

**Sandy Ridge Homeowners Association, Inc.
Post Office Box 8372, Duck Station
Duck, NC 27949**

DECLARATION OF PROTECTIVE COVENANTS

BY-LAWS

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DECLARATION OF PROTECTIVE COVENANTS

WHEREAS, KANSIG CORPORATION is the owner of that certain tract of land known as SANDY RIDGE SUBDIVISION, as shown on map or plat thereof made by George Midgette, Land Surveyor, and recorded in Plat Cabinet B at Slide 265 and 266 of the Dare County Public Registry;

WHEREAS, KANSIG CORPORATION, hereinafter called "Declarant", intends to sell lots in said subdivision subject to certain protective restrictions, reservations and covenants in order to insure the most beneficial development of the said subdivision as a residential subdivision and to prevent any such use thereof as might tend to diminish the value or pleasurable enjoyment thereof, and it is the purpose of this Declaration to declare and make known the covenants, conditions and restrictions which shall apply to the lands as shown on said plat.

NOW, THEREFORE, Declarant hereby declares and makes known that the following restrictions, reservations and covenants are hereby imposed upon the said subdivision which shall run with the land in the subdivision and shall be binding upon Declarant, its agents, heirs and assigns, and upon all parties and persons claiming by, through or under them.

1. Easements. The Declarant reserves a perpetual, assignable and releasable easement and right of way over, on and under the ground to erect, maintain and use electric, cable television and telephone poles, wires, cables, conduits, sewers, water mains and other suitable equipment for the conveyance and use of electricity, cable television, telephone equipment, gas, sewer, water, drainage or other public conveniences or utilities on, in, over or under the front ten (10) feet, the rear ten (10) feet and the side five (5) feet of each lot.

2. Residential Use. No lot shall be used except for residential purposes. No building shall be erected, altered, placed or permitted to remain on any lot other than one single-family residence. Only one family shall occupy the same main dwelling and its accessory buildings, provided, however, that servants' quarters or a guest suite, may be erected, but such facilities may not be rented, leased or sold separately from the main premises. No business or business activity may be carried on upon the property at any time, provided, however, that nothing herein shall preclude the Declarant, its agents, affiliates and employees from using all or part of the land or buildings owned by them for the purpose of carrying on business directly related to the development, sales and/or management of the subdivision by the Declarant. Notwithstanding the foregoing, nothing in this declaration shall prohibit the use of properties within the subdivision for common purposes such as swimming pool or ocean access, as designated on the plat of the subdivision or in such other documents as may be recorded by the developer, the rules and regulation for such uses to be set forth by the developer, or the property owners association described hereinafter. Any lot or property dedicated to use for common purposes, such as ocean access or for use as a swimming pool, shall not be subject to assessment or dues, as set forth hereafter in this declaration, so long as such use is dedicated to the use and benefit of the property owners association, its members and guests as defined in this declaration.

3. Subdivision of lots. No lot shall be subdivided, or its boundary lines changed, except with the prior written consent of the Declarant, however,

It shall be permissible to combine two or more adjacent lots, which have a common ownership, into one tract of land for purposes of building a dwelling which would be authorized on such lots individually. In the event of such a combination, the setback requirements relating to the common boundary between the lots will not prohibit building upon that boundary so long as setback requirements relating to the outside border of the tract are met. This provision does not reduce or remove any other restriction which may exist as a result of this Declaration.

4. Plans. No building, fences or other structure shall be erected, placed, moved into, maintained or in any way altered on any lot within the subdivision until the proposed building plans, specifications, exterior color or finish, plot plan (showing proposed location and elevation of such building structure, drives and parking areas) shall have been submitted in duplicate to the Declarant in writing as evidenced by an approved copy of the elevation plans left in the permanent possession of the Declarant. The Declarant or its successor or designee may refuse to approve plans, locations or specifications upon any ground, including purely aesthetic considerations, which in the sole discretion of the Declarant shall seem sufficient. No alterations in the exterior appearance of any building or other structure shall be made without the approval by Declarant. The minimum square footage required shall be 1200 square feet of living area, exclusive of porches, patios, garages, unfinished areas and other protrusions from the base dimensions of the residence. The exterior of all houses and other structures, after approval of the building plans, must be completed within six months from the commencement of construction, except where such completion is impossible, or results in great hardship to the owner or builder due to strikes, fire, national emergencies or calamities. Where more than six months is required due to the size or type of structure, the owner shall have the right to reasonably extend the time of completion. At such time as fifty (50%) percent of the lots within Sandy Ridge Subdivision are owned by persons or firms other than the Declarant herein, the process of approval described in this paragraph shall become the authority and responsibility of the Owners Association described in this declaration, if it is at that time existing as an active entity or organization; and, until the Owners association is so activated, the authority as described herein shall remain with the Declarant or the designee of the Declarant.

