expressly stated otherwise. Debtor does not warrant or represents that the information contained herein is without inaccuracy notwithstanding the efforts to disclose all matters with careful attention to accuracy and completeness.

1.3 VOTING REQUIREMENTS:

In order for each Plan to be confirmed by the Bankruptcy Court, the Bankruptcy Code requires that the Plan be approved by all impaired classes of creditors and interest holders or that the Court finds that the Plan is "fair and equitable" as to any dissenting class. As provided by 11 U.S.C. § 1124, a class of claims or interests is impaired under a plan unless, with respect to each claim or

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interest of such a class, the plan:

(1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or

(2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default:

(A) cures any such default that occurred before or after the commencement of the case under this title, other than a default of a kind specified in section 365(b)(2) of this title;

(B) reinstates the maturity of such claim or interest as such maturity existed before such default;

(C) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and

(D) if such claim or such interest arises from any failure to perform a nonmonetary obligation, other than a default arising from failure to operate a nonresidential real property lease subject to section 365(b)(1)(A), compensates the holder of such claim or such interest (other than the debtor or an insider) for any actual pecuniary loss incurred by such holder as a result of such failure; and

(E) does not otherwise, alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

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Ordinarily, but not in all circumstances, a plan may not be confirmed unless at least one impaired class, assuming there is at least one impaired class, accepts the plan. A class has accepted the plan if such plan has been accepted by creditors, other than those under 11 U.S.C. 1126 (e), that hold at least two-thirds ($\frac{2}{3}$) in amount and more than one-half ($\frac{1}{2}$) in number of the allowed claims of such class held by creditors, that have accepted or rejected such plan, those actually voting for the Plan. Creditors may vote for the acceptance or rejection of the plan.

Each creditor is urged to consult with its own attorney and obtain advice on the proposals and dispositions of this Disclosure Statement and Plan of Reorganization. The statements contained herein are only a brief summary of the confirmation process and should not be relied upon in making your determination as to whether to vote in favor of or against the Plan. Creditors should consult their attorneys before making a determination to vote for or against the Plan.

Creditors are expressly referred to the Debtor's schedules of assets and liabilities and the statement of financial affairs and all other documents duly filed with the Bankruptcy Court. This Plan is predicated upon certain assumptions that may not materialize, and you are urged to give consideration to such assumptions.

No representation concerning Debtor, or as to the actual or realizable value of its property is authorized by the Debtor other than as set forth in this Disclosure Statement. Any amendments or clarifications to this Disclosure Statement or the Plan shall be in writing and filed with the Court.

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2. DEBTOR'S HISTORY AND EVENTS LEADING TO BANKRUPTCY

2.1 Debtor's History

Debtor is a closely held domestic corporation organized and existing under the laws of the Commonwealth of Puerto Rico since February 2, 1973. For some years up to 2008, Debtor thrived in businesses as a wholesaler of gasoline. Debtor distributed gas to retailers and/or gas stations around the island. In addition, Debtor owned several real properties which were destined and/or operated as gas stations in their majority.

Currently, Debtor is the owner of the following six (6) gas stations, which are scattered around the Commonwealth of Puerto Rico, to wit:

1. **Santa Isabel** - Gas Station in land of 1 "cda" located at Carretera No. 1 Esq. 537 Bo. Playita Cortada, Bo. Descalabro, Santa Isabel, identified as Land no. 890 in Registry of Property.
2. **Vega Baja** - Gas Station in land of 2,201.00 sq mts (Parcel A) and 483.990 sq mts (Parcel B), located both in Carretera No. 2 Km 40.0 Vega Baja, PR, identified as land no. 1948 & 10803, respectively.
3. **Loiza Street** - Gas Station in land of 290.62 sq mts located in Bo. Santurce Norte Calle Loiza #1901 Esq. Los Baños, San Juan PR, identified as land no. 3647 in Registry of Property.
4. **Salinas** - Gas Station in land of 1,532.2769 sq mts in Carr no. 1 Esq 718, Bo Quebrada Yeguas, Salinas PR, identified as land no. 1629 in Registry of Property.
5. **Lajas** - Gas Station in land of 1,589.168 sq mts located at Carr no. 101 Km 3.8 Lajas PR.
6. **Ponce** - Gas Station in land of 34.436 mts located at Ave. Hostos #119, Ponce PR, identified as land no. 22523 in Registry of Property.

In addition, Debtor owns two lots of land identified as:

- Land of 37 cdas. located at Bo. Quebrada Yeguas in Salinas PR, and;

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- Commercial Property of 3,127.50 mts Lot 1C-2 Industrial 272, located at Third Extension Urb. **Country Club** Bo Sabana Abajo, Carolina PR. In this commercial property, Debtor operates and maintains its main office.

To this date, the majority of the properties are leased either directly to third parties or through a closely held corporation known as Servicentro Limited Corp. which in turn subleases them. Further, all the real property within this bankruptcy estate is encumbered by mortgage notes in favor of a particular secured creditor.

Specifically, the gas stations located in **Ponce; Salinas; Santa Isabel** and **Vega Baja** are encumbered by mortgage notes in currently in possession of Best Petroleum Corporation, which acquired its rights over said collateral from Scotiabank Puerto Rico. Notwithstanding, Scotiabank retained a secured interest over one of the properties of the estate to wit, the lot of land of 37 cdas. located in Salinas.

Furthermore, the gas station located in **Loiza Street, Lajas** and the **commercial property at Urb. Country Club** are encumbered by mortgage notes in favor of Banco Popular de PR.

In relation to Debtor's equity security and interest, the stockholders of the corporation are Mr. Nestor del Castillo-Hernández and Mr. Jorge del Castillo-Hernández, which are brothers and jointly liable for the claims of Debtor's secured creditors.

