

**RESTATED DECLARATION OF COVENANTS,
CONDITIONS AND RESTRICTIONS
FOR
THE TOWNHOMES AT QUAIL MEADOWS**

Prepared by and hold for Joslin, Sedberry & Lamkin, LLP, BOX 121

THIS WITHDRAWAL OF DECLARATION OF COVENANTS CONDITIONS AND RESTRICTIONS AND RESTATED DECLARATION OF COVENANTS CONDITIONS AND RESTRICTIONS FOR THE TOWNHOMES AT QUAIL MEADOWS, made on the date hereinafter set forth by Gary Felton Land Investment Company, Inc., a North Carolina corporation hereinafter referred to as the "Declarant"; Townhomes at Quail Meadows Homeowners Association, Inc.; and Anderson Home, Inc. Gary Felton Land Investment Company, Inc., as the Master Declarant under the Master Declaration, also executes this Declaration to acknowledge its consent to the recording of this Declaration as a Subdivision Declaration pursuant to the Master Declaration.

WITNESSETH:

WHEREAS, the Declarant, Townhomes at Quail Meadows Homeowners Association, Inc.; and Anderson Home, Inc. are the owners of certain property in Granville County, North Carolina, more particularly described on Exhibit A hereto, that is subject to the Declaration of Covenants, Conditions and Restrictions recorded in Book 1009, Page, 716, Granville County Registry; and all the parties hereto have agreed to withdraw said property from said Declaration so that that Declarant may subject such property to the Restated Declaration of Covenants, Conditions and Restrictions hereafter set forth;

NOW, THEREFORE, the parties hereto withdraw the Declaration of Restrictions and Covenants of The Townhomes at Quail Meadows Subdivision, recorded in Book 1009 Page 716, Granville County Registry; and

Anderson Homes, Inc. and Townhomes at Quail Meadows Homeowners Association, Inc. hereby declare that those Lots and property owned by each of them that are included within the property described on Exhibit A attached hereto will hereafter be subject to the Restated Declaration made by Declarant as hereafter set forth.

QUAIL MEADOWS TOWNHOMES

P:QUAIL MEADOWS

QUAIL MEADOW TOWNHOMES STATUS AS OF 7-13-04

GREG HINSHAW HAS APPROVED THE RESTATED DECLARATION

DELIVERED COPY OF RESTATED TOWNHOME DECLARATION TO BILL
FAUCETTE

NEED TO PREPARE BYLAWS FOR TOWNHOMES.

GREG HINSHAW - 782-1441 EXT. 311

BILL FAUCETTE - 787-7589

Declarant hereby declares as follows:

WHEREAS, Declarant, Anderson Homes, Inc. and The Townhomes at Quail Meadows Homeowners Association, Inc. are the owners of certain real property, which real property, together with such portions of the Additional Land (as hereinafter defined), if any, as Declarant may elect to add to such property by filing of a Map thereof and supplemental filing pursuant to Article 15 hereof, shall be hereinafter referred to as "The Townhomes at Quail Meadows" located in Granville County, North Carolina and more particularly described in Exhibit A hereto. Declarant intends to improve The Townhomes at Quail Meadows as a planned residential townhome development by dividing such property into Lots appropriate for single-family attached townhome dwellings; and

WHEREAS, Declarant owns or may hereafter own real property in Granville County, North Carolina located adjacent to the property hereinabove described (which, if applicable to this Declaration, is more particularly described on Exhibit B attached hereto and made a part hereof and referred to herein as the "Additional Land"). Declarant may, in its sole discretion and without obligation, by one or more supplemental filings pursuant to Article 15 hereof, make all or any portion of the Additional Land, if any, subject to this Declaration and a part of The Townhomes at Quail Meadows; and

WHEREAS, Declarant intends to develop The Townhomes at Quail Meadows under a common scheme and general plan for its improvement and maintenance; and

WHEREAS, for this purpose Declarant intends to (and with respect to the Additional Land, if any, reserves the right to), subject the initial Maps of The Townhomes at Quail Meadows as described in Article 2 below, and so much of the Additional Land, if any, as shall, from time to time, be annexed in accordance with the provisions of this Declaration, to the covenants, conditions, restrictions, easements, liens, charges, assessments and equitable servitudes set forth in this Declaration, for the benefit of The Townhomes at Quail Meadows and the future owners of Lots therein; and

WHEREAS, Declarant deems it desirable for the management and administration of the planned development and for the preservation of the values and amenities of the planned development to incorporate The Townhomes at Quail Meadows Association, Inc, a nonprofit corporation under the laws of the State of North Carolina for the purposes of providing for the maintenance and upkeep of the exterior of all residential units and the Common Area, administering the limitations, covenants, conditions, restrictions, easements, liens and equitable servitudes created by or imposed in accordance with the provisions hereof, collecting and disbursing the assessments and charges imposed in accordance with the provisions hereof, and exercising such other powers as may be authorized by this Declaration, by law, or by its Articles of Incorporation and Bylaws; and

WHEREAS, the Property constitutes a "Development Parcel" within the master planned community known as Quail Meadows and is subject to that certain Master Declaration (as defined below). A Master Association (as defined below) has been created to enforce the provisions of the Master Declaration; and

WHEREAS, the Master Declaration contemplates that separate easements, covenants, conditions and restrictions may be imposed with regard to the Development Parcels constituting

Quail Meadows, and that separate Sub-Associations may be established for some or all of the Development Parcels within Quail Meadows pursuant to one more Subdivision Declarations; and

WHEREAS, this Declaration and the Association have concurrent jurisdiction over the Property, but this Declaration and the rights and powers of the Association are subordinate to the Master Declaration and the rights and powers of the Master Association. The assessments levied against the Lots by the Association shall be in addition to the assessments levied against the Lots by the Master Association pursuant to the Master Declaration.

NOW, THEREFORE, Declarant hereby declares as follows:

ARTICLE 1 DEFINITIONS

The following terms shall have the following meanings when used in this Declaration:

Act. "Act" means and refers to the North Carolina Planned Community Act, Chapter 47F, North Carolina General Statutes.

Additional Land. "Additional Land" means the real property described on Exhibit B, if any shall be attached hereto, all or any portion of which may from time to time be made subject to this Declaration pursuant to the provisions of Article 15 hereof and which, when so subjected, shall become a part of the Property.

Architectural Control Committee. "Architectural Control Committee" or "ACC" shall mean the committee of the Association created pursuant to Article 13 with authorization over new construction, modifications and alterations in the Property.

Articles. "Articles" means the Articles of Incorporation of the Association, including any amendments thereto.

Association. "Association" means Townhomes at Quail Meadows Homeowners Association, Inc., a North Carolina nonprofit corporation, its successors and assigns.

Board. "Board" means the Board of Directors of the Association.

Builder. "Builder" means Anderson Homes, Inc., any entity to which it assigns its interest in its lot purchase contract with Declarant, and any commercial builder that purchases and owns a Lot within the Subdivision for the purpose of constructing upon it a residence to be sold.

Bylaws. "Bylaws" means the Bylaws of the Association, including any amendments thereto.

County. "County" means Granville County in the State of North Carolina.

Common Area. "Common Area" or "Common Areas" means all real property owned by or held in trust for the benefit of the Association for the common use and enjoyment of its Members, or owned by Declarant and designated for the common use and enjoyment of the Association and its Members, and all improvements and facilities constructed thereon for such purposes, including, but not limited, to any signage, irrigation and/or drainage or detention facilities, pond, dam, dock, pump station and related facilities, fountain, water feature, wells, pumps and related facilities,

landscaping, retaining walls, bridges, lighting, swimming pool, wading pool, green or natural area, walking paths or trails, picnic area, putting green, club house, roadway, driveway, parking area, sports complex, ballfield, playground, tot lot, gazebo or other amenity, if any, constructed on portions of the Property designated "Common Open Space", "Common Area", "Amenity Area" or other similar designation on Map(s) of the Property recorded in public records of the County.

"Common Area" or "Common Areas" shall also include (i) all private streets and private utilities, if any, (ii) any public road, right-of-way or cul-de-sac in the Property which has been dedicated to the public on Map(s) of the Property recorded in the County but not accepted for public maintenance by the appropriate governmental entity, (iii) any median or planting area and related signage, irrigation facilities and lighting constructed by Declarant within rights-of-way within the Property, and (iv) such easement rights for right-of-way and appurtenant easements or licenses as Declarant may declare, acquire or reserve or as are granted to the Association for the benefit of the Owners and their permittees or for the use, care or maintenance of any portion of the Property, including, but not limited to, rights-of-way and appurtenant easements or licenses for landscaping, trees, plantings, irrigation, signage, monuments, lighting, water, sanitary sewer, storm sewer, storm water drainage and/or retention, communications and/or other utility services. Declarant hereby grants to the Association an easement over any road, right-of-way or cul-de-sac within the Property which shall automatically terminate upon dedication to and acceptance for public maintenance by the appropriate governmental entity.

Completion of Sales. "Completion of Sales" means the earlier of (a) the conveyance of all Lots in the Property to purchasers other than a successor Declarant hereunder, or (b) the expiration of the later of (i) ten (10) years from the closing of the first sale of a Lot by Declarant, (ii) seven (7) years from the conveyance of the first Lot in the Phase most recently made subject to this Declaration (provided, however, if Declarant is delayed in developing the Property, constructing improvements or selling Lots and dwellings due to strikes or work stoppages; shortages of materials, supplies, fuel, power, or energy; moratoria or suspensions on issuance of land use permits and approvals or affecting the availability of water, sewer, power or other utilities or necessary services; inclement weather; civil strife; major disaster or other cause beyond Declarant's reasonable control, said seven (7) and ten (10) year periods shall be extended by the period of any such delay), or (iii) at such time as Declarant records a Notice of Termination of Sales in the public records of the County.

County. "County" means Granville County in the State of North Carolina.

Declarant. "Declarant" means Gary Felton Land Investment Company, Inc., and any successor or assign to whom Declarant assigns its interest as Declarant hereunder in whole or in part by instrument recorded in the official records of the County.

Declaration. "Declaration" means this Declaration and all amendments or supplements hereto.

Dwelling. "Dwelling" means any building or portion thereof within the Properties which is designated and intended for use and occupancy as a residence by a single family, whether by its Owner or by tenants or lessees of such owner.

FHA. "FHA" means the Federal Housing Administration.

Insurance Trustee. "Insurance Trustee" means a national banking association or title company licensed to do business in North Carolina as may be designated by the Association to hold and disburse funds as trustee for the Association and the Owners, as provided in this Declaration.

Lot. "Lot" means any numbered lot or plot of land, together with any improvements thereon, which is shown upon any Map covering the Property, or a part thereof, which is not dedicated right-of-way or Common Area.

Map. "Map" means a recorded boundary or subdivision plat of all or a portion of the Property recorded in the Granville County Public Registry.

Master Association. "Master Association" shall mean Quail Meadows Homeowners Association, Inc., a North Carolina non-profit corporation, the association established with respect to the Master Declaration.

Master Declaration. "Master Declaration" shall mean the Declaration for Quail Meadows recorded in the Granville County Public Registry in Book 933, Page 199, Granville County Registry.

Member. "Member" means a member of the Association.

Mortgage. "Mortgage" means a mortgage or deed of trust that constitutes a lien upon a Lot given to a bank, savings and loan association or other institutional lender.

Mortgagee. "Mortgagee" means the holder of the beneficial interest in any Mortgage.

Notice and Opportunity for Hearing. "Notice and Opportunity for Hearing" means giving at least fifteen (15) days' prior notice of a proposed action and the reasons therefor, and an opportunity to be heard by the Board, orally or in writing, not less than five (5) days before the effective date of the proposed action.

Owner. "Owner" means the record owner, whether one or more persons or entities, of fee simple title to any Lot, and shall include Declarant as to any Lot owned by Declarant. "Owner" shall not include any person or entity who holds an interest in a Lot merely as security for the performance of an obligation or as a tenant.

Person. "Person" means an individual, corporation, partnership, limited liability company, trustee or other legal entity capable of holding title to real property.

Property. "Property" means the portion of The Townhomes at Quail Meadows described in Exhibit A hereto and, when and if subjected to the terms and provisions of this Declaration by Declarant acting in its sole discretion, all or any portion of the Additional Land, if any, and any other real property subjected to this Declaration by Supplemental Declaration recorded pursuant to Article 15 hereof.

Phase. "Phase" means the real estate shown on each Map of the Property, including the portion of The Townhomes at Quail Meadows described in Exhibit A hereto, as recorded in the Granville County Public Registry.

Rules and Regulations. "Rules and Regulations" means reasonable and nondiscriminatory rules and regulations as may be adopted from time to time by the Association, provided notice of such rules and regulations has been given to Owners in accordance with the requirements of this Declaration.

Special Declarant Rights. "Special Declarant Rights" means, without limitation, the rights as defined in Section 47F-1-103(28) of the Act for the benefit of a Declarant, which are hereby

reserved in favor of Declarant, including, but not limited to the following: the right to complete, repair, maintain, replace and operate improvements indicated on Maps of the Property; the right to exercise any development right; the right to maintain sales offices, manage offices, models and signs advertising the Property; the right to use easements through the Common Area and through any Lot or Lots for the purpose of making, repairing, maintaining, replacing and operating improvements within the Property, and the right to elect, appoint or remove any officer or Board member of the Association during any period of Declarant control.

Supplemental Declaration. "Supplemental Declaration" means a supplemental declaration of covenants, conditions and restrictions which shall be recorded for the purposes of annexing additional property, including all or any portion of the Additional land, if any, to the Property and causing such property to be subject to the scheme of covenants, conditions and restrictions contained in this Declaration.

