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**DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
FOR THE VILLAS AT COROLLA BAY**

THIS DECLARATION OF COVENANTS, CONDITIONS, AND RESTRICTIONS for The Villas at Corolla Bay (the "Declaration") is made this 7th day of April, 2010, by Corolla Oceanside, LLC, a North Carolina limited liability company, (hereinafter referred to as "Declarant") of 821 Ocean Trail, Suite 4, Corolla, North Carolina 27927.

RECITALS

[STATEMENT OF PURPOSE]

A. Declarant is the owner of the real property described in Article Two of this Declaration and desires to create thereon a residential community (the "Community") of single-family townhomes (the "Townhomes") together with any private streets, roads, bike paths, footways, open spaces, common areas, landscaping, entrances, drainage facilities, access easements, site lighting and signage, and any recreation area(s) and any other common facilities shown on any Recorded Plat (as hereinafter defined) (sometimes referred to collectively herein as the "Facilities") for the benefit of the Community.

B. Declarant desires to provide for the preservation of the values and amenities in the Community and for the maintenance of the Facilities and Common Area (as hereinafter defined) and, to this end, desires to subject the real property described in Article Two, and any additions thereto, to the covenants, conditions, restrictions, easements, charges and liens, hereinafter set forth, each and all of which is, and are, for the benefit of said real property and each owner of a portion thereof.

C. The Declarant's present intention, stated here for information or present intent only and not as a warranty or representation of a future fact, is to develop the Community with single family attached residential units.

D. Declarant has deemed it desirable, for the efficient preservation of the values and amenities in the Community, to create an entity to which should be delegated and assigned the powers of maintaining, administering, operating and replacing the Community properties and Facilities, administering and enforcing the covenants, conditions and restrictions, and collecting and disbursing the assessments and charges hereinafter created.

E. Declarant has caused or will cause to be incorporated under the laws of the State of North Carolina, prior to the sale of any Lot (as hereinafter defined) in the Community, a non-profit corporation to be known as The Villas at Corolla Bay Homeowners Association, Inc. for the purpose of exercising the functions aforesaid.

F. To accomplish the objectives as referenced within these recitals, it is in the interest of The Villas at Corolla Bay for the Declarant to maintain a significant role in the implementation of improvements to be built within The Villas at Corolla Bay and, therefore, Declarant has retained numerous rights and will exercise control over the property throughout the developmental period.

NOW, THEREFORE, Declarant, as the owner of the real property described in Exhibit "A", intends with the recordation of this Declaration, to establish a general plan of development for that community known as The Villas at Corolla Bay. All property described in Exhibit "A" and any additional property as described in Section 2.02 shall be owned, conveyed and used subject to all the provisions of this Declaration which shall run with the title to each Property. This Declaration shall be binding upon all persons having any right, title, or interest in any portion of The Villas at Corolla Bay, their respective heirs, successors in title, and assigns.

Article I Definitions

Section 1.01. Definitions. When using this Declaration, unless the content shall prohibit or otherwise require, the following words set forth within this Article I shall have all of the following meanings and all definitions applicable to the singular and plural forms of such terms.

Section 1.02. "Act" refers to the North Carolina Planned Community Act as codified in Chapter 47F of the North Carolina General Statutes.

Section 1.03. "Additional Property" shall mean and refer to those portions of property described in Exhibit "B" which have not been subjected to this Declaration, other than the property described in Exhibit "A" attached hereto, which may be subjected to the Declaration as more particularly set forth in Article II hereof. The Additional Property includes all real property currently owned by Declarant or by any other invited Declarant owning property adjacent to or nearby that may become a part of the community of The Villas at Corolla Bay that Declarant desires to bring under this Declaration.

Section 1.04. "Architectural Guidelines" shall mean and refer to the architectural, design, and construction guidelines and review procedures adopted pursuant to Article VI, as they may be amended from time to time.

Section 1.05. "Articles of Incorporation" shall mean the Articles of Incorporation of The Villas at Corolla Bay Homeowners' Association, Inc. as filed with the Secretary of State of North Carolina.

Section 1.06. "Architectural Standards Committee" ("ASC") shall mean and refer to that committee responsible for promulgating Architectural Guidelines and approving all buildings, structural improvements, additions, modifications, and changes within The Villas at Corolla Bay.

Section 1.07. "Assessments" shall mean and refer to all annual assessments, special assessments, individual assessments, and other fees and charges levied by the Association in accordance with the Governing Documents.

Section 1.08. "Association" shall mean and refer to The Villas at Corolla Bay Homeowners' Association, Inc., a North Carolina non-profit association.

Section 1.09. "Board" shall mean and refer to the Board of Directors of the Association.

Section 1.10. "Bylaws" shall mean the Bylaws of the Association as they may now or hereafter exist.

Section 1.11. "Common Elements" shall mean and refer singularly or collectively, as applicable, to all real property and improvements thereon or associated therewith, which is/are owned or leased by the Association (or by Declarant for later transfer, lease, or assignment to the Association); easements granted to or reserved by or on behalf of the Association (or the Declarant for later transfer or assignment to the Association); and other real property which has been designated as Common Elements on any plat recorded in the Office of the Register of Deeds, Currituck County, North Carolina by Declarant or in a deed or other written instrument, and also shall refer to all personal property owned or leased by the Association and designated as Common Elements by the Declarant or the Association. The Common Elements are for the common use, enjoyment or benefit of the Owners, and/or for the enhancement or protection of the Property or any part thereof, and may include, without limitation, active and passive recreational areas and facilities. All Common Elements shall be subject to the terms and conditions of this Declaration. Common Elements may also include, as determined by Declarant in its sole discretion, all water retention and detention ponds and areas, if any, including all stormwater facilities, structures and improvements associated therewith, required to be constructed, repaired, replaced or maintained on or near the Property or any portion thereof by the laws, rules or regulations of any governmental authority having jurisdiction thereof and which is required to handle stormwater runoff from any part or all of the Property. The Common Elements presently include: the roads, lighting, designated landscaping, pool and related deck area, tennis court and all other Common Elements designated as such, now or in the future, by Declarant for the common use and enjoyment of all the owners. It is intended that the Common Elements shall be conveyed to the Association for the benefit of each of the Lot Owners.

Section 1.12. "Common Expenses" shall mean and refer to the actual and estimated expenses incurred, or anticipated to be incurred, by the Association for the general benefit of all Owners, including any reasonable reserve, as the Board may find necessary and appropriate pursuant to the Governing Documents.

Section 1.13. "Courtyard" shall mean those designated areas adjacent to lots and shall be a Limited Common Element which space shall be reserved for the exclusive use of the designated lot owner. The Courtyards are shown and designated by a "C" followed by the respective lot number to which it is a Limited Common Element on the Subdivision Plat.

Section 1.14. "Declarant" shall mean and refer to Corolla Oceanside, L.L.C., a North Carolina limited

liability company, its successors and assigns in whole or in part, or any other Declarant owning property adjacent, contiguous to or nearby that Declarant wishes to become part of Corolla Bay at a later date.

Section 1.15. "Declarant Control Period" refers to any and all privileges, powers, easements, exemptions, rights and duties reserved to the Declarant by the Governing Documents, and any reasonable amendments thereto related to the development of The Villas at Corolla Bay including the pursuit and furtherance of the recitals set forth within the Statement of Purpose. The Declarant Control Period shall extend until September 15, 2030. The Declarant may voluntarily elect an earlier termination of the Declarant Control Period by giving written notice to the Association. During the Declarant Control Period, the Declarant shall have all those Special Declarant's Rights defined by the Act and in addition those rights which shall include at a minimum: the right to make all appointments to the ASC, the right to appoint a majority of the Members to the Board of the Association and the right to approve any amendments to the Governing Documents.

Section 1.16. "Declaration" shall mean and refer to this Declaration of Covenants, Conditions and Restrictions for The Villas at Corolla Bay as it may be amended and supplemented from time to time as herein provided.

Section 1.17. "Dwelling Unit" shall mean and refer to any improvement or portion thereof situated on a Lot intended for use and occupancy as one (1) single-family dwelling, irrespective of the number of Lot Owners thereof (or the form of ownership) located within the Property and shall, unless otherwise specified, include within its meaning (by way of illustration, but not limitation) a single family unit of an attached homes structure, such as individual townhouses and patio or zero lot line homes. Where appropriate by context, the term shall include both the improvements and the real property on which the improvements are situated.

Section 1.18. "Entrance Monument Easements" shall mean and refer to the easements reserved by Declarant and granted to the Association in Article X, Section 10.05 hereof over, under and across certain areas of the Property, for the installation and maintenance of entrance monuments and related improvements for the Property.

Section 1.19. "Governing Documents" shall mean and refer to this Declaration, any Supplemental Declaration, the Architectural Guidelines, the Articles of Incorporation, and Bylaws of the Association.

Section 1.20. "Improvements" shall mean and include all buildings, storage sheds or areas, roofed structures, decks, patios, parking areas, exterior recreational areas, recreational equipment and facilities, mailboxes, exterior antennae, dishes or other apparatus to receive or transmit television or radio or microwave or other signals, loading areas, trackage, fences, walls hedges, mass plantings, poles, driveways, ponds, lakes, changes in grade or slope of a Lot, Dwelling Unit or Limited Common Elements, silt preparation of a Lot, Dwelling Unit or Limited Common Elements, landscaping, exterior clotheslines, swimming pools, tennis courts, signs, exterior illumination, changes in any exterior color or shape and any other exterior construction or exterior structure or other exterior improvement which may not be included in any of the foregoing. The definition of Improvements includes both original Improvements of all Lots, Dwelling Units, Limited Common Elements and all later changes and additions to Improvements.

Section 1.21. "Landscaped Rights-of-Way" shall mean the medians and other areas within public or private street rights-of-way within or adjoining the Property which are designated as Common Elements or Landscaped

Rights-of-Way on any plat recorded in the Office of the Register of Currituck County, North Carolina by Declarant which shall be maintained by the Association as a Common Expense.

Section 1.22. "Limited Common Elements" shall mean and refer to those parts of the Common Elements which are Limited Common Elements that are reserved for the exclusive use of adjacent Lots. The Limited Common Elements existing at the time of the recordation of the Declaration are shown on the Subdivision Plat.

Section 1.23. "Limited Common Elements Assessments" shall mean and refer to expenses separately assessed against the Lot Owner for any expenses associated with that Courtyard that is a Limited Common Element to an Owner's Lot.

Section 1.24. "Lot" shall mean and refer to any improved or unimproved numbered parcel of land within the Property which is intended for use as a site for a Dwelling Unit, as shown upon any recorded plat in the Office of the Register of Deeds, Currituck County, North Carolina and shall not include any Common Elements or any property not yet approved for sale as an individual lot. Property designated as a Lot may later be designated for some other use on a recorded plat in the Office of the Register of Deeds, Currituck County, North Carolina.

Section 1.25. "Maintain", "Maintenance" or any substantially similar term used in this Declaration, when applied to a power or duty of the Association shall mean and include, without limitation, the right to maintain, repair, replace, reconstruct, improve, clean, landscape, operate and use the improvement, property or other item which is the subject thereof.

Section 1.26. "Member" shall mean and refer to each Owner of a Lot who is a member of the Association as provided in this Declaration.

Section 1.27. "Occupants" shall mean and refer to an Owner and its tenants or lessees.

Section 1.28. "Owner" shall mean and refer to the fee simple title to any Lot situated within The Villas at Corolla Bay. Notwithstanding any applicable theory of any lien or mortgage law, Owner shall not mean or refer to any mortgagee or trust beneficiary unless and until such mortgagee or trust beneficiary has acquired title pursuant to foreclosure or any legal proceeding in lieu of foreclosure.

Section 1.29. "Plans" shall mean and refer to the complete drawings and specifications for any contemplated Dwelling Unit including, but not limited to those showing the shape, dimensions, materials, basic exterior finishes and colors, location on site, driveway, parking, decorative landscape planting, floor plans and elevations therefore.

Section 1.30. "Property" shall mean the community of The Villas at Corolla Bay and any additions thereto as are made subject to this Declaration.

Section 1.31. "Rules and Regulations" shall have the meaning assigned to it in Section 7.13 of this Declaration.

Section 1.32. "Sign" shall mean any writing, pictorial representation, emblem, flag, or any other figure of similar character which is (i) a structure or part thereof, or is attached to, painted on or in any other manner represented on a Dwelling Unit or any other structure (ii) used to announce, direct attention to, or advertise and (iii)

visible from outside an Improvement.

Section 1.33. "Special Assessment" shall mean assessments levied in accordance with Article VIII Section 8.01(2) of this Declaration.

Section 1.34. "Special Declarant Rights" shall mean and refer to all rights reserved to the Declarant as allowed by the Act including, without limitation, any right: to complete all improvements of The Villas at Corolla Bay; to exercise all developmental rights; to maintain sales offices and management offices; to erect signs advertising Corolla Bay and models; to use easement through the Common Elements for the purpose of making improvements within The Villas at Corolla Bay including the Additional Property; to appoint or remove any officer or board member of the Association or during the Declarant Control Period; and to have the sole and absolute discretion relating to the use of signage for purposes of sale and rental of Dwelling Units and the sole and absolute right to operate or through its designated agents operate real estate offices, Model Homes and Open House for the purpose of the marketing and sale or rental of Lots and Dwelling Units in The Villas at Corolla Bay.

Section 1.35. "Streets" shall mean and refer to the private roads and easements of The Villas at Corolla Bay which are to be maintained by the Association.

Section 1.36. "Subdivision Plat" shall mean that plat of The Villas at Corolla Bay recorded in the Public Registry of Currituck County, North Carolina that depicts Sections or Phases of The Villas at Corolla Bay.

Section 1.37. "Supplemental Declaration" shall mean an amendment or supplement to this Declaration executed by or consented to by Declarant which subjects Additional Property to this Declaration or imposes, expressly or by reference, additional restrictions and obligations on the land described thereon.

Section 1.38. "Villa" shall have the same meaning as a Dwelling Unit.

Article II
Property

Section 2.01. Property Made Subject to this Declaration. The real property which shall be owned, held, conveyed, hypothecated, encumbered, sold, leased, rented, used, occupied and improved subject to this Declaration shall consist of fifty-seven (57) single-family townhomes in The Villas at Corolla Bay as more particularly described on Exhibit "A".

Section 2.02. Annexation of Additional Property by Declarant Within Twenty Years. If within twenty (20) years of the date of recordation of this Declaration, Declarant is the Owner of any real property which Declarant currently owns, or which Declarant hereafter acquires and which is contiguous or adjacent to the Property or which is owned by another limited liability company which Declarant desires to subject to this Declaration (such real property being referred to herein as "Additional Property"), it may do so by filing and recording a Supplemental Declaration which shall extend this Declaration to such Additional Property, provided, however, that such Supplemental Declaration as applied to the Additional Property covered thereby, may include such specific additional terms, covenants, conditions, restrictions, easements, charges, and liens, not inconsistent with this Declaration, as may be set forth in such Supplemental Declaration. There shall be no requirement that any party other than the Declarant consent to, approve, or execute any such Supplemental Declaration.

Section 2.03. No Approval Needed. The exercise of Declarant's rights under Section 2.02 is not conditioned upon nor subject to the approval of other Owners.

Section 2.04. Additional Restriction. Declarant may, in its discretion, from time to time execute and record one or more Supplemental Declarations for the purpose of establishing certain additional or different covenants, easements, and restrictions (including, without limitation, a different level of assessments) applicable to a specific portion of the property then owned by Declarant and to be developed for a specific type of use. However, no negative reciprocal easement shall arise out of any such Supplemental Declaration so as to bind any portion of the property not expressly subjected thereto.

