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**DECLARATION OF COVENANTS,
CONDITIONS AND RESTRICTIONS
OF
ELK RIDGE TOWNHOMES**

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**DECLARATION OF COVENANTS,
CONDITIONS AND RESTRICTIONS
OF
ELK RIDGE TOWNHOMES**

THIS DECLARATION, made this 30th day of January, 2006 by PINNACLE DEVELOPMENT CORPORATION, INC., a North Carolina Corporation, (hereinafter called "Declarant"), with its principal office in Pinehurst, Moore County, North Carolina;

W I T N E S S E T H :

WHEREAS, in order to provide a coordination and continuity among the various phased communities, and the owners of Lots in Elk Ridge Townhomes, it is deemed appropriate to have an association in which all owners of Lots in Elk Ridge Townhomes are members; and,

WHEREAS, Declarant desires to have certain areas of Elk Ridge Townhomes owned by this Association and benefit all owners within the Elk Ridge Townhomes; and,

WHEREAS, Declarant has deemed it desirable for the efficient preservation, protection and enhancement of the values and amenities in Elk Ridge Townhomes, and to insure the residents' enjoyment of the specific rights, privileges and easements in the Community Common Property and facilities to create an organization to which will be delegated and assigned the powers of owning, maintaining and administering the Community Common Property, facilities, and administering and enforcing the covenants and restrictions, and collecting and disbursing the assessments and charges hereinafter created; and,

WHEREAS, Declarant has incorporated or will incorporate under the laws of the State of North Carolina, as a non-profit corporation, Elk Ridge Townhomes Homeowners Association, for the purpose of exercising the functions aforesaid within the community known as Elk Ridge Townhomes;

NOW THEREFORE, the Declarant declares that the real property described in Article II, and such additions thereto, and annexation thereto, as may hereafter be made pursuant to Article II hereof, is and shall be held, transferred, sold, conveyed and occupied subject to the covenants,

conditions, restrictions, easements, charges and liens (sometimes collectively referred to as "covenants and restrictions") hereinafter set forth.

ARTICLE I

DEFINITIONS

The following words when used in this Declaration or any Supplemental Declaration or amendment hereto (unless the context shall prohibit) shall have the following meanings:

(a) "Act" means and refers to the North Carolina Planned Community Act (Chapter 47F of the North Carolina General Statutes).

(b) "Association" shall mean and refer to Elk Ridge Townhomes Homeowners Association, a North Carolina nonprofit corporation, its successors and assigns.

(c) "Community Common Property" or "Common Area" or "Common Property" 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, or located in an easement granted to or reserved by, the Association and which has/have been designated by Declarant or the Association as "Community Common Property", "Common Area", "Open Space", "Riparian Buffer", or some other, similarly descriptive term, on a recorded plat, in a Supplemental Declaration, 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 Property by the Declarant or the Association. All Common Area or Community Common Property shall be subject to the terms and conditions of this Declaration and the ordinances of Moore County.

(d) "Declarant" shall mean and refer to Pinnacle Development Corporation, Inc., a North Carolina corporation, its successors and assigns, to whom the rights of Declarant hereunder are expressly transferred in whole or in part, and subject to such conditions as Declarant may impose, if such successors or assigns should acquire more than one undeveloped Lot location for the purpose of development.

The development of a Lot site shall mean and refer to the construction of a residence thereon.

(e) "Declaration" shall mean and refer to this Declaration of Covenants, Conditions and Restrictions applicable to the Properties, and amendments thereto which are recorded in the Office of the Register of Deeds, Moore County, North Carolina.

(f) "Development Rights" means any right or combination of rights reserved by the Declaration (i) to add real estate to the Planned Community; (ii) to create lots, or Community Common Property within the Planned Community; (iii) to subdivide Homesites or convert Homesites into Community Common Property; or (iv) to withdraw real estate from the Planned Community.

(g) "Lot" shall mean and refer to any numbered or lettered plot of land shown on any plot including exact metes and bounds descriptions and recorded in the Office of the Register of Deeds, Moore County, North Carolina, which is made subject to this Declaration as it may be amended.

(h) "Member" shall mean and refer to an "Owner" subject to assessment as provided in this Declaration.

(i) "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of a fee simple title to any Lot, that is a part of the Properties, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

(j) "Planned Community" means real estate with respect to which any person, by virtue of his/her ownership of a Lot, is expressly obligated by this Declaration to pay real property taxes, insurance premiums, or other expenses to maintain, improve or benefit other Lots or other real estate described in this Declaration. The term "Planned Community" is used interchangeably with the term "Elk Ridge Townhomes" within this Declaration.