Voting Power. "Voting Power" means the total number of votes allocated to Members (or to a class of Members) whose membership at the time the determination of voting power is made has not been suspended in accordance with the provisions of this Declaration or the Rules and Regulations. Voting Power shall be computed by including all such Members whether or not such Members are present in person or by proxy at a meeting. All voting specifications and requirements shall apply to the entire Property.

ARTICLE 2

PROPERTY, SUBMISSION AND TERM

2.01 Property. The property subject to this Declaration and within the jurisdiction of the Association is located in Granville County, North Carolina, and is described as follows:

BEING THE PROPERTY DESCRIBED ON EXHIBIT A HERETO

2.02. Submission. The Property shall be held, conveyed, hypothecated, encumbered, sold, leased, rented, used, occupied and improved subject to each and all of the limitations, covenants, conditions, restrictions, easements, liens, charges, assessments and equitable servitudes set forth herein, all of which are declared to be (a) in furtherance of a common scheme and general plan for the development, improvement and maintenance of the Property and (b) for the purpose of enhancing, maintaining and protecting the value, desirability and attractiveness of the Property. All of the limitations, covenants, conditions, restrictions, easements, liens, charges, assessments and equitable servitudes set forth herein shall run with, be binding upon and inure to the benefit of the Property, shall be binding on and inure to the benefit of each and every person having or acquiring any right, title or interest in the Property, shall be binding upon and inure to the benefit of the successors in interest of such persons, and shall inure to the benefit of the Association, its successors and assigns.

2.03. Incorporation of Declaration Into Instruments. Any deed or other instrument by which a Lot is conveyed shall be subject to the provisions of this Declaration and shall be deemed to incorporate the provisions of this Declaration, as amended from time to time, whether or not the deed makes reference hereto.

2.04. Term. This Declaration shall remain in force until terminated by the affirmative vote of ninety percent (90%) of the total Voting Power of the Association and the written consent of ninety percent (90%) of the Mortgagees; provided, however, that if a two-class voting structure is in effect such action shall require the written approval of FHA if at the time of such vote FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations.

ARTICLE 3

COMPLIANCE WITH MANAGEMENT DOCUMENTS

3.01. Compliance with Declaration and Other Documents. Each Owner, resident, tenant or guest of a Lot shall comply with the provisions of this Declaration, the Bylaws, Rules and Regulations duly adopted by the Association, decisions and resolutions of the Association and its duly authorized representatives, all as may be amended from time to time, and failure to comply with any such provisions, decisions or resolutions, shall be grounds for an action to recover sums due for damages or for injunctive relief.

3.02. Resolution of Conflicts Between Documents. Each Owner covenants and agrees that the administration of the Property shall be in accordance with the provisions of this Declaration, the Articles, the Bylaws and Rules and Regulations duly adopted by the Association. If there are any matters of conflict or inconsistencies in the Bylaws, Articles and this Declaration, then the provisions of this Declaration shall prevail. In the event that anything shown on a Map for all or any portion of the Property is in any way inconsistent with provisions of this Declaration, then the provisions of this Declaration shall prevail unless otherwise required by law. If a dispute arises among Owners in regard to the administration of the Property, then the provisions of this Declaration shall prevail.

ARTICLE 4

PROPERTY RIGHTS

4.01. Title to the Common Area. The Declarant hereby covenants for itself, its successors and assigns, that it will convey fee simple title to the Common Area depicted on the Maps of the Property to the Association no later than the time of the conveyance of the first Lot within the applicable Phase of the Property (unless Declarant is prohibited by local development regulations to convey the Common Area to the Association at such time), free and clear of all encumbrances and liens, except those set forth in this Declaration and utility and storm drainage easements. Following conveyance of Common Area to the Association, Declarant and Builder shall be entitled to a proration credit for all expenses of the Association incurred by Declarant or Builder (including insurance and real estate taxes) not theretofore reimbursed to Declarant or Builder. The Common Area shall be conveyed without any express or implied warranties, which warranties are hereby expressly disclaimed by Declarant. Upon such conveyance, maintenance of the Common Area shall be the responsibility of the Association, including, but not limited to, the maintenance of any stormwater facilities that are part of the Common Area. The maintenance of these stormwater facilities, including the expansion of such facilities as required by the County or otherwise, shall be performed to the standard required by the County or other applicable governing body. Title to the Common Areas, including, without limitation, all private streets, if any, shall be for the perpetual benefit of the Members, and private or public ownership for any purpose other than for the benefit of the Members is prohibited.

4.02. Common Area Easements. Each Owner shall have a non-exclusive right and easement of use and enjoyment in and to the Common Area and of access to and from such Owner's Lot over any streets comprising a portion of the Common Area (if any), which rights and easements shall be appurtenant to and shall pass with the title to such Owner's Lot and subject to the following rights and restrictions:

(a) The right of the Association, after Notice and Opportunity for Hearing, to limit the number of guests of an Owner, to charge reasonable fees with respect to the use of Common Area facilities, if any, and to limit the use of said facilities to Owners who occupy a residence in the Property.

(b) The right of the Association to suspend the right of an Owner to use any Common Area facilities (i) for any period during which any fine against a Member or any assessment against such Owner's Lot remains unpaid; and (ii) after Notice and Opportunity for Hearing, for a period not to exceed thirty (30) days for any infraction of the Rules and Regulations;

(c) The right of the Association, subject to the provisions of the Act (Section 3-112), to encumber or convey all or any part of the Common Area, provided however that if a two-class voting structure is in effect such action shall require the written approval of FHA if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations.

(d) The right of the Association to grant easements, leases, licenses and concessions through or over the Common Areas.

(e) The right of the Association, subject to the provisions of the Act (Section 3-112), to borrow money to improve, repair, restore and reconstruct the Common Area and to place liens on the Common Area and otherwise encumber the Common Area for such purposes, provided however that if a two-class voting structure is in effect such action shall require the written approval of FHA if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations..

(f) The right of the Association to adopt Rules and Regulations governing use and enjoyment of the Common Area and the Property.

(g) The rights of the Association and of Declarant to the use of easements for ingress and egress over, in, to and throughout the Common Area.

(h) Public storm drainage easements, sanitary sewer easements, and any and all other easements over the Common Areas as shown on the Maps.

(i) The right of Declarant, its successors and assigns to make any improvements for any reason they deem proper upon the Common Areas, even after their conveyance to the Association. Declarant hereby reserves an easement over the Common Areas for the purpose of developing the remainder of the adjacent property owned by Declarant. Although not limiting the scope of this easement, this easement shall include the right of access at all times for its employees, agent, subcontractors, invitees, etc., over the Common Areas and shall include the right to construct, maintain and dedicate any additional drainage easements, general utility easements and any additional sanitary sewer or water line easements across any of the Common Areas. This easement

shall terminate upon the completion of the development of the adjacent property owned by Declarant or ten (10) years from the date hereof, whichever first occurs.

4.03. Delegation. Any Owner may delegate his or her rights of use and enjoyment of the Common Area and any facilities thereon to the members of his or her family or household residing on his or her Lot and to his or her guests and invitees while in possession of his or her Lot, subject, however, to reasonable restrictions imposed by the provisions of this Declaration, the Bylaws and the Rules and Regulations. Provided the notice required by Section 4.04 of this Declaration has first been given to the Association, a tenant of an Owner, while residing on such Owner's Lot, shall be entitled to use and enjoy the Common Area and any facilities thereon and to delegate rights of use and enjoyment in the same manner as if such tenant were the Owner of such Lot. No such delegation shall release an Owner from his or her obligations hereunder, including, without limitation, the obligation to pay regular and special assessments.

Upon request, each Owner or tenant shall notify the Secretary of the Association of the names of all persons to whom such Owner or tenant has delegated any rights of use and enjoyment of the Common Area and the relationship that each such person bears to such Owner or tenant. Any delegated rights of use and enjoyment are subject to suspension to the same extent as the rights of Owners.

4.04. Tenants.

(a) Any Owner who rents or leases his or her Lot to a tenant shall not be entitled to use and enjoy any common facilities on the Common Area during the period the Lot is occupied by such tenant.

(b) No Owner shall lease or rent less than an entire Lot. Except with respect to construction trailers or model homes which may be used or occupied by Declarant or Builder, the Lots shall not be leased or rented for hotel or transient purposes and no rental agreement or lease shall be made for a period of less than six (6) months (unless a lease is executed for a shorter term in connection with the sale of a Lot by an Owner who is to temporarily occupy such Lot following the closing of the sale thereof). Subject to the foregoing restrictions, Owners shall have the right to lease or rent their Lots, provided that any lease or rental agreement between an Owner and a tenant shall be in writing and shall provide that it is in all respects subject to the provisions of this Declaration, the Bylaws, and the Rules and Regulations and that any failure by the tenant to comply with such provisions shall be a default under the rental agreement or lease. However, the failure of any lease or rental agreement to so provide shall not excuse any person from complying with the provisions of this Declaration, the Bylaws, and the Rules and Regulations.

(c) In the event an Owner shall rent or lease his or her Lot such Owner shall immediately give to the Association in writing:

- (i) the name of the tenant and the Lot rented or leased;
- (ii) the current address of such Owner;
- (iii) a true and complete copy of the lease or rental agreement; and
- (iv) the certification of the Owner that the tenant has been given a copy of this Declaration, any applicable amendments, the Bylaws and the Rules and Regulations

and that such tenant has been advised of any obligations he may have thereunder as a tenant.

(d) In no event shall any lease or rental agreement release or relieve an Owner from the obligation to pay regular and special assessments to the Association, regardless of whether the obligation to pay assessments has been assumed by the tenant in such lease or rental agreement.

(e) With respect to any tenant or any person present on any Lot other than the Owner and the members of the Owners immediate family permanently residing with the Owner on the Lot, if such Person shall materially violate any provision of the Declaration, the Articles, the Bylaws, or the Rules and Regulations, or shall create a nuisance or an unreasonable and continuous source of annoyance to the Owners or shall willfully destroy Common Area property or personal property of the Association, then upon written notice by the Association such Person shall be required to immediately leave the Property and if such Person does not do so, the Association is authorized to commence an action to evict such Person and, where necessary, to enjoin such Person from returning. The expense of such action including attorneys' fees may be assessed against the applicable Owner and collected as a special assessment pursuant to Section 9.07 hereof. The foregoing is in addition to any other remedy available to the Association. The Association shall provide notice to the Owner of a leased Lot concurrently with any notices sent to the tenant of such Lot, and such Owner shall have the right to participate in any hearing or eviction proceeding. The right of eviction provided for herein shall be included in all leases or rental agreements between an Owner and a tenant, but the omission from a lease or rental agreement of such provision shall not affect the Association's right to evict as permitted herein.

4.05. Reciprocal Easements. There shall be reciprocal appurtenant easements between each Lot and such portion or portions of the Common Area as may be adjacent thereto and between adjacent Lots for the flow of rainwater from gutters and downspouts, the repair of fences and similar improvements, and lawn maintenance; provided, however, that no such easement shall unreasonably interfere with the use and enjoyment of the Common Area or any adjacent Lot. If any Common Area or Lot improvement encroaches upon a Lot because of the placement, construction, reconstruction, repair, movement, settling or shifting of the improvements constructed by Declarant, or reconstructed or repaired in accordance with the provisions of this Declaration, an easement for the encroachment and for its maintenance shall exist to a distance of not more than three (3) feet as measured from any point on the common boundary between the Common Area and the Lot or between Lots, as the case may be, along a line perpendicular to such boundary at such point; provided, however, that in no event shall such an easement exist for willful encroachments. If any Lot encroaches upon the Common Area as a result of construction, reconstruction, repair, shifting, settlement or movement of any portion of the Property, an easement for the encroachment and for its maintenance shall exist so long as it remains.

4.06. Utility Easements. Any easements for installation, maintenance, use or repair of public utilities or drainage or detention facilities which are dedicated on any Map of the Property, reserved under any deed of any Lot, or created by Declarant in some other way shall be kept free of buildings, and within such easements no structure, fence, planting or other improvement shall be placed or permitted to remain which may damage or interfere with the installation, maintenance, use or repair of such public utilities or drainage or detention facilities, or which may damage, interfere, or change the direction or flow of drainage in the easements. Notwithstanding anything contained herein to the contrary, any such easement dedicated on any Map of the Property, reserved

under any deed of any Lot, or created by Declarant in some other way shall be maintained by the Owner(s) of any affected Lot(s) to the extent so encumbered by said easement, including all storm drainage facilities located within any "P. S. D. E." (public storm drainage easement) shown on the Map, except as otherwise indicated by such Map or unless maintenance has been assumed by any public utility or governmental entity having jurisdiction thereover. All such easements at all times shall be accessible to Declarant until the Property is completed and at all times shall be accessible to all persons installing, repairing, using or maintaining such utilities and drainage facilities.

All utility lines of every type, including but not limited to water, electricity, gas, telephone, sewage and television cables, running from the main trunk line or service location to any Lot must be underground. The Declarant reserves unto itself, its successors and assigns, a perpetual alienable easement and right on, over and under the ground to erect, maintain and use water, irrigation, electric, gas, telephone, sewage and television cables, and any other utilities lines and conduits for the purpose of bringing public or other services, at this time known or unknown, to the Property on, in, under and over the private streets or roads and over any Lot, and over such areas as are so identified on any Map of the Property or shown on any site plan for the Property on file with and approved by the County. In addition, the Association may cut, in the above described easements, as well as any where else as required, at its own expense, drainways for surface water and/or to install underground storm drainage wherever and whenever such action is required by applicable health, sanitation or other state or local authorities, or in order to maintain reasonable standards of health, safety and appearance. In addition, along streets fronting property lines, Declarant reserves the right to install, maintain and repair pedestrian paths, street lights and/or street-side landscaping, which right shall automatically transfer to the Association upon the termination of Class B membership. Any easements first established on property not owned by the Declarant must be consented to by the Owner of such property and evidenced on the Map or in recorded instrument creating the easement.