5. Maintenance of Buildings. All buildings, structures and their appurtenances shall be maintained in a suitable state of repair; in the event of destruction or casualty, premises are to be cleared and debris removed within sixty days from the date of such casualty. It shall be the responsibility of each lot owner to prevent the development of any unclean, unsightly or unkempt condition of buildings and other structures or grounds on his lot which shall tend substantially to decrease the beauty of the neighborhood and of the subdivision as a whole. Upon the failure of an owner to comply with this requirement, the Declarant reserves the right at its option, within three weeks after written notice has been mailed to such lot owner's last-known address, to clean such property up or remove same if such property has been destroyed by fire or other disaster and Declarant's expense in so doing shall constitute a lien upon such owner's lot and improvements thereof, enforceable in the same manner as a mortgage or deed of trust.

6. Temporary Buildings. No trailer, double-wide mobiles, tent, shack or other temporary building shall be erected or placed on the lands within the subdivision except a temporary building as may be necessary for the storage of materials or the convenience of workmen shall be permitted during the erection of a residence upon said lands, and such temporary structure shall be removed from said premises upon issuance of an occupancy permit of such residence.

7. Signs. There shall be no signs, billboards or advertising structures of any nature whatsoever placed on any lots or lands, except that one sign per lot, not exceeding one square foot, shall be allowed for identification of the property owner and signs and notices of the property for rent or sale provided such sign shall be no larger than six square foot in size. Also, no animals, livestock or poultry of any kind shall be raised, bred or kept on any lot, except that dogs, cats or other household pets may be kept provided that they are not kept, bred or maintained for any commercial purpose.

8. Road. The lot owners shall be responsible for the maintenance and repair of the roads as shown on the plat of Sandy Ridge Subdivision until such time as the North Carolina Highway Commission or other State Agency with jurisdiction over the public roads accepted the roads for public maintenance.

9. Occupancy. No residence erected upon any lot shall be occupied in any manner prior to completion of construction and the connection of permanent utilities.

10. Violations. If the owners or occupants of any lot, or all of them, or their successors and assigns, shall violate any of the covenants and restrictions herein, it shall be the right of the developers herein, or their successors and assigns, or any lot owner in the subdivision, to institute proceedings at law or in equity against the person or persons violating or attempting to violate any such covenant or restriction for the purpose of preventing him or them from so doing, or to recover damages for such violation, or both.

11. Water and Sewage. All wells and toilets and sewage units installed on the property shall be in accordance with the rules and regulations of the North Carolina Department of Health and the Dare County Environmental Health Department and shall be located on such lots in positions approved by such departments. No outside toilets will be permitted under any circumstances.

12. Setbacks. No building is to be constructed closer than 25 feet from any street or roadway nor closer than 8 feet from the side lines thereof, nor closer than 10 feet from the rear property line. In the case of side property line which abuts a street, the minimum setback shall be 15 feet. The portion of a lot abutting a street shall be the front yard, corner lots may have the front yard on either side abutting a street.

13. As long as it owns ten (10%) percent or more of the lots in Sandy Ridge Subdivision, Declarant reserves the right to include in any contract or deed thereafter made or entered into, such modifications and/or additions to these Protective Covenants, which will, in the sole opinion of Declarant, raise the standards or enhance the desirability of the subdivision as a residential area. Such reservation shall not be construed as authorizing Declarant to relieve any purchaser of any lot in the subdivision, in whole or in part, from any of the Protective Covenants set forth. Declarant may allow reasonable variances and adjustments of these covenants in order to overcome practical difficulties and prevent unnecessary hardships in the application of the provisions contained herein provided, however, that such is done in conformity with the intent and purposes hereof and provided also that in every instance such variance or adjustment will not be materially detrimental or injurious to other property or improvements in the subdivision.

14. Enforcement of these covenants, restrictions and declarations may be by Declarant or any owner of property subject to these covenants whether for equitable restraint against the violation thereof, or at law damages by virtue of any such violation and the invalidation of any one or more of the conditions and restrictions set out herein shall in no way affect any other of such provisions, all of which shall remain in full force and effect. The failure of Declarant or of any such party entitled to enforce any protective covenant contained in this Declaration however long continued shall not be deemed a waiver of the right to do so thereafter as to the same breach or as to a breach occurring prior or subsequent thereto and shall not bar or affect its enforcement.

15. The foregoing conditions, reservations, declarations, covenants and easements shall be run with the lands and be binding upon all purchasers of lands or lots in said properties covered by these restrictions, and upon all persons or entities claiming under them through the tenth day of January, 1995, after which time the same shall be extended for successive periods of ten (10) years each, unless an instrument signed by a majority of the then owners of the lots subject thereto has been recorded, agreeing to change the restrictions and covenants in whole or in part. For the purpose of such vote, the owners will be entitled to one (1) vote per lot regardless of the number of persons or entities owning any one lot.

16. Declarant reserves the right to promulgate rules as to the use of the common areas and amenities in the subdivision until such time as the administration and upkeep of such properties shall become the responsibility of the Property Owners Association as described hereinafter.