(k) "Properties" shall mean and refer to that certain real property described in Exhibit A, and any annexation thereto.

(l) "Special Declarant Rights" means rights reserved for the benefit of the Declarant that may not be altered by the Members, including, but not limited to rights (i) to complete improvements indicated on plats and plans filed with the Declaration; (ii) to exercise any Development Right; (iii) to maintain sales offices, management offices, signs advertising the Planned Community and models; (iv) to use easements through the Common Area for the purpose of making improvements within the Planned Community or within real estate which may be added to the Planned Community; or (v) to appoint or remove any officers or executive board members of the Association during the period of Declarant control, all of which Special Declarant Rights are more fully set forth herein.

ARTICLE II

PROPERTY SUBJECT TO THIS DECLARATION

Section 1. Property Made Subject To Declaration. The Properties described in Exhibit A hereto and any annexation are hereby made subject to this Declaration and the Properties shall be owned, held, leased, transferred, sold, mortgaged and/or conveyed by Declarant, the Association and each Owner subject to this Declaration and the terms, covenants, conditions, restrictions, easements, charges and liens set forth in this Declaration.

Section 2. Existing Property. The real property which hereby is, and shall be, held, transferred, sold, conveyed, and occupied subject to this Declaration is located in Moore County, North Carolina, and is more particularly described in Exhibit A hereto.

Section 3. Mergers. Upon a merger or consolidation of the Association with another organization as provided by its By-Laws, its properties, rights and obligations may be transferred to another surviving or consolidated homeowner's association or, alternatively, the properties, rights and obligations of another homeowner's corporation may, by operation of law, be added to the properties, rights and obligations of this Association as a surviving corporation pursuant to a

merger. The surviving or consolidated homeowner's association may administer the covenants and restrictions established by this Declaration within the Properties, together with the covenants and restrictions established upon any other properties as one scheme. No such merger or consolidation, however, shall effect any revocation, change or addition to the covenants established by this Declaration within the Properties except as hereinafter provided.

ARTICLE III

ANNEXATION OF ADDITIONAL PROPERTIES

Section 1. Annexation by Members: Additional lands may be added and annexed to the Properties only if two-thirds (2/3) of the votes entitled to be cast in each class of Members are cast in favor of annexation. A meeting shall be duly called for this purpose, written notice of which shall be sent to all Members not less than ten (10) days in advance of the meeting.

For the purpose of such meeting, the presence of Members or authorizing proxies entitled to cast sixty percent (60%) of the votes of each class of Members shall constitute a quorum.

If the required quorum is not forthcoming at any meeting, another meeting may be called within sixty (60) days thereafter, subject to the notice requirement set forth above, and the

required quorum of such subsequent meeting shall be one-half (1/2) of the required quorum of the preceding meeting.

If a quorum is present and a majority of the votes are cast in favor of the annexation, but the majority is less than the two-thirds (2/3) majority of each class required for approval of the annexation, and it appears that the required two-thirds (2/3) of each class may be achieved if the Members not present or voting by proxy assent to the annexation, then and in that event, the Members not present or voting by proxy may assent to or dissent from the proposed annexation in writing within one hundred twenty (120) days following the date of the meeting at which he is entitled to vote either in favor of or against the annexation. If the number of votes cast at the meeting in favor of the annexation, together with the votes deemed to have been cast by the Members assenting to the annexation, shall constitute the requisite two-thirds (2/3) majority of each class of all votes entitled to be cast, the annexation shall stand approved.

Section 2. Conveyance of Community Common Property. The Declarant will convey any Community Common Property in annexed areas in the same manner and as provided in Article VI Section 3, hereinbelow.

Section 3. Reserved Declarant Rights. The Declarant reserves the following Development Rights: (i) to add real estate to the Properties in accordance with this Article III; (ii) to create Lots; (iii) to add Community Common Property; (iv) to modify or change Lot types; (v) to reallocate Lots within the property; (vi) to withdraw undeveloped real estate from the Properties.

Section 4. Town of Southern Pines. Additional lands may be added to the Properties pursuant to the terms of this Declaration and subject to the ordinances of the Town of Southern Pines.