The Declarant may, but shall not be required to, release any of the easements reserved herein as to any Lot for which it deems such easement is unnecessary for the efficient development and operation of the Property.

4.07. No Subdivision of Lots; No Time-Sharing. Other than that effected by Declarant in preparing and recording Maps, there shall be no further subdivision or partition of any Lot nor shall any Owner other than Declarant, or any other person acquiring any interest in a Lot seek any partition or subdivision thereof unless the Association consents to such subdivision or partition as evidenced on a Map. There shall be no time-sharing or other co-ownership which allows multiple Owners sequential possessory interests in a Lot.

4.08. Sale of Common Area. Except as otherwise provided in this Declaration, no sale, transfer, dedication, hypothecation, partition, subdivision, abandonment, release or alienation of the Common Area shall, or may be, effected except as provided in the Act, provided further, however, that if a two-class voting structure is in effect written approval of FHA shall also be required if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations.

4.09. Limited Common Area. Certain portions of the Common Area may be designated as "Limited Common Area" and reserved for the exclusive use or primary benefit of Owners of designated Lots and their invitees. By way of illustration and not limitation, Limited Common Area

may include entry features, recreational facilities, landscaped medians and cul-de-sacs, roadways not necessary to provide other Lots with access to public streets, lakes and other portions of the Common Areas designated to benefit particular Lots. All costs associated with maintenance, repair, replacement, and insurance of a Limited Common Area shall be an expense allocated to the Owners to which the Limited Common Area is assigned, which may be recovered by one or more special assessments levied by the Board equally against the benefited Owners. Any Limited Common Area shall be designated as such and the exclusive use thereof shall be assigned in the deed(s) by which the Declarant conveys the Common Area to the Association and shown on a Map designating such Limited Common Area; provided, any such assignment shall not be exclusive and shall not preclude the Declarant from later assigning use of the same Limited Common Area to additional Lots. The Association may, upon approval of the Owner(s) of the Lot(s) to which certain Limited Common Area is assigned, permit Owners of other Lots and their invitees to use all or a portion of such Limited Common Area upon payment of reasonable user fees, which fees shall be used to offset the special assessments attributable to such Limited Common Area.

4.10. Declarant's Right to Change Development Plans. With the approval of the County, Declarant shall have the right, without consent or approval of the Owners, to create Lots and dwelling units, add Common Area, change unit types and reallocate units within the Property, and withdraw real property from the development. In addition, Declarant shall have the right to change Common Area and Lots designations, the boundary lines of Common Area and Lots and the location of easements shown on any Map by recording a new Map showing such changes, which Map shall be executed by the Declarant and the Owner of the Common Area or Lot so modified. To the fullest extent permitted by North Carolina law, each Owner covenants by acceptance of the deed or instrument by which its Lot is conveyed not to protest, challenge or otherwise object to (i) changes in uses or density of the Property or Additional Land, or (ii) changes in the site plan and other development documents filed with the County in connection with the Property or Additional Land.

4.11 Party Walls.

(a) General Rules of Law to Apply. Each wall which is built as part of the original construction of the townhomes upon the Lots and placed on the dividing line between the Lots shall constitute a party wall, and, to the extent not inconsistent with the provisions of this Section, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions shall apply thereto.

(b) Sharing of Repair and Maintenance. The cost of replacement, repair and maintenance of a party wall shall be shared equally by the Owners of the townhomes which share the wall, in proportion to such use.

(c) Destruction by Fire or Other Casualty. If a party wall is destroyed or damaged by fire or other causality, any Owner who has used the wall may restore it, and if the other Owners thereafter make use of the wall, they shall contribute to the cost of restoration thereof in proportion to such use without prejudice, however, to the right of any such Owners to call for a larger contribution from the others under any rule of law regarding liability for negligent or willful acts or omission.

(d) Weatherproofing. Notwithstanding any other provision of this Section, an Owner who by his negligent or willful act causes the party wall to be exposed to the elements shall bear the whole cost of furnishing the necessary protection against such elements.

(e) Right to Contribution Runs With Land. The right of any Owner to contribution from any other Owner under this Section shall be appurtenant to the land and shall pass to such Owners successors in title.

(f) Arbitration. In the event of any dispute arising concerning a party wall or under the provisions of this Section, the same shall be settled by arbitration in the manner provided under the Uniform Arbitration Act of North Carolina, as the same may be amended from time to time.

4.12. Rules and Regulations. The Association shall have the right to adopt, publish and enforce Rules and Regulations governing the Property, the use and enjoyment of the Common Area, and any facilities thereon, and the personal conduct thereon of the Owners, their guests, invitees, members of their families or households and tenants. Such Rules and Regulations shall be reasonable, shall not discriminate against Declarant (or have an adverse impact on Declarant or upon the sale of Lots or the construction of improvements thereon), and must be consistent with this Declaration, the Articles and the Bylaws. Rules and Regulations and any changes thereto shall not be effective until written notice thereof has been given by mailing a copy of the Rules and Regulations, postage prepaid, at least ten (10) days before the effective date of the Rules and Regulations, to each Owner addressed to the Owner's address last appearing in the books of the Association.

4.13. Enforcement. Unless otherwise limited by the terms and provisions of the Act, the Association shall be authorized to impose sanctions for violations of this Declaration, the Bylaws, or the Rules and Regulations. Sanctions may include reasonable monetary fines not to exceed \$150.00 per day and suspension of the right to vote and to use any facilities within the Common Area after Notice and Opportunity for Hearing. In addition, the Association, through the Board, after Notice and Opportunity for Hearing, shall have the right to exercise self-help to cure violations, and shall be entitled to suspend any services provided by the Association to any Owner or Lot in the event that such Owner is more than thirty (30) days delinquent in paying any assessment or other charge due to the Association. The Board shall have the power to seek relief in any court for violations of this Declaration, the Bylaws or the Rules and Regulations or to abate nuisances.

ARTICLE 5

COMMON AREA EASEMENTS AND RIGHTS OF WAY; ENCUMBRANCES

5.01. Dedications. The Association shall have the power to grant easements in, on, over, through and across the Common Area for any public or quasi-public improvements or facilities and their appurtenances, including, without limitation, street, sewer, drainage, water, gas and sprinkler improvements and facilities, provided (a) any such easement does not unreasonably interfere with the use and enjoyment of the Common Area or any Lot, and (b) the prior written consent of Declarant shall be obtained so long as Declarant owns any Lot. Each Owner, by accepting a deed to a Lot, expressly grants to the Association an irrevocable power of attorney for the purpose of granting such easements in, on, over, through and across the Common Area. The President or other duly designated officer of the Association may execute, acknowledge and record in the official

records of the County a certificate stating that the Board is the attorney in fact for the Owners for the purpose of such grant and that such power of attorney is properly exercisable in accordance with this Declaration. The acts of the Board in exercising its power of attorney shall be conclusively binding on all Owners. The power of attorney herein granted shall include authority to do such acts incidental to such grant and to incur such expenses as may be necessary or convenient in connection therewith. The Board, by resolution, shall instruct the appropriate officers of the Association to make, execute and deliver on behalf of any Owner, as his or her interest may appear, any and all instruments, certificates and documents, including but not limited to, releases, waivers, deeds, escrow instructions and conveyances of every kind and nature, as may be deemed necessary or convenient for such dedication or grant.

5.02. Easements in Private Streets, Private Water Lines and Private Sewer Lines. In its development of the Property, the Declarant may construct certain private streets, private water lines and private sewer lines within the Property. The Owners of those Lots adjacent to such private streets, private water lines and private sewer lines shall have an easement but no more than an easement for ingress and egress for themselves, their tenants, agents, employees, representatives, invitees and assigns over such private streets and an easement to utilize such private water lines and private sewer lines. In no case shall the County or the State of North Carolina be responsible for maintaining any private street, private water line or private sewer line. Such maintenance obligations shall be the responsibility of the Association. If any private streets, private water lines or private sewer lines encroach upon a Lot because of the placement, construction, reconstruction, repair, movement, settling or shifting of the improvements constructed by Declarant, or reconstructed or repaired in accordance with the provisions of this Declaration, an easement for the encroachment and for its maintenance shall exist; provided, however, that in no event shall such an easement exist for willful encroachments.

5.03. Encumbrances. The Association shall have the right to borrow money to improve, repair, restore and reconstruct the Common Area and to place liens on the Common Area and otherwise encumber the Common Area for such purposes (a) if a two-class voting structure is in effect, upon the written consent of eighty percent (80%) of the Voting Power of each class of Members of the Association, or (b) if a two-class voting structure is not in effect, upon the written consent of eighty percent (80%) of the total Voting Power of the Association and the written consent of eighty percent (80%) of the Voting Power of the Association residing in Members other than Declarant or such lesser percentage as may be required or permitted by the Act. As long as there are two (2) classes of membership in the Association, any mortgaging of the Common Area shall require the approval of FHA if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations.

ARTICLE 6

COMMON AREA AND LOT MAINTENANCE

6.01. Maintenance by Association. The Association shall repair and maintain the Common Area and any improvements, utilities and facilities located on the Common Area. This responsibility shall also include, without limitation, maintenance, repair and replacement of all landscaping and grassed areas, fencing, private roadways, private alleyways and private streets,

private utilities, retaining walls, signage, Common Area driveways and parking areas, sidewalks, walking paths or nature trails, lakes, ponds or streams, including retention ponds, swimming pools, cabanas and other recreational facilities, and other improvements or utilities situated on the Common Area. The Association may, but shall not be obligated to, provide enhanced landscaping and maintenance to those areas and medians located within the rights-of-way for streets located within the Property. Any maintenance or enhancement called for herein shall be subject to governmental authorities' rules and regulations in the County.

In addition to maintenance upon the Common Area, the Association shall provide exterior maintenance upon each Lot which is subject to assessment hereunder as follows: paint, repair, replace and care for roofs, gutters, downspouts, exterior building surfaces [with the exception of entry doors (including garage doors) and their appurtenant hardware and all exterior glass including windows and patio doors, all of which shall be maintained, repaired and replaced by the Lot Owner] trees, landscaping, grass, fencing, walks, driveways (as hereinafter limited) and other exterior improvements. Such maintenance as to the Lots shall also include the mowing and trimming of grass. Maintenance of the driveway constructed by the Declarant on each Lot shall extend only to the exterior face of the garage door, beyond which such maintenance, repair and replacement shall be the responsibility of such Lot Owner. The Association shall maintain any portion of any sewer main to which such line is connected, provided that the Owner of each Lot shall be responsible for all repair, replacement and clean out of sewer lines and facilities located upon such Owner's Lot behind the clean-out to (and including the lines and facilities servicing) the townhome unit. Exterior maintenance required by the Association hereunder shall not include the cleaning of patios, walkways, stoops or driveways on the Lots, all of which shall be the responsibility of the Lot Owner. The determination of the need, quality, extent and cost of such maintenance and repairs shall be made by the Board of the Association, which determination shall be reasonable and made upon consistent and non-arbitrary principles adopted by the Board.

The Declarant is responsible for construction of streets and roads within the Property. The Association shall undertake the management, operation, maintenance, repair, servicing, replacement and renewal of all private streets and private utilities constituting Common Areas and all improvements thereon. The Declarant shall be responsible for and maintain all other streets and roads within the Property until such roads are accepted for maintenance by the applicable governmental authority. Following any irrevocable acceptance of the streets and roads for maintenance as public rights of way by applicable governmental entities, the Association shall maintain such streets and roads to the extent such activities are not performed by the applicable governmental entities. Maintenance for private streets, private water lines and private sewer lines shall be the responsibility of the Association along with the maintenance of any private easements.

6.02. Maintenance by Owners. Except as provided in Section 6.01, above, and Section 10.06, below, all repair, maintenance and replacement of the improvements and utilities located upon an Owner's Lot shall be the responsibility of the Owner thereof. Without limiting the generality of the foregoing, and subject to the requirements of Article 7 and Section 13.06 of this Declaration, an Owner shall be responsible for replacement and reconstruction of improvements on his or her Lot required because of damage or destruction by fire or other casualty, except the Association will be responsible for replacement and reconstruction of any damage or destruction that is covered by insurance provided by the Association under the provisions of Section 10.02 of Article 10. Each Owner shall maintain, repair and replace, at his or her expense, all exterior light fixtures attached to the Owner's unit and all interior portions of the improvements which shall need repair, including bathroom and kitchen fixtures,

light fixtures or other electrical or plumbing equipment, utility pipes, lines and fittings serving the Lot. Further, each Owner shall repair, maintain, and replace, at his or her expense, the heating and air conditioning systems servicing said Owner's unit, whether located on the Owner's Lot or in the Common Area adjacent to the Lot. Each Owner shall be responsible for interior pest control.

6.03. Negligence. The cost of repair or replacement of any improvement to be maintained and kept in repair by the Association, which repair or replacement is required because of the act or omission of any Owner, the Owners family, guests, or invitees, shall be the obligation of such Owner and shall be added to and become a part of the assessment to which such Owner's Lot is subject.

6.04. Right to Enter. After reasonable notice to the occupant, the Association or its agents shall have access over and upon any Lot when necessary in connection with any repair, maintenance, or replacement of improvements for which the Association is responsible or for the enforcement of this Declaration, and each Owner shall accept title to his or her Lot subject to such right of access of the Association or its agents.

6.05. Easements for Governmental Access. An easement is hereby established over the Common Area and every Lot for the benefit of applicable governmental agencies for installing, removing, and reading water meters; maintaining and replacing water, sewer and drainage facilities; and acting for other purposes consistent with public safety and welfare, including, without limitation, law enforcement, fire protection, garbage collection and delivery of mail.