17. During construction of the covenants on the lots within the subdivision, the lot owner or builder shall maintain facilities for or arrange for a portable toilet on the premises. In addition, no approval for any

improvements shall be effective until the owner or builder places, on an area adjacent to the pavement on the lot in question, a clay, marl, stone or other improved surface or base area so as to avoid the damage to the edge of the asphalt paved surface which occurs from access to the lot during construction. During construction, the owner or builder shall maintain a trash or rubbish bin of a type and size sufficient to avoid trash or debris from spreading from the building site and shall cause such area to be maintained and cleaned periodically and at the end of construction.

18. Each lot owner shall automatically become a member of the Sandy Ridge Property Owners Association and shall be subject to the By-Laws of that Association. It is acknowledged that the Association shall consist of that owners of all lots within the Sandy Ridge Subdivision and that each lot shall be entitled to equal voice or vote in the affairs of the Association. The Association shall have the right to assess the owners of lots within the subdivision for pro rata shares of various costs, based upon the number of lots within the subdivision (excluding lots dedicated entirely to common uses). Such costs will include the costs of maintenance of common properties, the streets and waterlines within the subdivision and other common expenses in the sole discretion of the Owners Association.

19. In order to provide for payment of dues and assessments as set forth above, the Association shall have the right to place a claim of lien against any of the lots within the subdivision and such lien shall represent the unpaid amount plus expenses and costs.

20. Rules and covenants dealing with membership in the Sandy Ridge Property Owners Association, as referred to this declaration and with specific reference to paragraphs 18 and 19, and the provisions relating to assessments, liens for assessments and certain other aspects of membership in the Owners Association are set forth in the following paragraphs and section of this declaration.

COVENANT FOR MAINTENANCE ASSESSMENTS

Section 1. Creation of the lien and personal obligation of assessments. Each subsequent owner other than the Declarant, by acceptance of a conveyance for a lot within the subdivision, whether or not it shall be expressed in any such deed or conveyance, regardless of the method of conveyance and regardless of whether such subsequent owner is a direct purchaser from the Declarant or a successive purchaser, shall be deemed to covenant and agree to pay to the Association: (1) annual assessments or charges; (2) special assessments for capital improvements, such assessments to be fixed, established, and collected from time to time as hereafter provided. The annual and special assessments, hereinafter provided, shall be a charge on the land and shall be a continuing lien upon the property against which each such assessment is made. Each such assessment together with such interest thereon and cost of collection thereof as hereinafter provided, in Section 9 of these provisions, shall also be the personal obligation of the person who was the Owner of such property at the time when the assessment fell due.

Section 2. Purpose of Assessments. The assessments levied by the Association shall be used exclusively for the purpose of promoting the recreation, health, safety and welfare of the residents in the subdivision and the property owners, and in particular for the improvement and maintenance of properties, services, and facilities devoted to this purpose and related to the use and enjoyment of the common properties and of the homes situated upon the lots within the subdivision, including but not limited to, the payment of taxes and insurance on common properties, and repair, replacement and additions thereto, and for the cost of labor, equipment, materials, management and supervision thereof.

Section 3. Basis and amount of Annual Assessments. The annual assessment shall be \$25.00 per original lot. The Board of Directors of the Association may, after consideration of current maintenance costs and future needs of the Association, fix the actual assessment for any year at a lesser amount or greater amount, from time to time.

Section 4. Special assessment for Capital Improvements. In addition to the annual assessments authorized by Section 3 hereof, the Association may levy in any assessment year a special assessment, applicable to that year only, for the purpose of defraying, in whole or in part, the cost of any construction or

reconstruction, unexpected repair or replacement of a described capital item or improvement upon the common properties, including the necessary fixtures and personal property related thereto, provided any such assessment shall have the affirmative of two-thirds (2/3) of the votes of all voting members who are voting in person or by proxy at a meeting duly called for this purpose, written notice of which shall be sent to all members at least thirty (30) days in advance and shall set forth the purpose of the meeting.

Section 5. Change in Basis and Maximum of Annual Assessments. Subject to the limitation of Section 3 hereof, and for the periods therein specified, the Association may change the maximum and basis of the assessments fixed by Section 3 hereof, prospectively for any such period provided that any such changes shall have the assent of two-thirds (2/3) of the voting members who are voting in person or by proxy at a meeting duly called for this purpose, written notice of which shall be sent to all members at least thirty (30) days in advance and shall set forth the purpose of the meeting, provided further that the limitations of Section 3 hereof shall not apply to any change in the maximum and basis of the assessments undertaken as an incident to a merger or consolidation in which the association is authorized to participate under its Articles of Incorporation.