Section 2.05. Effect of Filing Supplemental Declaration. A Supplemental Declaration shall be effective upon recordation in the Public Registry of Currituck County, North Carolina unless otherwise specified in such Supplemental Declaration. On the effective date of the Supplemental Declaration, any additional property subjected to this Declaration shall be assigned voting rights in the Association and assessment liability in accordance with the provisions of this Declaration.

Article III
Membership and Voting Rights
and Responsibilities of the Association

Section 3.01. Membership. Each and every Owner of a Lot or Dwelling Unit within The Villas at Corolla Bay shall automatically become and be a Member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot or Dwelling Unit, and the Board may make reasonable rules relating to the proof of ownership of a Lot or Dwelling Unit.

Section 3.02. Classes of Voting Members. Subject to the rights of Declarant reserved in this Section 3.02, the Association shall have two classes of voting membership as follows:

Class A. Class A Members shall be all Owners of Lots, with the exception of Declarant until such time as Declarant's Class B Membership is converted to Class A Membership as provided in this Article. A Class A Member shall be entitled to one (1) vote for each Lot or Dwelling Unit owned by such Class A Member at the time notice is given of the particular meeting at which Class A membership votes are eligible to be cast. Provided, when two (2) or more persons own or hold interests in any Lot or Dwelling Unit, all such Persons shall be Class A Members, and the one (1) vote for such Lot or Dwelling Unit shall be exercised as they, among themselves, determine, but fractional voting shall be prohibited and, in connection with any particular vote no more than one Class A Membership (1) vote shall be cast with respect to each Lot or Dwelling Unit.

Class B. The Class B Member shall be Declarant, who shall be entitled to three (3) votes for each Lot owned by it within the Property. The Class B membership shall cease and be converted to Class A membership on the happening of the first to occur of the following events:

- (i) Declarant has sold and closed the sale of ninety (90%) percent of all Lots within the Property; or
- (ii) September 15, 2030; or

(iii) Voluntary termination by Declarant as evidenced by a Notice of Recordation in the Public Registry of Currituck County, North Carolina.

If the Class B membership has been terminated or has expired and subsequently additional properties owned by the Declarant become subject to this Declaration pursuant to Section 2.02 prior to the date stated in subsection (ii) above, the Class B membership shall immediately be reinstated as of the date such additional properties become subject to this Declaration and shall not terminate except in accordance with subsection (i) and (ii) above as they apply to the Property as expanded by such annexation. Following the termination of Class B membership, the Declarant shall become a Class A Member.

Section 3.03. Voting, Quorum and Notice Requirements. Except as may be otherwise specifically set forth in this Declaration, the Articles or the Bylaws, the vote of the majority of the aggregate votes entitled to be cast by all classes of the Members present, or represented by legitimate proxy, at a legally constituted (duly called) meeting of the Association at which a quorum is present, shall be the act of the Members with respect to the matter that is the subject of such vote. The number of votes required to constitute a quorum shall be as set forth herein or in the Bylaws. Notice requirements for all action to be taken by the Members of the Association shall be as set forth herein or in the Bylaws.

Section 3.04. Termination of Membership. A Person's membership in the Association shall terminate automatically whenever such Person ceases to be an Owner, but such termination shall not release or relieve any such Person from any liability or obligation incurred under or in any way connected with the association of this Declaration during the period of such Person's ownership of a Lot or Dwelling Unit, or impair any rights or remedies which the Association or any other Member has with regard to such former member.

Section 3.05. Rights and Responsibilities of the Association. Subject to the provisions as set forth in this Declaration, the Association has exclusive management and control of the Common Elements and all improvements thereon and all furnishings, equipment and other personal property relating thereto. The Association's duties with respect to such Common Elements include but are not limited to, the following:

- (a) maintenance of the Common Elements;
- (b) management, operation, maintenance, repair, servicing, replacement and renewal of all landscaping, improvements, equipment, and personal property constituting part of the Common Areas or located upon the Common Areas so as to keep all of the foregoing in good, clean, attractive, sanitary, safe and serviceable condition, order and repair;
- (c) all landscaping of the Common Elements;
- (d) maintenance of adequate public liability insurance, in an amount not less than \$1,000,000 per occurrence insuring the Association and its officers and directors, and adequate property casualty or hazard insurance with a minimum replacement value of one hundred (100%) percent after application of any deductibles, for the benefit of the Association with respect to the Common Elements;
- (e) payment of all taxes and assessments validly levied, assessed or imposed with respect to the

Common Elements owned in fee simple by the Association;

- (f) maintenance of private streets and recreational and other facilities located on the Common Elements;
- (g) payment of all assessments for public and private capital improvements made to or for the benefit of the Common Elements;
- (h) procurements and maintenance insurance as required under Article XII of this Declaration;
- (i) maintenance to be performed pursuant to Article IX;
- (j) ownership, management, operation, maintenance, repair and servicing of utility lines, including, but not limited to, water, electricity, gas, telephone, television, cable and sewer pipes located within the Common Elements to the extent such utility lines are not owned and maintained by the utility companies;
- (k) maintenance, repair and replacement of any retaining wall located within the Property, regardless of whether such retaining wall is located on a Lot or on Common Elements.

The Association may in its discretion also provide other services as and to the extent the Association deems appropriate, such as, but not limited to, security services or devices, including but not limited to operation of the entry guard house and any other security gates, security personnel and overall traffic control.

Section 3.06. Construction of Streets and Roads. The Declarant is responsible for construction of streets and roads within the Property. Upon the completion of construction of the streets and roads and conveyance of such roads to the Association, the Association shall be required to undertake the management, operation, maintenance, repair, servicing, replacement and renewal of any private streets and roads constituting Common Elements 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, if such streets and roads are intended to be public. Following any irrevocable acceptance of the streets and roads for maintenance as public rights of way by applicable governmental entities, the maintenance obligations of the Association for the streets and roads shall only be to the extent such activities are not performed by the applicable governmental entities.

Section 3.07. Third-Party Services. The Association may obtain and pay for the services of any person or firm to manage its affairs to the extent the Board deems advisable, as well as such other person or firm as the Board determines is necessary or desirable, whether such person or firm is furnished or employed directly by the Association or by any person or firm with whom it contracts. Any management contracts executed by the Association during the period of Class B membership shall have a 90-day termination clause. Without limitation, the Board may obtain and pay for legal, accounting, engineering or other professional services necessary or desirable in connection with the Common Elements or the enforcement of this Declaration, the Association's Articles of Incorporation, Bylaws, rules or regulations.

The Association may, acting through its Board, contract with other residential associations or commercial entities, neighborhoods or clubs to provide services or perform services on behalf of the Association and its

Members. In addition, the Association may contract with other residential associations or commercial entities, neighborhoods or clubs within the Corolla Bay Community to provide services in or perform services on behalf of such other associations, neighborhoods or clubs.

Section 3.08. Ownership by the Association. The Association may acquire, hold, exchange and dispose of real property and tangible and intangible personal property, subject to such restrictions as from time to time may be contained in this Declaration, the Association's articles of incorporation or the Bylaws.

Section 3.09. Rules and Regulations. The Association, from time to time, may adopt, alter, amend, rescind and enforce reasonable rules and regulations relating to the Property, including without limitation, rules and regulations governing the use and operation of the Common Elements, which rules and regulations shall be consistent with the rights and duties established by this Declaration (the "Rules and Regulations"). The validity of the Association's rules and regulations, and their enforcement, shall be determined by a standard of reasonableness for the purpose of protecting the value and desirability of the Property.

Section 3.10. Non-Performance by Lot Owner. The Association may perform any duty required of a Lot Owner hereunder or under the Bylaws and assess the costs thereof against the Lot Owner's Lot(s), as a Special Individual Assessment in accordance with the provisions of Section 9.5 hereof. The Association shall first provide thirty (30) days' written notice to the Lot Owner of its intention to perform such duties and charge the Lot Owner for the cost thereof, and it shall so perform the duties and charge the Lot Owner for the cost thereof only if the duties are not fully performed at the end of the 30-day period.

Section 3.11. Landscaping. The Association may provide for or perform itself the services of landscaping and maintenance of right-of-way dedication areas on or adjacent to the Property so as to ensure an aesthetically pleasing and uniform look along roads, streets, rights-of-way, or Common Elements that are within or adjacent to the Property. Expenses of the Association in performing these tasks, should the Association choose to assume the responsibility for these tasks, shall be a Common Expense.

Section 3.12. Limits on Litigation of the Association. No judicial or administrative proceeding shall be commenced or prosecuted by the Association unless approved by a vote of seventy-five (75%) percent of the Members. This Section shall not apply, however, to (a) actions brought by the Association to obtain injunctive relief to enforce the provisions of this Declaration, (b) the imposition and collection of assessments as provided in Article VIII and (c) proceedings involving challenged to ad valorem taxes. This Section shall not be amended unless such amendment is so made by the Declarant or is approved by a vote of seventy-five (75%) percent of the Members.

Article IV

Property Rights in the Common Elements

Section 4.01. Easement of Enjoyment. Subject to the provisions of this Declaration (and subject to the provisions of any Supplemental Declaration which may be applicable and not inconsistent herewith), every Owner shall have a right and easement of use and enjoyment in and to the Common Elements, and every Owner of a Lot or

Dwelling Unit in a phase or section of The Villas at Corolla Bay which has Limited Common Elements shall have a right and easement of use and enjoyment in and to such Limited Common Elements, which rights and easements shall be appurtenant to and shall pass with the title to every Lot or Dwelling Unit; provided however, such easement shall not give such person the right to make alterations, additions or improvements to any part of the Common Elements or Limited Common Elements. Subject to the terms of the Governing Documents, any Owner may delegate such Owner's right of use and enjoyment in and to the Common Elements or Limited Common Elements to the members of such Owner's family, such Owner's tenant or contract purchasers who reside on the Owner's Lot or Dwelling Unit.

Section 4.02. Extent of Owners' Easement. The rights and easements of enjoyment created in Section 4.01 of this Article IV shall be subject to the following:

(a) all provisions of this Declaration affecting such rights and easements, including without limitation those contained in this Article IV.

(b) the right of the Association to prescribe and enforce regulations governing the use, operation and maintenance of the Common Elements (including limiting the number of guests of Members who may use the Common Element).

(c) the right of the Association to borrow money for the purpose of improving, repairing, replacing and maintaining the Common Elements and facilities and/or the Landscaped Rights-of-Way and in connection with such borrowing to mortgage the Common Elements, provided the rights of such mortgagee in the Common Elements shall be subordinate to the rights of the Association and the Owners hereunder (Note: the term "mortgage" when used in this Declaration also includes a Deed of Trust and any other type of security interest in real or personal property).

(d) the right of the Association to take such steps as are reasonably necessary to protect the Common Elements against foreclosure;

(e) the right of the Association to suspend the voting rights and the right to use recreational facilities of the Common Elements if any, by an Owner (including his tenants) for any period during which any assessment against such Owner's Lot or Dwelling Unit remains unpaid; and for a period not to exceed sixty (60) days for any infraction of the Association's published rules and regulations;

(f) the right of the Association to charge reasonable admission and other fees for the use of any recreational facilities that may be placed within the Common Elements.

Section 4.03. Changes in Boundaries: Additions to Common Element. Declarant expressly reserves for itself and its successors and assigns the right to reasonably change and realign the boundaries of the Common Elements and the Limited Common Elements and any Lots, including the realignment of boundaries between adjacent Lots or Dwelling Units owned by Declarant, provided that any such change or realignment of boundaries shall not materially decrease the acreage of the Common Elements and shall be evidenced by a revision of and/or addition to those plats of The Villas at Corolla Bay which shall be recorded in the Office of the Register of Deeds of Currituck County, North Carolina. Except as provided herein, lots may not be subdivided or separated into smaller lots or any portion of a lot separately conveyed.

Section 4.04. Damage or Destruction of Common Elements by Owner. If any Owner or any of their guests, tenants, licensees, agents, employees of Owner or his family damages any of the Common Elements as a result of negligence or misuse, the Owner hereby authorizes the Association to repair the damage. The cost of repair shall be the responsibility of that Owner and shall become an Individual Lot Assessment payable by the responsible Owner. In the event an Owner disputes either responsibility or the amount of damage claimed, then the Owner may request a hearing pursuant to the revisions of Section 7.14 (b) and any liability determined shall be an assessment secured by lien as allowed by the Act.

Section 4.05. Streets. The Association may make rules and regulations concerning driving and parking within The Villas at Corolla Bay including any designations of parking, the posting of speed limits and any other traffic signs to take reasonable measures to discourage excessive speed and encourage safe driving on the streets.

Section 4.06. Ingress and Egress. Notwithstanding anything to the contrary appearing in this Declaration, if ingress and egress to any Lot or Dwelling Unit is through any part of the Common Elements, any conveyance or encumbrance of such part of the Common Elements shall be subject to an easement for ingress and egress for such Lot or Dwelling Unit over and upon such portion of the Common Elements as is designated for ingress and egress (by a public or private street or right of way) and shown on a recorded plat of such Common Elements, Lot or Dwelling Unit affected thereby or created or reserved by Declarant in an instrument recorded in the Currituck County, North Carolina Registry.

Section 4.07. Title to Common Elements. The Declarant shall retain the legal title to the Common Elements until such time as it has completed improvements, if any, thereon and until such time as, in the opinion of the Declarant, the Association is able to maintain the same but, notwithstanding any provision to the contrary herein, the Declarant hereby covenants, for itself, its successors and assigns, that it shall convey the Common Elements to the Association at its option anytime prior to September 15, 2030.

Section 4.08. Stormwater Management Improvements. The Association will be responsible for maintenance of any stormwater management swales, channels and check dam repairs. Each Association shall be responsible to insure that each owner within each neighborhood maintains his driveway. Such maintenance is to include removal of sediments within the swales and channels, restabilization of the swales and channels as needed, check dam repairs and upkeep of the vegetation cover on a periodic, as required basis. Each Dwelling Unit which is attached to another Dwelling Unit is hereby subject to an easement upon and across such other attached Dwelling Unit for the drainage and discharge of water from any storm drain to or toward downspouts situated on the other attached Dwelling Unit and the owner of such Dwelling Unit may not alter or obstruct such drainage or flow of water to the detriment of the other Dwelling Unit or the Common Elements of The Villas at Corolla Bay.

Section 4.09. Sales and Construction Offices. Notwithstanding any provisions of restrictions herein to the contrary, there is hereby reserved for the benefit of Declarant and its successors and assigns during the Declarant Control Period, the alienable and transferable right and easement in and to The Villas at Corolla Bay for the maintenance of signs, sales offices, construction offices, business offices and model Dwelling Units, together with such other facilities as may be reasonably required, convenient, or incidental to the completion and improvement of Common Elements, and/or sale of Lots, for so long as Declarant owns any Lot or Dwelling Unit primarily for the purpose of sale.

Section 4.10. Model Homes. During the Declarant Control Period, the only Dwelling Units which may be used as "sales offices" or "model homes" shall be those which have been specifically approved in writing by the Declarant. Presently, the only permitted use of sales offices or model homes shall be those sales offices or model homes operated by BD&A Realty & Construction, Inc, or that real estate agency designated by the Declarant.

Section 4.11. Private Roads. In the development of the Property, the Declarant may construct certain private streets or roads within the Property connection parcels of the Property to public rights of way. The Lot Owners shall have a perpetual, non-exclusive easement but no more than an easement for vehicular and pedestrian ingress and egress for themselves, their tenants, family members, contract purchasers, guests, agents, employees, representatives, invitees and assigns over such private streets and roads to and from all portions of the Property, and there shall be no public rights of any kind therein, unless approved by the Members. Declarant reserves the right to name and revise from time to time the names or other designations given to such private streets or roads. The Association shall also be responsible for any curbs, gutters, storm drains and the like associated with the private streets.