6.06. Sign and Landscape Easement. Declarant, for itself, its successors and assigns, including but not limited to the Association, hereby reserves easements over any portion of any Lot designated as "Landscape Easement," "Sign Easement," "Landscape and Sign Easement" or other similar designation on Map(s) of the Property recorded in the public records of the County, for installation, construction, operation and maintenance of landscaping, berms, retaining walls, drainage facilities, private utilities, lighting and sprinkler systems, if any, monuments, fencing, signage and other improvements as installed by Declarant on such areas. No fences, structures, driveways, plantings, swings or any other objects, temporary or permanent, shall be permitted in such easements other than those initially installed by Declarant, or its designated successor, without Declarant's prior written approval or, after all Lots are occupied by Owners, the Associations prior written approval. The Association shall at all times have the right of access for its employees, agents and subcontractors over the above described easement areas for the purpose of constructing, improving, landscaping, planting, mowing and otherwise maintaining the area and amenities within such easements. The owners of any Lot containing any portion of these easements shall maintain the area not maintained or landscaped by the Declarant or the Association. The reservation of this Easement imposes no obligation on Declarant, its successors and assigns, or the Association, to continue to maintain the planting, retaining walls, landscaping or other improvements located within the described easements.

ARTICLE 7

USE RESTRICTIONS

In addition to the architectural control restrictions set forth in Article 13 below, the following use restrictions apply to the Property:

7.01. Residential Use. Except as otherwise provided in this Declaration, Lots shall be used for residential purposes and for no other purpose. The Association shall not interfere with any Owner's freedom to determine the composition of his/her household, except that it may enforce reasonable occupancy limits. Except with respect to construction trailers or model homes which may be used or occupied by Declarant or Builder, no Owner shall use or cause or permit to be used his or her Lot for any business, commercial, manufacturing or mercantile use or purpose, or for any other nonresidential use or purpose. The foregoing notwithstanding, it shall be expressly permissible for Owners to conduct certain business or commercial activities within their residence which do not conflict with local zoning ordinance restrictions and regulations. No such activity shall be conducted which shall unduly burden traffic flows within the Property or cause the parking of non-resident vehicles upon the street for unreasonable or excessive periods of time. It shall be within the discretion of the Board to determine, on a case by-case basis, which commercial and business related activities will be compatible with the residential nature of the subdivision.

7.02. Unlawful Activity. No unlawful activity shall be conducted on any Lot or in any other part of the Property. Nothing shall be done within the Property that is an unreasonable annoyance, inconvenience or nuisance to the residents of the Property, or that unreasonably interferes with the quiet enjoyment of occupants of Lots. No doorways, walkways or streets shall be obstructed in any manner which would interfere with their use for ingress or egress in the event of fire, earthquake or other emergency.

7.03. Property Owners Parking Rights. Unless otherwise permitted by the Rules and Regulations no boat, trailer, recreational vehicle, camper, camper truck or commercial vehicle shall be parked, stored or left (a) on any undesignated part of the Common Area, (b) in any parking space, (c) on any other part of a Lot, (d) or otherwise within the Property. This restriction shall not apply to sales trailers, construction trailers, or other vehicles which may be used by Declarant or Builder and their agents and contractors in the conduct of their business prior to the Completion of Sales. No vehicle of any type which is abandoned or inoperative shall be stored or kept on any part of the Common Area or on any Lot, and no automobiles or other mechanical equipment may be dismantled or parts thereof stored on any said Lot. No vehicles of any type shall be parked on the sidewalk, nor shall vehicles of any type be parked or stored on any part of a Lot not improved for that purpose (i.e., a garage, driveway or parking pad), nor shall more than three (3) vehicles of any type be parked or stored on any part of a Lot visible from the street rights of way within the Property (i.e., driveway or parking pad), excepting occasional overflow parking for guests or other reasonable purposes provided that no inconvenience is imposed on the Owners of other Lots. No repairs to or maintenance of any automobile or other vehicle shall be made or performed on any driveway within the Property, except in the case of emergency and except as may be permitted by the Rules and Regulations.

An Owner shall not park any vehicle in any undesignated portion of the Common Area or overnight on the street rights-of-way within the Property. Parking in any Common Area facility parking lot shall be limited to the hours of operation of such facility. Owners and their guests shall be subject to sanctions if the parking regulations are violated. Sanctions may include reasonable monetary fines not to exceed \$150.00 per day and suspension of the right to vote and to use any facilities within the Common Area after Notice and Opportunity for Hearing. In addition, the Association, through the Board, after Notice and Opportunity for Hearing, shall have the right to exercise self-help to cure violations, including the towing of vehicles at the Owner's expense.

7.04. Signs and Curtains. No Owner shall place on or about any window any metallic foil or other coating, substance or material which similarly acts as a reflector of light nor shall an Owner place newspapers or bed sheets in any window. All curtains, blinds and window treatments shall be approved by the Architectural Control Committee. No Owner shall display, hang, store or exhibit any signs outside of the dwelling on any Lot or in any dwelling so as to be visible from outside the Lot, other than as may be permitted by the Rules and Regulations. Notwithstanding the foregoing, one sign of customary and reasonable dimensions, conforming to such reasonable standard as may be adopted by the Board, advertising a Lot for sale or rent may be placed by the Owner on his or her Lot in such manner that it will be visible from outside the Lot. The prohibitions in this Section shall not apply to Declarant or Builder or their agents, who may erect such signs as Declarant deems desirable to promote the sale of Lots.

7.05. Antennae. As provided in Article 13, except for such as are covered by, and installed in strict compliance with, the requirements of the Telecommunications Act of 1996, as amended, no Owner shall construct, install, erect or maintain any outside television or radio pole or receiving antenna, including a satellite dish antenna, and no outdoor television antenna or satellite dish may be erected or installed by an Owner or permitted by an Owner to remain on his or her Lot, without the express written approval of the Architectural Control Committee.

7.06. Laundry. No drying or airing of any clothing or bedding shall be permitted outdoors on any Lot and no clothes hanging devices such as lines, reels, poles, frames, etc. shall be stored or kept outdoors on any Lot.

7.07. Fences and Shrubbery. No fence or wall shall be erected upon any Lot unless plans therefor have been approved, in advance, by the Architectural Control Committee pursuant to the provisions of Article 13. In addition, no fence or wall shall be erected on any Lot closer to the street than the line formed by the exterior face of the rear wall of the dwelling, extended from the rear corners thereof to each of the side lot lines of the Lot, or the side street setback line of the Lot, as the case may be; except that, temporary decorative fencing may be installed by the builder of a model home and soil erosion silt fences may be permitted on the Property by the Association or the Declarant. Notwithstanding the foregoing, in the case of a dwelling having a side service entrance, fencing may be erected on the service entrance side of said Lot along a line three feet to the front of such entrance from the dwelling to the side Lot line (or side street setback, if applicable) and similarly placed on the opposite side of the dwelling. No fence or wall erected on any Lot may exceed five (5) feet in height. No fence or wall shall have more than eighty percent (80%) of any of its surface closed as viewed from a point on a line of sight perpendicular to the line formed by the line of the fence. Chain link fencing is expressly prohibited. No hedge, shrubbery, or other planting, nor other plant screening shall be installed on any Lot except with the prior written permission of the Architectural Control Committee.

7.08. Pets.

(a) No animals shall be raised, bred or kept on any Lot or the Common Area, except that dogs, cats, or other household pets may be kept or maintained provided that they are not kept or maintained for commercial purposes. The number of household pets generally considered to be outdoor pets, such as dogs, cats, et cetera, shall not exceed three (3) in number except for newborn offspring of such household pets which are under nine (9) months of age. No animal shall be allowed if such animal constitutes an unreasonable annoyance, inconvenience or nuisance to any other Owner. If the Board receives any complaint that an animal constitutes an unreasonable

annoyance, inconvenience or nuisance, including, but not limited to a complaint that an Owner's animal is being neglected, improperly treated, or not properly restrained upon such Owners Lot, or if upon Common Area, not properly leashed, the Board shall afford the Owner of such animal Notice and Opportunity for Hearing, and if the Board finds that such animal constitutes an unreasonable annoyance, inconvenience or nuisance, the Board may require that such animal be removed from the Property. Any time that an animal is outside, it must be on a leash and accompanied by the Owner, or some other person. Animals shall not be left unattended outside even when chained or contained inside a fence. At no time shall animals be allowed to be chained or tied in the Common Area. Each Owner shall also be responsible for cleaning up the feces of its animals both on its Lot and on the Property.

(b) The Board may adopt Rules and Regulations concerning animals which are more restrictive than the provisions of this Declaration, including (if not already mandated by applicable laws of the County) rules requiring that all animals be kept on a leash when in the Common Area and/or that animals be restricted to designated areas within the Common Area. The Board may adopt a rule prohibiting certain pets, which is more restrictive than the provisions of this Declaration, except that such rule shall not apply to animals residing in the Property at the time such rule is adopted. In any event, the Board at any time may require that any animal found to be an unreasonable annoyance, inconvenience or nuisance be removed as provided in Section 7.08(a).

7.09. Trash and Vegetation. No trash, rubbish, garbage or other waste material shall be kept or permitted upon any Lot or the Common Area, except in sanitary containers located in a garage or, if there is no garage, in an appropriate area screened and concealed from view (except for the periods immediately preceding and subsequent to pick up by the applicable disposal service). No weeds, vegetation, rubbish, debris, garbage, waste materials or materials of any kind whatsoever shall be placed or permitted to accumulate on any Lot or any portion of the Property which would render it unsanitary, unsightly, offensive, or detrimental to any property in the vicinity thereof or to the occupants of any property in such vicinity, except as is temporary and incidental to the bona fide improvement of any portion of the Property. Job site debris shall be removed from all Lots at least weekly. Grass, hedges, shrubs, vines and mass planting of any type on any Lot or any portion of the Property shall be watered at regular intervals. Trees, shrubs, vines and plants which die shall be promptly removed. No leaves, trash, garbage or other similar debris shall be burned except as permitted by the appropriate governmental authority.

7.10. Nuisance. No noxious or offensive activity shall be carried on in or upon any part of the Property nor shall anything be done thereon which may be or become an unreasonable annoyance, inconvenience or nuisance to the residents of the Property or unreasonably interfere with the quiet enjoyment of occupants of Lots. No Owner shall permit anything to be done or kept on his or her Lot which would result in the cancellation of insurance on said Lot or any other residence or any part of the Common Area or which would be in violation of any law.

7.11. Outbuildings Gazebo, Trampolines, Awnings, Freestanding Flagpoles and Above-Ground Pools. Except as may be permitted by the Architectural Control Committee, no Owner shall construct, install, erect or maintain upon any Lot any outbuilding, storage shed, gazebo, trampoline, awning or freestanding flagpole (provided, flags may be displayed using a bracket or other approved device mounted to a dwelling so long as the size of the flag displayed does not exceed a standard size as same may be determined by the Architectural Control Committee). In no

event shall any outbuilding, storage shed, gazebo, or trampoline be constructed on any Lot in the front or side yards, as determined by the building lines applicable to the Lot. No above-ground pools (except for wading pools no deeper than 2 feet tall and no wider than 10 feet in diameter, which shall be regulated by the Architectural Control Committee) shall be allowed or approved by the Architectural Control Committee on any Lot. Wading pools shall only be allowed during appropriate weather and must be emptied and stored when not in use.

7.12. Temporary Structures. No temporary structures shall be placed upon any portion of the Property at any time; provided, however, this restriction shall not prohibit construction trailers or shelters or sheds used by Declarant or any builder or its contractors during the development of the Property or the construction of improvements or additions to any Lot. Tents, recreational vehicles, trailers (whether attached or unattached to the realty) may not, at any time, be used as a temporary or permanent residence or be permitted to remain on any portion of the Property.

7.13. ACC Approval of Plans and Other Prohibitions.

(a) The construction of improvements on Lots shall be completed pursuant to the Plans in accordance with Article 13. In addition, Lots shall comply with all applicable building, plumbing, electrical and other codes.

(b) All window treatments must be in keeping with the overall scheme and aesthetic of the Property. Any window treatments deemed not to be in keeping with the overall scheme and aesthetic of the Property shall be removed by the Owner in the discretion and at the direction of the ACC.

(c) No vents, pipes or other appendages may extend from the front of any dwelling on a Lot, unless screened from public view by screening material or shrubbery approved by the ACC.

(d) Any exterior air-conditioning or heating equipment added after the completion of construction must approved by the ACC and be screened from public view by screening material or shrubbery approved by the ACC.

(e) Downspouts and gutters shall be constructed so as not to promote the erosion of the soil of any Lot.

(f) Exterior lighting shall be shielded and must be directed so as not to shine directly on another Lot.

(g) All yard art (including, without limitation, any windmills, figurines, or sculptures) shall be approved by the ACC.

(h) All hanging plants shall be approved by the ACC.

(i) All furniture (including, without limitation, tables, chairs, and grills) located or stored on any porch, deck or patio shall be approved by the ACC.

7.14. Trees, and Foliage. Trees measuring two (2) inches or more in diameter at a point two (2) feet above ground level and any flowering trees or shrubs above two (2) feet in height may not be removed from the Property without the prior written approval of the ACC, unless such landscaping material is in the path of driveways and walkways located or to be located on

any Lot. Excepted herefrom shall be damaged or diseased trees that threaten persons or property, which damaged or diseased trees shall be removed by the Owner.

7.15. Discharge of Firearms. Hunting and trapping of wild animals, fowl and game and the discharge of firearms and/or bows and arrows within the Property is prohibited.

7.16. Motorized Vehicles. All motorized vehicles operating within the Property must be properly muffled so as to eliminate noise which might be offensive to others. All motorized vehicles and motorized bicycles are prohibited from being used or operated anywhere other than on the streets, roads, parking lots and driveways within the Property.

7.17. Mail and Delivery Boxes. The ACC shall determine the standards and issue guidelines for the location, material, color and design for mail and newspaper boxes, if any, and the manner in which they shall be identified. All Owners must display the assigned street address on their mail boxes, or other appurtenance, pursuant to the then current regulations of the County or other appropriate governmental entity. No mailboxes nor additions nor modifications to the standard mailbox shall be allowed or approved by the Architectural Control Committee on any Lot.