Section 6. Quorum for any Action Authorized under Section 4 and 5. The Quorum required for any action authorized by Section 4 and 5 hereof shall be as follows: At the first meeting called, as provided in Sections 4 and 5 hereof, the presence at the meeting of members or of proxies, entitled to cast sixty (60) percent of all the votes of the membership shall constitute a quorum. If the required quorum is not forthcoming at any meeting, another meeting may be called, subject to the notice requirement set forth in Sections 4 and 5, and the required quorum at any such subsequent meeting shall be one-half (1/2) of the required quorum at the preceding meeting, provided that no such meeting shall be held more than sixty (60) days following the preceding meeting.

Section 7. Date of Commencement of Annual Assessments; Due Dates. The annual assessments provided for herein shall commence on the first day of January, 1985. The Assessment for each succeeding year shall become due and payable on the first day of January of each year. No adjustment or prorations of assessments shall be made by the Association. For purposes of levying the assessment, assessments shall be considered to be paid in advance and shall be levied against any property which is subject to the Declaration or any Supplemental Declaration. The due date of any special assessment under Section 4 hereof shall be fixed in the Resolution authorizing such assessment.

Section 8. Duties of the Board of Directors. The Board of Directors of the Association shall prepare a roster of the properties and assessments applicable thereto at least thirty (30) days in advance of such assessment due date. Such assessment roster shall be kept in the office of the Association and shall be open to inspection by any Owner. Written notice of the assessment shall thereupon be sent to every owner subject thereto. The Association shall upon demand at any time furnish to any owner liable for said assessment a certificate in writing signed by an officer of the Association, setting forth whether the assessment has been paid. Such statement shall be conclusive evidence of payment of any assessment therein stated to have been paid.

Section 9. Effect of Non-Payment of Assessment: The Personal Obligation of the Owner; the Lien; Remedies of Association. If the assessments are not paid on the date when due (being the dates specified in Section 7), then such assessment shall become delinquent and shall, together with interest thereon and costs of collection thereof, including attorneys fees, as hereafter provided, thereupon becoming a continuing lien on the property which shall bind such property in the hands of the then owner, his heirs, devisees, personal representative and assigns. The personal obligation of the then owner to pay such assessments, however, shall remain his personal obligation for the statutory period and shall not pass to his successors in title unless expressly assumed by them.

If the assessment is not paid within thirty (30) days after the due date, a penalty fee not to exceed \$5.00 shall be added thereto and from that date interest at the then legal rate as established by law may be added to the delinquent balance and penalty and the Association may bring an action at law against the owner personally obligated to pay the same or to foreclose the lien against the property. There shall be added to such assessment, delinquent fee and interest, the cost of preparation of a filing Complaint in such action and in the event that judgment is obtained such judgment shall include interest on the total amount as above provided and reasonable attorney's fees to be fixed by the

court together with the costs of the action. The Declarant or Association shall establish a registered office where a determination may be made of the amount of any unpaid fees and charges hereunder and the failure so to do within ten (10) years from the date of this instrument shall terminate the obligation, if any, of the purchaser for value of a lot in said subdivision from being encumbered by such delinquent fee.

Section 10. Subordination of the lien to Mortgages. The lien of the assessments provided for herein shall be subordinate to the lien of any mortgage or mortgages now or hereafter placed upon the properties subject to assessments; provided, however, that such subordination shall apply only to the assessments which have become due and payable prior to a sale or transfer of such property pursuant to a decree of foreclosure, or any other proceeding in lieu of foreclosure. Such sale or transfer shall not relieve such property from liability for any assessments thereafter becoming due, nor from the lien of any such subsequent assessment.

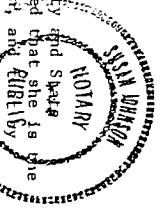
Section 11. Exempt Property. The following property subject to this Declaration shall be exempted from the assessments, charge and lien created herein: (a) all property to the extent of any easement or other interest therein dedicated and accepted by the local public authority and devoted to public use; (b) all common properties referred to in the Declaration or set forth on the plat of the subdivision referred to above; (c) all properties exempted from taxation by the laws of the State of North Carolina, upon the terms and to the extent of such legal exemption. No property or improvements devoted to dwelling use shall be exempt from said assessments, charges or liens.

In Witness Whereof, the Declarant has caused this instrument to be executed in its corporate name and capacity as set forth below, this 22 day of October, 1984.

MAWSIG CORPORATION

By: E. R. L. Davis Attest: Georgia C. Finch
President Secretary

NORTH CAROLINA
DARE COUNTY



Before me, the undersigned notary public of the County and State aforesaid, personally appeared Georgia Finch, who acknowledged that she is the Secretary of Mawsig Corporation, a North Carolina Corporation, and that the authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its President, sealed with its corporate seal, and attested by herself as its Secretary. Witness my hand and official seal this 22 day of October, 1984.

My commission expires: 10-2-88

Susan Johnson
Notary Public

BY-LAWS OF
SANDY RIDGE PROPERTY OWNERS ASSOCIATION

ARTICLE 1

In construing these By-Laws, and the government of development, the provisions of Chapter 55A or the General Statutes of North Carolina pertaining to the government of nonprofit business corporations, shall be controlling; the owners being considered the members of the association.