Article V
Rights Reserved to the Declarant

Section 5.01. Special Declarant Rights. In addition to the development rights reserved by Declarant as hereinafter set forth within this Article V, the Declarant has reserved all Special Declarant Rights as allowed by the Act including, without limitation: all rights to complete improvements within any of the property or properties added to The Villas at Corolla Bay; to exercise all development rights as set forth below; to maintain sales offices; to use Dwelling Units as models and management offices; to use easements through the Common Elements for the purpose of making improvements within The Villas at Corolla Bay or within the Additional Property; and to appoint or remove any officer or board member of the Association during the Declarant Control Period.

Section 5.02. Duration of the Declarant Control Period. The rights and obligations reserved for the benefit of the Declarant (the "Declarant Control Period") shall extend until September 15, 2030. The Declarant, however, may elect to voluntarily terminate all or any portion of the Declarant Control Period by expressing such election in writing to the Association.

Section 5.03. Right to Complete The Villas at Corolla Bay and to Make Changes. The Declarant shall have the right to conduct all lawful activities required or related to the completion of Corolla Bay as such may be reasonably amended from time to time and as approved under the Ordinances of Currituck County, North Carolina or any future municipality having jurisdiction.

Every person that acquires any interest in the Property, by acceptance of a deed made subject to this Declaration or recorded after his Declaration, acknowledges that The Villas at Corolla Bay is a part of the master planned community of Corolla Bay, the development of which is likely to extend over many years, and agrees not to protest, challenge or otherwise object to (a) changes in uses or density of property outside the Townhomes in which such person holds an interest, or (b) changes in any site plan filed with Currituck County in connection with the Property as it relates to Corolla Bay and The Villas at Corolla Bay. Although it is Declarant's intention to develop Corolla Bay in accordance with approved site plans, Declarant shall have the right, without the consent or approval of the Lot Owners to develop the Property at its own pace, in phases, in any order, add Common Elements, increase the number of Dwelling Units, change Dwelling Unit types and alter the site plan with approval of governmental

authorities.

Section 5.04. Governing Documents. During the Declarant Control Period, the Association shall make no amendments to the Governing Documents or take any other action that may adversely affect the Declarant's interest without the Declarant's prior written consent.

Section 5.05. Easements. The Association shall take no action seeking to alter easements established in the Governing Documents by the Declarant, nor to prevent establishment of easements necessary to complete The Villas at Corolla Bay.

Section 5.06. The Declarant's Representation on the Board. During the Declarant Control Period, the Declarant shall have the right to appoint a majority of the members serving on the Board of the Association which right of appointments may earlier be terminated as provided in Section 5.02 herein. The number of members of the Board and composition may not be changed during the Declarant Control Period without the Declarant's written consent.

Section 5.07. Marketing and Sales Activities. Notwithstanding any provisions or restrictions herein to the contrary, there is hereby reserved for the benefit of Declarant and its successors and assigns during the Declarant Control Period, the inalienable and transferable right and easement in and to The Villas at Corolla Bay for the maintenance of signs, sales offices, construction offices, business offices, and model Units, together with such other facilities as may be reasonably required, convenient, or incidental to the completion and improvement of Common Elements, and/or sale of Lot or Dwelling Units, or any Additional Phases, for so long as Declarant owns any Lot or Dwelling Unit in any Additional Phase for the purpose of the sale.

Section 5.08. Right to Transfer or Assign Declarant Rights. Any or all of Declarant's special rights and obligations set forth in this Declaration or the Bylaws may be transferred in whole or in part to other persons, provided the transfer shall not reduce an obligation nor enlarge a right beyond that which Declarant has under this Declaration or the Bylaws. No such transfer or assignment shall be effective unless it is in a written instrument Declarant signs and records in the office of the Public Registry of Currituck County, North Carolina. The foregoing sentence shall not preclude Declarant from permitting other persons to exercise, on a one-time or limited basis, any right reserved to Declarant in this Declaration where Declarant does not intend to transfer such right in its entirety, and in such case it shall not be necessary to record any written assignment unless necessary to evidence Declarant's consent to such exercise. Declarant further reserves the right for there to be additional Declarants who may own additional property to be added to Corolla Bay.

Section 5.09. Exclusive Rights to Use Name of Development. No Person shall use the names "Corolla Bay", "The Villas at Corolla Bay" any derivative of such name or in logo or depiction in any printed or promotional material without Declarant's prior written consent. However, Owners may use the name "The Villas at Corolla Bay" in printed or promotional matter where such term is used solely to specify where their Lot Dwelling Unit is located within Corolla Bay and the Association shall be entitled to use the words "The Villas at Corolla Bay" in their names.

Section 5.10. Right to Approve Additional Covenants. No Person shall record any declaration of covenants, conditions and restrictions, declaration of condominium, or similar instrument affecting any portion of Corolla Bay without Declarant's review and written consent. Any attempted recordation without such consent shall

result in such instrument being void and of no force and effect unless subsequently approved by written consent signed and recorded by Declarant.

Section 5.11. Right to Approve Architectural Changes. No amendment or modification to the Architectural Guidelines shall be effective without prior written notice to and the written approval of Declarant so long as Declarant owns property subject to, or which may become subject to this Declaration in accordance with Section 2.02.

Section 5.12. Right to Redesignate Certain Property. The Declarant, until one year after the last termination of Class B membership, hereby reserves for itself and its successors and assigns the right to redesignate property types or boundary lines shown on any recorded plat in the Public Registry of Currituck County, North Carolina by recording a new recorded plat in the Public Registry of Currituck County, North Carolina showing such changes and executed by the Declarant or its successors or assigns and any Lot Owners of property redesignated or for which the boundary line is thereby changed.

**Article VI
Architectural Standards**

Section 6.01. Purpose. Declarant desires to provide for the preservation of the values of The Villas at Corolla Bay with respect to any Dwelling Unit to be constructed on any portion of the Property. To that end, Declarant will establish an Architectural Standards Committee (the "ASC"). The purpose of the appointed ASC is to maintain standards as to appearance, shape, dimension, construction material, and color among other things, in order to establish a desirable consistency and harmony, among adjacent and surrounding structures and relative to location and topography.

Section 6.02. Advance Approval Required. All construction (which term shall include within its definition: staking, clearing, excavation, grading and other site work) or modification (except interior alterations not affecting the external structure or appearance of any building) including plantings or removal of plants, trees or shrubs shall not take place except in strict compliance with this Article, until the requirements below have been fully met and written approval of the Architectural Standards Committee ("ASC") has been obtained pursuant to Section 6.03 below. Unless approved in accordance with this Article, no structure, including, but not limited to: fences, porches, patios, decks, privacy walls, gates, pools, whirlpools or other pools, and awnings, shall be placed, erected or installed upon any Lot and/or Dwelling Unit.

Unless otherwise approved by the ASC, all improvements constructed on any portion of The Villas at Corolla Bay shall be designed by and built in accordance with the plans and specifications of an approved licensed architect and an approved licensed general contractor. For the purposes of this Article, an "Approved Licensed Architect" and "Approved Licensed General Contractor" shall mean an architect or general contractor properly licensed who has made application and has been approved by the ASC. The requirements and procedure for becoming an approved architect or general contractor shall be determined by the ASC.

This Article shall not apply to the activities of the Declarant, nor to construction of improvements or modifications to the Common Elements by or on behalf of the Association

This Article may not be amended during the Declarant Control Period without the Declarant's prior written

consent.

Section 6.03. Architectural Standards Committee. During the Declarant Control Period, the Declarant retains the right to determine the composition and appointment of all members of the ASC. Thereafter, all appointments shall be made by the Board.

Responsibility for administration of the Architectural Guidelines and review of all applications for construction and modifications under this Article VI shall be handled by the ASC. The members of the ASC need not be Owners within The Villas at Corolla Bay and may but not need include: architects, engineers or similar professionals, whose compensation, if any, shall be established and remitted from time to time by the Declarant. The Declarant may establish reasonable fees to be charged by the ASC for review of applications hereinafter and may require such fees to be paid in full prior to review of any application.

Section 6.04. Guidelines and Procedures. The ASC may promulgate design standards along with applications and review procedures from time to time to be adhered to by the Plans for the Lots or Dwelling Units in the Property (the "Architectural Guidelines").

Prior to submission of any plans, an Owner must first obtain a copy of the Architectural Guidelines and review those Guidelines and complete the application with the Architectural Guidelines as the ASC will not review any application other than the uniform application prepared by the ASC. A current copy of the Architectural Guidelines bearing latest date of revision shall be kept on file at the office of the Declarant and the Association.

The ASC shall adopt the Architectural Guidelines and thereafter shall have sole and full authority to reasonably amend the Architectural Guidelines from time to time without the consent of the Association, provided said amendments are consistent with the Statement of Purpose set forth within this Declaration; however, any amendments during the Declarant Control Period must have the prior written consent of the Declarant. Subsequent to the Declarant Control Period, any amendments to the Architectural Guidelines may be either proposed by the ASC to the Association or may be proposed initially by the Association and any adoption thereafter must be by a majority vote of the Board.

The ASC shall make the Architectural Guidelines available to Owners and approved Architects and General Contractors who seek to engage in any development and construction in The Villas at Corolla Bay and all such persons shall conduct their activities in strict accordance with the Architectural Guidelines. A written document acknowledging receipt of the Architectural Guidelines shall be signed by the appropriate General Contractor prior to commencement of any construction activity. All Owners, Architects, General Contractors, sub-contractors, materialmen and their agents shall conduct their activities strictly in accordance with the Architectural Guidelines.

Any amendments to the Architectural Guidelines as may be reasonably adopted from time to time by the ASC in accordance with this Section 6.04 shall apply to construction and modifications commenced after the date of such amendment only, and shall not require modifications or removal of structures previously approved by the ASC once the approved construction or modification has commenced.

The ASC may promulgate from time to time detailed standards and procedures governing its area of responsibility and practice. In addition thereto, the following shall apply: plans and specifications showing the

nature, kind, shape, color, size, materials and location of any proposed construction and any modification, addition or alteration to any prior approvals shall be submitted to the ASC for approval as to quality of workmanship and design and as to harmony of external design with existing structures, and as to location in relation to surrounding structures, topography and finishing grade elevation.

The plans to be submitted must include site plans which depict all access streets and walkways, pathways, and other exterior improvements, fill plan, if any, indicating runoff, foundation plan, exterior and lighting plan. The architectural drawings submitted must include total enclosed heated/air conditioned square footage, the floor plans, including an exact computation of the square footage of each floor and drawn to the scale of one quarter inch equals one foot, elevation drawings for all sides which shall indicate existing grade, fill and finished floor elevation, detailed drawings of typical wall sections and any other extra features, and a complete identification of colors and materials, including shingles, siding and color.

At time of submission, three sets of plans shall be submitted with the completed ASC application form along with an application fee of \$500.00 and a security deposit of \$2,000.00. Construction of all improvements must be completed within nine months from the date the ASC grants an applicant approval. The security deposit will be returned after completion of construction and compliance with the approved plans.

Section 6.05. Non-Precedential Nature of Approvals. Each applicant acknowledges that the composition of the ASC will change from time to time and that decisions regarding aesthetic matters and interpretation and application of the Architectural Guidelines may reasonably vary from time to time. In addition, each applicant acknowledges that it may not always be possible to identify objectionable features of proposed Improvements until the Improvements are completed, in which case it may be unreasonable to require changes to the Improvements previously approved, but the ASC may refuse to approve similar Improvements in the future. Approval of Improvements for any particular applicant or Dwelling Unit shall not be deemed a waiver of the right to withhold approval as to any similar Improvements subsequently submitted for approval.

Section 6.06. No Waiver of Future Approvals. The approval of the ASC of any proposals or plans and specifications or drawings for any work done or proposed, or in connection with any other matter requiring the approval and consent of the ASC, shall not be deemed to constitute a waiver of any right to withhold approval or consent as to any similar proposals, plans and specifications, drawings or matters subsequently or additionally submitted for approval or consent.

Section 6.07. Basis for Decision and Variance. The ASC shall approve or disapprove any application in its reasonable discretion, based primarily on adherence with the Architectural Guidelines; however, the ASC reserves the right to grant variances based on architectural merit and on existing landscape conditions. The ASC may also consider the nature, kind, shape, height of materials and location of the proposed improvements, harmony with surrounding structures and topography, and other factors including purely aesthetic considerations, which in the sole opinion of the ASC will affect the desirability or suitability of the construction.

Section 6.08. Limitation of Liability. Review and approval of any application pursuant to this Article is made on the basis of aesthetic considerations only and the ASC shall not bear any responsibility for ensuring the structural integrity or soundness of approved construction or modifications or for ensuring compliance with building codes and other governmental requirements. Neither the Declarant, the ASC or the Association, 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 Dwelling Unit.

Section 6.09. Enforcement. Any construction, alteration or other work done in violation of this Article or in a manner inconsistent with the application approved by the ASC shall be deemed to be nonconforming. Upon written request from the ASC ("Notice of Nonconformity"), an Owner shall, at his own cost and expense, promptly remove the nonconformity and restore the property to substantially the same condition as existed prior to the creation of the nonconformity. In the event an Owner is in disagreement as to the Notice of Nonconformity, then the Owner has the right to request a hearing before a three-member panel designated by the ASC provided the Owner delivers written notice for request of hearing to the Secretary of the Association no later than ten (10) days from the date the Owner received the Notice of Nonconformity. Upon receipt of any request for hearing, the Secretary of the Association shall thereafter calendar a hearing not less than seven (7) days nor more than fifteen (15) days before the ASC. Subject to procedures as may be established by the ASC, any Owner may appeal the ASC's decision to the Board. The Board at its election may either calendar a further hearing or uphold, modify or reverse the decision of the three member panel of the ASC and said decision by the Board shall be final. Upon issuance of the Notice of Nonconformity, all construction shall be stayed pending compliance by the Owner or resolution by the ASC or review and final decision by the Board. In accord, a stop-work order may be posted on the Owner's property by the ASC. Should an Owner fail to remove and restore any nonconformity as required hereunder, the Association 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, including reasonable attorney's fees allowed by the Act, may be assessed against the nonconforming Lot or Dwelling Unit and collected as an Individual Assessment pursuant to Section 8.04.

Any contractor, subcontractor, agent, employee or other invitee of an Owner who fails to comply with the terms and provisions of this Article may be excluded by the Declarant during the Declarant Control Period from The Villas at Corolla Bay, subject to the notice and hearing procedures established by the ASC. In such event, neither the Association, its officers nor directors shall be held liable to any person for exercising the rights granted by this Section.

In addition to the foregoing, the ASC 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 and the decisions of the ASC.

Section 6.10. Expiration of Approval. If work is not commenced within nine months from the date the ASC approves the Plans for such work, then such approval shall be deemed revoked by the ASC unless the ASC, in its sole discretion, extends the time for commencing work. All work covered by such approval shall be completed within one year after the commencement thereof, except for such period of time as such completion is rendered impossible or would result in great hardship due to strikes, fires, national emergencies, critical materials shortages, or other intervening forces beyond the control of the Owner or Occupant, unless the ASC, in its sole discretion, extends the time for completion. For the purposes of this Declaration, work on an Improvement shall be deemed to have "commenced" when the Improvement site has been graded and, in the case of buildings, footings or foundations have been poured or otherwise installed.

Section 6.11. Liability for Violation. Any person violating any provisions of this Article shall be liable for all costs incurred by the Declarant or the ASC or any other person who seeks to enjoin or otherwise remedy such violations, including, but not limited to, reimbursement for reasonable attorney fees and expenses incurred in connection with said enforcement.