7.18. Underground Storage Tanks. No underground storage tanks for natural gas, propane, chemicals, petroleum products or any other toxic product will be allowed anywhere in the Property.

7.19. Declarant's Rights. Notwithstanding anything to the contrary contained in this Article or elsewhere in this Declaration, Declarant, its agents, employees and contractors shall not be restricted or prevented by this Declaration from doing, and Declarant, its agents, employees and contractors shall have the right to do, such things or take such actions as they deem necessary, advisable or convenient for completion and improvement of the Property as a residential community and for the sale, rental or other disposition of Lots in the Property. The rights of Declarant, its agents, employees and contractors shall include, without limitation:

(a) The right and easement of ingress in, over and upon the Common Area and any Lot for the purpose of performing on any part or parts of the Property acts deemed necessary, advisable or convenient for the completion and improvement of the Property as a residential community and for the sale, rental or other disposition of Lots;

(b) The right to erect, construct, maintain, demolish or remove structures and other improvements on any Common Area as they deem necessary, advisable or convenient for the completion and improvement of the Property as a residential community and for the sale, rental or other disposition of Lots; and

(c) The right to use Lots and improvements owned by Declarant or Builder as models, sales offices and contractor's offices and to construct and display promotional, informational and directional signs and other sales aids on or about any portion of the Property.

The rights reserved under this Section shall terminate one (1) year after the Completion of Sales. Amendment of this Section shall require (a) if a two-class voting structure is in effect, the vote or written consent of seventy-five percent (75%) of the Voting Power of each class of Members of the Association and the written approval of FHA if at the time of such vote FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations; or (b) if a two-class

voting structure is not in effect, the vote or written consent of both seventy-five percent (75%) of the total Voting Power of the Association and of the total Voting Power of the Association residing in Members other than Declarant. Further, no amendment of this Section can be made without the written approval of Declarant.

7.20. Right to Enter. Any governmental agency, including, but not limited to the County, their agents and employees, shall have the right of immediate access to any Lot and to the Common Area at all times if necessary for the preservation of public health, safety and welfare.

ARTICLE 8

MEMBERSHIP AND VOTING RIGHTS

8.01. Governing Body. The Association shall be the governing body for all Owners with respect to the management, administration, maintenance, repair and replacement of the Property, as provided by this Declaration and the Bylaws.

8.02. Membership. Membership in the Association shall be composed of and limited to Owners. Each Owner, including Declarant, shall automatically be a Member of the Association and entitled to vote as set forth below. Membership shall be appurtenant to and may not be separated from ownership of a Lot. Upon termination of ownership, an Owner's membership shall automatically terminate and be automatically transferred to the new Owner of the Lot.

8.03. Voting. The Association shall have two classes of voting membership:

Class A. Class A Members shall be all Owners with the exception of Declarant and Builder; provided, however, that Declarant and Builder shall become Class A Members when their Class B membership ceases as provided hereinafter. Class A Members shall be entitled to one (1) vote for each Lot owned. When more than one person holds an ownership interest in any Lot, all such persons shall be Members, but no more than one vote shall be cast with respect to any Lot. The vote for any such Lot shall be exercised as the Members holding an interest in such Lot determine among themselves. In the event of disagreement, the decision of Members holding a majority of interest in such Lot shall govern. Unless otherwise notified by a co-owner as to a dispute between the co-owners regarding their vote prior to the casting of that vote, the vote of any co-owner shall be conclusively presumed to be the majority vote of the Owners of that Lot.

Class B. Class B Member shall be Declarant and Builder which shall be entitled to three (3) votes for each Lot owned; provided that Declarant's and Builder's Class B membership shall cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

- (a) when the total votes outstanding in the Class A membership equals the total votes outstanding in Class B membership; provided, however, and anything herein to the contrary notwithstanding, if at any time before ten (10) years after the first Lot is conveyed to an Owner for use as a residence, the Class B membership terminates for the foregoing reason and thereafter Declarant, pursuant to this Declaration, annexes Additional Property to the Declaration such that, following such annexation, if votes are allocated to the Lots owned by the Declarant and Builder at the rate of three (3) votes per Lot, Declarant's and Builder's total outstanding votes would exceed the total outstanding votes of the Class A Members,

the Class B membership shall be reinstated until such time as it again terminates due to one of the events of termination stated herein, without limitation on the number of times the Class B membership may terminate and be reinstated in accordance with this provision; or

(b) ten (10) years after the first Lot is conveyed to an Owner for use as a residence.

8.04. Commencement of Voting Rights. Voting rights attributable to an ownership interest shall not vest until the assessment against that interest has been levied by the Association as provided in Article 9; provided, however, that voting rights shall be immediately vested with respect to the approval of any amendments to this Declaration.

8.05. Declarant's Voting Rights. Declarant shall have the right to cast votes attributable to Lots owned by Declarant on all matters submitted to a vote of the Members.

8.06. Control by Declarant. Notwithstanding any other language or provision to the contrary in this Declaration, in the Articles, or in the Bylaws, Declarant hereby retains the right to appoint and remove any person, whether or not an Owner, on the Board of Directors of the Association and any officer or officers of the Association until ninety (90) days after the first of the events to transpire outlined in Section 8.03 above concerning the termination of the Class B Member status of Declarant or the surrender by Declarant of the authority to appoint and remove directors and officers by an express amendment to this Declaration executed and recorded by Declarant. Upon the expiration of the period of Declarant's right to appoint and remove directors and officers of the Association pursuant to the provisions of this Section, such right shall automatically pass to the Owners, including Declarant if they then own one or more Lots; and a special meeting of the Association shall be called for and held within ninety (90) days from the date of the expiration of Declarant's rights hereunder. At such special meeting the Owners shall elect a new Board of Directors which shall undertake the responsibilities of running the Association and Declarant shall deliver the books, accounts, and records, if any, which they have kept on behalf of the Association as well as any agreements or contracts executed by or on behalf of the Association which may still be in effect or operation. Each Owner by acceptance of a deed to or other conveyance of a Lot vests in Declarant such authority to appoint and remove directors and officers of the Association as provided in this Section.

ARTICLE 9

COVENANT FOR ASSESSMENTS

9.01. Creation of the Lien and Personal Obligation of Assessments. Each Owner of a Lot, other than Declarant, by acceptance of a deed therefor, whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay to the Association annual assessments and special assessments, such assessments to be established and collected as hereinafter provided. All assessments which are unpaid when due, together with interest and late charges set forth in Section 9.08 below and all costs of collection, including reasonable attorneys' fees, shall be a charge on the land and, as provided in Section 47F-3-116 of the Act, shall be a continuing lien upon the Lot against which such assessment is made. Each such assessment or charge, together with interest and costs of collection, including reasonable attorneys' fees, shall also be the personal obligation of each person or entity owning such Lot at the time when the assessment fell due, but such personal obligation shall not be imposed upon such Owner's successors in title unless expressly assumed by them; however, the unpaid assessments and charges shall continue to be a lien upon the Lot against

which the assessment or charge was made. Any monetary fine imposed against an Owner pursuant to the Bylaws of Townhomes at Quail Meadows Association, Inc., shall constitute a lien against the Lot of such Owner to the same extent as if such fine were an assessment against such Lot. Any provision herein to the contrary notwithstanding, DECLARANT WILL PAY NO ASSESSMENTS FOR ANY LOT OWNED BY DECLARANT, AND BUILDERS WILL PAY ONLY ONE-SIXTH OF THE ASSESSMENT FOR A CLASS A LOT. Any funds advanced by Declarant or Builders for creating the Association, insurance premiums for the Association, or any other customary expense of the Association will be refunded by the Association to Declarant or Builder from funds the Association receives for Assessments.

9.02. Use of Assessments. Regular annual or special assessments paid by Declarant and other Owners shall be used to pay for operation, maintenance, preservation, enhancement, repair and improvement of the Common Area and of the exterior of the dwellings and Lot improvements which the Association is required to maintain under Article 6, to make lease payments on all leased street lights located within public street rights-of-way within the Property, to pay premiums on all insurance maintained by the Association, and for other purposes reasonably related to the foregoing, and to promote the recreation, health, safety and welfare of the Owners. In addition, such assessments shall be used to pay the cost of administration of the affairs of the Association, including payment of applicable taxes, and for the preservation of the Association's existence, to the extent properly allocable to the performance and exercise of the Association's duties and powers under this Declaration. The foregoing is intended as an authorization of the Association and shall not be construed to require expenditure of Association funds for any particular purpose.

9.03. Maximum Annual Assessment. Until January 1, 2006, the Maximum Annual Assessment shall be \$960.00 for each Class A Lot, other than a Builder-owned Lot. The Maximum Annual Assessment for a Builder-owned Lot shall be one-sixth (1/6) of the assessment for a Class A Lot.

(a) After January 1, 2006, the Maximum Annual Assessment may be increased by the Board of Directors effective January 1 of each year without a vote of the membership, but subject to the limitation that the percentage of any such increase shall not exceed 10% of the Maximum Annual Assessment for the previous year unless such increase is approved as set forth in Section 9.03(b), below.

(b) After January 1, 2006, the Maximum Annual Assessment for Class A Lots may be increased without limitation if such increase is approved by the Class B Members and not less than two-thirds (2/3) of the votes cast by the Class A Members, in person or by proxy, at a meeting duly called for that purpose.

(c) The Board of Directors may fix the annual assessment at any amount not in excess of the Maximum Annual Assessment in effect at that time; provided, however, the assessment established for each Builder-owned Lot shall always be one-sixth (1/6) of the assessment for a Class A Lot.

(d) Any annual assessment established by the Board of Directors shall continue thereafter from year to year as the annual assessment until changed by the Board.

9.04. Special Assessments. In addition to the annual assessments authorized above, the Association may levy, in any assessment year, special assessments for the purpose of defraying, in

whole or in part, the cost of any construction, repair or replacement of a capital improvement upon Common Areas, including fixtures and personal property related thereto, or in connection with the exterior maintenance of improvements constructed on Lots, for repayment of indebtedness and interest thereon, or for any other purpose; provided in any fiscal year, special assessments which exceed five percent (5%) of the budgeted gross expenses of the Association for that fiscal year may not be levied without (a) if a two-class voting structure is in effect, the vote or written consent of sixty-seven percent (67%) of the Voting Power of each class of Members of the Association or (b) if a two-class voting structure is not in effect, the vote or written consent of sixty-seven percent (67%) of both the Voting Power of the Association and the Voting Power of the Association residing in Members other than Declarant; and provided, further, that any such assessment shall be in the ratio of three (3) to one (1) for Lots owned by Class A Members and Builder, respectively, as provided in Section 9.01 above.

9.05. Uniform Rate; Collection Period. Except as provided herein, the annual and special assessment shall be fixed at a uniform rate for all Lots within each Class and may be collected on a yearly, semiannually, quarterly, or monthly basis, as determined by the Board of Directors.

9.06. Notice of Quorum for any Action Authorized Under Sections 9.03 and 9.04. Written notice of any meeting called for the purpose of taking any action authorized under Section 9.03 or 9.04 shall be sent to all members not less than fifteen (15) days nor more than thirty (30) days prior to the meeting. At such meeting a quorum is present throughout the meeting of the association if persons entitled to cast ten percent (10%) of the votes which may be cast for election of the executive board are present in person or by proxy at the beginning of the meeting.

9.07. Date of Commencement of Annual Assessments; Amount of Initial and Subsequent Annual Assessments; Certificate of Payment. Unless a different commencement date is set by the Board of Directors, the annual assessments provided for herein shall commence as to all Lots in any phase on the first day of the month following conveyance of the first Lot improved with a dwelling to a purchaser (other than a successor Declarant) for use as a residence. Unless a lower amount is set by the Board of Directors, the first annual assessment shall be the Maximum Annual Assessment set forth in Section 9.03 of this Article and shall be prorated according to the number of months remaining in the calendar year.

The Board of Directors shall adopt a proposed budget for the Association at least annually. Within 30 days after adoption of the proposed budget, the Board of Directors shall send a copy of the proposed budget to the Members and shall give written notice to the Members of a meeting of the Members to consider ratification of the budget, such meeting to be held not sooner than 10 days nor more than 60 days after the mailing of such notice. Such meeting may, but need not be, combined with the annual meeting of the Members. There shall be no requirement that a quorum be present in order to vote on ratification of the budget (although a quorum must be present to vote on other matters). The budget shall be deemed ratified unless at that meeting Members having a majority of the votes of the entire membership vote to reject the budget. If the proposed budget is rejected, the budget last ratified by the Members shall be continued until such time as the Members ratify a subsequent budget proposed by the Board.

The Board of Directors shall establish the annual assessments based on the most recent approved budget and shall notify the Members of a change in the annual assessment at least 10 days before the effective date of such change. The Board of Directors shall establish the due dates for the payment of annual and special assessments.

The Association shall, upon demand, and for such reasonable charge as the Board of Directors may determine, furnish a certificate signed by an officer of the Association setting forth whether the assessments on a Lot have been paid. If such certificate states that an assessment has been paid, such certificate shall be conclusive evidence of payment.

9.08. Effect of Nonpayment of Assessments; Remedies. An assessment not paid within ten (10) days after the due date shall incur such late charge as the Board of Directors may from time to time establish, and, if not paid within thirty (30) days after the due date, shall also bear interest from the due date at the rate of eighteen percent (18%) per annum or the highest rate allowed by law, whichever is less. The Association may bring an action at law or in equity against the Owner personally obligated to pay the same and/or foreclose the lien against the Lot for which such assessment is due. Interest, late payment charges, costs and reasonable attorneys' fees of such action or foreclosure shall be added to the amount of such assessment. No Owner may waive or otherwise escape liability for the assessments provided for herein by non-use of the Common Areas or by abandonment of his Lot.