Reasons for Filing Bankruptcy

For some years up to 2008, Debtor thrived in businesses as a wholesaler of gasoline. Debtor distributed gas to retailers and/or gas stations around the island. Changes in the industry and increased competition coupled, promoting for entities which historically were limited to supply fuel

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to the wholesalers, to venture into the wholesaling leger of the industry with more developed business structures and cost advantages which could not be matched by the Debtor.

This eventually lead the Debtor to supplement its distribution or demand with other customers or gas stations which through the time failed as a business going concerned, severally affecting the collectability of the account receivables.

Since then, Debtor has experienced certain difficulty in the repayment of its secured claims.

In addition, the Gas Stations located in **Ponce, Salinas, Santa Isabel, Vega Baja** & the lot of land of 37 cdas located in Salinas, were originally the initial financed by RG Premier Bank.

On April 30, 2010, RG Premier Bank operations were suddenly shot down by the Federal Deposit and Insurance Company ("FDIC") and most of the assets of RG Premier, including Debtor's credit facilities, were passed on and/or acquired by Scotiabank de Puerto Rico.

Further, the gas station located in Calle **Loiza** and **Lajas**, and the commercial property located in Urb. Country Club were encumbered with mortgage notes of Banco Popular de PR. On March 2010, Banco Popular de PR filed a Complaint against San Juan Oil for collection of Money and foreclosure, docketed as Civil Case no. KCD2010-1142 in the First Instance Court-Subsection of San Juan. On August 2011, a judgement was entered in the case.

This complex debtor/creditor relationship was coupled with the ongoing distressed economy affecting real estate values and business ventures and the challenges imposed each day by the banking industry. Debtor's major investments and liabilities relate to gas stations, an industry that has dramatically changed during the past years with the establishment of new aggressive competitors and increased operating costs.

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Also, Debtor had an ongoing litigation with the Puerto Rico's Department of Treasury regarding certain income tax disputes which related to the operating year of 1999.

The immediate reason that triggered the filing of this petition was the aftermath of the proceeding docketed as Civil Case No. CCD2012-0705 (401) filed by Scotiabank de Puerto Rico vs San Juan Oil Company Inc. et al, which led to an attempt of foreclosure by the creditor.

If Debtor's properties would had been foreclose, Debtor business would be heavily impaired, inasmuch such properties represents its sole income producing asset and the means for this reorganization.

2.2 DATE THE PETITION WAS FILED:

The bankruptcy petition of San Juan Oil Company Inc. was filed on December 1, 2014, under the provisions of Chapter 11 of the Bankruptcy Code. Since that date, debtors remain operating as Debtor in Possession.

2.3 BANKRUPTCY PROCEEDINGS:

2.3.1 General

Upon filing of this bankruptcy petition, Debtor has taken all possible measures necessary to reorganize its respective business. Throughout these proceedings, Debtor has maintained compliance with the Bankruptcy Court's Operating Guidelines as follows:

- a) Monthly Operating Reports have been completed and filed with the Court up to July 31, 2016
- b) Property and public liability insurance has been maintained for the commercial business and operations.

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- c) Quarterly fees required by the U.S. Trustee are up to date.
- d) Tax returns and declarations have been filed as these become due.

2.3.2 Employment of Professionals:

On December 11, 2015, San Juan Oil Company Inc., Inc. filed an application to employ attorney Wigberto Lugo Mender and the firm of Lugo Mender & Co., as attorneys for Debtor in Possession. (Docket no. 9) Pursuant thereof, on January 11, 2016, the Court entered an Order approving this employment for the above captioned case (Docket no. 13).

On January 25, 2016, Debtor filed an application to employ Accountant Mr. Javier R Morales of GM Systems Inc. which was approved by this Honorable Court on February 24, 2016. (Dockets no. 21 & 34).

On April 29, 2016, Debtor, Crespo & Crespo Enterprises, Inc., and Ismael Crespo filed a joint stipulation in order to settle a pending case at the Puerto Rico State Court, Subsection of Humacao, in the case Civil No. H CD2000-0004 of *San Juan Oil Company, Inc. v. Crespo & Crespo Enterprises, Inc.* One of the obligations within said transaction was for Debtor to cancel and/or surrender the mortgage notes it hold as evidence of the debts that were being claimed against Crespo & Crespo Enterprises, Inc. Upon the approval of the stipulation, Debtor received a lump sum of \$10,000.00, however, Debtor acknowledged that the mortgage notes that it was supposed to surrender were lost. Accordingly, and pursuant the good faith obligations agreed upon in the Stipulation Debtor is required to move forward pursuant State Court proceeding of lost mortgage note in order to cancel the same. This should be a simple and expedite procedure, however, Debtor

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will retain the services of special counsel Jose Vazquez, Esq. in order to performed said proceeding.

Fees and cost related to this matter are estimated in the amount of \$3,000.00.

2.3.3 Operational Analysis Leading to a Liquidation Plan:

During the pendency of the bankruptcy case, Debtor together with his accountant have analyzed the operational reports and have attempted to identify business alternatives and managerial strategies that could maximize Debtor's business returns in its operations.

Notwithstanding, due to the high secured debts of the estate, the particular composition of its creditors, and the unresolved matters with the governmental entities, Debtor has concluded that achieving a reorganization that may preserve the going concern of its operation is unlikely. All to the contrary, the pursuance of the preservation of the current operations and the resolution of the pending matters with the government, may consume the limited remaining resources of the Estate to no avail.

Accordingly, after a careful evaluation, the Debtor purports that the organized liquidation of the appearing estate will be more beneficial to the creditors, and certainly, although moderate, will provide a dividend to them.