Section 3. Personal Application. All present and future owners, tenants and future tenants, and their employees, and any other person that may at any time use the facilities of the subdivision in any manner are subject to the regulations set forth in these By-Laws.

ARTICLE II

THE OWNERS

Section 1. Owners. The subdivision lots are owned by the owners of the lot, each of whom shall be entitled to a percentage vote for each lot owned by him. The vote percentage shall be one vote for each lot. No lessee, lienholder, mortgagee, pledge or contract purchaser shall have any voting rights with respect to the affairs of the Association.

Section 2. Annual Meetings. The Association shall hold each year, commencing with the year 1986, an annual meeting of the owners for the election of directors and the transaction of any business within the powers of the Association, on the Saturday of Easter weekend. Any business of the Association may be transacted at an annual meeting without being specifically required by statute, by the Declaration or these By-Laws to be stated in the notice. Failure to hold an annual meeting at the designated time shall not, however, invalidate the Association's existence or affect its otherwise valid acts.

Section 3. Special Meetings. At any time in the interval between annual meetings, special meetings of the Association may be called by the President or by a majority of the Board of Directors by vote at a meeting or in writing with or without a meeting, or by one-third (1/3) of the record owners of Association Units.

Section 4. Place of Meeting. All meetings of owners shall be held at the office of the Association in Duck, North Carolina, except in cases in which the notice thereof designates some other place, but all such meetings shall be held within the State of North Carolina.

Section 5. Notice of Meetings. Not less than ten (10) days nor more than ninety (90) days before the date of every owners' meeting, the Secretary shall give to each owner entitled to vote at

such meeting, written or printed notice stating the time and place of the meeting and in the case of a special meeting, the purpose or purposes for which the meeting is called, either by mail or by presenting it to him personally or by leaving it at his residence or usual place of business. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the owner at his post office address as it appears on the records of the Association, with postage thereon prepaid. Notwithstanding the foregoing provision, a waiver of notice in writing signed by the person or persons entitled to such notice and filed with the records of the meeting, whether before or after the holding thereof, or actual attendance at the meeting in person or by proxy, shall be deemed equivalent to the giving of such notice to such persons. Any meeting of owners, annual or special, may adjourn from time to time to reconvene at the same or some other permitted place, and no notice need to be given of any such adjourned meeting other than by announcement.

Section 6. Quorum. At any meeting of owners, the presence in person or by proxy of owners entitled to cast a majority of the votes shall constitute a quorum; but this section shall not affect any requirement under statute or under the Declaration of the Association for the vote necessary for the adoption of any measure. In the absence of a quorum, the owners present in person or by proxy, by majority vote and without notice other than by announcement, may adjourn the meeting from time to time until a quorum shall attend. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally scheduled.

Section 7. Votes Required. A majority of the votes cast at a meeting of owners, duly called and at which a quorum is present, shall be sufficient to take or authorize action upon any matter which may properly come before the meeting, unless more than a majority of votes cast is required by statute or by the Declaration.

Section 8. Proxies. An owner may vote either in person or by proxy executed in writing by the owner or by his duly authorized attorney-in-fact. No proxy shall be valid after eleven (11) months from its date, unless otherwise provided in the proxy. Every proxy shall be in writing, subscribed by the owner or his duly authorized attorney, and dated, but need not be sealed, witnessed or acknowledged.

Section 9. List of Owners. At each meeting of owners, a full, true and complete list in alphabetical order of all owners entitled to vote at such meeting shall be furnished by the Secretary.

Section 10. Voting. In all elections for directors every owner shall have the right to vote, in person or by proxy, for as many persons as there are directors to be elected. At all meetings of owners, the proxies and ballots shall be received, and all questions touching the qualification of voters and the validity of proxies and the acceptance or rejection of votes shall be decided by the Chairman of the meeting. Unless demanded or ordered by a majority of owners present, no vote need be by ballot, and voting need not be conducted

by inspectors.

Section 11. Informal Action by Owners. Any action required or permitted may be taken without a meeting, if a consent in writing, setting forth such action, is signed by all of the owners entitled to vote on the subject matter thereof, provided said consent is filed with the records of the Association.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Powers. The business and affairs of the Association shall be managed by its Board of Directors. The Board of Directors may exercise all powers of the Association except such as are by statute or the Declaration or the By-Laws conferred upon or reserved to the owners. In particular, but not by way of limitation, the Board of Directors shall be responsible for, and have all necessary powers in connection with, the care, upkeep, and surveillance of the building and other facilities of the Association, including its general and limited common elements, services, and Association-owned property, designation, hiring, and dismissal of the personnel necessary for the good working order of the buildings and to provide services for the buildings. The Board of Directors may delegate any of such responsibilities, or all and the expenses therefor shall be a common expense. The Board of Directors or any officer or officers to whom such power may be delegated, shall have power to take any action necessary or appropriate to enforce payment of all sums, including assessments against others, due the Association, including the power to enforce any lien for the same.