9.09. Subordination of the Lien to Mortgages. The liens provided for herein shall be subordinate to the lien of any first mortgage or deed of trust on a Lot. Sale or transfer of any Lot shall not affect any assessment lien; however, the sale or transfer of a Lot pursuant to foreclosure of a first mortgage or deed of trust, or any proceeding in lieu of foreclosure thereof, shall extinguish the lien of any assessments which became due prior to the date of such conveyance. No such sale or transfer shall relieve such Lot from liability for any assessments thereafter becoming due or from the lien thereof, but the liens provided for herein shall continue to be subordinate to the lien of any first mortgage or deed of trust on such Lot.

9.10. Exempt Property. All property dedicated to and accepted by a public authority and all property owned by a charitable or non-profit organization exempt from taxation by the laws of the State of North Carolina shall be exempt from the assessments created herein. Notwithstanding the foregoing, no land or improvements devoted to dwelling use shall be exempt from said assessments.

9.11. Declarant owned property shall not be assessed.

- (a) Property shall not be classified for purposes of these Covenants and these Annual Assessments as a Lot until the first day of the month following the recording of a plat in the Office of the Register of Deeds of Granville County, North Carolina, showing such Lot.
- (b) For purposes of these Covenants and Annual Assessments, all properties which have not been subdivided into and classified as Townhome Lots shall be classified as Unsubdivided Land and not subject to Assessments.
- (c) Nothing herein shall be construed to require the Declarant to pay any Assessment, annual or otherwise.

ARTICLE 10

INSURANCE

10.01 Insurance Requirements under the Act. Section 47F-3-113 of the Act requires certain insurance to be carried by the Association and provides for the distribution of insurance proceeds, requires certain provisions for property and liability insurance and governs repairs made with insurance proceeds. In the event the insurance requirements of this Article 10 conflict with, or fail to incorporate, the provisions of Sections 47F-3-113 of the Act, the provisions of the Act shall apply and govern.

10.02 Association May Provide Insurance Covering Dwellings and Owners' Liability. The Association, upon and to the extent approved by the Board of Directors, may also procure, pay for, and maintain full replacement value hazard insurance covering the cost of reconstructing Dwellings built within the Properties and sold to and owned by Members. The Premiums of such insurance, if provided by the Association, shall be a common expense of the Association, paid from the annual assessments provided in Article 9 of this Declaration, despite the fact that the insurance covers improvements owned by the Members and not by the Association. Insurance policies carried pursuant to this Section 10.02 must provide that:

- (a) Each Owner is an insured person under the policy to the extent of the Owner's insurable interest and with respect to liability arising out of his interest in the Common Areas or membership in the Association;
- (b) The insurer waives its right to subrogation under the policy against any Owner or members of his household;
- (c) No act or omission by any Owner, unless acting within the scope of his authority on behalf of the Association, will preclude recovery under the policy;
- (d) If, at the time of a loss under the policy, there is other insurance in the name of an Owner covering the same risk covered by the policy, the Association's policy provides primary insurance; and
- (e) The insurer agrees: (i) to issue certificates or memoranda of insurance to the Association and, upon written request, to any Owner, mortgagee, or beneficiary under a deed of trust on any part of the Property; and (ii) that the policy may not be canceled or not renewed until 30 days after notice of the proposed cancellation or nonrenewal has been mailed to the Association, each owner and each Mortgagee or beneficiary under a deed of trust to whom certificates or memoranda of insurance have been issued at their respective last known addresses.

If for any reason the Association is unable or unwilling to obtain the casualty insurance coverage described in this Section, written notice that the Association is not providing such insurance shall be hand-delivered or mailed to all Owners.

10.03. Common Areas Insured By Association. The Association shall procure and maintain insurance coverage as follows:

- (a) Common Areas. All insurance policies upon the Common Area shall be purchased by the Association for the benefit of all the Association and the Owners and their mortgagees as their interest may appear, and provisions shall be made for the issuance of mortgagee endorsements to the mortgages of Owners.

(b) Coverage. All buildings and improvements upon the Common Area and all personal property of the Association included in the Common Areas or otherwise owned by the Association shall be insured in an amount equal to one hundred percent (100%) insurable replacement value as determined annually by the Association with the assistance of the insurance company providing coverage. Such coverage shall provide protection against:

- (i) Loss or damage by fire and other hazards, including extended coverage, vandalism and malicious mischief;
- (ii) Such other risks as from time to time shall be customarily covered with respect to buildings on the land; and
- (iii) Such policies shall contain clauses providing form waiver of subrogation.

(c) Liability. Public liability insurance shall be secured by the Association with limits of liability of no less than One Million and No/100 Dollars (\$1,000,000.00) per occurrence and shall include an endorsement to cover liability of the Owners as a group to a single Owner. There shall also be obtained such other insurance coverage as the Association shall determine from time to time to be desirable and necessary, including, but not limited to, directors and officers errors and omissions insurance coverage.

10.04. Insurance Provided by Association under Sections 10.02 and 10.03. The following provisions will be applicable to all insurance policies purchased by the Association under Sections 10.02 and 10.03 of this Declaration:

(a) Premiums. Premiums for insurance policies purchased by the Association shall be paid by the Association and shall be included as part of the annual assessment described in Article Nine above.

(b) Proceeds. All insurance policies purchased by the Association shall be for the benefit of the Association and the Owners and their mortgagees, as their interests may appear, and shall provide that all proceeds thereof shall be payable to the Association or to an Insurance Trustee under this Declaration. Any loss covered by the insurance obtained by the Association shall be adjusted with the Association, but the insurance proceeds for that loss shall be paid to the Association or to an Insurance Trustee designated for that purpose. The Association or Insurance Trustee shall hold any insurance proceeds in trust for the Association, Owners and lienholders as their interest may appear. The proceeds shall be distributed first for repair or restoration of the damaged property, and the Association, Owners and lienholders are not entitled to payment of any portion of the proceeds unless there is a surplus of proceeds after the property has been completely repaired or restored. Any such surplus will be distributed as follows: If the Association designates an Insurance Trustee to receive and disburse insurance proceeds, the fees charged and costs incurred by the Insurance Trustee in performance of its duties will first be paid from the surplus and any remaining proceeds will be distributed to the Association, the Owners and the lienholders as their interests may appear. Fees and expenses of the Insurance Trustee not paid from surplus insurance proceeds, will be paid as a common expense of the Association.

(c) Subrogation. Each insurer shall waive its right to subrogation under any policy purchased by the Association against any Owner or member of Owner's household.

(d) Act or Omission of Owner. No act or omission of any Owner, unless such Owner is acting within the scope of the Owner's authority on behalf of the Association, will preclude recovery under any policy purchased by the Association.

(e) Other Insurance. If, at the time of a loss, there is other insurance in the name of an Owner covering the same risk covered by the Association's policy, the Association's policy shall provide primary insurance.

(f) Issuance of Certificates; Cancellation. Any insurer that has issued an insurance policy to the Association shall issue certificates or memoranda of insurance to the Association and, upon written request, to any Owner or Mortgagee. Any insurer issuing an insurance policy to the Association may not cancel or refuse to renew the policy until thirty (30) days after notice of the proposed cancellation or non renewal has been mailed to the Association, each Owner and each Mortgagee to whom certificates or memoranda of insurance have been issued at their respective last known addresses.

10.05. Insurance Provided By Owners. UNLESS INSURANCE IS PROVIDED BY THE ASSOCIATION, UNDER ITS RIGHT TO PROVIDE INSURANCE UNDER SECTION 10.02 OF THIS ARTICLE 10, each Owner shall procure and maintain fire and extended coverage insurance as follows:

(a) Coverage. Each Lot and improvements upon a Lot shall be insured in an amount equal to one hundred percent (100%) insurable replacement value. Such coverage shall provide protection against:

- (i) Loss or damage by fire and other hazards, including extended coverage, vandalism and malicious mischief;
- (ii) Such other risks as from time to time shall be customarily covered with respect to buildings on the land; and
- (iii) Such policies shall contain clauses providing for waiver of subrogation.

(b) Liability. Public liability insurance shall be secured by each Owner with limits of liability of no less than Three Hundred Thousand and No/100 (\$300,000.00) Dollars per occurrence.

All such policies shall name the Association as an additional insured as its interest appears and copies of said policies and renewals thereof shall be furnished to the Association. Upon failure by any Owner to promptly obtain the required coverage, naming the Association as an additional insured, or to pay the premiums due on such policy, the Association may, but is not required to, obtain the required coverage, naming the Association as one of the additional insureds, and add the cost of the premium and all other costs of obtaining such coverage to the annual assessment against the subject Lot. Such cost shall be due and payable on or before the first day of the calendar month following payment of same by the Association.

Owners may, at their option, obtain insurance coverage at their own expense upon their own personal property and for their personal liability and living expense and such other coverage as they may desire.

10.06. Obligation to Rebuild. Any portion of the Property for which insurance is provided under Section 10.02 or required under Section 10.03 of this Article 10 which is damaged or destroyed shall be repaired or replaced promptly by the Association unless repair or replacement would be illegal under any state or local health or safety statute or ordinance. The cost of repair or replacement in excess of insurance proceeds and reserves is a common expense, and the cost thereof may be recovered by one or more special assessments levied by the Board equally against all Owners. If any portion of the Common Area is not repaired or replaced, (i) the insurance proceeds attributable to the damaged Common Areas shall be used to restore the damaged area to a condition compatible with the remainder of the Property, and (ii) the remainder of the proceeds shall be distributed to all the Owners or lien holders, as their interests may appear.

Any portion of the Property for which insurance is required under Section 10.05 of Article 10 shall be promptly and diligently repaired, replaced, and restored by the Owner thereof, unless (i) this Declaration is terminated, or (ii) repair or replacement would be illegal under any state or local health or safety statute or ordinance.

ARTICLE 11

DAMAGES AND DESTRUCTION

11.01. Damage to Lots. Restoration and repair of damage to any Lot (including, in accordance with the definition of "Lot," the improvements thereon) shall be made by and at the expense of the Owner thereof, except for damage covered by insurance provided by the Association under Section 10.02.

11.02. Damage to Common Area. Restoration and repair of damage to any Common Area shall be made at the expense of the Association unless, under the provisions of Section 47F-3-113(8) of the Act, the repair or restoration is not required to be effected. If the work is to be accomplished, the Association shall promptly contract for the repair, restoration or reconstruction and, if necessary, collect from the Insurance Trustee any proceeds of insurance as received in accordance with Section 10.03. The difference, if any, between the insurance proceeds payable by reason of such repairs and the cost thereof may be recovered by one or more special assessments levied by the Board equally against all Owners.

Funds collected and held by the Insurance Trustee shall be disbursed by the Insurance Trustee for the purpose of repair, restoration or reconstruction in accordance with the terms and conditions of repair or reconstruction contract(s) between the Association and Persons engaged to perform the work. Funds from any special assessment shall be delivered to and held in trust by the Association or the Insurance Trustee and shall be held and disbursed for repair, restoration and reconstruction in the same manner as insurance proceeds. The Insurance Trustee may invest and reinvest funds held by it in a manner consistent with its duties as trustee. The Insurance Trustee shall be entitled to a reasonable fee for its services.

ARTICLE 12

EMINENT DOMAIN

12.01. Eminent Domain. Notwithstanding any provision contained herein to the contrary, in the event of a taking of all or any portion of a Lot or all any portion of the Common Area by eminent domain, or by conveyance in lieu thereof, the awards paid on account thereof shall be

applied in accordance with Section 47F-1-107 of the Act. If all or any portion of the Common Area is taken by action in eminent domain (hereinafter called a "taking"), the Association shall give written notice of the proceedings to all Owners and Mortgagees, and the condemnation award shall be fairly and equitably apportioned among the Owners, Mortgagees and the Association as provided in the Act.

12.02. Repair, Restoration, Reconstruction. If only a portion of a Common Area facility is taken, the Board shall promptly contract for the repair, restoration or reconstruction of the Common Area facility to a complete architectural unit, to the extent such repair, restoration and reconstruction is reasonably necessary and practical. If the cost of repair, restoration and reconstruction of the Common Area exceeds the amount awarded by the court for such purposes, the difference may be recovered by a special assessment levied equally against all Owners.

ARTICLE 13

ARCHITECTURAL CONTROL

13.01. Architectural Control. No building, swimming pool, spa, statuary, flag pole, mailbox, basketball goal or other sports equipment (permanent or portable), fence, wall, gazebo, or any other structure or improvement shall be placed, erected, commenced, constructed, demolished, rebuilt or altered upon any Lot or attached or affixed to any improvement upon any Lot or upon the Common Area nor shall any exterior addition to or change or alteration of a residence building be made, including, but not limited to, additions or alterations to any deck, fence, wall, driveway, or patio, plating or clearing and cutting of trees, color or painting of the exterior (other than maintenance to and touch-up painting to preserve the original exterior paint) or change of the type of exterior finish, the installation of aerials, satellite dishes, flags or awnings or the addition of any exterior attachment (such as a storm door) until an application, including plans and specifications showing the nature, kind, shape, height, materials, finishes, colors and location of the same (including floor plans and elevations) (the "Plans"), shall have been submitted in triplicate to and approved in writing by the Architectural Control Committee; provided, however, that no such approval shall be required for alterations solely to the interior of any residential structure. The Board may require a reasonable fee to accompany each application for approval. The Architectural Control Committee shall have the absolute and exclusive right to approve or disapprove Plans in its sole discretion and may approve or disapprove Plans based on purely aesthetic reasons, which in the sole discretion of the Architectural Control Committee shall be deemed sufficient. Absent an approval from the Architectural Control Committee the proposed alteration or improvement may not be commenced. THE RESTRICTIONS HEREIN CONTAINED SHALL HAVE NO APPLICATION TO THE DEVELOPMENT, IMPROVEMENT, MAINTENANCE AND REPAIR OF THE PROPERTY BY DECLARANT OR BY THE ASSOCIATION, AND NEITHER THE BOARD NOR THE ARCHITECTURAL CONTROL COMMITTEE SHALL HAVE ANY POWER OR AUTHORITY TO REVIEW OR REQUIRE MODIFICATIONS TO THE PLANS FOR CONSTRUCTION OR INSTALLATION OF IMPROVEMENTS BY DECLARANT.