Pursuant to the aforementioned, Debtor's Plan of Reorganization proposed to move forward with the organized liquidation of this bankruptcy estate as it will result in a benefit to the creditors of the Estate.

2.3.4 Appointment of Creditor's Committee

As of the date hereof, the U.S. Trustee has not appointed a Creditors Committee for any of the above-captioned cases pursuant to section § 1102 of the Bankruptcy Code.

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3. DEBTOR'S FINANCIAL INFORMATION

3.1 GENERAL FINANCIAL INFORMATION:

For purposes of filing the above-captioned petition, on December 1, 2015, Debtor filed the minimum required schedules to wit, Schedules D, E, & F. Further, on December 18, 2015, Debtor filed the required Summary of Schedules, Schedules and Statement of Financial Affairs. After several procedural matters, Debtor made certain amendments to the filed schedules which included amendments to Schedules A/B, D, E/F & H, all filed on February 18, 2016. (Dockets No. 1, 10, 24, 25, 26 & 27)

The information provided in the Schedules filed and the Statements of Financial Affairs show Debtor's financial position as of the date of the filing of the petition. Business income and expenses are detailed in the accompanying income tax returns. Also, monthly operating reports available in the Bankruptcy Court file, show Debtor's finances and results of operations for the period after the date of the filing of the petition. A summary of all monthly operating reports has been prepared and enclosed herein as **Exhibit 1**.

Furthermore, the corporate debtor includes as **Exhibit 2** to the Disclosure Statement copy of the Corporate Tax Returns for the years ended on December 31, 2014 and 2015.

Title Searches on real properties are included herein **Exhibit 3**.

Financial, accounting and, tax information included within this Disclosure Statement and the attached exhibits were provided in their entirety by the Debtor and/or Debtor's accountant.

3.2 ASSETS AND LIABILITIES AS OF PETITION DATE AS OF PETITION DATE

3.2.1 Schedules and Statement of Financial Affairs

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As provided above, Debtor filed its respective Schedules of Assets and Liabilities and Statements of Financial Affairs with the Bankruptcy Court on December 18, 2016. However, certain amendments were made by Debtor to Schedule A/B, D, E/F & H, all filed on February 18, 2016.

Among other things, the Schedules and Statements include the claims of known creditors against Debtor as of the Petition Date, based upon Debtor's books and records.

Moreover, a detail of Debtor's assets is provided in the liquidation analysis section, with updated values, as detailed herein in **Exhibit 4**.

3.2.2 Claims Bar date and Proof of Claims

On December 3, 2015, the Bankruptcy Court entered an Order setting the bar date for general unsecured claims until April 10, 2016 and for governmental units (as defined by section 101 (27) of the Bankruptcy Code) until May 31, 2016 (the "Bar Dates") (Docket no. 4).

Specifically, to date, Debtor has received 13 proofs of claim forms asserting approximately \$79,403,645 in claims. Debtor has begun the process of reviewing the asserted claims, as well as assessing the necessity to object those which are believe should be disallowed in whole or in part.

3.3 PENDING LITIGATION

- Scotiabank de Puerto Rico vs San Juan Oil Company Inc. – Civil Case No. KCD2012-2964, at the Commonwealth of Puerto Rico, First Instance Superior State Court Subsection of San Juan. This proceeding concerns a collection of money action filed by Scotiabank de Puerto Rico before the date of the filing of the instant bankruptcy petition. This case was closed and transfer to case CCD2012-0705 in State Court-Subsection of Arecibo.

- Banco Popular de PR vs San Juan Oil Company– Civil Case No. KCD2010-1142, at the

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Commonwealth of Puerto Rico, First Instance Superior State Court Subsection of San Juan. This proceeding concerns to a collection of money action filed by Banco Popular de PR. Before the date of the filing of the instant bankruptcy petition. Judgment was entered on November 24, 2010. BPPR filed the claim no. 9 detailed in Class 2.1 of the Plan.

- Peerless Oil & Chemicals Inc vs. San Juan Oil Company Civil Case No. FCD2009-1268, at the Commonwealth of Puerto Rico, First Instance Superior State Court Subsection of Carolina. This proceeding concerns to a collection of money action filed by Peerless Oil & Chemicals Inc., Inc. before the date of the filing of the instant bankruptcy petition. This litigation has been stayed upon the filing of this case. Peerless Oil filed the claim no. 7.

- Scotiabank de Puerto Rico vs San Juan Oil Company Inc. – Civil Case No. CCD2012-0705, at the Commonwealth of Puerto Rico, First Instance Superior State Court Subsection of Arecibo. This proceeding concerns to a collection of money action filed by Scotiabank de PR before the date of the filing of the instant bankruptcy petition. Judgment was entered on April 12, 2013. Scotiabank de PR filed the claims no. 4, 5 & 6.

- Crespo & Crespo Enterprises vs San Juan Oil Company. – Civil Case No. HCD2000-004, at the Commonwealth of Puerto Rico, First Instance Superior State Court Subsection of Humacao. This proceeding concerns to a collection of money action filed by Crespo & Crespo before the date of the filing of the instant bankruptcy petition. This litigation was stayed upon the filing of this case. Notwithstanding, on April 29, 2016, Debtor, Crespo & Crespo Enterprises, Inc., and Ismael Crespo filed a joint stipulation in order to settle this pending case which has been dismissed with prejudice pursuant the agreement approved by this Court.

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- San Juan Oil Company Inc. vs E.L.A PR – Civil Case No. KCO2008-0019, at the Commonwealth of Puerto Rico, First Instance Superior State Court Subsection of San Juan. This proceeding relates to a challenge of a tax deficiency claim filed by San Juan Oil vs Commonwealth of PR, PR Treasury Department before the date of the filing of the instant bankruptcy petition. This litigation has been stayed upon the filing of this case.