Section 2. Number of Directors. The numbers of directors of the Association shall be three (3).

Section 3. Election of Directors. At the first annual meeting of owners after control of the Association is delivered to the Unit Owners, the owners shall elect three (3) directors, one (1) to serve for two (2) years, one (1) to serve for two (2) years, and one (1) to serve for three (3) years. Thereafter, directors shall be elected for three (3) year terms or until their successors are elected and qualify (or for a shorter term to fill a vacancy arising for an uncompleted term), one (1) director being elected at each annual meeting to succeed the director whose term is expiring. At any meeting of owners, duly called and at which a quorum is present, the owners may, by the affirmative vote of the holders of a majority of the votes entitled to be cast thereon, remove any director or directors from office and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed directors.

Section 4. Vacancies. Any vacancy occurring in the Board of Directors for any cause may be filled by a unanimous vote of the remaining members of the Board of Directors. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of owners and until his successor is elected and qualifies.

Section 5. Regular Meeting. After each meeting of owners at which a Board of Directors shall have been elected, the Board of Directors so elected shall meet as soon as practicable for the purpose of organization and the transaction of other business, at such time as may be designated by the owners at such meeting; and in the event that no other time is designated by the owners, the Board of Directors shall meet at 4:00 p.m. on the day of such meeting of the owners, if not a legal holiday, and if a legal holiday, then on the first day following which is not a Sunday or legal holiday. Such first meeting shall be held at such place within the State of North Carolina as may be designated by the owners, or in default of such designation, at the office of the Association in Duck, North Carolina. No notice of such first meeting shall be necessary if held as hereinabove provided. Other regular meetings of the Board of Directors shall be held on such dates and at such places within the State of North Carolina as may be designated from time to time by the Board of Directors.

Section 6. Special Meeting. Special meetings of the Board of Directors may be called at any time by the President or by the Board of Directors by a vote at a meeting, or by a majority of the directors in writing with or without a meeting. Such special meetings shall be held at such place or places within the State of North Carolina as may be designated from time to time by the Board of Directors. In the absence of such designation, such meetings shall be held at such places as may be designated in the call.

Section 7. Notice of Meeting. Except as provided in Section 5 of this Article, notice of the place, day and hour of every regular and special meeting shall be given to each director two (2) days (or more) before the meeting, by delivering the same to him personally, or by sending the same to him by telegraph, or by leaving the same at his residence or usual place of business, or in the alternative, by mailing such notice five (5) days (or more) before the meeting, postage prepaid, and addressed to him at his last known post office address, according to the records of the Association. Unless required by these By-Laws or by resolution of the Board of Directors, no notice of any meeting of the Board of Directors need state the business to be transacted. No notice of any meeting of the Board of Directors need be given to any director who attends, or to any director who, in writing, executed and filed with the records of the meeting either before or after the holding thereof, waives such notice. Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than by announcement.

Section 8. Quorum. At all meetings of the Board of Directors, two (2) directors shall constitute a quorum for the transaction of business. Except in cases in which it is by statute, by the Declaration, or by the By-Laws otherwise provided, the vote of a majority of such quorum at a duly constituted meeting shall be sufficient to direct and pass any measure. At any adjourned meeting at which a quorum shall be present, any business may be transacted at the meeting as originally notified.

Section 9. Compensation. By resolution of the Board of

Directors, expenses of attendance, if any, may be allowed to directors for attendance at each regular or special meeting of the Board of Directors or of committees thereof, but directors as such shall not receive any compensation for their services except such as may be authorized or permitted by vote of the owners. A director who serves the Association in any other capacity, however, may receive compensation therefor without such vote of the owners.

Section 10. Informal Action by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or Committee.

Section 11. Committees. The Board of Directors may by resolution provide for such standing or special committees as it deems desirable, and discontinue the same at its pleasure. Each such committee shall have such powers and perform such duties, not inconsistent with law, as may be assigned to it by the Board of Directors.

Section 12. Indemnification. Every director and every officer of the Association against all expenses and liabilities, including counsel fees, reasonably incurred by or imposed upon him in connection with a court proceeding to which he may become involved, by reason of his being or having been a director or officer of the Association, whether or not he is a director or officer at the time such expenses are incurred, except in such cases wherein the director or officer is adjudged guilty of malfeasance or negligence in the performance of his duties; provided, 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 foregoing right of indemnification shall be in addition to and not exclusive of all rights of indemnification to which such director or officer may be entitled.

* Section 13. Budget.

A. The Board of Directors shall adopt a budget for each fiscal year (with the fiscal year being from March 15 to March 14 each year) which shall contain estimates of the costs of performing the functions of the Association including, but not limited to:

1. COMMON EXPENSES OF THE ASSOCIATION

- (a) maintenance and upkeep of common areas and elements;
- (b) maintenance and upkeep of association-owned real property and personal property;
- (c) staff payroll, supplies and office expenses;
- (d) managers salary or fees;
- (e) insurance;

- (f) common utilities;
- (g) service contracts;
- (h) fees and permits.