The installation of antennae and of satellite dishes or disks shall be permitted on a Lot if accomplished in strict compliance with the limitations and conditions imposed by the Telecommunications Act of 1996, as amended from time to time, but no antenna or disk which is in any dimension larger than prescribed by the Telecommunications Act of 1996 or which is not

installed in accordance with the advance notice requirements and location guidelines of the Telecommunications Act of 1996 may be installed or maintained on any Lot except with the prior written approval of the Architectural Control Committee.

13.02. Architectural Control Committee.

(a) Membership Right of Declarant to Act as ACC with Respect to Initial Construction.

(i) The Architectural Control Committee shall be composed of three (3) persons (who need not be Members of the Association) appointed by the Board. A majority of the Architectural Control Committee may designate a representative to act for it. In the event of death, resignation, or removal by the Board of any member of the ACC, the Board shall have full authority to designate a successor. Unless otherwise approved by the Association, neither the members of the ACC nor its designated representative shall be entitled to any compensation for services performed pursuant to this Section. The Association shall keep, or cause to be kept, a list of the names and addresses of the persons who form the ACC and a list of the names and addresses of any designated representatives of the ACC, and such a list shall be available in the principal office of the Association to any Owner upon request.

(ii) Notwithstanding the foregoing, as to the initial construction of improvements on any Lot (the "Initial Construction of Improvements"), the Declarant shall serve as the Architectural Control Committee responsible for the review, approval, and monitoring of construction of improvements. Any requests for modifications or alterations of improvements in fact constructed on a Lot or for the construction of additional improvements on a Lot shall be the responsibility of the Architectural Control Committee, which need not be the Declarant if it so directs, but, if not the Declarant, Declarant shall have the right to approve or disapprove any decisions made by the ACC upon fifteen (15) days written notice to the ACC and the applicable Owner following the thirty (30) day period for the Architectural Control Committee's decision. The rights of the Declarant pursuant to this section shall cease upon the Completion of Sales. Prior to the expiration of Class B membership, the Declarant may at any time relinquish, either temporarily or permanently, its rights to review, approve and monitor the Initial Construction of Improvements.

(b) Procedure. At least sixty (60) days prior to the commencement of any construction on a Lot, the Plans for such Lot shall be submitted to the ACC. Approval shall be subject to such regulations and architectural standards as may from time to time be promulgated by the ACC. Within thirty (30) days after receipt of the Plans and any other requested information, the Architectural Control Committee shall notify the Owner of the Lot in writing as to whether the Plans have been approved. Unless a response is given by the ACC within thirty (30) days from receipt of all required information, the Plans shall be deemed approved. The response of the Architectural Control Committee may be an approval, a denial, an approval with conditions or a request for additional information. A request for additional information shall be deemed a determination that the information submitted was inadequate, and the thirty (30) day time period for further ACC response shall only commence upon receipt of the requested additional information. No construction shall be commenced until either the fifteen (15) day time period for Declarant's approval has passed or Owner has received Declarant's approval if the ACC is not the Declarant and Declarant still has the rights as outlined in 13.02(a)(ii) above. If an approval with conditions is granted and construction then begins, the conditions shall be deemed accepted by the Owner of the Lot, and the conditions imposed shall become a part of the approved Plans. No improvements shall

be constructed except in strict conformity with the approved Plans. The ACC shall have the right to monitor construction of improvements and investigate compliance with the approved Plans and is hereby granted the right to enter upon any Lot in order to do so.

Any Owner who submits Plans to the ACC and disagrees with the finding of the ACC may appeal the decision to the Board by giving written notice of appeal to the President of the Association within fifteen (15) days following its receipt of notice of denial. The Board shall review the Plans and hold a meeting to hear the case with the Owner and the ACC or its representative. At such meeting the ACC or its representative shall present to the Board specific reasons why the Plans were denied, and the Owner or his agent may present information challenging the findings of the ACC. The decision of the ACC shall only be overridden by a majority vote of the Board. Notwithstanding the foregoing, an Owner shall have no right to appeal decisions by the Declarant acting as the ACC with respect to the Initial Construction of Improvements or to approvals by the ACC which are disapproved by the Declarant pursuant to Section 13.02(a)(ii).

The Association may adopt a schedule of reasonable fees for processing requests for approval. Such fees will be payable to the Association at the time that the Plans and related documents are submitted to the ACC. The ACC shall have the right, exercisable in its sole discretion, to procure the services of a consultant of its own choosing for purposes of assisting the ACC in its review of any Plans, and the cost of such consulting service(s) shall be the responsibility of the respective applicant or Owner of the subject Lot and shall be in addition to any fees due for processing any requests for approval.

All notices required to be given under this Section 13.03(b) shall be given in writing and delivered by hand, mailed with prepaid postage or deposited with an overnight carrier (e.g. Federal Express, UPS, etc.). If the ACC denies an application, the ACC shall specify the particular grounds upon which denial of such application is based. If the ACC approves the application, one set of Plans, marked approved (or approved with specified conditions), shall be retained by the ACC, and the remaining two sets of Plans shall be returned to the applicant.

13.03. Landscape Plan; Landscaping As part of the Plans package submitted by an Owner to the ACC for approval of the Initial Construction of Improvements or any improvements thereafter, there shall be included a comprehensive landscape plan (the "Landscape Plan"). Shown thereon, in addition to the scheme for decorative plantings, shall be all of the planned site improvements and modifications, including, but not limited to, major topographic changes and plans for revegetation and restabilization thereof, the specifications for all terraces, walkways, driveways, paths, fences, bulkheading, walls, pools, outdoor lighting and for other fixtures and structures to be constructed as part of the Landscape Plan.

The Landscape Plan shall unite the Lot as well as all other structural aspects of the landscape with its setting and shall provide for the introduction of plant materials of reasonable size and quantity to create (when first installed) a mature landscape scene.

Each Lot shall be maintained consistently with the Landscape Plan approved for it by the ACC. All material changes to the Landscape Plan or the landscaping installed on a Lot shall be first approved by the ACC. The ACC shall have the authority to create additional landscaping guidelines applicable to the Property.

13.04 Maintenance of Construction Activities. During the construction of any improvement to a Lot, the Lot, roads, landscaping and Common Areas or Limited Common Areas adjacent thereto shall be kept in a neat and orderly condition, free from any dirt, mud, garbage, trash, or other debris, so as not to cause an unsightly condition to exist or damage to occur. Any damage to the street, curb, sidewalk or to any part of any Common Areas, Limited Common Areas or utility system caused by an Owner or an Owner's builder shall be repaired by such Owner. Owners and their agents and employees shall adhere to the construction standards promulgated from time to time by the Association.

In the event the Owner or his agent, employee or contractor shall fail to maintain the Lot and adjoining areas, as specified herein, or damage occurs and such failure continues or damage remains unrepaired for seven (7) days following delivery of written notice thereof from Declarant or the Association, Declarant or the Association shall have the right, exercisable in its sole discretion, to summarily abate any unsightly conditions, make needed repairs, and to remove any rubbish, refuse, unsightly debris and/or growths from the Lot and adjoining area. In the event the Declarant or the Association, after such notice, causes the subject work to be done, the costs of such shall be reimbursed by the Owner to the Association and will become a continuing lien on the Lot until paid.

13.05. Timely Completion. When construction of any Lot, structure, improvement, or addition thereto has begun, work thereon shall be prosecuted diligently and continuously until the full completion thereof. It is a requirement that Lots under construction in the Property be "dried-in" with exterior finishes installed (roofing, windows and finish siding and trim in place) within one hundred twenty (120) days of the commencement of construction and that all phases of work, including execution of the Landscape Plan, be complete within six (6) months of the date of ACC approval. In the event that completion is delayed beyond one year from the date of ACC approval and provided the Owner is notified within thirty (30) days of the expiration of the one year construction period, the ACC may, upon unanimous vote of the committee, rescind the original approval and require that the Owner resubmit Plans for approval.

13.06. Reconstruction of Residences. If the Association does not provide insurance under Section 10.02 of Article 10, then in the event of damage or destruction to a residence by fire or other casualty, the Owner shall within four (4) months diligently commence to reconstruct such residence as soon as reasonably possible and substantially in accordance with the original Plans; provided, however, that such residence shall be restored so that the exterior appearances thereof substantially resemble their appearances in form and in color prior to such damage or destruction. Notwithstanding the foregoing, however, any Owner of a damaged residence may request permission from the ACC to reconstruct or repair his or her residence in accordance with revisions in the Plans. The ACC shall grant such requests only in the event that the proposed change or deviation will materially benefit and enhance the entire Property in a manner generally consistent with the plan and development thereof.

13.07. Limitation of Liability. Review and approval of any application pursuant to this Article 13 is made on the basis of aesthetic considerations only and the ACC shall not bear any responsibility for ensuring the structural integrity or soundness of approved construction or modifications, nor for ensuring compliance with building codes and other governmental requirements. Neither the Declarant, the Association, the Board, the ACC, or member of any of the foregoing shall be held liable for any injury, damages, or loss arising out of the manner or quality of approved construction or modifications to any Lot.

13.08. Enforcement. Any construction, alteration, or other work done in violation of this Article 13 shall be deemed to be nonconforming. Upon written request from the Board, the ACC or the Declarant, Owners shall, at their own cost and expense, remove such construction, alteration, or other work and shall restore the land to substantially the same condition as existed prior to the construction, alteration, or other work. Should an Owner fail to remove and restore as required hereunder, the Board or its designees shall have the right to enter the property, remove the violation, and restore the property to substantially the same condition as existed prior to the construction, alteration or other work. All costs, together with the interest at the maximum rate then allowed by law, may be assessed against the nonconforming Lot and collected as a special assessment pursuant to Section 9.07 hereof.

Any contractor, subcontractor, agent, employee, or other permittee of an Owner who fails to comply with the terms and provisions of this Article may be excluded by the Board from the Property. In such event, neither the Association, its officers, or directors shall be held liable to any person for exercising the rights granted by this Section 13.08.

In addition to the foregoing, the Board shall have the authority and standing, on behalf of the Association, to pursue all legal and equitable remedies available to enforce the provisions of this Article 13 and the decisions of the ACC.

ARTICLE 14

MORTGAGEE PROTECTION

14.01. Interpretation. In the event any provision of this Article 14 is inconsistent with or contrary to any other provision of this Declaration, the provisions of this Article 14 shall control.

14.02. Notices. Any Mortgagee of any Lot, by written notice to the Association setting forth the Lot encumbered, the Owner thereof and the address to which notices may be sent, may request and thereby be entitled to receive written notice from the Association of (a) any default which is outstanding for sixty (60) days or longer by the Owner of such Lot in the performance of his or her obligations under or in compliance with the provisions of this Declaration, the Bylaws or the Rules and Regulations, (b) any substantial damage to or destruction of the Common Area, including the improvements located thereon, or, if known to the Association, any substantial damage to or destruction of a Lot, including the improvements located thereon, and (c) any proposed or threatened taking by power of eminent domain of the Common Area or any portion thereof or of any Lot or portion thereof.

14.03. Mortgagee's Right to Information. Upon written request to the Association, a Mortgagee is entitled to: (a) inspect the books and records of the Association during normal business hours; (b) receive an annual financial statement of the Association within ninety (90) days following the end of any fiscal year of the Property, and (c) receive written notice of all meetings of the Association and to designate a representative to attend all such meetings.

14.04. Damage and Destruction Rights. In the event of substantial damage to or destruction of any Lot or improvements to a Lot or any part of the Common Area no provision of any

document establishing the Property shall entitle the Owner of a Lot or other party to priority over such Mortgagee with respect to the distribution to such Owner of any insurance proceeds.

14.05. Condemnation Rights. If any Lot or portion thereof or the Common Area or any portion thereof is made the subject matter of any condemnation proceedings or is otherwise sought to be acquired by a condemning authority, no provision of any document establishing the Property shall entitle the Owner of a Lot or other party to priority over such Mortgagee with respect to the distribution to such Owner of the proceeds of any award or settlement.

14.06. Right of First Refusal. Any right given by an Owner of a Lot to any third person to purchase such Lot before it is offered for sale or sold to any other person (such right commonly known as a "right of first refusal") shall not be binding upon or enforceable against any Mortgagee acquiring such Lot pursuant to exercise of remedies provided for in the Mortgage, including foreclosure by judicial action or exercise of a power of sale, or by acceptance of a deed or assignment in lieu of foreclosure.

14.07. Subordination. No provisions contained in this Declaration shall defeat or render invalid the lien of any Mortgage which is made in good faith and for value. The lien of the assessments provided for herein shall be subordinate to the lien of any Mortgage recorded prior to the date any such assessment becomes due. This subordination shall apply only to assessments on a Lot which have become due and payable prior to a sale or transfer of such Lot pursuant to a decree of foreclosure or exercise of power of sale. Any Mortgagee who acquires title to or comes into possession of a Lot pursuant to exercise of remedies provided for in the Mortgage, including foreclosure by judicial action or exercise of a power of sale, and any purchaser at a foreclosure sale, shall take the Lot free of any claims for unpaid assessments or charges against the Lot which have accrued prior to the time such Mortgagee or purchaser acquires title to or comes into possession of the Lot; provided, however, this exception shall not be applicable to any claim for assessments or charges levied by the Association against all Lots for the purpose of recovering any revenue lost by reason of the nonpayment of past due assessments upon such Lot; and provided further, that except as otherwise provided in this Section, all of the limitations, restrictions, covenants, conditions, easements, liens, charges, assessments, and equitable servitudes contained herein shall be binding upon any Owner whose title is derived through foreclosure sale, trustee's sale or otherwise. Except as provided above, the sale, transfer or conveyance of title to a Lot shall not relieve a selling Owner from personal liability for any assessments which became due and payable prior to such sale, transfer or conveyance, nor relieve such Lot from a duly recorded lien for any such prior unpaid assessment.