Section 6.12. Application of this Article. Notwithstanding anything to the contrary contained herein, the Declarant's construction of improvements on any Lot or on any of the Common Elements shall be exempt from the provisions of this Article. Nothing contained in this Article shall be construed as prohibiting or conditioning any construction by the Declarant upon any Lot or upon any of the Common Elements while such property is owned by the Declarant.

Article VII
Use Restrictions

Section 7.01. Purpose. In order to preserve the natural setting and beauty of The Villas at Corolla Bay, and to establish and preserve a harmonious and aesthetically pleasing design pursuant to standards promulgated by the Association, and to protect and promote the value of all properties within The Villas at Corolla Bay each Lot and Dwelling Unit located within The Villas at Corolla Bay shall be subject to the restrictions set forth in this Article VII. Every grantee of any interest in The Villas at Corolla Bay (unless specifically exempted) by acceptance of a deed or other conveyance of such interest, agrees to be bound by the provisions of this Article VII.

Section 7.02. General Provisions. All Properties within The Villas at Corolla Bay shall be used for only single family, non-transient residential purposes consistent with this Declaration and any reasonable amendments. The Association acting through its Board, shall have authority to make and to enforce standards and restrictions governing the use of The Villas at Corolla Bay. Such regulations and use restrictions shall be binding upon all Owners, occupants, invitees and licensees, if any Board. The Use Restrictions provided herein are not intended to interfere with the interior confines of Dwelling Units, except that the Association with approval of the Board may reasonably restrict or prohibit the following:

- (1) activities not normally associated with residential or home office. Except as otherwise provided herein, no business activity or trade of any kind (other than activities related to development of the Development by Declarant, installation and maintenance work by utility providers and persons responsible for street maintenance or replacement of a single-family residence or improvement or maintenance of a Lot or Dwelling Unit) shall be conducted on any Lot or within any Dwelling Unit, except that an Owner residing in a Dwelling Unit on a Lot may conduct business activities within the Dwelling Unit as long as (a) the existence or operation of the business activity is not apparent or detectable by sight, sound or smell from outside the Dwelling Unit; (b) the business activity conforms to all zoning requirements for the Property; (c) the business activity does not involve persons coming onto the Property who do not reside in the Property or door to door solicitation of residents of the Property; and (d) the business activity is consistent with the residential character of the Property and does not constitute a nuisance, a hazardous or offensive use or threaten the security or safety of other residents of the Property, as may be determined in the sole discretion of the Board. The term "business" and "trade" as used in this Section, shall be construed to have the ordinary, generally accepted meanings, and shall include without limitation, any occupation, work or activity undertaken on an ongoing basis which involves the provisions of goods or services to persons other than the provider's family and for which the provider receives a fee, compensation, or other form of consideration, regardless of whether such activity is engaged in full or part time, such activity is intended or does generate a profit; or a license is required therefor;

- (2) activities that create a danger to the health or safety of the occupants of other Dwelling Units;
- (3) activities that generate excessive noise or traffic; and
- (4) activities that create unsightly conditions visible outside the Dwelling Unit.

Section 7.03. Animals. No animals, livestock or poultry of any kind shall be kept or maintained on any portion of the Property or in any Dwelling Unit except that dogs, cats or other household pets may be kept or maintained provided that they are not kept or maintained for commercial purposes, that they do not create a nuisance (in the judgment of the Board), such as, but without limitation, by number, noise, odor, damage or destruction of property or refuse and further provided that they are kept and maintained in compliance with (i) all laws and ordinances of the State of North Carolina, Currituck County, or other applicable governmental entity relating thereto; and (ii) such rules and regulations pertaining thereto as the Board may adopt from time to time. In no event shall more than three dogs and/or three cats be regularly kept on any Lot or in any Dwelling Unit, except for newborn offspring of household pets which are under nine (9) months of age. Notwithstanding the foregoing, Pitbulls are expressly prohibited, and the Association shall have the right to prohibit or require the removal of any dog or animal, which after consideration of factors such as size, breed, disposition of the animal, interference by the animal with the peaceful enjoyment by other Owners of their Lots and the security measures taken by the Owner with respect to such animal, the Association, in its sole discretion, deems to be undesirable, a nuisance or a safety hazard. Every person owing or having possession, charge, care custody or control of any dog shall keep such dog exclusively upon his own Lot; provided however, that such dog may be part of the Lot if it is under the control of a competent person and restrained by a chain, leash or other means of adequate physical control.

Section 7.04. Antennas. No antennas, aerials, satellite dishes or other receptive devices having a diameter or diagonal measurement greater than one meter shall be installed on any Common Elements, Lot, or Dwelling Units. So long as reception of an acceptable quality is not precluded, the antenna, aerial, satellite dish or other reception device having a diameter of appropriate size shall be located only on that portion of a Lot which is least visible from public view and shielded so as to minimize any risk and to ensure a nuisance is not created.

Section 7.05. Attachments. No permanent attachments of any kind or character whatsoever shall be made to the roof or exterior walls of any Dwelling Unit unless such attachments shall have been first submitted to and approved by the Architectural Control Committee. No outdoor clotheslines shall be allowed on any Dwelling Unit or Lot. Window air-conditioning units are not allowed. All components of HVAC systems located outside a Dwelling Unit must be screened by lattice and planted vegetation, which vegetation must be maintained.

Section 7.06. Dirt, Dust and Waste Discharge. No use of the Property will be permitted which emits dust, sweepings, dirt or cinders into the atmosphere or discharges liquid, solid wastes or other harmful matter into any body of water which in the opinion of the Declarant, may adversely affect the health, safety, comfort of, or the intended property use by, persons in the area.

Section 7.07. Decks, Patios, Porches. Any deck, patio or porch that is a part of any Dwelling Unit shall be kept in a clean, neat and orderly condition at all times, and shall not be used for the overnight storage of garbage, or for the drying of laundry. In particular, towels, blankets, sheets or banners shall not be hung on the deck, porch or balcony railings, and any dead plants shall be removed promptly. No indoor-outdoor carpeting, hot tub, or other pool shall be installed on any deck, patio or porch. Any furniture on the deck, patio or porch shall be appropriate

outdoor furniture and shall be maintained in a neat, tidy, and good condition. IF permitted by applicable building codes and zoning ordinances, a Lot Owner may use or store a cooking grill on a rear deck, patio or porch, but such Lot Owner shall be responsible for complying with all applicable laws, ordinances, and regulations in connection with such storage and use. All other personal property (such as bicycles, lawn care equipment and recreational equipment) shall be stored inside a Dwelling Unit.

Section 7.08. Nuisances, Unlawful Use and Quiet Enjoyment. No nuisance or immoral, improper, offensive or unlawful use shall be permitted to exist on any property within The Villas at Corolla Bay. All laws, building codes, orders, rules, regulations or requirements of any governmental agency having jurisdiction shall be complied with. No portion of The Villas at Corolla Bay shall be used, in whole or in part, for the storage of any property or thing that will cause it to appear to be in an unclean or untidy condition or that will be The Villas at Corolla Bay that will emit foul or obnoxious odors or that will cause any noise or other condition that will or might disturb the peace, quiet, safety, comfort or serenity of the occupants of surrounding property. Exterior loud speakers are prohibited on individual lots, except in pool areas and exterior decks.

Section 7.09. Pest-Control. All Dwelling Units must be subject to an agreement for periodic pest-control. All pest-control measures must be environmental friendly with the lowest chemicals allowed and any measures which can be performed by organic means shall be the method of treatment. Further, organic pest control measures if available must be performed on the soil of a Lot prior to commencement of any construction.

Section 7.10. Prohibited Uses. No portion of the Property shall be used for any business the operation of which would result in the generation, storage or disposal of any hazardous substance, material or waste (collectively, "Hazardous Substances"), including, but not limited to, (i) any asbestos or insulation or other material composed of or containing asbestos, or (ii) any hazardous, toxic or dangerous substance, material or waste defined as such in (or for the purposes of) the Comprehensive Environmental Response Compensation and Liability Act, as amended, 42 U.S.C. §9061 *et seq.*, the Resource Conservation and Recovery Act, 42 U.S.C. §6901 *et seq.*, the Clean Air Act, 42 U.S.C. §7401 *et seq.*, the Clean Water Act, 33 U.S.C. §1251 *et seq.*, the Refuse Act, 33 U.S.C. §401 *et seq.*, the Toxic Substances Control Act, 15 U.S.C. §2601 *et seq.*, and the Safe Drinking Water Act, 15 U.S.C. § 2601 *et seq.*, any so-called state or local "Superfund" or "Superlien" laws, or any other federal, state or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning any hazardous, toxic or dangerous substances, material or waste, including radioactive materials.

Section 7.11. Recreational Vehicles. Neither a motorboat, houseboat or other similar waterborne vehicle, nor any airplane, nor any travel trailers, other trailers or "camper" vehicles may be maintained, stored or kept on any portion of the Property, except in (i) enclosed garages or (ii) in area(s) specifically approved and with screens or covers as specifically approved by the Declarant or ASC (in the absence of approval or disapproval by Declarant).

Section 7.12 Rental of Dwelling Units. The individual renting of Dwelling Units within The Villas at Corolla Bay is allowed.

Section 7.13. Rules of the Association. All Owners and occupants of Lots or Dwelling Units shall abide by all rules and regulations adopted by the Association from time to time. The Board and the Declarant for so long as there remains a Class B Membership shall have all the power to enforce compliance with said rules and regulations by all appropriate legal and equitable remedies, and an Owner determined by judicial action to have violated said rules and regulations shall be liable to the Association and/or the Declarant for all damages and costs, including

reasonable attorneys fees.

Section 7.14. Signage. No signage of any kind, including "for sale" and "for rent" shall be erected within The Villas at Corolla Bay without the written consent of the ASC, except entry signs, directional signs and signs showing the name of a Dwelling Unit or other signs as erected by Declarant during the Declarant Control Period. Any permitted signage shall conform to uniform signage approved by the ASC which signage shall not contain the logo or name of any real estate agency or real estate agent other than the exclusive agent appointed by Declarant during the Declarant Control Period which shall be BD&A Realty & Construction, Inc. or any other agency designated by the Declarant. Declarant shall have the right to erect signs as they, in their discretion, deem appropriate. Each Owner shall display an exterior sign on the Dwelling Unit as approved by the ASC which includes the name and street address of the Dwelling Unit. Prohibitive signage shall also include flags of any kind that are not to be displayed on any Lot or family Dwelling Unit unless the owners receive written approval from the ASC.

Section 7.15. Site Line Limitations. No fence, wall hedge or shrub planting which obstructs sight lines at elevations between two and six feet above roadways shall be placed or permitted to remain on any corner Lot within the triangular area formed by the street property lines, or in the case of a rounded property corner, from the intersection of the street property lines extended. The same sight line limitations shall apply on any Lot within ten (10) feet from the intersection of a street property line with the edge of a driveway or alley pavement. No tree line is maintained at sufficient height to prevent obstruction of sight lines. Declarant reserves the right to waive the foregoing requirements with respect to portions of any Lots and/or Dwelling Units that also are considered Common Elements.

Section 7.16. Division of Lots: No Time Sharing.

(a) No Lot shall be further subdivided into multiple Dwelling Units.

(b) No Lot or ownership interest may be subdivided to permit time sharing or other devices to effect interval ownership unless approved by the Association subject to conditions which may be imposed by the Association. For purposes of this Section "time sharing" or "other devices to effect interval ownership" shall include, but not be limited to, ownership arrangements, including uses of corporations, trusts, partnerships, leases or tenancies in common, in which four or more persons or entities, not members or a single household, have acquired, by means other than will, descent, inheritance or operation of law, an ownership interest (directly or indirectly, equitable or legal) in the same Dwelling Unit and such owners have a formal or informal right-to-use or similar agreement.

Section 7.17. Unsightly Conditions. It is the responsibility of each Lot Owner to prevent any unclean, unsightly or unkempt conditions to exist on his Lot, Dwelling Unit, or grounds which shall tend to decrease the beauty of the Property, specifically as a whole.

During the construction or maintenance of any improvement to a Lot in the Property, the Lot, roads, bike paths, landscaping and Common Elements 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. Notwithstanding the foregoing, Declarant shall be exempt from the requirements of the preceding sentence during the initial construction of improvements by the Declarant (the "Initial Construction of Improvements"). Any

damage to the street, curb, sidewalk or to any part of any Common Elements or utility system caused by a Lot Owner or a Lot Owner's contractor shall be repaired by such Lot Owner. Lot Owners and their agents and employees shall adhere to any construction standard promulgated from time to time by the Association.

In the event the Lot Owner or his agent or employee (including, without limitation, any contractor or subcontractor) shall fail to maintain the Lot or Dwelling Unit, and adjoining areas, as specified herein, or allow damage to occur 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 unsightliness, make needed repairs, and to remove any rubbish, refuse, unsightly debris and/or growths from the Lot or Dwelling Unit, 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 Lot Owner to the Association and will become a continuing lien on the Lot until paid.

Section 7.18. Vehicles: Parking. All vehicles must be parked in garages or driveways on the Lots in parking spaces designated by the Association, and must not obstruct or interfere with the ingress or egress of others. Any parking in the Common Elements shall be on a first-come, first-served basis, and subject to any rules and regulations that may be promulgated by the Association. No house trailer or mobile home, school bus, truck or commercial vehicle over three-fourths (3/4) ton capacity or having ladder or pipe or similar racks or utility beds, boat or boat trailer, motor home, camper, or van (not to include passenger vans for non-commercial use), junked or wrecked vehicle, or vehicle on blocks shall be kept, stored or parked overnight either on any street or Common Elements or on any Lot. The foregoing will not be interpreted, construed or applied to prevent the temporary non-recurrent parking of any non-commercial vehicle, boat or trailer for a period not to exceed forty-eight (48) hours upon the private streets within the Property so long as such on-street parking does not obstruct or interfere with the ingress or egress of others. No shall the foregoing be interpreted, construed or applied to prevent Declarant from locating construction and/or sales trailers within the Property as necessary. No significant automobile repairs shall be allowed on the Property. The Association shall have the right to tow any vehicle in violation of this Section at the owner's expense.

Section 7.19. Compliance Provisions.

(a) **Owner's Responsibility.** Each Owner and Owner's family members, guests and tenants shall conform and abide by the Covenants contained in this Declaration and any Rules and Regulations which may be adopted from time to time by the Association. Each Owner shall be responsible for assuring such compliance, and any violation by family members, guests or tenants may be considered to be a violation by the Owner.

(b) **Notice, Hearing and Fines.** Unless otherwise provided (as in Articles VI and Article IX), any Owner who is believed to be in violation of this Declaration or any Rules and Regulations adopted by the Board, shall be sent a "Notice of Violation" setting forth the violation, any requested corrective action, and if applicable, notice of any proposed suspension of privileges within Corolla Bay and any fines which may be assessed. Upon receipt of a Notice of Violation, the Owner may either take the corrective action set forth within the Notice of Violation or in the event an Owner is not in agreement with the terms of the Notice of Violation, then prior to any proposed suspension or assessment of any fines, the Owner has the right to a hearing before the Board provided the Owner delivers written notice for request of hearing to the Secretary of the Association no later than ten (10) days from the date the Owner received the violation. Upon receipt of any request for hearing, the Secretary of the Association shall thereafter calendar a hearing not less than seven (7) days nor more than thirty (30) days before the Board. If it is determined that the Owner is in violation and a fine shall be imposed, a single fine not to exceed \$100.00 may be

imposed for the violation up to the time of the hearing and without further hearing, for each day after the decision by the Board that a violation has occurred. In the event it is determined that privileges are to be suspended, the suspension may continue without further hearing until the violation or delinquency is cured. All costs, together with interest at the maximum rate permitted by law, including reasonable attorney fees as allowed by the Act may be assessed against the Owner's property and collected as an Individual Assessment pursuant to Section 8.04. Notwithstanding the enforcement provisions provided herein, the primary goal is not to punish but to conciliate and resolve problems. The Board may suggest or approve agreements and withhold the agreement of paying a fine if the agreement is honored. Any fines levied shall be charged against the Owner's property as an Individual Assessment pursuant to Section 8.04. The provisions provide herein for notice and hearing only apply to those matters which could result in an individual assessment being levied and do not apply to any other type of assessments.