ARTICLE IV

MEMBERSHIP

Every person or entity that is a record owner of a fee or undivided interest in any Lot that is subject to this Declaration to assessment by the Association, including contract sellers, shall be a Member of the Association. The foregoing is not intended to include persons or entities that hold an interest merely as security for the performance of an obligation. Membership shall be appurtenant to and may not be separated from ownership of any Lot that is subject to assessment by the Association. Ownership of such Lot shall be the sole qualification for membership.

ARTICLE V

VOTING RIGHTS: CLASSES OF VOTING MEMBERSHIP

The Association shall have two (2) classes of voting membership.

Class A. Class A Members shall be all those Owners of Lots with the exception of the Declarant (as defined in this Declaration). Class A Members shall be entitled to one vote for each Lot in which they hold the interest required for Membership by ARTICLE IV. When more than one person holds such interest in any Lot, all such persons shall be Members, and the vote for such Lot shall be exercised as the majority of such persons among themselves determine; however, in no event may more than one vote be cast with respect to any one Lot. Fractional voting shall be prohibited. At any meeting of the Members, a representation by any of such persons that a majority of such persons have agreed as to the vote for such Lot shall be conclusive unless another of such persons contests such representation at such meeting prior to the casting of such vote.

Class B. The Class B Member(s) shall be the Declarant (as defined in the Declaration). The Class B Member(s) shall be entitled to three (3) votes for each Lot owned. The Class B membership shall cease and be converted to Class A membership on the happening of either of the following events, whichever occurs earlier:

- (a) When the total votes outstanding in Class A membership equals the total votes outstanding in Class B membership; but provided that the Class B membership shall be reinstated if thereafter, and before the time stated in Sub-

paragraph (b) below, such additional lands are annexed to the Properties without the assent of Class A Members because of development of such additional lands by the Declarant, as provided for in Article III herein; or

(b) Ten (10) years following the date of incorporation of the Association.

ARTICLE VI

PROPERTY RIGHTS IN THE COMMUNITY COMMON PROPERTY

Section 1. Owners' Easements of Enjoyment. Every Member shall have a right and easement of enjoyment in and to the Community Common Property, together with and including the right of access, ingress and egress, both pedestrian and vehicular, on and over the drives, walkways and parking areas of the Community Common Property, all of which shall be appurtenant to and shall pass with the title to every Lot and subject to the following provisions:

- (a) The right of the Association to charge reasonable admission and other fees for the use of any recreational or other facility situated upon the Community Common Property;
- (b) The right of the Association to suspend the voting rights and right to use the recreational or other Community Common Property facilities by an Owner for any period during which any assessment against his/her Lot remains unpaid; and for a period not to exceed sixty (60) days for any infraction of its published rules and regulations;
- (c) The right of the Association to dedicate, sell or transfer all or any part of the Community Common Property, to any public agency, authority, or utility for such purposes, and subject to such conditions as may be agreed to by the Members. No such dedication or transfer shall be effective unless it has been approved by two-thirds (2/3) of each class of Members and an instrument properly executed by the Association has been recorded. On such instrument the Secretary of the Association shall certify that two-thirds (2/3) of each class of Members have approved the dedication, sale or transfer and that certificate shall be conclusive as to any grantee or its assigns; *provided, however,* conveyances for general utility purposes as specified herein may be made without consent of the Members;

(d) The Association, acting through its Board of Directors, from time to time may exchange with Declarant or any Member a portion of the Community Common Property for real property owned by the Declarant or such Member, *provided that* the exchange is approved by the vote of fifty-one percent (51%) of each class of Members at a meeting of the Members of the Association duly held in accordance with its Bylaws; the property received by the Association shall be of approximately the same size as the portion of Community Common Property exchanged; the property conveyed to the Association is free and clear of all encumbrances except the Declaration and easements for greenway, drainage, utility, and sewer; the requirement that the exchange must be approved by the Planning Director of the Town of Southern Pines, pursuant to the Town Code of Southern Pines. *Provided, however,* where the exchange is done to eliminate an encroachment of a structure into the Community Common Property or to allow the necessary setback between the structure and the property line, the notice and consent provisions hereinabove shall not be required and only the approval of the Board of Directors of the Association shall be necessary. The real property so acquired by the Association shall be a part of the Community Common Property. The portion of the Community Common Property so acquired by Declarant or a Member, shall cease to be Community Common Property and shall be subject to those provisions of the Declaration that were applicable to the properties conveyed to the Association by the Declarant or Member.