3.4 LIQUIDATION ANALYSIS:

One requirement for the confirmation of a plan under Chapter 11 of the U.S. Code is that, with respect to each impaired class of claims, each claim holder of such class has accepted the plan or will receive or retain under the plan on account of such allowed claim, a value as of the effective date of the plan, that is not less than the amount such claim holders would receive or retain if the Debtor were liquidated under Chapter 7 of the Code on such date. In order to provide the value as of the effective date of the plan under a Chapter 7 scenario, Debtor provides a detailed liquidation analysis.

For purposes of determining liquidation values for each case, Debtor has estimated and analyzed each scheduled assets and the estimated realizable values that could be obtained by a trustee under a Chapter 7 proceeding.

For the estimated realizable value, estimated administrative expenses have been reduced to determine the estimated amount for unsecured creditors in a liquidation process. Detailed liquidation analyses are enclosed herein as **Exhibit 4**

The liquidation analysis prepared shows that, upon realization of estate assets and payment of liens and expenses, unsecured creditors would receive no dividend under a Chapter 7 proceeding

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inasmuch all realizable funds would be distributed to priority claimants. Furthermore, even priority claimants won't receive full satisfaction of their claims under a Chapter 7 proceeding.

4. SUMMARY OF THE PLAN OF REORGANIZATION

4.1 DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS IN DEBTOR'S CASE:

The Plan in Debtor's case divides creditors into SEVEN (7) classes. The classes of creditors are as follows:

CLASS 1 - ADMINISTRATIVE EXPENSE

Administrative expenses are costs or expenses of administering Debtor's chapter 11 case which are allowed under § 507(a) (2) and 503 of the Bankruptcy Code, including, but not limited to, the United States Trustee's quarterly fees; fees and expenses of Debtor and the creditor's committee counselors and other professionals as may be allowed by the Bankruptcy Court upon application therefore and after notice and hearing according to the Bankruptcy Code and Rules and; any unpaid taxes or fees accrued since petition date as well as court costs accrued since the petition date. Administrative expenses also include the value of any goods sold to Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

Debtor estimates the liability in this Class 1 not to be over the amount of \$20,650 and that it would be composed in all or in part of United States Trustee's quarterly fees, payment of Debtor's counselor and, other professionals approved by the Court.

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CLASS 2 –SECURED CLAIMS - *BANCO POPULAR*

This class is comprised of Banco Popular de PR (hereafter “BPPR”). This creditor filed POC NO. 9, within which this creditor classifies the amount of \$885,000, as a secured claim. This claim is related to certain credit facilities granted by BPPR to the Debtor. This creditors holds a secured interest which encumbers the gas stations located in Loiza Street, Lajas and the commercial lot located at Urb Country Club, Carolina, Puerto Rico.

CLASS 3 – *SCOTIABANK DE PUERTO RICO*

The amount claimed within this Class relate to certain commercial loan granted to Debtor by RG-Premier Bank, now Scotiabank de Puerto Rico. This creditor classifies its secured interest within POC Nos. 4, 5 & 6 in the amount of \$99,263; \$8,057 and \$700,000, respectively.

At an advance stage of a State Court collection proceeding, Scotiabank sold part of his interest in these credit facilities and collaterals to Best Petroleum Corporation. Currently, this creditors retains and holds a secured interest which encumbers the lot of land of 37 cdas. located in Salinas.

CLASS 4 – *BEST PETROLEUM CORPORATION*

The amount claimed within relate to certain commercial loan granted to Debtor originally by RG-Premier Bank, later Scotiabank de Puerto Rico. This creditor classifies its secured interest within POC No. 11 in the amount of \$8,800,000.00 as fully secured.

At certain stage of a State Court proceeding, Scotiabank sold and transferred part of its rights pursuant to a judgment to Best Petroleum Corporation. Currently, Best Petroleum retains and holds a secured interest which encumbers the gas stations located in Ponce; Salinas; Santa Isabel and Vega

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Baja.

CLASS 5 – OTHER SECURED CLAIMS – STATUTORY LIENS

This Class is comprised of certain amounts comprised within POC No. 1 filed by CRIM and POC No. 12 filed by the Department of Treasury.

Specifically, within POC No. 1 CRIM claims a secured interest in the amount of \$153,064.90 pursuant to a statutory lien, which relates to several of the properties of the bankruptcy estate.

On the other end, within POC No. 12, the Puerto Rico's Department of Treasury claims some portions which relate to a special tax imposed over the real property located in the Commonwealth of Puerto Rico. The principal and interest portions within POC NO. 12 which relate to this special real state tax are in the amount of \$25,840.42. The Department of Treasury purports to hold a secured interest over certain real properties of the estate pursuant to a statutory lien.

For a detail of the amounts within POC NO. 1 and POC NO. 12 per property, refer to real estate tax detail and analysis attached as **Exhibit 6** and **Exhibit 7**.

CLASS 6 – GENERAL UNSECURED CREDITORS

General unsecured creditors considering those listed by the Debtor, those who filed a proof of claim and those secured creditors, who after Debtor's efforts have agreed to be considered part of their claim as unsecured, are included in this class. This class may also account and include any unsecured balance due that may result upon the liquidation or turnover of any collateral.

Pursuant thereof, Debtor estimates this class in the amount of \$22,246,151.