(c) Additional Remedies. All remedies listed in this section are non-exclusive and may be applied cumulatively.

Article VIII
Association Finances

Section 8.01. Creation of Assessments, Personal Obligation and Lien. Each owner, other than the Declarant of any Lot or Dwelling Unit, by acceptance of a deed therefore, whether or not it shall be so expressed in any such deed or other conveyance, shall be deemed to and does hereby covenant and agree to all the covenants, easements and restrictions of this Declaration and to pay to the Association:

- (1) Annual Assessments or charges;
- (2) Subject to the requisite approval of the Owners as provided herein and in addition to the Annual Assessments hereinabove authorized, Declarant may levy Special Assessments for the purpose of defraying, in whole or in part, the cost of any construction or reconstruction, unexpected repair or replacement of the Common Elements. Any Special Assessment that is assessed against all Lot Owners exceeds Five Hundred and No/100 (\$500.00) Dollars per year shall require the consent of two-thirds (2/3) of the votes of the Members who are voting in person or by proxy at a meeting called for this purpose, written notice of which shall have been sent to all Members in accordance with the provisions of the Bylaws for such special meetings; and
- (3) Individual Assessments levied against an Owner to reimburse the Association for extra costs for maintenance and/or repairs caused by the failure of such Owner to maintain such Owner's individual Lot or Dwelling Unit and Improvements thereon, or for damage to or destruction of Common Elements by the Owner or the Owner's guests, tenants, licensees, agents, or family members, all of such assessments and charges to be fixed, established and collected as hereinafter provided; together with the costs, fees and expenses including reasonable attorney's fees (the "costs of collection") incurred by the Association incidental to the enforcement of any violation of Articles VI, VII, IX, any Rules and Regulations or other provisions of this Declaration, collection of assessments or collection of damages or charges arising under the Governing Documents. All assessments together with interest and late payment fees, and any costs of collection shall be a charge on the land and shall be a continuing lien upon the Lot or Dwelling Unit against which each such assessment is made. Each such assessment, together with such interest thereon and cost of collection thereof as

hereinafter provided, shall also be a personal and continuing obligation of the person or persons jointly and severally, who is (are) the Owner (s) of such Lot or Dwelling Unit at the time when the assessment fell due.

An Owner's personal obligation for payment of such assessments shall not pass to such Owner's successors in title unless expressly assumed by them, but the lien against such Owner's Lot or Dwelling Unit as established in this Declaration shall continue in effect (unless terminated as otherwise provided herein). No Owner shall be exempt from liability for any assessment provided for herein by reason or non-use of such Owner's Lot or Dwelling Unit or the Common Elements.

Section 8.02. Purpose of Assessments and Budgeting for Reserves. The assessments levied by the Association shall be used exclusively to promote the health, security, safety and welfare of the residents of The Villas at Corolla Bay and in particular for:

(a) The improvement, maintenance and replacement of the Common Elements (including, without limitation, the landscaped right-of-way);

(b) Establishment of capital replacement reserves. The Board shall prepare and review at least annually a reserve budget for the Common Elements. The budgets shall take into account the number and nature of the replaceable assets, the expected life of each asset, and the expected repair or replacement cost. The Board shall include in the Common Expense budget adopted pursuant to Section 8.03 a capital contribution to fund reserves in an amount sufficient to meet the projected need with respect to both amount and timing by annual contributions over the budget period. The reserve fund or funds shall be segregated from operating funds of the Association and may be in the form of a cash deposit, or invested in certificates of deposit or similar obligations issued by a bank or savings and loan association or the obligations of, or fully guaranteed as to principal, by the United States of America;

(c) For the acquisition of services and facilities devoted to the foregoing purposes or for the use and enjoyment of the Common Elements, including but not limited to, the cost of repairs, replacements, additions, the cost of labor, equipment, materials, management and supervision, the payment of taxes assessed against the Common Elements, the procurement and maintenance of insurance related to the Common Elements, its facilities and use in accordance with the Governing Documents, the employment of counsel to represent the Association if necessary, and such other requirements as may be necessary to perform all of the aforesaid functions and purposes;

(d) Carrying out the purposes and duties of the Association as stated in its Articles and Bylaws and as stated in this Declaration.

Without limiting the generality of the above-described purposes, the assessments levied by the Association may be used for the acquisition, construction, improvement (including landscaping and planting) and maintenance of any common facilities located or to be located in the Common Elements and Landscaped Rights of Way, and any landscaping easement areas or Entrance Monument easement areas as shall be indicated on the recorded plats of The Villas at Corolla Bay.

Section 8.03. Initial Annual Assessment and Budgeting Process.

(a) The initial annual assessment for the calendar year 2010 shall be as follows:

<u>Type of Property</u>	<u>Annual Assessment</u>
Vacant Lot	\$1,000.00
Dwelling Unit	\$2,000.00

(b) Budgeting Processing. The annual assessment for each successive calendar year thereafter shall be established by the Board subject to Article VIII. Within thirty (30) days after adoption of the yearly budget, the Board shall provide to all Owners a summary of the budget and a notice of the meeting to consider ratification of the budget. The Board shall set a date for a meeting of the Owners to consider ratification of the budget, such meeting to be held not less than ten (10) nor more than sixty (60) days after mailing of the summary and notice. A quorum need not be present at such meeting, and the budget is ratified unless at that meeting the Owners entitled to exercise fifty-one percent (51%) of the votes in the Association reject the budget. In no event may the Board or membership of the Association decrease the amount of the annual assessment for any calendar year from the amount of the annual assessment for the previous calendar year.

Section 8.04. Individual Assessment. An Individual Assessment may be levied against any Owner to reimburse the Association for costs incurred in bringing the Owner and/or such Owner's Lot or Dwelling Unit into compliance with the Governing Documents, provided such Individual Assessment may only be levied on the affirmative vote of the Board, after notice of an opportunity for hearing has been provided to the Owner pursuant to the applicable provisions of either Section 6.09, Section 7.14 or Section 9.03.

Section 8.05. Emergency Assessments. In addition to the annual assessments, special assessments, and individual assessments authorized herein, in the event of an "Emergency" (as hereinafter defined), the Board, on behalf of the Association, in the Board's sole discretion, may levy an emergency assessment for the purpose of taking preventative, protective, stabilizing, or remedial actions to protect the Common Elements or any improvements located thereon, and to further reconstruct, repair or replace any portion of the Property or improvements following such Emergency. An "Emergency" for purposes of this Section 8.05 includes, but is not limited to, floods, hurricanes, tornadoes, fires, acts of God or other naturally occurring phenomena. An emergency assessment shall be due and payable as established by the Board.

Section 8.06. Calculation and Collection of Assessments.

(a) Except as otherwise set forth herein, assessments other than Individual Assessments must be fixed at a uniform rate for all Lots. Annual Assessments other than Individual or Special Assessments may be collected on a monthly, quarterly, annual or other basis, as determined by the Board, and may be collected in advance. The Board shall have the power at any time and from time to time, in its sole discretion and upon such terms and conditions as the Board deems appropriate, to allow percentage discounts to Owners who pay assessments earlier than would otherwise be required for such payments; provided, however, all such discounts shall be made available to and applied uniformly to the Owners of all Lots that are subject to the assessment to which the discount applies.

(b) Notwithstanding anything to the contrary that may appear in this Declaration, all Lots and Dwelling Units owned by Declarant shall be exempt from Annual, Special, and Individual Assessments, until the initial sale of such Lot or Dwelling Unit to a third party.

Section 8.07. Commencement of Assessments: Establishing the Amount: Due Dates. The annual assessment shall commence with respect to the Dwelling Units and Lots in any Phase on the first day of the month immediately following the month in which the first Lot or Dwelling Unit in The Villas at Corolla Bay is conveyed to the Owner by Declarant, and the amount of the first Annual Assessment applicable to the Lot or Dwelling Unit shall be prorated in accordance with the number of months remaining in the calendar year on and after it becomes applicable to the Lot or Dwelling Unit. A Special Assessment and/or Individual Assessment shall be applicable to each Lot or Dwelling Unit subject to this Declaration at the time such assessment is established. The Board shall establish the amount of the annual assessment for the ensuing calendar year at least sixty (60) days in advance of the beginning of such year, and, if the amount of the annual assessment changes from the amount for the current year, the Board shall cause written notice of the new annual assessment to be sent to at least one of the Owners of each Lot or Dwelling Unit subject to the assessment. Subject to any limitations contained in the Governing Documents and applicable laws, the Board is empowered at any time and from time to time to establish the due dates and penalties for late payment of annual and special assessments. The failure of the Board to establish the amount of any annual assessment as required herein shall not be a waiver or modification in any respect of the provisions of this Declaration, or a waiver of the Board's right to establish the annual assessment at any time during the calendar year to which it is applicable, or a release of any Owner from the obligation to pay the assessment or any installment thereof for that or any subsequent year, and the annual assessment established for the immediately preceding calendar year shall continue in effect until the Board has established the new annual assessment.

Section 8.08. Effect of Non-Payment of Assessment: The Personal Obligation of the Owner: The Lien: Remedies of Association. If any Owner fails to pay an Assessment when due and payable, the Association shall be subject to a late charge in the amount of five percent (5%) of the delinquent Assessment and shall bear interest from the due date at the rate equal to the lesser of eighteen percent (18%) per annum or the highest rate of interest permitted by law. If an Assessment is not paid by the due date, it shall become delinquent and the Association may thereafter send a notice of such delinquency to the Owner, stating that if the delinquent Assessment is not paid in full within ten (10) days after the date of such notice the Association may thereafter file a written notice of such delinquency (the "Lien Notice") in the Clerk's Office of the Currituck County Superior Court to evidence the lien upon the Lot or Dwelling Unit against which such Assessment was made. Such Lien Notice, setting forth the amount of such unpaid Assessment, the name of the Owner of the Unit, and the legal description of the Lot or Dwelling Unit shall be signed by an agent of the Association and shall be recorded in the Clerk's Office. The Association may foreclose the lien for the Assessments provided for in this Declaration in the same manner as provided for a foreclosure of a power of sale in a Deed of Trust. The Association may also secure and collect Assessments by any other means permitted by law. In addition, either in the first instance or for deficiency following foreclosure, the Association may bring an action at law to collect such indebtedness against the Owner personally obligated to pay the same. In accord with Section 47F-3-116 of the Act, the Association is the prevailing party in any action brought to recover assessments shall be entitled to reimbursement for all costs and reasonable attorney's fees incurred in connection with the collection of the delinquent assessments which shall be added to the amount of the assessments due and shall be secured by the Association lien. Interest, late charges, costs, and attorneys' fees of any such action, including the cost of filing the Lien Notice, shall be added to the amount of the Assessments due and shall be secured by the Assessment lien. The personal obligation of the Owner to pay such Assessment shall remain his personal obligation for the statutory period and shall be binding on any successor in interest.

If the Assessment or Assessments are not paid within thirty (30) days after the delinquency date, the

Assessment or Assessments shall bear interest from the date of delinquency at the rate of interest set by the Board, not to exceed the maximum rate permitted by law, and the Board acting on behalf of the Association may authorize its officers to bring appropriate civil action against the Owner personally obligated to pay the same or to foreclose the lien against any such Lot or Dwelling Unit and there shall be added to the amount of such assessment, the costs of such action and reasonable attorney's fees as allowed by the Act or other cost incurred by the Association. In the event a judgment is obtained against any Owner for such Assessments, such judgment shall include interest on the Assessment at the maximum rate permitted by law and a reasonable attorneys' fee as allowed by the Act together with the costs of the action.

Section 8.09. Subordination of the Lien to Mortgages or Deeds of Trust. The lien of the assessments provided for herein shall be absolutely subordinate to the lien of any first mortgage or deed of trust now or hereafter placed upon any Lot or Dwelling Unit, subject to assessment. The subordination shall not relieve any Lot or Dwelling Unit from liability for any assessments now or hereafter due and payable, but the lien thereby created shall be secondary and subordinate to any first mortgage or deed of trust as if said lien were a second mortgage or deed of trust, irrespective of when such first mortgage or deed of trust was executed and recorded.

Section 8.10. Exempt Property. All Common Elements, any real property owned by governmental entities, and all Lots, Dwelling Units, and other portions of the Property owned by Declarant, shall be exempt from the assessments and liens for same created herein. Provided, however, no real property or improvements subject to this Declaration and occupied and used for residential dwelling purposes shall be exempt from such assessments and liens, other than Lots and Dwelling Units owned by Declarant.

Section 8.11. Statement of Common Expenses. In accord with Section 47F-3-118 of the Act, the Board or managing agent shall provide any member, Owner, contract purchaser or Mortgagee, within ten (10) days after a written request therefore, with a written statement of all unpaid assessments for Common Expenses due with respect to a specific Lot or Dwelling Unit (or a statement that the amount of unpaid assessments is zero). No contract purchaser, Mortgagee, or purchaser from a Mortgagee requesting such a statement shall be liable for, nor shall the Lot or Dwelling Unit conveyed to such Person relying on such statement be subject to, a lien for any unpaid assessments due prior to the date of such statement in excess of the amount set forth on such statement; provided, however, that this section shall not be interpreted to release any Owner from personal liability for such assessments levied while such Person owned the Lot or Dwelling Unit. The Board may impose a reasonable charge for the preparation of such statement to cover the cost of preparation.

Section 8.12. Limited Common Elements. Limited Common Elements shall mean and refer to those parts of the Common Elements which are Limited Common Elements that are reserved for the exclusive use of adjacent Lots. The Limited Common Elements existing at the time of the recordation of the Declaration are shown on the Subdivision Plat.

Article IX Maintenance

Section 9.01. Responsibilities of Owners. Each Lot or Dwelling Unit Owner shall be responsible for all maintenance and repair of his Lot and/or Dwelling Unit together with all other improvements thereon or therein and all landscaping of grounds on and within the Lot and shall be responsible for the maintenance of the Limited Common Elements associated with their Lot. Each owner shall be responsible for maintaining his Lot and Limited

Common Elements in a neat, clean and sanitary condition, and such responsibility shall include the maintenance and care of all exterior surfaces of all improvements and other structures and all trees, shrubs, hedges, walkways, driveways and other landscaping consistent with the site plan and landscape plan approved by the ASC, unless said maintenance repair and replacement has been specifically delegated by the Association as provided in Section 9.02 herein.

Section 9.02. Responsibilities of the Association.

(a) The Association shall maintain and keep in good repair the Common Elements, such maintenance to be funded as hereinafter provided. This maintenance shall include, but need not be limited to, all landscaping and other flora, structures, any private streets, pedestrian pathways, access walkways, all stormwater management facilities (including without limitation, ponds, basins, storm drainage pipes, or oil grit separators, drainage areas and underground facilities, if any) and any recreational facilities which become available for use as determined by the Declarant whether or not title to such facilities has been conveyed to the Association. All costs associated with maintenance, repair and replacement of the Common Elements shall be a Common Expense to be allocated among all Owners as part of the Common Assessment.