(e) The right of the Association, in accordance with its Articles of Incorporation and By-Laws, to borrow money for the purpose of improving the Community Common Property and facilities and in aid thereof to mortgage said properties, and the rights of such mortgages in said properties shall be subordinate to the rights of the Members hereunder;

(f) The right of the individual Members to the use of parking spaces as may be provided by the Board of Directors; and

(g) The right of the Association in accordance with its Articles of Incorporation or By-Laws to impose rules and regulations for the use and enjoyment of the Community

Common Property and improvements thereon, which rules and regulations may further restrict the use of the Community Common Property.

Section 2. Delegation of Use. Except as specifically limited hereinbelow, any Owner may delegate, in accordance with the By-Laws, his/her right of enjoyment to the Community Common Property and facilities to the Members of his/her family, his/her tenants, or contract purchasers who reside on the property.

Section 3. Title to the Community Common Property. Declarant shall dedicate and convey to the Association (by deed without warranty at Declarant's option) fee simple title to all real property portions of the Community Common Property to the Association, free and clear of all encumbrances and liens other than the lien of current taxes and assessments not in default and utility easements, other easements and encumbrances (not constituting a lien to secure the payment of money) and mineral interests outstanding and of record in Moore County, North Carolina, and the terms and conditions of this Declaration and any applicable supplemental Declaration.

Section 4. Utility Lines. Each Owner, occupant, guest, and invitee acknowledges that neither the Association, if any, nor the Declarant, nor a Builder shall in any way be considered insurers or guarantors of health within the Properties, and neither the Association, if formed, nor the Declarant, nor a Builder shall be held liable for any personal injury, illness or other loss or damage caused by the presence or malfunction of utility lines adjacent to, near, over or on the Properties. Each Owner, occupant, guest and invitee assumes all risk of personal injury, illness or other loss or damage arising from the presence of utility lines and further acknowledges that neither Declarant, nor the Association, if formed, nor a builder have made any representations or warranties, nor has any Owner, occupant, guest or invitee relied upon any representations or warranties, expressed or implied, relative to the condition or impact of utility lines.

ARTICLE VII

COVENANT FOR MAINTENANCE ASSESSMENTS

Section 1. Creation of the Lien and Personal Obligation of Assessments. The Declarant, for each Lot owned within the Properties, hereby covenants, and each Owner of any Lot by acceptance of a deed therefore, whether or not it shall be so expressed in such deed, is deemed to covenant and agree to pay to the Association; (1) annual assessments or charges, and (2) special assessments for extraordinary maintenance and capital improvements, and (3) to the appropriate governmental taxing authority, a pro rata share of assessments against the Community Common Property. The annual and special assessments, together with interest, late fees, and costs, and reasonable attorney's fees for collection, shall be a charge on the land and shall be a continuing lien upon the property against which each such assessment is made. Each such assessment, together with interest, costs, late fees and reasonable attorney's fees, shall also be the personal obligation of the person who was the Owner of such property at the time when the assessment fell due. The personal obligation for the delinquent assessments shall not pass to his/her successors in title unless expressly assumed by them.

The Association shall also have the authority, through the Board of Directors to establish, fix and levy a special assessment on any Lot to secure the liability of the Owner thereof to the Association arising from breach by such Owner of any of the provisions of this Declaration which breach shall require the expenditure of time and money or both, by the Association for repair or remedy.

Each Owner covenants for himself, his/her heirs, successors and assigns, to pay each assessment levied by the Association on the parcel described in such conveyance to him within ten (10) days after receipt of an invoice for the same, and further covenants that if said charge shall not be paid within thirty (30) days from the date that said invoice is deposited, postage prepaid in the United States mail, in an envelope addressed to such Owner at the address of the parcel or to such other address as said Owner shall have designated, the amount of such charge shall become a lien upon said Owner's parcel and shall continue to be such lien until fully paid.

Section 2. Purpose of Assessments. The assessments levied by the Association shall be used exclusively to promote the recreation, health, safety, and welfare of the residents of the

Properties and in particular for the acquisition, improvement and maintenance of properties, services and facilities, including but not limited to the private streets, parking areas and storm water detention devices and facilities, and for the use and enjoyment of the Community Common Property, including but not limited to, the cost of repairs, replacements and additions, the cost of labor, equipment, materials, management and supervision, the payment of taxes and public assessments assessed against the Community Common Property, the procurement and maintenance of insurance in accordance with this Declaration, the By-Laws, the employment of counsel, accountants and other professionals for the Association when necessary, and such other needs as may arise.

