



**SUMMARY OF PROCEDURES FOR LIKE-KIND EXCHANGE
PROCESSING AND REPLACEMENT PURCHASES
(Processing between Client/Exchangor and Petroleum Strategies, Inc.)
[“Straight” Exchange under provisions of Section 1031 of IRS Regulations]**

RELINQUISHED PROPERTY SALE

1. **Consultation and Set-Up.** Consultation takes place between Petroleum Strategies (PSI) and Exchangor principals regarding structuring, preparation of documents, IRS requirements, fees, escrow account, processing, etc.
2. **Document Preparation.** Documents are prepared by PSI and must be executed by all parties prior to Exchangor's sale closing date.

Information provided to PSI by Exchangor:

- (1) Copy of Purchase & Sale Agreement for transaction--sets forth complete legal name of Exchangor(s) and buyer(s), description of property to be relinquished, closing date, agreed sale price, etc.
- (2) Other Information detailed on PSI Exchange Data Form.
- (3) Form W9.

Initial Exchange Documents prepared by PSI:

- (1) Deferred Exchange Agreement (PSI and Exchangor).
- (2) Assignment of Rights (PSI and Exchangor).
- (3) Notification to Buyer (Execution by Buyer at or before closing).
- (4) Wiring Instructions for 1031 escrow established on Exchangor's behalf.

3. **Exchangor's Sale Closing.** Sale Proceeds are deposited in established escrow account. (Note: Under IRS regulations, Exchangor must not at any time have "constructive receipt" of the sale proceeds.)
4. **Exchangor Invoicing.** As soon as sale proceeds are deposited, Exchangor will be invoiced for PSI consultation and exchange set-up fee. Exchangor will be advised in writing by PSI of "critical dates" for the exchange (45th and 180th days). Both dates calculated on the sale closing date and transfer of title from Exchangor to buyer.
5. **Replacement Property Identification.** Within 45 days after property sale closing, Exchangor must either acquire or identify replacement property(s) according to the following guidelines:

- (1) Identification must be in writing and supplied to PSI. Submission by fax is acceptable. (Sample form letter is provided for Exchangor's reference).
- (2) Identified properties do not have to be under contract at the time of identification.
- (3) Exchangor may identify properties under one of two rules:
 - (a) Three (3) properties of any value (the "3-Property Rule"); OR
 - (b) More than three properties with a combined total fair market value that does not exceed TWICE the total proceeds from relinquished property (the "200% Rule").
- (4) Any property is considered "identified" if it is purchased within the 45-day identification period.
- (5) An identification may be revoked and new property(s) identified, as long as the 45-day period has not expired.
- (6) All replacement property closings must be completed within the earlier of (a) 180 days from the initial property sale closing or (b) the due date of Exchangor's tax return, including extensions.
- (7) THERE ARE NO EXTENSIONS OF TIME ALLOWED UNDER 1031 REGULATIONS FOR THE 45TH OR 180TH DAYS.

REPLACEMENT PROPERTY PURCHASE(S)

1. **Replacement Consultation.** If necessary, PSI provides consultation regarding replacement property transactions and processing of purchases to fit Exchangor's specific needs.

2. **Replacement Purchase Procedures.** For EACH replacement purchase made from the exchange escrow account, PSI requests notification in writing of the planned replacement purchase. Such notification may be made by email or fax.

Information provided to PSI by Exchangor:

- (1) Copy of document constituting the agreement between the parties (e.g., Purchase and Sale Agreement, Letter Agreement, Assignment and Bill of Sale or other conveyance, etc.). Document should contain a description of property being purchased (for comparison with Replacement Property Identification on file with PSI).
- (2) Exact purchase price, method of payment (wire transfer or cashier's check), and date payment is to be made. If by wire transfer, seller's wiring instructions are to be provided and should include address for the receiving bank and for the beneficiary account. If by check, directions for handling of the payment.

Documents prepared by PSI for each replacement purchase:

- (1) Assignment of Rights (PSI and Exchangor).
- (2) Notification to Seller (execution by Seller at or before closing).
- (3) Disbursement instructions to Bank.

3. **Exchange Summary Statements.** During exchange period, monthly Summary Statements will be furnished by PSI detailing exchange activities and providing a month-ending exchange escrow balance. Statements will be mailed following receipt of bank statements by PSI and reconciliation to bank records. Depending upon the mailing schedule of the bank, PSI statements should be mailed on approximately the 15th of the month following month-end.

EXPIRATION OF THE EXCHANGE (180TH DAY)

1. **Exchange Closing Procedures.** Exchangor provides instructions regarding disbursement of remaining funds in account (i.e., wiring instructions into Exchangor's account). If all original relinquished proceeds have been used in replacement, the remaining balance will be interest that has accrued during the exchange period. If a proceeds balance remains, it will be returned to Exchangor immediately following expiration of the 180th day. Settlement of accrued interest and final expenses due PSI will be made by check within four to six weeks following the 180th day.

2. **Final Invoicing by PSI.** Final invoice will be provided by PSI, billing Exchangor for Administrative Fee (based on interest earned on escrowed funds) and out-of-pocket expenses incurred by PSI during life of the exchange. Charges will be deducted from Exchange balance in final calculations.

3. **Exchange Closing Statement.** PSI will provide Exchangor with an Exchange Closing Statement, which details all activity and transactions occurring during the exchange period. The statement will provide all exchange transaction information and dates necessary for tax reporting.

Petroleum Strategies, Inc. does not give tax or legal advice. The information contained herein should not be relied upon as a substitute for tax or legal advice obtained from a competent tax and/or legal advisor.