Section 9.03. Compliance. The Association shall have the right but not the obligation to cure any maintenance deficiencies of an Owner (including but not limited to external care of windows, siding and roofing) in which event the Association shall give a "Notice of Maintenance" to the Owner setting forth those matters in need of repair and requesting the same be addressed and said repairs completed within thirty (30) days from the date of said notice. Upon timely written request by an Owner to the Secretary of the Association, the ASC shall give consideration to any reasonable request by the Owner for an extension to complete said repairs beyond thirty (30) days. In the event an Owner is in disagreement as to the need for repairs or corrections requested within the Notice of Maintenance, then the Owner has the right to request a hearing before a panel of three Members designated by the ASC provided the Owner delivers written notice for request of hearing to the Secretary of the Association no later than ten (10) days from the date the Owner received the Notice of Maintenance. Upon receipt of any request for hearing, the Secretary of the Association shall thereafter calendar a hearing not less than seven (7) days and no more than thirty (30) days before the ASC. Subject to procedures that may be established by the Association, any Owner may appeal the ASC's decision to the Board. The Board in its election may either calendar a further hearing or uphold, modify or reverse the decision of the three member panel of the ASC and said decision by the Board shall be final. Should an Owner fail to make those repairs as set forth within the Notice of Maintenance, then the Association or its delegate agent shall have the authority to enter upon the Owner's property to repair and restore the Lot and/or Dwelling Unit and if necessary, make exterior repairs. All costs together with interest at the maximum rate permitted by law, including reasonable attorney fees as allowed by the Act may be assessed against the Owner's property and collected as an Individual Assessment pursuant to Section 8.04.

**Article X
Easements**

Section 10.01. Easement Reserved by Declarant. Declarant, for so long as there is a Class B Membership, and then the Association, for itself, its successors and assigns, and its agents, contractors, and employees reserves a perpetual, alienable, and releasable easement on, over and under the Property (and including all Dwelling Units, Lots and Common Elements and Limited Common Elements) for installation, maintenance, repair, replacement, use, operation and removal of utilities (including, without limitation, electric, natural-gas, telephone and cable

established for applicable governmental entities and municipal, state or public utilities serving the Development and their agents and employees, over all Lots, Dwelling Units, Common Elements hereby or hereafter established (and approved if required), for the purpose of setting, removing, repairing, maintaining and reading utility meters, maintaining, repairing and replacing streets, utilities, utility or drainage connections, and acting for other purposes consistent with the public safety and welfare, including without limitation, police and fire protection, garbage collection, and mail delivery, the rights granted by such easements to be exercised in a reasonable manner and at reasonable times (except in the case of an emergency).

Section 10.04. Easements Shown on Recorded Maps. Declarant, for itself, its successors and assigns (including, without limitation, governmental entities and the Association), and in addition to those easements reserved in this Declaration, hereby reserves easements in the locations and for the purposes shown and indicated on all maps of Lots or Dwelling Units subject to this Declaration that are recorded in the Currituck County, North Carolina Registry, and for the purpose of exercising and implementing such easement rights, Declarant and the Association shall have the right of ingress, egress and regress over and upon those easement areas. The rights reserved by this Section 10.04 include, without limitation, the right to construct, alter, place, maintain, repair replace and use in the easement areas identified on such maps, all improvements deemed necessary, in the reasonable discretion of the Declarant or the Association, for the full exercise of such easement.

Section 10.05. Entrance Monuments. Declarant has the right but not the obligation to install an entrance monument and related improvements ("Entrance Monument") on any Limited Common Elements which is specified as a Limited Common Elements upon which an Entrance Monument may be established in any Supplemental Declaration which is filed in the Currituck County Public Registry. Declarant hereby reserves for the benefit of Declarant and grants to the Association an easement over, under and across such Limited Common Elements for the installation and maintenance of such Entrance Monument.

Section 10.06. Encroachment Easements for Improvements Constructed by Declarant. Declarant does hereby grant, declare, and establish easements over all Lots for the encroachment of improvements now or hereafter constructed by the Declarant on adjacent Lots, Common Elements or rights-of-way to the extent that such improvements actually encroach, including, but not limited to, such items as sidewalks, provided such encroachment does not interfere with the reasonable use of the Lots so encroached upon.

Section 10.07. Erosion Control. Declarant reserves for itself and for the Association a perpetual easement, right, and privilege to enter upon any Lot or Dwelling Unit, Common Element, or Limited Common Element, either before or after any Improvement has been constructed thereon or during such construction, for the purpose of taking such erosion control measures as Declarant or the Association deems necessary to prevent or correct soil erosion control or siltation provided, however, that Declarant or the Association shall not exercise such right unless it has given the Owner of the Lot or Dwelling Unit (or the Association as to the Common Element or Limited Common Element) at least five (5) days' prior notice thereof (or such shorter notice as shall be appropriate in an emergency as determined by Declarant or the Association, as applicable) and the Owner or the Association, as the case may be, has failed to take appropriate action to correct or prevent the erosion or siltation problem. The cost incurred by Declarant or the Association, as applicable, in undertaking such erosion or siltation control measures on any Lot or Dwelling Unit shall become an Individual Assessment upon the Lot or Dwelling Unit and shall constitute a lien against the Lot or Dwelling Unit and shall be collectible in the manner provided herein for the payment of Assessments. This Section shall not apply to Property so long as it is owned by Declarant.

television) and related appurtenances and equipment (including without limitation, wires, poles, pipes, transformer boxes and conduits), stormwater and drainage facilities and soil and water impoundments. Provided, however, no easement hereby reserved shall be applicable to any portion of a Lot or Common Elements used as building site or approved use as building site by the Architectural Standards Committee. Full right of ingress and egress shall be had by Declarant at all times over the Lots and Dwelling Units or Common Elements (other than the portions thereof used or approved as building sites) for the installation, use, operation, than the portions thereof used or approved as building sites) for the installation, use, operation, maintenance, repair, replacement or removal of any such utility, drainage facility or impoundment, together with the right to remove any obstruction that may be placed in any easement that would constitute interference with the use of such easement, or with the use, installation, maintenance, repair, replacement, removal or operation of same. Assignees to whom Declarant reserves the right to passing and convey, in whole or in part, the easements reserved by it hereunder shall include, without limitation, the Association and one or more governmental entities or public utility companies. Provided, however, neither the foregoing reservation of easement rights nor any similar reservation of easement rights contained in this Declaration shall create or impose any obligation upon Declarant, or its successors and assigns, to provide or maintain any such utility, drainage facility or impoundment, which if not otherwise maintained, shall be maintained by the Association.

Section 10.02. Easement Reserved for The Association.

(a) Full rights of ingress and egress shall be had by the Association at all times over and upon each Lot, Dwelling Unit or Limited Common Elements for the maintenance and repair of each Lot, Dwelling Unit or Limited Common Elements in accordance with the provisions hereof and for the carrying out by the Association of its rights, powers duties and obligations hereunder; provided that any such entry by the Association upon any Lot or Dwelling Unit shall be made with a minimum inconvenience to the Owner as reasonably practicable, and any damage caused as a result of the negligence of the Association's employees or agents shall be repaired by the Association at the expense of the Association.

(b) In addition to the foregoing, and in order to implement effective and adequate erosion control, the Association, and its contractors, employees and agents, shall have the right to enter upon any portion of any Lot, Dwelling Unit or Limited Common Elements before and after Improvements have been constructed thereon for the purpose of performing any grading or landscaping work or constructing, repairing, replacing, using and maintaining erosion control devices; provided however, no such activities shall interfere with any permanent Improvements constructed on any such Lot, Dwelling Unit or Limited Common Elements (which Improvements have been approved by the ASC). If the need for erosion control results from the construction of Improvements on any portion of an Lot or Dwelling Unit or any excavation, grading, removal, reduction, addition or clearing of any Lot, Dwelling Unit or Limited Common Elements or portion thereof, the cost of any such work performed by the Association for the purpose of implementing effective and adequate erosion control shall be assessed against the Owners of Lot, Dwelling Unit or Limited Common Elements on which such corrective action is necessary on a Lot, Dwelling Unit or Limited Common Elements, prior to exercising its right to enter upon such Lot, Dwelling Unit or Limited Common Elements and performing any grading or landscaping work or constructing or maintaining erosion prevention devices, the Association shall give the Owner of such Lot, Dwelling Unit or Limited Common Elements written notice of and the opportunity to take the corrective action specified in the notice, the Association may then exercise its right to enter upon the Lot, Dwelling Unit or Limited Common Elements and take or complete the necessary corrective action.

Section 10.03. Easement Reserved for Governmental Entities and Public Utilities. An easement is hereby

Section 10.08. Maintenance of Units. Declarant reserves for itself and for the Association the perpetual easement, right, and privilege to enter upon any Lot, Dwelling Unit or Limited Common Elements, after at least ten (10) days' notice to the Owner thereof, for the purpose of mowing, removing, clearing, cutting, or pruning underbrush, weeds or other unsightly growth; dispensing pesticides, herbicides, fertilizer, and grass seed; removing trash and debris; and taking such other action as Declarant or the Association, as applicable, may consider necessary to correct any condition which violates this Declaration or the Architectural Guidelines, detracts from the overall beauty of the Property, or which may constitute a hazard or nuisance. The cost incurred by Declarant or the Association, as applicable, in taking such action shall constitute an Individual Assessment upon the Lot, Dwelling Unit or Limited Common Elements and shall be collectible in the manner provided herein for the payment of Assessments

Section 10.09. Easement for Landscaping, Signs, and Related Purposes. There shall be and is hereby reserved to Declarant until such time as the Class B Membership terminates, and thereafter to the Association, a non-exclusive easement (i) over Common Elements and Limited Common Elements for the first twenty (20) feet adjacent to the edge of the right-of-way for any public or private street, alleyway, and adjacent walkway through, along, or adjoining such Common Element or Limited Common Element, or as otherwise shown on a plat recorded prior to the conveyance of or dedication of the Common Element or Limited Common Element, for the purpose of erecting and maintaining berms; directional, safety, or security signs; temporary promotional signs; plantings; street lights or lighting; entrance features; stone, wood, or masonry wall features and/or related landscaping; and (ii) over Units for the first ten (10) feet adjacent to the edge of the right-of-way for any public or private street, alleyway, and adjacent walkway through, along, or adjoining such Lot, Dwelling Unit or Limited Common Elements, for the purpose of erecting and maintaining directional, convenience, information, safety, or security signs; temporary promotional signs; or other signs deemed desirable by the Declarant in a manner that does not interfere with normal and convenient use of the Lot, Dwelling Unit or Limited Common Elements and provided that such easement on the Lot, Dwelling Unit or Limited Common Elements shall not be deemed to prohibit the construction of any improvement on the Lot, Dwelling Unit or Limited Common Elements that is otherwise approved pursuant to the terms of this Declaration.

Section 10.10 North Carolina Division of Environmental Management Water Quality Section Stormwater Regulations. As a condition to the North Carolina Stormwater Management Permit No. SW 7050220 issued by the Division of Water Quality for The Villas at Corolla Bay, the following provisions related to stormwater management are incorporated within this Declaration:

- a. The following covenants are intended to ensure ongoing compliance with State Stormwater Management Permit Number 7050220, as issued by the Division of Water Quality under NCAC 2H.1000.
- b. The State of North Carolina is made a beneficiary of these covenants to the extent necessary to maintain compliance with the Stormwater Management Permit.
- c. These covenants are to run with the land and be binding on all persons and parties claiming under them.
- d. The covenants pertaining to stormwater may not be altered or rescinded without the express written consent of the State of North Carolina, Division of Water Quality.

- e. Alteration of the drainage as shown on the approved plans may not take place without the concurrence of the Division of Water Quality.
- f. The maximum built-upon area per lot is as listed on Attachment A. This allotted amount includes any built-upon area constructed within the lot property boundaries, and that portion of the right-of-way between the front lot line and the edge of the pavement. Built upon area includes, but is not limited to, structures, asphalt, concrete, gravel, brick, stone, slate, and coquina, but does not include raised, open wood decking, or the water surface of swimming pools.
- g. Filling in or piping of any vegetative conveyances (ditches, swales, etc.) associated with the development except for an average driveway crossing, is strictly prohibited by any persons.
- h. Each lot will maintain a 20' wide vegetated buffer between all impervious areas and surface waters.
- i. All roof drains shall terminate at least 30' from the mean high water mark.

Article XI
Party Walls, Party Fences, Joint Driveways And
Shared Improvements

Section 11.01. General Rules of Law to Apply. Each improvement which is constructed within Dwelling Units as a part of the original construction and any part of which is placed on the dividing line between separate Dwelling Units shall constitute a "Shared Improvement." With respect to such Shared Improvement, each of the adjoining Owners shall assume the burdens of and be subject to an easement for that portion of the Shared Improvement on such Owner's Dwelling Unit, and shall be entitled to the benefits of this Article XI. To the extent not inconsistent herewith, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions, shall apply to Shared Improvements and their adjoining Owners.

Section 11.02. Sharing of Repair and Maintenance and Destruction by Fire or Other Casualty. All Owners who make use of or benefit by any Shared Improvement on a regular basis shall share the cost of the reasonable repair and maintenance of such Shared Improvement, in equal proportions, unless otherwise agreed by such Owners. If a Shared Improvement is damaged or destroyed by fire or other casualty or by some cause other than the act of one of the adjoining Owners (including ordinary wear and tear and deterioration from lapse of time), then, in such event, all such adjoining Owners benefiting from the Shared Improvement shall proceed forthwith to rebuild or repair such Shared Improvement to its original condition or the condition which existed immediately prior to the damage, unless otherwise agreed by such Owners. The costs associated with rebuilding or repairing a Shared Improvement pursuant to Section 11.01 shall be shared equally among all adjoining Owners benefiting from the Shared Improvement, unless otherwise agreed by such Owners.

Section 11.03. Repairs of Damage Caused by One Owner and/or Resident. If any such Shared Improvement is damaged or destroyed through the act of one adjoining Owner and/or resident, so as to deprive the other adjoining Owner and/or resident of the full use and enjoyment of such Shared Improvement, then the Owner and/or resident responsible for such damage shall proceed forthwith to rebuild or repair such Shared Improvement to its original condition or the condition which existed immediately prior to the damage, without cost to the adjoining Owner

and/or resident.

Section 11.04. Changes to Shared Improvements. In addition to meeting the other requirements of this Declaration, and of any building code, zoning ordinance or similar governmental regulations or ordinances, any Owner proposing to modify, make additions to or rebuild a Dwelling Unit in any manner which requires the extension or other alteration of any Shared Improvement, shall first obtain the written consent of the adjoining Owner. Such consent shall not be unreasonably withheld, delayed or denied.

Section 11.05. Right to Contribution Runs with Land. The right of any Owner to contribution from any other Owner under this Article shall be appurtenant to the land and shall pass to such Owner's successors in title.

Section 11.06. Driveway Right of Passage. With respect to any private driveway within and shared by the Owners of two or more Dwelling Units, there shall be a perpetual and non-exclusive easement and right of passage on, through, over, under and across such driveway reserved to and for the benefit of the Owners of the Dwelling Units upon which the joint driveway has been built or installed. This easement shall also be reserved to and for the benefit of any Dwelling Units which such joint driveway has reasonably been designed to serve or benefit, for purposes of vehicular and pedestrian ingress and egress to and from such Dwelling Units. No person shall in any way interfere with the free and unobstructed use thereof by said owners.

Section 11.07. Dispute. In the event of a dispute between Owners with respect to the repair or rebuilding of a Shared Improvement or with respect to the sharing of the cost thereof, then, upon written request of one of such Owners addressed to the Association, the Association shall address the matter and in the event the matter is not resolved by the Association, then the matter may be submitted to the Association who will conduct a hearing pursuant to the notice provisions of Section 7.14(b) which decision shall be final.