14.08. Payments by Mortgagees. Any Mortgagee, after at least ten (10) days' prior written notification to the Association of the items to be paid and the failure of the Association within such time to make payment, may pay, alone or in conjunction with other Mortgagees, delinquent taxes, liens or assessments which may be or become a charge against the Common Area, or any portion thereof, and any overdue premiums on policies of fire and extended coverage insurance for the Common Area and in the event of a lapse of such a policy of insurance, may pay premiums to secure a new policy. In the event such payments are made, the Mortgagee making such payment shall be entitled to immediate reimbursement from the Association to the extent of the payment made.

14.09. Professional Management. In the event that Declarant or the Association enters into any contract with any person or entity to provide management or maintenance services to the

Property, such contract shall not exceed one (1) year and shall provide that the Association shall have the right to terminate the contract for cause or without cause upon thirty (30) days' written notice without payment of a termination fee.

14.10 Consent of Mortgagee. With respect to any provision in this Declaration requiring the consent or written approval of a Mortgagee, any Mortgagee who does not respond within thirty (30) days' request by the Association for such consent or written approval shall be deemed to have approved such request.

ARTICLE 15

ANNEXATION

15.01. Right to Annex. Declarant shall have the right to annex to the Townhomes at Quail Meadows subdivision, thereby bringing within the scheme of this Declaration and subject to the jurisdiction of the Association, part or all of the Additional Land, if any; provided, as long as there is at least one FHA insured loan on a Lot within the Property, such annexation is in accordance with the general plan for the Property previously approved by FHA, if any. Annexation of any real property other than Declarant's annexation of the Additional Land shall require the vote or written consent of not less than sixty-seven percent (67%) of the total Voting Power of the Association residing in Members other than Declarant, provided, however, that if a two-class voting structure is in effect then such action shall require the written consent of FHA if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations. Annexation of additional property may be accomplished in Phases.

15.02. Procedure for Annexation. Any annexation shall be made by recordation of a Supplemental Declaration covering the real property to be annexed. The Supplemental Declaration shall describe the real property to be annexed and state that annexation is being made pursuant to this Declaration for the purpose of extending the jurisdiction of the Association to cover the property described therein. The Supplemental Declaration may contain such complementary additions and modifications to the terms of this Declaration as may be necessary or desirable to reflect the different character, if any, of the Phase being annexed and as are not inconsistent with the general scheme of this Declaration. Annexation shall be effective upon recordation of the Supplemental Declaration and thereupon the real property described therein shall be subject to all of the provisions of this Declaration, to the extent made applicable by the Supplemental Declaration, and to the jurisdiction of the Association pursuant to the terms of this Declaration, the Articles, Bylaws and Rules and Regulations.

15.03. Annexed Property. Each Owner of a Lot in an annexed Phase automatically shall be a Member of the Association and such Owners and annexed real property shall be subject to assessment by the Association for the benefit of the Property or any part thereof. Assessments of Lots in an annexed Phase shall commence upon the last to occur of: (a) commencement of regular annual assessments for the Property, and (b) the first day of the month next following the first conveyance of a Lot in such Phase to a purchaser for use as a residence, as provided in Section 9.09. The Association shall have the duties, responsibilities and powers set forth in this Declaration, the Articles and Bylaws with respect to annexed real property. Except as may otherwise be expressly provided in this Declaration or any Supplemental Declaration, the Property shall be

managed and governed by the Association as an entirety. Assessments collected from Owners in the Property may be expended by the Association anywhere in the Property without regard to the particular Phase, area or subdivision from which such assessments came. All Owners shall have ingress and egress to and from all the Common Area throughout the Property and any Phase thereof and shall have use and enjoyment of any Common Area facilities and other amenities contained within the Common Area throughout the Property, provided that any such use shall be subject to the provisions of this Declaration, any Supplemental Declaration, the Bylaws and the Rules and Regulations.

ARTICLE 16

INDEMNIFICATION OF OFFICERS AND DIRECTORS

The Association shall indemnify any and all persons who may serve or whom have served at any time as directors or officers of the Association against any and all expenses, including amounts paid upon judgments, counsel fees and amounts paid in settlement (before or after suit is commenced), actually and necessarily incurred by such persons in connection with the defense or settlement of any claim, action, suit or proceeding in which they, or any of them, are made parties, or a party, which may be asserted against them or any of them, by reason of being or having been directors or officers or a director or an officer of the Association, except in relation to matters as to which any such director or officer or former director or officer or person shall be adjudged in any action, suit, or proceeding guilty of willful and intentional negligence or misconduct in the performance of his or her duties to the Association. Provided, however, that in the event of a settlement, the indemnification herein shall apply only when the Board of Directors approves such settlement and reimbursement as being in the best interest of the Association.

The provisions hereof shall be in addition to and not exclusive of any and all other rights to which any director or officer may otherwise be entitled under any law, Bylaw, agreement, vote of Association Members or otherwise. In the event of death of any officer or director, the provisions hereof shall extend to such person's legal heirs, representatives, successors and assigns. The foregoing rights shall be available whether or not such person or persons were in fact directors or officers at the time of incurring or becoming subject to such expenses, and whether or not the proceeding, claim, suit or action is based on matters which antedate the adoption of this Declaration.

ARTICLE 17

EXCULPATION

It is expressly understood and agreed that nothing contained in this Declaration shall be interpreted or construed as creating any liability whatsoever, directly or indirectly, against Declarant or any of its officers, members, managers, employees, agents, attorneys, heirs, executors, legal representatives, successors or assigns (collectively, the "Declarant Related Parties") for monetary relief or damages. In particular, and without limiting the generality of the foregoing, if any proceeding shall be brought to enforce the provisions of this Declaration, the party instituting such proceeding shall not be entitled to take any action to procure any money judgment against any of the Declarant Related Parties.

ARTICLE 18

MISCELLANEOUS PROVISIONS

18.01. Conflict with the Act; Severability. Should any of the terms, conditions, provisions, paragraphs, or clauses of this Declaration conflict with any provisions of the Act, the provisions of the Act shall control unless the Act permits the Declaration to override the Act, in which event the Declaration shall control. The invalidity of any covenant, restriction, condition, limitation, provision, paragraph or clause of this Declaration, or any part of the same, or the application thereof to any person or circumstance, shall not impair or affect in any manner the validity, enforceability or affect of the rest of this Declaration, or the application of any such covenant, restriction, condition, limitation, provision, paragraph or clause to any other person or circumstance.

18.02. Interpretation of Declaration. Whenever appropriate, singular may be read as plural, plural may be read as singular, and the masculine gender may be read as the feminine or neuter gender. Compound words beginning with the prefix "here" shall refer to this entire Declaration and not merely the part in which they appear.

18.03. Law Controlling. This Declaration shall be construed and controlled by and under the laws of the State of North Carolina.

18.04. Power to Settle Claims. The Board shall have the power and authority to compromise, settle, release and otherwise adjust claims, demands, causes of action and liabilities in favor of the Association and the Owners, on behalf of the Association and Owners, as the case may be, provided any such claim, demand, cause of action or liability arises out of or relates to a condition or defect common to all or a majority of the Lots or improvements constructed thereon, or to the development, design, construction, condition, repair or maintenance of or damage or injury to or defect in the Common Area or part thereof, and the Association shall have the right and the power to make and receive all payments or other consideration necessary therefor or in connection therewith. For such purposes, the Board shall be, and hereby is, irrevocably appointed attorney in fact to act on behalf of all Owners upon such terms and conditions and for such consideration as may be approved by a majority of the Board.

18.05. Independence of Provisions. The provisions of this Declaration shall be deemed independent and severable. Invalidation or partial invalidation of any provision of this Declaration by judgment or court order shall not affect any other provision of this Declaration, and the remaining provisions shall remain in full force and effect.

18.06. Notices. Notices shall be in writing and shall be addressed as follows: (a) if to an Owner, to the address of his or her Lot; (b) if to Declarant, to Gary Felton Land Investment Company, Inc., _____; and (c) if to the Association, to TLC Management of Raleigh, Inc., 201 Shannon Oaks Circle, Suite 120, Cary, NC 27511. The Association may designate a different address for notices by giving written notice of such change of address to all Owners and to Declarant. Declarant may designate a different address for notices by giving written notice of such change of address to all Owners and to the Association. Any Owner may designate a different address for notices by giving written notice of such change of address to the Association and to Declarant.

18.07. Heading. The headings used in this Declaration are for convenience and reference only and the words contained therein shall not be held to expand, modify, or aid in the interpretation, construction, or meaning of this Declaration.

18.08. Enforcement. The failure of any Owner to comply with the provisions of this Declaration, the Bylaws, the Articles or the Rules and Regulations shall entitle the Association, any Owner, or any of them, to maintain an action for the recovery of damages or injunctive relief or both, and such persons or entities, or any of them, shall have the right to enforce all limitations, restrictions, covenants, conditions, easements, liens, charges, assessments and equitable servitudes imposed by or pursuant to the provisions of this Declaration. Failure to enforce the provisions of this Declaration shall not be deemed a waiver of the right to do so thereafter. All remedies provided in this Declaration shall be cumulative and in addition to any other remedies available under law.

18.09. Equal Opportunity Housing. This Property provides equal opportunity housing. Each Lot sold shall be sold without regard to the race, creed, color, national origin, ancestry, religion, marital status, familial status, handicap, age or sex of the purchaser.

18.10. Amendments. This Declaration may be amended only in strict compliance with the Act, including, without limitation, Section 47F-2-117 of the Act, except that no Amendment altering or impairing Special Declarant Rights may be made without the written consent of the Declarant.

Notwithstanding the foregoing, and provided such amendment is not expressly prohibited by the Act, during any period in which a two-class voting structure is in effect, Declarant may amend this Declaration without the approval of any Member or Mortgagee provided the amendment does not materially alter or change any Owner's right to the use and enjoyment of such Owner's Lot or of the Common Area as set forth in this Declaration and the amendment does not adversely affect the title to any Lot. In the event that such amendment would materially and adversely affect the security, title and interest of any Mortgagee, such amendment shall be valid only upon the written consent of sixty-seven percent (67%) of the Mortgagees (based on one vote for each mortgage owned).

Should the FHA, the Department of Veterans' Affairs, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation subsequently delete or modify any of their respective requirements which necessitate the provisions of this Declaration or make such requirements less stringent, the Board, without approval of the Owners, may cause an amendment to this Declaration to be recorded to reflect such changes.

Any other amendments of this Declaration shall require (a) if a two-class voting structure is in effect, the vote or written consent of sixty-seven percent (67%) of the Voting Power of each class of Members of the Association as such classes are set forth in the Bylaws and this Declaration and the written approval of FHA if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations; or (b) if a two-class voting structure is not in effect, the vote or written consent of both sixty-seven percent (67%) of the Voting Power of the Association and the vote or written consent of sixty-seven percent (67%) of the Voting Power of the Association residing in Members other than Declarant; provided, however, that the percentage of the Voting Power (of each class of Members, of the Association, and of Members other than Declarant) necessary to amend a specific provision

of this Declaration shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that provision.

Any amendment which establishes, governs, provides for or regulates any one of the following: (i) voting; (u) assessments, assessment liens or subordination of such liens; (iii) reserves for maintenance, repair and replacement of the Common Area; (iv) insurance or fidelity bonds; (v) right to use of the Common Area; (vi) responsibility for maintenance and repair of the Property; (vii) expansion or contraction of the Property or the addition, annexation or withdrawal of property to or from the Property (other than annexation of the Additional Land); (viii) the boundaries of any Lot once conveyed by Declarant to an Owner; (ix) interests in the Common Area; (x) leasing of ownership interests; (xi) imposition of any right of first refusal or similar restriction on the right of an Owner to sell, transfer, or otherwise convey his Lot; (xii) any provisions which are for the express benefit of Mortgagees; or (xiii) any other material amendment shall require written consent of sixty-seven percent (67%) of the Mortgagees (based on one vote for each Mortgage owned), and (a) if a two-class voting structure is in effect, the vote or written consent of sixty-seven percent (67%) of the Voting Power of each class of Members and the written approval of FHA if at the time of such action FHA is the insurer or guarantor of any loan secured by a Mortgage and such approval by FHA is required under its Rules and Regulations, or (b) if a two-class voting structure is not in effect, the vote or written consent of sixty-seven percent (67%) of the total Voting Power of the Association.

Any instrument amending this Declaration must contain a certification by the Secretary of the Association that the amendment has been correctly adopted in accordance with the provisions of this Declaration and be recorded in the official records of the County. Any such amendment shall be effective upon the date of recordation.

[END OF RESTATE DECLARATION]

The parties to this Restated Declaration are the owners of all the Property and have all the Voting Power in the Association; therefore, withdrawal of the Declaration recorded in Book 933, Page 199 Granville County Registry does not require approval of any other party.

[SIGNATURES ARE ON THE NEXT PAGE]

IN WITNESS WHEREOF, the undersigned, parties hereto have executed this Instrument as of the _____ day of July, 2004.

DECLARANT and MASTER DECLARANT

Gary Felton Land Investment Company, Inc.

By: _____
President

Anderson Homes, Inc.

By: _____
President

Townhomes at Quail Meadows Homeowners Association, Inc.

By: _____
President