This Class contains and classifies as general unsecured claims the following proof of claims or portions of them as detailed herein and pursuant the treatment described in the Plan:

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- i. POC No. 4 & 5 – Filed by Scotiabank. The amounts classified as secured portions within these claims in the amount of \$99,262.61 and \$8,057.06, respectively, will be deemed unsecured inasmuch there is no secured value available on this creditors collateral to support said classification. Accordingly, the portions identified as secured within POC No. 4 & 5 will be considered general unsecured claims and paid within and according to the treatment proposed to general unsecured creditors within Class 6.
- ii. POC No. 7- Filed by Peerless This creditor has a junior lien in third rank over the Gas Station of Salinas (Land No. 1629). The senior lien holder of said property is Best Petroleum, which has an estimated unsecured deficiency in the amount of \$5,580,000, pursuant to the terms of the Plan and has valued this particular collateral in the estimated amount of \$800,000.00. Accordingly, the amounts claimed and classified as secured by Peerless within POC NO. 7, will be deemed a general unsecured claim inasmuch there is no secured value available on this collateral to support said classification.
- iii. POC NO. 12 – Filed by Department of Treasury – Specifically, the amounts detailed within POC No. 12 which are related to special real state tax for \$25,840.42, said portions of POC No. 12 shall be considered an unsecured claim paid pursuant and according the treatment proposed to general unsecured creditors within Class 6.

CLASS 7 – EQUITY SECURITY INTEREST HOLDERS

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Equity security and interest holders are the current owners of the common stocks of the Debtor. The current stockholders are Mr. Nestor Del Castillo-Hernandez and Mr. Jorge Del Castillo-Hernandez. These stockholders are the principal officers, directors and managers of the company. They have both been actively engaged in its reorganization process.

4.2 TREATMENT FOR CLASSES OF CLAIMS AND INTEREST

CLASS 1 – ADMINISTRATIVE EXPENSES

This Class shall consist of Allowed Administrative Expense Claims, as provided under Section 503 of the Bankruptcy Code. This class shall be paid in cash and in full as soon as practicable or agreed with the creditor on the later of (a) the Effective Date or (b) the date any such claim becomes an allowed Administrative Claim.

Allowed claimants under this class approximate \$20,650

This class is not impaired.

CLASS 2 – SECURED CLAIMS - BANCO POPULAR

Debtor and BPPR filed a *Joint Stipulation for the use of Cash Collateral and Adequate Protection* in relation with this secured creditor's claim. (Docket No. 59 & 63). The terms and covenants of said Stipulation will remain in full force after the confirmation and its terms and covenants will be considered incorporated as approved within Debtor's Plan of Reorganization, except as specifically provided or modified herein.

In general terms, BPPR, as secured creditor of this estate, shall retain unaltered its legal, equitable and contractual rights over the collateral and extent of security as detailed in the respective mortgage loans.

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The Debtor will continue to collect the rents and/or income generated from the properties encumbered by BPPR.

Debtor will continue to surrender to BPPR as cash collateral and adequate protection payments the amount of **\$5,000.00**. This monthly installment includes within a monthly escrow in the amount of \$1,152.11 for the payment of property taxes related to the collateral to be paid directly by BPPR. This payment will also include the payment related to any insurance required by the properties. The monthly payments detailed above shall be deemed commenced on the effective date and continue thereafter, on the first (1st) day of each subsequent month.

The Debtor will continue surrendering the cash collateral and adequate protection monthly payments to BPPR for twenty four (24) months after the effective date. During such period, Debtor will advertise the properties for sale and within that period any offer from an unrelated third party purchaser which shall be tendered to BPPR for approval. Any purchase offer needs to be considered and approved by BPPR, and its terms need be acceptable to BPPR. The approval of BPPR of any proposal received is a requirement and paramount for any proposal to be binding. If any offers are received, the proposals would be referred to BPPR for the corresponding consideration.

Upon the materialization of any intended sale or disposition of any particular property, the acquiring party will assume the payment of any arrears of the CRIM secured portion of the real property taxes related to these properties as these are identified in CLASS 5 of the Plan of Reorganization and as detailed in **Exhibit 6**, as well as all the closing cost of said transactions.

Further, upon the individual sale of any particular property which serve as collateral for BPPR, the parties will renegotiate and adjust the adequate protection payment to be made there forth,

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taking in consideration the decrease in rent.

Refer to the Schedule Payments under the Plan of Reorganization enclosed as **Exhibit 5**.

This class is impaired.

CLASS 3 – SCOTIABANK DE PUERTO RICO

Regarding POC No. 4 & 5, the amounts classified as secured portions within these claims will be deemed unsecured inasmuch there is no secured value available on this creditors collateral to support said classification. Accordingly, the portions identified as secured within POC No. 4 & 5 will be considered general unsecured claims and paid within and according to the treatment proposed to general unsecured creditors within Class 6.

Regarding the treatment to be provided to POC No. 6, in general terms, Scotiabank, as secured creditor of this estate, shall retain unaltered its legal, equitable and contractual rights over the collateral and extent of security as detailed in the respective mortgage loans.

Notwithstanding, Debtor's will not make any direct payment to this creditor within the Plan.

During the next twelve (12) months after the effective date, Debtor will advertise the property for sale aiming to obtain any offer from an unrelated third party purchaser which shall be tendered to Scotiabank for approval. Any purchase offer needs to be considered and approved by Scotiabank, and its terms need be acceptable to Scotiabank. The approval of Scotiabank of any proposal received is a requirement and paramount for any proposal to be binding. If any offers are received, the proposals would be referred to Scotiabank for the corresponding consideration.

Upon the materialization of the intended sale or disposition of the property, the acquiring party will assume the payment of any arrears of the CRIM real property taxes related to this property

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as these are identified in CLASS 5 of the Plan of Reorganization and as detailed in **Exhibit 6**, as well as all the closing cost of said transactions.

Refer to the Schedule Payments under the Plan of Reorganization enclosed as **Exhibit 5**.