2. CAPITAL IMPROVEMENTS RESERVE

3. ANTICIPATED SPECIAL ASSESSMENTS

B. Copies of the proposed budget shall be transmitted to each member or lot owner on or before one month prior to the annual meeting for the fiscal year for which the budget is made. If the budget is subsequently amended, then a copy of the amended budget shall be furnished immediately to each lot owner.

C. Accounting shall be on a cash basis and conform to generally accepted accounting principals.

ARTICLE IV

OFFICERS

Section 1. Executive Officers. The Board of Directors shall choose a President and Vice president from among the directors, and a Secretary and a Treasurer who need not be directors. Any two (2) of the above-mentioned officers, except that of President and Vice-President, may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one (1) capacity if such instrument be required by statute, by the By-Laws or by resolution of the Board of Directors to be executed, acknowledged or verified by any two (2) or more officers. Each such officer shall hold office until the first meeting of the Board of Directors after the annual meeting of owners next succeeding his election, and until his successor shall have been duly chosen and qualified, or until he shall have resigned or shall have been removed. Any vacancy in any of the above officers may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

Section 2. President. The term of office for the president shall be for three years. The President shall preside at all meetings of the owners and of the Board of Directors at which he shall be present; he shall have general charge and supervision of the business of the Association; he may sign and execute, in the name of the Association, all authorized deeds, mortgages, bonds, contracts or other instruments, except in cases in which the signing and execution thereof shall have been expressly delegated to some other officer or agent of the Association; and, in general, he shall perform all duties incident to the office of President, and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 3. Vice-President. The term of office for the Vice President shall be for two years. The Vice-President, at the request of the President, or in his absence, or during his inability to act, shall perform the duties and exercise the functions of the President, and when so acting, shall have the powers and perform such other duties as may be assigned to him by the Board of Directors or the

President.

Section 4. Secretary. The term of office for the Secretary shall be for two years. The Secretary shall keep the minutes of the meetings of the owners and of the Board of Directors in books provided for the purpose; he shall see that all notices are duly given in accordance with the provisions of the By-Laws or as required by law; he shall be custodian of the records of the Association; and in general, he shall perform all duties incident to the office of Secretary, and such other duties as from time to time may be assigned to him by the Board of Directors or the President. This office may be combined with the following office of Treasurer with the same term, by election of the Board of Directors.

Section 5. Treasurer. The Treasurer shall have charge and be responsible for all funds, securities, receipts and disbursements of the Association, and shall deposit, or cause to be deposited, in the name of the Association, all monies or other valuable effects in such banks, trust companies or other depositories as shall from time to time be selected by the Board of Directors; he shall render to the President and to the Board of Directors, whenever requested, an account of the financial condition of the Association, and in general, he shall perform all duties as may be assigned to him by the Board of Directors or the President. This office may be combined with the prior office by election of the Board of Directors.

Section 6. Removal. Any officer or agent of the Association may be removed by the Board of Directors whenever, in its judgement, the best interest of the Association will be served thereby, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed.

Section 7. Loans to Officers and Directors. No loans shall be made by the Association to any of its directors or officers.

ARTICLE V

OBLIGATIONS OF THE OWNERS

Section 1. Assessments. Each owner is obligated to pay the assessments imposed upon him by the Association to meet general common element expenses, which shall include a liability insurance policy premium and may include other insurance if necessary for the insurance of the common properties of the Association. The assessments shall be made prorata according to the percentage interest owned as stipulated in the Declaration. Such assessments levied upon the owner of a lot shall become a lien on said lot at the time assessed and until paid in full. Each regular assessment levied shall be due and payable quarterly, within thirty (30) days after the dates of assessment, which said dates of assessment shall be the first day of January, April, July and October. Any special assessment, designated as such by the Board of Directors shall be due and payable when assessed. There will be no declaration in trust for enforcement of said lien.

Section 2. Maintenance and Repair.

(a) Every owner must perform all maintenance and repair work within his own lot which, if omitted, would affect the general or limited common elements, or any other lot, such owner being expressly responsible for the damages and liabilities his failure to do so may engender.

(b) All the repairs of internal installations of the lot such as water, light, power, telephones, cable television, doors, windows, lamps and all other accessories belonging to the lot area shall be at the owner's expense.

(c) An owner shall reimburse the Association for any expenditures incurred in repairing or replacing any general or limited common element damaged through his fault, other than damage arising from an insured casualty.