Article XII

Insurance: Repair and Restoration

Section 12.01. Right to Purchase Insurance. The Association shall purchase, carry and maintain in force insurance covering any part or all of the Common Elements in such amounts as the Association may deem advisable, and any improvements thereon or appurtenant thereto and any other property of the Association, for the interest of the Association, the Board, its agents and employees, Declarant and its officers and employees, and of all Members of the Association, in such amounts and with such endorsements and coverage as the Board shall consider to be good, sound insurance coverage for similar properties. Such insurance may include, but need not be limited to:

- (a) Comprehensive public liability and property damage (hazard) insurance on a broad form basis with respect to the Common Elements;
- (b) Coverage for the personal liability (if any) of the Declarant (and its officers, agents, employees and servants), the Board (and the individual members thereof), the officers of the Association, the ASC and other committees appointed by the Board, the Owners and Members;
- (c) Fidelity bond for all officers and employees of the Association and other Persons having control over the receipt of disbursement of Association funds; and

(d) Such other insurance coverages, including flood insurance and worker's compensation as the Association shall determine from time to time to be desirable.

Section 12.02. Insurance Proceeds. Subject to any limitations imposed by any applicable financing documents, the Association shall use the net proceeds of casualty insurance recovered to repair and/or replace any damage or destruction of property, real or personal, covered by such insurance. Any balance from the proceeds of casualty insurance paid to the Association remaining after satisfactory completion of repair and replacement shall be retained by the Association as part of the general reserve fund for repair and replacement of the Common Elements.

Section 12.03. Insufficient Proceeds. If the insurance proceeds are insufficient to repair or replace any loss or damage, the Association may levy a special assessment in the manner provided for in this Declaration, to cover the deficiency.

Section 12.04. Reimbursement of Insurance Premiums. Premiums upon any insurance policies purchased by Declarant and paid by the Declarant for the benefit of the Association and the coverages hereinabove stated shall be collected from the Owners as part of the assessments pursuant to Article VIII above.

Article XIII
Compliance and Enforcement

Section 13.01. Preventive Remedies.

(a) Every Owner and occupant of a Unit shall comply with the Governing Documents. The Board may impose sanctions for violation of the Governing Documents after notice and a hearing in accordance with the procedures set forth in Section 7.15(b) of the Declaration. Such sanctions may include, without limitation:

(i) Imposing reasonable monetary fines subject to the provisions of Section 47F-3-107.1 of the Act, which shall constitute a lien upon the violator's Unit. (In the event that any occupant, guest, or invitee of a Unit violates the Governing Documents and a fine is imposed, the fine shall first be assessed against the violator provided, however, the Owner shall pay the fine upon notice from the Board if the fine is not paid by the violator within the time period set by the Board;

(ii) Suspending an Owner's right to vote;

(iii) Suspending any services provided by the Association to an Owner or the Owner's Unit if the Owner is more than 30 days delinquent in paying any Assessment or other charge owed to the Association;

(iv) Exercising self-help or taking action to abate any violation of the Governing Documents in a non-emergency situation;

(v) Requiring an Owner, at its own expense, to remove any structure or improvement on such Owner's Unit in violation of the Governing Documents and to restore the Unit to its previous condition and, upon failure of the Owner to do so, the Board or its designee shall have the right to enter the property, remove the violation, and restore the property to substantially the same condition as previously existed and any such action shall not be deemed a trespass;

(vi) Without liability to any Person, precluding any contractor, subcontractor, agent, employee, or other invitee of an Owner who fails to comply with the terms and provisions of Article VI and the Architectural Guidelines from continuing or performing any further activities in The Villas at Corolla Bay; and

(vii) Levying Individual Assessments to cover costs incurred by the Association to bring a Lot or Dwelling Unit into compliance with the Governing Documents.

In addition, the Board may take the following enforcement procedures to ensure compliance with the Governing Documents without the necessity of compliance with the procedures set forth in Section 7.15(b) of the Declaration:

(i) Exercising self-help in any emergency situation (specifically including, but not limited to, the towing of vehicles that are in violation of parking rules and regulations); and

(ii) Bringing suit at law or in equity to enjoin any violation or to recover monetary damages or both.

(b) The decision to pursue enforcement action in any particular case shall be left to the Board's discretion, except that the Board shall not be arbitrary or capricious in taking enforcement action. Without limiting the generality of the foregoing sentence, the Board may determine that, under the circumstances of a particular case:

(i) The Association's position is not strong enough to justify taking any or further action; or

(ii) The covenant, restriction, or rule being enforced is, or is likely to be construed as, inconsistent with applicable law; or

(iii) Although a technical violation may exist or may have occurred, it is not of such a material nature as to be objectionable to a reasonable person or to justify expending the Association's resources; or

(iv) That it is not in the Association's best interests, based upon hardship, expense, or other reasonable criteria, to pursue enforcement action.

Such a decision shall not be construed a waiver of the right of the Association to enforce such provision at a later time under other circumstances or preclude the Association from enforcing any other covenant, restriction, or rule.

The Association, by contract or other agreement, may enforce applicable governmental ordinances, and permit governmental authorities to enforce ordinances within The Villas at Corolla Bay for the benefit of the Association and its Members.

Section 13.02. Implied Rights: Board Authority.

The Association may exercise any right or privilege given to it expressly by the Governing Documents, or reasonably implied from or reasonably necessary to effectuate any such right or privilege. Except as otherwise specifically provided in the Governing Documents, or by law, all rights and powers of the Association may be exercised by the Board without a vote of the membership.

The Board may institute, defend, settle, or intervene on behalf of the Association in mediation, binding or non-binding arbitration, litigation, or administrative proceedings in matters pertaining to Common Elements, enforcement of the Governing Documents, or any other civil claim or action. However, the Governing Documents shall not be construed as creating any independent legal duty to institute litigation on behalf of or in the name of the Association or its members.

Section 13.03. Cumulative Remedies. The remedies hereby specified are cumulative, and the listing of specific remedies herein shall not be deemed to preclude any aggrieved Person's right and privilege to resort to any other remedy provided hereunder or at law or in equity.

Section 13.04. Failure to Enforce Not a Waiver of Rights. No delay or failure on the part of an aggrieved Person to invoke any available remedy in respect to a violation of any provision of this Declaration shall be held to be a waiver by the Person of (or an estoppel of that Person to assert) any right available to him upon recurrence or continuance of such violation or the occurrence of a different violation, nor shall there be imposed upon Declarant, the Association, the Board, or the ASC a duty to take any action to enforce this Declaration.

Section 13.05. Constructive Notice and Acceptance. Each Owner, Occupant, or other Person, by acceptance of a deed conveying title to any Lot or Dwelling Unit in The Villas at Corolla Bay, or the execution of a contract for the purchase thereof, or the acceptance of a lease or license therefore, or the taking possession thereof, whether from Declarant or other Owner or lessee, shall for himself, his successors and assigns, be deemed to (i) accept such deed, contract, lease, license, or possession upon and subject to each and all of the provisions of this Declaration, and (ii) covenant to and with Declarant and the other Owners to keep, observe, comply with, and perform the requirements of this Declaration, whether or not any reference to this Declaration is contained in the instrument by which such Person acquired said interest.

Section 13.06. Liability for Non-Enforcement. Neither Declarant, the ASC, the Board, the Association, or any Member thereof, nor their successors or assigns shall be liable for damages to any Owner, licensee, or occupant by reason of any mistake in judgment, negligence, nonfeasance, action, or inaction in the administration of the provisions of this Declaration or for the enforcement or failure to enforce this Declaration or any part thereof; and every Owner or occupant, by acquiring an interest in the Property, agrees that he will not bring any action or suit against Declarant, the ASC or its members, the Board or its members, or the Association to recover damages or to seek equitable relief on account of their enforcement or non-enforcement of this Declaration.

Article XIV
Miscellaneous Provisions

Section 14.01. Duration. This Declaration and the terms, covenants, provisions set forth herein shall run with and bind the Property and shall inure to the benefit of every Owner of a Lot in the Property, including Declarant, and their respective heirs, successors, and assigns, for a term beginning on the date this Declaration is recorded and including December 31, 2038. Beginning on and including January 1, 2039, the easements, covenants, conditions and restrictions herein shall be automatically extended for successive period(s) of ten (10) years each unless, at duly called annual or special meeting of the Association at which a quorum is present held prior to the expiration of the applicable time period, termination of this Declaration is approved by the affirmative vote of seventy-five percent (75%) or more of the votes entitled to be cast by the Members present or represented by proxy.

A vote by the membership on termination of this Declaration may be held only upon presentation to the Association of a petition for termination signed by Members possessing no less than twenty-five percent (25%) of the total eligible vote of the membership of the Association, which petition, in the case of an annual meeting of the Association, shall be presented to the Association prior to the date that notice of the annual meeting is sent to the Members. The Association shall give written notice of any annual or special meeting, at which termination of this Declaration is to be considered and voted upon to all Owners at least thirty (30) days in advance of the date of such meeting, which notice shall set forth that termination of this Declaration will be considered and voted upon at such meeting. If the membership votes to terminate this Declaration, such termination shall be effective upon the expiration of the then applicable time period for which the Declaration is in existence, or shall be effective on such date thereafter as may be specified in the resolution of termination passed by the membership as required herein (it being the intention of this Section, notwithstanding anything to the contrary appearing herein, that if the membership has voted to terminate this Declaration, the membership may set a date of termination that may result in this Declaration continuing to be in effect for a period of less than ten (10) years following the expiration of a preceding time period in which this Declaration was in effect). The quorum required at the annual or special meeting at which termination of this Declaration is to be considered by the membership pursuant to the petition filed with the Association shall be the presence of Members plus proxies entitled to cast sixty percent (60%) or more of the total vote of the membership. If such quorum is not present, subsequent meeting(s) may be called until a quorum is present, subject to the same notice requirements, and the required quorum at such subsequent meeting(s) shall be one-half (1/2) of the required quorum at the immediately preceding meeting.

If the Members vote to terminate this Declaration in accordance with the foregoing requirements, then the President and Secretary of the Association shall execute in recordable form a certificate which shall set forth at least the following information: the Resolution of Termination adopted by the Association, the date of the meeting of the Association at which such resolution was adopted, the date that notice of such meeting was given, the total number of votes required to constitute a quorum at such meeting; the total number of votes present at such meeting; the total number of votes necessary to adopt the resolution terminating the Declaration; the total number of votes cast in favor of such resolution; and the total number of votes cast against the resolution. Such certificate shall be recorded in the Currituck County, North Carolina Registry no later than thirty (30) days following the date such resolution of termination is passed by the membership, and such certificate may be relied upon for the correctness of the facts contained therein as they relate to the termination of this Declaration.

Section 14.02. Amendment. Subject to the limitations hereinafter contained, this Declaration or any Supplemental Declaration hereto may be amended or modified at any time prior to December 31, 2038 by an instrument signed by the Owners entitled to exercise not less than seventy five (75%) of the total votes in the Association as set forth in this Declaration, provided, however, that no such amendment shall be effective without the written consent of Declarant so long as there is Class B Membership, and in no event shall any amendment limit the rights of Declarant under this Declaration so long as there is a Class B Membership. With respect to any amendments affecting specific Limited Common Elements, the foregoing percentages are required only of those Owners of Lots or Dwelling Units that are located in the section of the Property to which such Limited Common Elements relate.

In addition to the foregoing rights, and notwithstanding anything to the contrary that may appear herein, Declarant may (at Declarant's option) at any time and from time to time amend or modify this Declaration and any

Supplemental Declaration without obtaining the consent or approval of the Members or any other person or entity if such amendment or modification is necessary for any one or more of the following purposes: to correct an obvious typographical error; to cause this Declaration or any such Supplemental Declaration to comply with the requirements of FHA (Federal Housing Administration), VA (Veterans Administration), Fannie - Mae (Federal National Mortgage Administration), Office Of Interstate Land Sales Registration of the Department Of Housing And Urban Development (OILSR) or other similar agency; or as may be necessary to establish or maintain the tax exempt status of the Association under the laws of the United States or the State of North Carolina.

All amendments to this Declaration must be recorded in the Currituck County, North Carolina Registry and shall not become effective until recorded. With respect to amendments that require approval of the Owners, all such amendments also shall be executed by the Association, following determination by the Board that the amendment has been duly approved by the required percentage of Owners (for the purpose of this determination, the Board may rely on its most current membership list and shall not be required to conduct any title examination of any Lot to determine ownership thereof). The Board shall make its determination (and cause the amendments) to be recorded if the Board determines that the required number of Owners have executed the amendment(s) within thirty (30) days of receipt of the proposed amendment(s) purportedly signed by the required number of Owners. If the Board determines that the required number of Owners have executed the proposed amendment(s), the Board shall cause the amendment(s) to be recorded.

With respect to amendments by the Declarant which do not require the assent of the Owners, the Association also shall execute such amendments prior to the recordation thereof so that such amendments may be indexed in the Currituck County Registry in the name of the Association as well as in the name of the Declarant.

Section 14.03. Remedies. Declarant, the Association, and every Owner shall have the right to enforce the terms, covenants, conditions, restrictions, easements, charges and liens for which provision is made in this Declaration, which enforcement shall be by any proceeding at law or in equity (or otherwise, as provided in this Declaration) against any Person violating or attempting to violate any such term, covenant, condition, restriction, easement, charge or lien either to restrain violation or to recover damages, and against the land, to enforce any lien created by these covenants; and failure by the Association, Declarant or any Owner to enforce any such term, covenant, condition, restriction, easement, charges or lien shall in no event be deemed a waiver of the right to do so thereafter or a waiver of any other or future violation of any of same.

Section 14.04. Severability of Provisions. If any paragraph, section, sentence, clause or phrase of this Declaration shall be or become illegal, null or void for any reason or shall be held by any court of competent jurisdiction to be illegal, null or void, the remaining paragraphs, sections, sentences, clauses and phrases of this Declaration shall continue in full force and effect and shall not be affected thereby. It is hereby declared that said remaining paragraphs, sections, sentences, clauses and phrases would have been and are imposed irrespective of the fact that any one or more other paragraphs, sections, sentences, clauses or phrases shall become or be illegal, null or void.

Section 14.05. Notice. Except as otherwise provided herein, whenever written notice to an Owner (including Declarant) is required hereunder, such notice shall be given by the mailing of same, postage prepaid, to the address of such Owner appearing on the records of the Association. If notice is given in such manner, such notice shall be conclusively deemed to have been given by placing same in the United States mail properly addressed, with postage prepaid, whether received by the addressee or not. It shall be the duty of each Owner to keep the Association informed of such Owner's current mailing address and telephone number. The Association may use the address of such Owner's Lot listed with the Currituck County Tax Office.

Section 14.06. Interpretation. In all cases, the provisions set forth or provided for in this Declaration shall be construed together and given that interpretation or construction which, in the opinion of Declarant or Board, will best effect the intent of the general plan of development. The provisions hereof shall be liberally interpreted and, if necessary, they shall be so extended or enlarged by implication as to make them fully effective. The provisions of this Declaration shall be given full force and effect notwithstanding the existence of any zoning ordinance or building codes which are less restrictive.

Section 14.07. No Trespass. Whenever the Association, Declarant, the ASC, and their respective successors, assigns, agents or employees are permitted by this Declaration to enter upon or correct, repair, clean, maintain, preserve or do any other action within any portion of The Villas at Corolla Bay, the entering thereon and the taking of such action shall not be deemed to be trespass.