This class is impaired.

CLASS 4 – BEST PETROLEUM CORPORATION

Upon confirmation of the Plan of Reorganization, the Debtor shall transfer to BEST PETROLEUM CORPORATION or its designee the four (4) commercial properties over which this creditor holds a secured interest, meaning the gasoline service stations. Specifically:

1. The property located at Descalabrado Ward, Santa Isabel, identified as Land no. 890 in the Register of Property and with cadaster number 414-040-100-01-001(**Santa Isabel Gas Station**) will be transferred for a value of \$850,000.
2. The **Vega Baja Gas Station** which is comprised of two lots to wit: 56 centimeters of a cdas. Located at the Algarrobo Ward, Vega Baja, identified as Land no. 1948 in the Register of Property, and with cadaster number 035-066-055-05-901, will be transferred for a value of \$300,000.00 and; Parcel B of 483.990 square meters at Algarrobo Ward, Vega Baja, identified as Land no. 10,803 in the Register of Property, will be transferred for a value of \$100,000.00.
3. The property located at Quebradas Yeguas Ward, Salinas, identified as Land no. 1629 in the Register of Property and with cadaster number 371-000-006-02-902 (**Salinas Gas Station**) will be transferred for a value of \$800,000.

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4. The property located at Cuarta Ward, Ponce, identified as Land no. 22523 in the Register of Property and with cadaster number 412-002-553-45-001 (**Ponce Gas Station**) will be transferred for a value of \$900,000.

All four properties will be transferred to this creditor free and clear of liens, similar to an 11 U.S.C. §363 sale, but pursuant to a confirmed Plan of Reorganization. The transfer of the realty property pursuant to the Confirmed Plan of Reorganization will have the benefits of the exemption provided for by 11 U.S.C. § 1146(a) and the same will not be subject to any stamp tax, real estate transfer tax or similar tax.

The Debtor and Best Petroleum Corporation will file with the Court the Notice of Transfer of the gas station properties to Best Petroleum Corporation pursuant 11 U.S.C. §363 no later than fourteen (14) days after the Order of confirmation is final and un-appealable. Upon the approval of the transfer of the real properties to Best Petroleum Corporation, the transfer shall be executed no later than thirty (30) days after the Order approving the transfer is entered by the Court.

At the time of the transfer of these commercial properties to Best Petroleum Corporation, or its designee, such transferee will assume the payment of the arrears of the CRIM secured real property taxes related to these gas stations as these are identified in CLASS 5 of the Plan of Reorganization and as detailed in **Exhibit 6**, as well as all the closing cost of said transactions.

In the event that a third party files any pleading, motion or bid, notwithstanding the transfer values detailed herein, this creditor will be entitled to use its full claim to in order to prevail in the acquisition of these properties.

The deficiency amount determined upon deducting the transfer values detailed herein from

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the total amount claimed in POC No. 11 which has been estimated in \$5,580,000 per the transfer values detailed herein, will be considered a general unsecured claim within Class 6. Although this creditor will not receive any payment for the unsecured portion of its claim within Class 6, it will retain its claim for purpose of voting.

Upon the execution of the transfer of the properties in favor of Best Petroleum, this creditor's claims, collateral documents and personal guarantees, as detailed within POC No. 11, and any other legal documents, notwithstanding they haven't been filed or forms part of the docket of the case, shall be considered fully paid and the obligations of POC No. 11 and any obligation related with said claims, shall be extinguished.

Other than the transfer of the four (4) properties, no cash dividend will be provided to Best Petroleum Corporation through the Plan of Reorganization.

This class is impaired.

CLASS 5 – OTHER SECURED CLAIMS – STATUTORY LIENS

CRIM Real Property Taxes Due on Real Properties:

According to the transfers of the each particular commercial property as contemplated and detailed within the treatment of CLASS 2, CLASS 3 & CLASS 4, no cash dividend will be provided from estate funds to CRIM by means of this Plan of Reorganization. The secured amounts due and payable to CRIM for real property taxes on the properties of the estate will be assumed and paid by acquiring parties at the time of closing of each transfer. Refer to **Exhibit 6** for a detail of the amounts claimed by CRIM and the debt certificates of the properties of the estate.

Even though this class is impaired, it will not vote for the Plan.

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Tax Lien claimed by the PR Treasury Department:

To the extent that the real properties over which this portion of the Department of Treasury's claim is fully encumbered by a senior mortgage now due to Best Petroleum, there is no value secured in favor of the P.R. Treasury Department. Thus, upon the transfers of the two commercial properties (gas service stations) located at Salinas and Santa Isabel to secured creditor Best Petroleum, as detailed in Class 4 of the Plan, no cash dividend will be provided by the estate nor by Best Petroleum, to the P.R. Treasury Department on account of this alleged tax lien. Upon Order to be entered by the Court approving the property transfers to Best Petroleum, the tax liens will be expunged and removed from the Puerto Rico Property Records in which this real property is referenced. Any dividend under Treasury's claim under this Class will be provided under Class 6.

This class is impaired, and its vote for the Plan will be accounted for within the General Unsecured Class 6.

CLASS 6 – GENERAL UNSECURED CREDITORS

This Class will receive a lump sum payment of a total amount of \$10,000, on the effective date of the Plan. Each member of this class holding an allowed claim will begin receiving a prorata dividend of the proposed distribution, as per the Schedule Payments under the Plan of Reorganization enclosed herein as **Exhibit 5**.

This class is impaired.

CLASS 7 – EQUITY SECURITY INTEREST HOLDERS

Equity security interest holders will not receive any cash dividend throughout this Plan. Moreover, any future payment on its behalf is subordinated to full payment of the allowed claims as

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detailed in this Plan.