ARTICLE VI

INSURANCE

Section 1. Protective Policies. The Board of Directors shall procure and maintain, in its name as agent or trustees for the benefit of the co-owners who shall be deemed parties insured, policies of insurance in stock or mutual insurance companies licensed to do business in the State of North Carolina, to the extent obtainable, as follows:

(a) If by decision of the Board of Directors it is deemed necessary, a policy or policies insuring the common properties of the Association against loss, damage or destruction by fire or other casualty, including lightning, windstorm, hail, explosion, riot, civil commotion, aircraft, vehicle, falling object, smoke, malicious mischief, vandalism, collapse through weight of snow, ice or sleet, water, flood, and other similar casualties, in an aggregate amount equal to the full insurable replacement value of the improvements, without regard to depreciation. In lieu of the foregoing insurance, the Board of Directors may procure and maintain such other insurance against loss, damage or destruction of the general common elements of the Association, as shall give substantially equal or greater protection to the co-owners, as their interest may appear.

(b) such insurance as will protect the owners, and each of them, from claims under workmen's compensation acts and other employee benefit acts, where necessary.

(c) such insurance as will protect the manager or agent, the Board of Directors, the owners and each of them, from claims for damage to the property, any or all of which may arise out of or result from ownership of any interest in the Association project or the management or operation of said project, or because of any injury or damage sustained on or attributable to the property, including the ownership, maintenance and use of the parking areas. It is intended that the insurance described in this subparagraph (c) be a comprehensive general liability policy endorsed to protect each co-owner against all liability arising out of or otherwise attributable to the property, including operation of the premises, products liability, liability attributable to work or other act of an independent contractor, or let or sub-let work, landlord-tenant liability, and contractual liability. Further, the insurance shall cover the liability of one or more co-owners, as parties insured. Such public liability insurances shall be in the limits of at least \$100,000.00 for injuries or damages sustained by any one

person, \$300,000.00 for injuries or damages sustained by two or more persons in any one accident, and \$10,000.00 for property damage. The public liability insurance policy shall be so endorsed as to protect the insured against liability imposed or assumed by any contract.

(d) In all events, each policy of insurance procured under this Section 1 of Article VI shall contain a waiver of the insurer's subrogation rights against each co-owner, and a waiver of any defense maintainable by the insurer by reason of any co-insurance provision of any policy or by reason of any act or neglect of any co-owner, whether before or after the loss, damage or destruction may occur. Further, each policy of insurance shall provide that any co-owner in his own right may procure other insurance, fire casualty, liability or otherwise, and that such other insurance shall in no way serve to reduce, abate or diminish, or cause any proration in payment of the total loss by the insurer. Each policy of insurance procured under Paragraphs (a) or (b) of this section shall state that the exclusive right and authority to adjust losses under the policy shall be vested in the Board of Directors.

(e) The Association shall indemnify and hold harmless the individual lot owners from any liability on matters where such liability would appropriately be borne by the Association. In the event that liability for any matter or act arising out of the ownership of the property subject to this declaration or the common properties appurtenant thereto, other than intentional or malicious acts which are so adjudicated, shall be adjudicated by final decree against any one or more owners and in the further event that the liability for such act or event exceeds the policy limits of insurance or in the event that the insurance does not provide coverage for such events of liability, the owners of all of the lots in the subdivision, shall indemnify and hold harmless the parties so adjudicated to be liable, in proportion to the interests held by each of them to the total lots in the subdivision, and such indemnity shall extend to and include the damages, cost of defense including attorney fees, judgment award and all other similar costs. Such indemnity shall take the form of an assessment or assessments and shall constitute a lien in the same manner as other common expenses of the Association. The provisions of this paragraph are not to be construed so as to imply that any individual owner is liable directly for the acts or responsibilities of the Association or to otherwise change the liability of any party as it would stand if not for the provisions hereof, except as stated herein.

Nothing provided in this Article VI shall prejudice the right of any owner to insure himself

against liability to others.

Section 4. Application for Insurance. Each owner shall furnish such information and sign such application forms or other documents, if any, as may be required to obtain insurance as provided in this Article VI.

ARTICLE VII

FINANCE

Section 1. Checks, Drafts, etc. All checks, drafts and orders for the payment of money, notes and other evidences of indebtedness, issued in the name of the Association, shall be signed by officers, agents or manager of the Association, as determined by the Board of Directors.

Section 2. Annual Reports. There shall be prepared annually a full and correct statement of the affairs of the Association, including a balance sheet and a financial statement of operations for the preceeding fiscal year, which shall be distributed to the owners and filed at the principal office of the Association.

Section 3. Fiscal Year. The fiscal year of the Association shall be from March 15 to March 14 of each year, unless otherwise provided by the Board of Directors.

ARTICLE VIII

AMENDMENTS

Section 1. By-Laws. These By-Laws may be amended by the Association at any duly constituted meeting, provided, the notice thereof shall specify the amendment to be voted on, and provided the same is approved by at least two-thirds (2/3) of the owners; subject, however, to the restrictions set forth in Article II, Section 1, of the By-Laws. All unit owners shall be bound by any amendment upon the same being duly passed and set forth in an Amended Declaration duly recorded in the Dare County Registry.