Section 14.08. Successors of the Declarant. Any and all rights, reservations, easements, interests, exemptions, privileges and powers of the Declarant hereunder, or any part of them, may be assigned and transferred (exclusively or non-exclusively) by the Declarant by instrument in writing and recorded in the Currituck County Registry.

Section 14.09. No Partition. Except as is permitted in the Declaration or amendments thereto, there shall be no judicial partition of the Common Areas or any part thereof, nor shall any Person acquiring any interest in the Property or any part thereof seek any judicial partition unless the Property or such portion thereof have been removed from the provisions of this Declaration. This Article shall not be construed to prohibit the Association from acquiring and disposing of tangible personal property nor from acquiring title to real property which may nor may not be subject to this Declaration.

Section 14.10. Combination of Lots. For so long as there is a Class B Membership, no Lot shall be subdivided without the written consent of Declarant. One or more Lots may be combined into a single Lot with the written consent of Declarant and, upon such combination and consent of Declarant, the resulting Lot shall be considered as one Lot for the purposes of this Declaration. Provided, the foregoing shall not prohibit or restrict the right (which is hereby reserved) of Declarant to subdivide, combine, re-subdivide, recombine, or re-record maps relating to, any Lots subject to this Declaration.

Section 14.11. Laws of North Carolina and the United States. This Declaration shall be subject to and construed in accordance with the laws of the State of North Carolina and all applicable laws and regulations of the United States of America.

Section 14.12. Joinder of Trustee and Beneficiary. Trustee and Lender join in the execution of this Declaration to consent to the terms of the same and subordinate the lien of any deed of trust to the Trustee for the benefit of Lender encumbering the Property to the provisions of this Declaration, and in the event of foreclosure of the Deed of Trust, or deed in lieu thereof, and resulting in sale and conveyance of the Property, such foreclosure or deed in lieu shall not affect the effectiveness of this Declaration upon the Property, and the foreclosure sale purchaser or grantee under such deed in lieu shall take subject to the terms of this Declaration and be bound by the terms hereof.

Section 14.13. Binding Effect: Waiver. Except as otherwise specifically provided herein, this Declaration

shall bind and inure to the benefit of and be enforceable by Declarant and its successors and assigns (as "Declarant"). The failure of any person entitled to enforce this Declaration or any provision hereof to enforce same shall not be deemed a waiver of the right of any such person to enforce this Declaration or any portion thereof hereafter.

Section 14.14. Rights Assignable. Any and all rights, powers, easements and reservations of Declarant herein contained may be assigned to any person(s), corporation(s), Declarant(s) or other legal entity(ies) which will assume the duties of Declarant pertaining to the particular rights, powers, easements and reservations assigned, and upon any such person(s), corporation(s), Declarant(s) or other legal entity(ies) evidencing his or its consent in writing to accept such assignment and assume such duties, he or it shall, to the extent of such assignment, have the same rights and powers and be subject to the same obligations and duties as are given to and assumed by Declarant herein. The term "Declarant," as used herein, includes all such assignees and their heirs, successors and assigns. Any assignment or appointment made under this Section shall be in recordable form and shall be recorded in the Public Registry of Currituck County, North Carolina.

Section 14.15. Mortgagees' Protection: Subordination of Liens. Violation of this Declaration shall not defeat or render invalid the lien of any Mortgage made in good faith and for value upon any portion of the Property. Any lien created hereunder shall be junior and subordinate to any such Mortgage unless a suit to enforce the same shall have been filed in a court of competent jurisdiction prior to the recordation of such Mortgage; provided, however, any Mortgagee in actual possession or any purchaser at any trustee's, mortgagee's or foreclosure sale shall be bound by and be subject to this Declaration as fully as any other Owner of the Property effective upon the date of acquisition.

Section 14.16. Chain of Title. Each grantee, lessee or other person in interest or occupancy accepting a conveyance, leasehold interest or other demise of an interest in or to or in connection with any portion of the Property, whether or not the same incorporates or refers to this Declaration, covenants for himself or itself, his or its heirs, successors and assigns to observe and perform and be bound by this Declaration and to incorporate this Declaration by reference in any conveyance or leasehold estate of all or any portion of his or its interest in any real property subject hereto.

Section 14.17. Ambiguities. If any discrepancy, conflict or ambiguity is found to exist with respect to any matters set forth in this Declaration, such ambiguity, conflict or discrepancy shall be resolved and determined by Declarant in its sole discretion. Declarant shall have the right to interpret the provisions of this Declaration and, in the absence of an adjudication by a court of competent jurisdiction to the contrary, its construction or interpretation shall be final and binding as to all persons or property benefited or bound by the provisions hereof. Any conflict between any construction or interpretation of Declarant and that of any other person or entity entitled to enforce any of the provisions hereof shall be resolved in favor of the construction or interpretation of Declarant.

Section 14.18. Exoneration of Declarant. Each Owner of any Lot or Dwelling Unit expressly agrees that no duty or obligation is imposed upon Declarant to enforce or attempt to enforce any of the covenants or restrictions contained herein, nor shall Declarant be subject to any liability of any kind or nature whatsoever with respect to any third party as a result of failing to enforce same.

IN WITNESS WHEREOF, the undersigned being the Declarant herein, has caused this Declaration to be signed in its company name the day and year below acknowledged.

EXHIBIT "A"

All that certain parcel of land designated as Lot 3 as more particularly described on the map or plat captioned "Corolla Bay, Corolla Ocean Side, L.L.C., Poplar Branch Twsp, Currituck County, North Carolina, 12.85 Acre Parcel of Land", prepared by Coastal Engineering & Surveying, Inc., dated August 3, 2004 and duly recorded in Plat Cabinet I, Slide 34, Public Registry of Currituck County, North Carolina.

Unofficial

EXHIBIT "B"

PHASE I

Phase I shall consist of the following:

LOTS: 1, 2, 3, 4, 5, 6, 38, 39, 40 and 41;

LIMITED COMMON ELEMENTS: 1-C, 2-C, 3-C, 4-C, 5-C, 6-C, 38-C, 39-C, 40-C, and 41-C;

COMMON ELEMENTS: Recreational Amenity Area, Stormwater Pond, Beach Access Satellite Parking Area, Access to Corolla Drive via Herring Street and Bonaire Drive.

Phase I is more particularly depicted on that sketch plat attached hereto as Exhibit "B-1" and will be more particularly described on a Phase I Plat to be recorded in the Public Registry of Currituck County, NC.

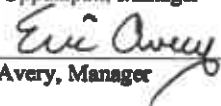
Unofficial

DECLARANT:

Corolla Oceanside, LLC, a North Carolina limited liability company


By: R & E Capital Developments, LLC, a North Carolina limited liability company (Its Manager)

By:  (SEAL)
Raju Uppalapati, Manager

By:  (SEAL)
Eric Avery, Manager

JOINDER (Section 14.12):

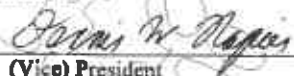
TRUSTEE:

 (SEAL)
Philip M. Rudisill

 (SEAL)
Gerald L. Passaro

LENDER:

TowneBank

By:  (SEAL)
Executive (Vice) President

JOINDER:

**Corolla Soundside, LLC,
A North Carolina limited liability company**

BY: R & E DEVELOPMENTS, LLC, a North Carolina limited liability company (member)

By: 

Raju Uppalapati, Manager

By: Eric Avery
Eric Avery, Manager

Corolla Oceanside, LLC
A North Carolina limited liability company

BY: R & E DEVELOPMENTS, LLC, a North Carolina limited liability company (member)

By: Raju Uppalapati
Raju Uppalapati, Manager

By: Eric Avery
Eric Avery, Manager

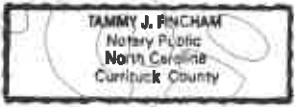
STATE OF NORTH CAROLINA
CURRITUCK COUNTY

I, the undersigned, a Notary Public of the County and State aforesaid, do hereby certify that Raju Uppalapati, and Eric Avery, Managers of R & E Capital Developments, LLC, a North Carolina limited liability company (the "Second Company") manager of Corolla Bay, LLC (the "Company") and that by authority duly given and (a) as the act of the Second Company and (b) as the act of the Company, the foregoing instrument was signed in the name of the Company and in the name of the Second Company by the Second Company's manager.

Witness my hand and official stamp or seal, this 23rd day of April, 2010.

Laurey J. Fincham
Notary Public

My commission expires: 7-26-2011



STATE OF VIRGINIA
CITY/COUNTY OF Suffolk

I, Marcia S. Hobbs, Notary Public, certify that Philip M. Rudisill, Trustee personally appeared before me this day and acknowledged the execution of the foregoing instrument.

Witness my hand and notarial seal, this 27th day of April, 2010.

Marcia P. Hodalen
Notary Public

My commission expires: June 30, 2010



STATE OF VIRGINIA
CITY/COUNTY OF Newport News

I, Jennifer White King, Notary Public, certify that Gerald L. Passaro, Trustee personally appeared before me this day and acknowledged the execution of the foregoing instrument.

Witness my hand and notarial seal, this 27th day of April, 2010.

Jennifer W. King
Notary Public

My commission expires: 9/30/2011



STATE OF VIRGINIA
CITY/COUNTY OF Newport News

I, Nancy R. Lee, Notary Public, certify that Dennis W. Napier personally came before me this day and acknowledged that he/she is (Vice) President of TowneBank, and as the act of the corporation, acting as agent for the Bank, the foregoing instrument was signed in the name by its (Vice) President, and attested by himself/herself as its (Vice) President.

Witness my hand and notarial seal, this 26th day of April, 2010.

Nancy R. Lee
Notary Public

My commission expires: 12-31-2013



NORTH CAROLINA
CURRITUCK COUNTY

I, the undersigned, a Notary Public of the County and State aforesaid, do hereby certify that Raju Uppalapati and Eric Avery personally came before me this day and acknowledged that they are the Managers of R & E Developments, LLC, a North Carolina limited liability company (the "Second Company") member of Corolla

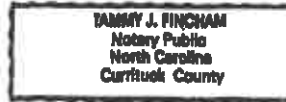
Soundside, LLC, a North Carolina limited liability company (the "Company") and that by authority duly given and (a) as the act of the Second Company and (b) as the act of Company, the foregoing instrument was signed in the name of the Company and in the name of the Second Company by the Second Company by the Second Company's mangers.

Witness my hand and official stamp or seal, this 23rd day of April, 2010.

My commission expires: 7-26-2011

Tammy J. Fincham
Notary Public

NORTH CAROLINA
CURRITUCK COUNTY



I, the undersigned, a Notary Public of the County and State aforesaid, do hereby certify that Raju Uppalapati and Eric Avery personally came before me this day and acknowledged that they are the Managers of R & E Developments, LLC, a North Carolina limited liability company (the "Second Company") member of Corolla Oceanside, LLC, a North Carolina limited liability company (the "Company") and that by authority duly given and (a) as the act of the Second Company and (b) as the act of Company, the foregoing instrument was signed in the name of the Company and in the name of the Second Company by the Second Company by the Second Company's mangers.

Witness my hand and official stamp or seal, this 23rd day of April, 2010.

My commission expires: 7-26-2011

Tammy J. Fincham
Notary Public

4834-2813-5173, v. 1

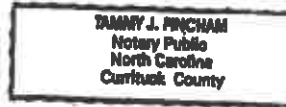
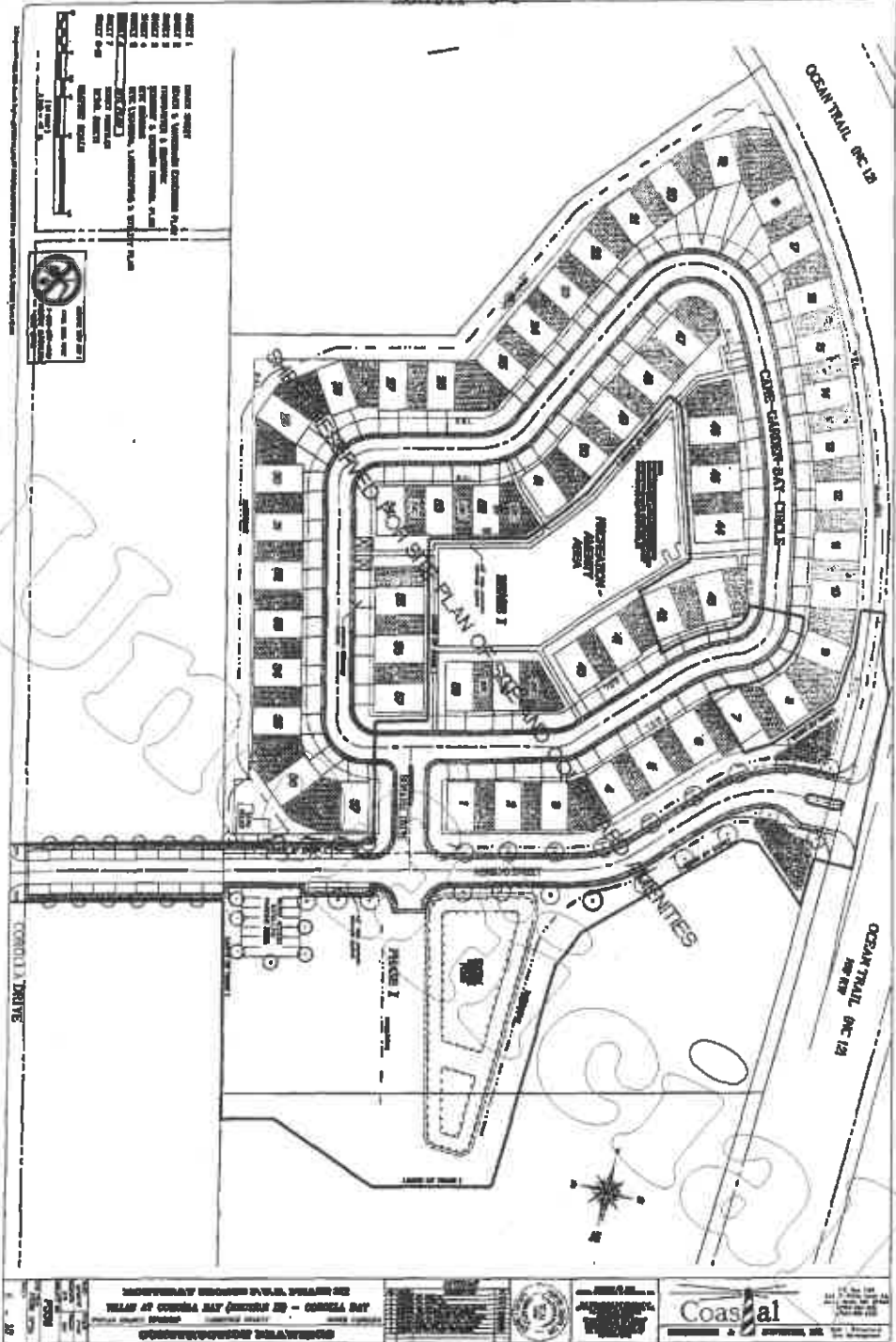


EXHIBIT "B-1"



This map is not a certified survey and has not been reviewed by a local government agency for compliance with any applicable land development regulations.

PREPARED BY: [Logo] **Coastal** ENGINEERS, INC. 1111 N. W. 10th St., Ft. Lauderdale, FL 33304
 PROJECT: [Logo] **Coastal** ENGINEERS, INC. 1111 N. W. 10th St., Ft. Lauderdale, FL 33304
 DATE: [Logo] **Coastal** ENGINEERS, INC. 1111 N. W. 10th St., Ft. Lauderdale, FL 33304
 SHEET: [Logo] **Coastal** ENGINEERS, INC. 1111 N. W. 10th St., Ft. Lauderdale, FL 33304