Nonetheless, taking in consideration that Debtor's Plan entails an organized liquidation of Debtor's affairs and assets, the equity security holders will retain their interest in the reorganized Debtor by receiving a distribution of common stock from the Reorganized Company equivalent to their current participation in the Debtor.

Even though this class is impaired, it will not vote for the Plan.

4.3 PAYMENT OF UNSECURED PRIORITY GOVERNMENT CLAIMS UNDER 11 U.S.C. SECTION 507(a)(8) and. §507(a)(3):

Allowed secured government claims pursuant to 11 U.S.C. § 506 and unsecured priority claims pursuant to 11 U.S.C. § 507(a)(8) of the Code, and as the same are allowed, approved and ordered to be paid by the Court, will be paid as stated below.

Debtor estimates allowed priority claims in the amount of \$203,065, which are further detailed below.

- a. Internal Revenue Services: As per POC NO. 3-2, no amounts are owed to this creditor.
- b. Department of Treasury: (POC NO. 12 assessed portion). The principal and interest amounts claimed within POC NO. 12 which relate to the pending procedure and dispute between Debtor and the Department of Treasury towards assessing the tax obligation of the Debtor, if any, for the tax period 1999; those related income tax for 2010 and those identified with #300 & 400 for withholdings made by the Debtor, in the aggregated amount of \$45,439,371.53, upon confirmation, will be considered allowed as a priority unsecured claim and will be the only claims allowed and receiving dividends within the

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priority class. Considering that Debtor's Plan proposes organized liquidation of Debtor's assets and affairs, upon the confirmation hearing, this creditor will received a dividend equal to all funds available to the Debtor after the payment of all administrative expenses for which the plan proposes a payment, and the carve out of \$10,000.00 proposed to general unsecured creditors. The divide to be received by this creditor has been estimated in the amount of \$62,406.00.

Regarding the amounts detailed within POC No. 12 which related to special real state tax, said portions of POC No. 12 shall be considered an unsecured claim paid pursuant and according the treatment proposed to general unsecured creditors within Class 6.

Finally, the estimated amounts claimed within POC No. 12, which relate to income tax for the year 2012, upon the conclusion of Debtors evaluation, all documents evidenced that these amounts claimed within POC NO. 12 are NOT owed by the Debtor nor the bankruptcy estate. Accordingly, Debtor's Plan will not provide any payment for this portion of the claim.

- c. Department of Treasury: (IVU POC No. 13) – Debtor performed an evaluation of the periods and claims within POC No. 13. Upon the conclusion of Debtors evaluation, all documents evidenced that the amounts claimed within POC NO. 13 are NOT owed by the Debtor nor the bankruptcy estate. Accordingly, Debtor's Plan will not provide any payment for this claim;
- d. Municipality of Carolina: Scheduled at \$50,000. Proposed Payment \$0.00. This claim

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was scheduled as disputed and no claim was filed by the creditor. Accordingly, Debtor's Plan will not provide any payment for this claim;

e. State Insurance Fund Corp \$0.00 (Priority Portion of Claim No. Scheduled)

Accordingly, this class will not receive monthly cash dividend pursuant Debtor's Plan. Upon the confirmation hearing, this creditor will received a dividend equal to all funds available to the Debtor after the payment of all administrative expenses for which the plan proposes a payment, and the carve out of \$10,000.00 proposed to general unsecured creditors. The divide to be received by this creditor has been estimated in the amount of \$62,406.00.

In relation with the claim of IRS, if Debtor fails to make any deposit of any currently employment tax liability, fails to make any payment of any tax to IRS within 10 days of the due date of such deposit or payment, if Debtor fails to file required federal tax returns by the due date, or if the Debtor fails to make any payments due to the IRS under this plan, the IRS may declare that the Debtor is in default, provided that a notice is given in writing to the Debtor to the address of record. If the IRS declares the Debtor in default, the Debtor must cure that default within 30 days. If the total amount in default is not cure, then the entire imposed liability to be paid under the plan, together with any unpaid current liability, shall become due and payable immediately upon written demand.

The IRS, notwithstanding any stay which may be in effect, may then collect any unpaid liabilities through the administrative collection provision of the IRS.

See Schedule Payments under the Plan of Reorganization, **Exhibit 5**

This class is impaired, and will be required to vote for Debtor's Plan.

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4.4 IMPAIRMENT OF EXISTING CLAIMS AND INTERESTS:

As provided by 11 U.S.C. 1124, a class of claims or interests is impaired under a plan unless, with respect to each claim or interest of such a class, the plan:

(1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or

(2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default.

- a. cures any such default that occurred before or after the commencement of the case under this title, other than a default of a kind specified in section 365(b)(2) of this title;
- b. reinstates the maturity of such claim or interest as such maturity existed before such default;
- c. compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and
- d. does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

4.5 DISCHARGE OF CLAIMS:

Except as otherwise provided for in this Plan or in the Order of Confirmation, the rights granted by the Plan and the payments and distributions to be made there under, shall be in complete

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exchange for, and in full satisfaction, and release of, all existing debts and claims of any kind, nature or description whatsoever against the Debtor. On the Consummation Date, all existing claims shall be deemed to be exchanged, satisfied, and released in full; and all holders of claims shall be precluded from asserting any other or future claim based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Consummation Date, whether or not such holder filed a proof of claim.

In accordance with § 1141(d)(3) of the Code, the Debtor will not receive any discharge of debt in this bankruptcy case.

The confirmation order of this Plan shall constitute an injunction against the pursuit of any claim or Equity Interest, whether or not a proof of claim or proof of interest based on any such debt, liability, or interest, is filed or deemed filed under 11 U.S.C. 501, such claim is allowed under 11 U.S.C. 502, or the holder of such claim has accepted this Plan in the manner set forth herein.

4.6 OBJECTIONS TO CLAIMS:

The Debtor, at its option or upon order of the Bankruptcy Court, if requested may file an objection to any claim as to its validity or amount within 30 days before the confirmation date and may substitute for the Debtor as the objecting party to any pending claim objections. Objections not filed by the date of confirmation shall be deemed waived. If an objection is made, payment to such claimants will be made only after the entry of a final order by the Court allowing such claim and in accordance with the provisions of the Plan governing such class to which such claims belongs.

The claim of any creditor whose claim has been scheduled as disputed but who has not filed a proof of claim shall be disallowed by confirmation of the Plan, unless written objection to such

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disallowance is filed prior to the confirmation hearing.

5. OTHER PROVISIONS

5.1 EXECUTORY CONTRACTS:

Debtor assumes all unexpired leases and executory contracts to which it may be a party and which have not been expressly rejected pursuant to 11 U.S.C. Section 365(a).

5.2 MEANS OF EXECUTION OF THE PLAN AND FUTURE MANAGEMENT OF DEBTOR:

Debtor shall have sufficient funds to make all payments due under this Plan. The Plan will be implemented as required under §1123(a) (5) of the Code.

Regarding to the proposed payment of secured creditor in the case, BPPR, the payments to priority and unsecured claims funds will be provided through the rent of the gas stations in **Loiza Street, Lajas** and the lot of land located at Urb Country Club, Carolina, PR.

Other main distribution contemplated within the Plan, are to be made through the distribution and/or transfer of properties, and all necessary expenses of these transfers shall be covered by the acquiring party.

Further, all necessary funds to make the limited cash dividends detailed within the Plan are already in Debtors possession or as they may be acquired up to the effective date.

On the Consummation Date of the Plan, the operation of the named businesses and other estate assets shall be and become the general responsibility of the Debtor, which shall thereafter have the responsibility for the management, control and administration thereof.

As to future management of the Debtor, will remain acting in the same capacity that has acted

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prior and during the reorganization process.

5.3 PROVISIONS FOR THE MODIFICATION OF THE PLAN:

The Debtor may propose amendments or modifications of this Plan at any time prior to its confirmation pursuant to 11 U.S.C. 1127. After confirmation of the Plan, the Reorganized Debtor may, with the approval of the Court and as long as it does not adversely affect the interests of the creditors, remedy any defect or omission, in such manner as may be necessary to carry out the purposes and effects of the same.

5.4 CLOSING OF THE CASE:

At such time as the case has been substantially consummated, this case shall be closed. In order for the case to be close, Debtor shall file an application for final decree showing that the case has been fully administered and the Plan has been substantially consummated. The Court may conduct a hearing upon application thereof and after notice to all creditors and parties in interests. Thereafter an order approving the Debtor's report and closing of the case shall be entered.

5.5 RETENTION OF JURISDICTION:

The Bankruptcy Court shall retain jurisdiction over this case as is conferred upon it by law, rule or statute, or by this Plan, to enable the Debtor to consummate any and all proceedings which they may bring before or after the entry of the order of confirmation, in order to carry out the provisions of this Plan.

This is the Disclosure Statement and Plan of Reorganization hereby proposed to creditors and parties in interest, filed with the Honorable Bankruptcy Court on this same date. Parties are encouraged to review these documents in order to formulate an informed decision on Debtor's


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whereabouts and conditions. A hearing to consider the approval of this Disclosure Statement will be scheduled by the Honorable Court, with Notice of said hearing served to all parties as per the master address list.

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RESPECTFULLY SUBMITTED,

In Guaynabo, Puerto Rico, this 24th day of August of 2016.



NESTOR DEL CASTILLO-HERNANDEZ
President of SAN JUAN OIL COMPANY INC.

I HEREBY CERTIFY: That on this same date I electronically filed the foregoing with the Clerk of the Court using the CM/ECF System which will send notification of such filing to **Carmen Priscilla Figueroa Bell, Esq.**, (Attorney for CRIM) at cfigueroa@crimpr.net; **Luis C. Marini Biaggi, Esq.** (Attorney for Banco Popular de PR) at luis.marini@oneillborges.com; **Juan C. Salichs Pou, Esq.** (Attorney for Scotiabank de PR) at jsalichs@splawpr.com; **Juan Manuel Suarez Cobo, Esq.** (Attorney for Todly Group Inc.) at suarezcobo@gmail.com; **Carolina Velaz-Rivero, Esq.** (Attorney for Banco Popular de PR) at carolina.velaz@oneillborges.com; **Jose A. Cepeda Rodriguez, Esq.** (Attorney for Peerless Oil & Chemicals, Inc.) at cepedapr@cepedalaw.com, Miga L. Rodriguez Collazo Esq. (Attorney for PR Treasury Department) at bankruptcyjusticia.gobierno.pr@gmail.com, and to the participants appearing in said record.

I HEREBY CERTIFY: That on this same date, a true and correct copy of the foregoing Disclosure Statement and Plan of Reorganization, has been hand delivered to the United States Trustee, and mailed by first class service to those parties that, in writing, have requested copy of said document, as ordered by the Court.

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INDEX TO EXHIBITS

Exhibit Number	Description
1.	Summary of the Monthly Operating Reports
2.	Corporate Tax Returns for the year 2014 & 2015.
3.	Title Search of Commercial Real Properties
4.	Detailed Liquidation Analysis
5.	Schedule of Payments under the Plan of Reorganization
6.	CRIM – Real State Taxes Analysis and Debt Certificates
7.	Analysis for Department of Treasury Special Real Estate Tax