Section 3. Maximum Annual Assessment. Through and including December 31, 2006, the maximum annual assessment shall be One Thousand Eight Hundred Dollars (\$1,800.00) per Lot .

(a) The maximum annual assessment for the calendar year beginning January 1, 2007, and for successive calendar years thereafter, shall be established by the Board and may be increased by the Board without approval by the membership of the Association by an amount per year not to exceed ten percent (10%) of the amount of the maximum annual assessment of the immediately preceding calendar year.

(b) The maximum annual assessment for the calendar year beginning January 1, 2007, and for each successive calendar year thereafter, may be increased without limit by the affirmative vote of two-thirds (2/3) of the votes of each class of membership entitled to be cast by the Members present or represented by proxy at a duly called meeting of the Association at which a quorum is present. The provisions of this subsection shall not apply to nor be a limitation upon any change in the maximum annual assessment undertaken as an incident to a merger or consolidation in which the Association is authorized to participate under this Declaration or its Articles or Bylaws.

(c) Subject to the provisions of this Article VII, the Board may fix the annual assessment at any amount not in excess of the maximum annual assessment allowed for the applicable calendar year.

Section 4. Special Assessments for Capital Improvements. In addition to the annual assessments authorized above, the Association may levy, in any assessment year, a special assessment applicable to that year only for the purpose of defraying, in whole or in part, the costs of any construction, reconstruction, restoration, repair or replacement of a capital improvement upon the Community Common Property, or any extraordinary maintenance of any property for which the Association is responsible, provided that any such assessment shall have the assent of sixty-seven percent (67%) of the votes of each class of Members who are voting in person or by proxy at a meeting duly called for this purpose.

Section 5. Notice and Quorum for Any Action Authorized Under Sections 3 and 4. Written notice of any meeting called for the propose of taking any action authorized under this Article shall be sent to all Members not less than thirty (30) days nor more than sixty (60) days in advance of the meeting. At the first such meeting called, the presence of Members or of proxies entitled to cast sixty percent (60%) of all the votes of each class of membership shall constitute a quorum. If the required quorum is not present, another meeting may be called subject to the same notice requirement, and the required quorum at the subsequent meeting shall be one-half (1/2) of the required quorum at the preceding meeting. No such subsequent meeting shall be held more than sixty (60) days following the preceding meeting.

Section 6. Uniform Rate of Assessment. Both annual and special assessments must be fixed at a uniform rate for all Lots and may be collected on a monthly basis; provided, however, the assessment established for each Lot owned by the Declarant shall be not more than twenty-five percent (25%) of the assessments for a Class A Lot. Notwithstanding any provision in this Declaration, the Articles of Incorporation and ByLaws to the contrary, no Lot shall be subject to the assessment until the first day of the month following the issuance of a certificate of occupancy for such Lot by the Town of Southern Pines.

Section 7. Procedure for Setting Annual and Special Assessments. The Board of Directors shall annually adopt a proposed budget and the annual assessment for each Lot for the next year. Within 30 days after adoption of any proposed budget for the Association and assessments for the Owners, the Board shall provide a summary of the budget and assessments for the Owners, and shall set a date for a meeting of the Owners to consider ratification of the budget and the assessments based thereon not less than 14 nor more than 30 days after mailing of the summary. There shall be no requirement that a quorum be present at the meeting. The budget and the assessments based thereon are ratified unless at that meeting a majority of all Owners in person or by proxy rejects the budget. In the event the proposed budget is rejected. The periodic budget last in effect and the assessments based thereon shall be continued until such time as the Owners ratify a subsequent budget proposed by the Board of Directors. In the event that the Association proposes a special assessment, it shall be set forth as a separate item in connection with the annual proposed budget and the procedure for setting the special assessment shall be as set forth above, except that the special assessment shall be ratified separately from the other portions of the budget.

Section 8. Date of Commencement of Annual Assessments: Due Dates.

(a) The annual assessments provided for herein shall commence as to all Lots as provided in Section 6 above. Thereafter, annual assessments shall commence as to all Lots on the first day of the month following the conveyance of the Lot from the Declarant to another Owner.

(b) The first annual assessment shall be adjusted according to the number of months remaining in the calendar year. The Board of Directors shall fix the amount of the annual assessment against each Lot at least thirty (30) days in advance of each annual assessment period. Written notice of the annual assessment shall be sent to every Owner subject thereto. The due dates shall be established by the Board of Directors.

The Association shall, upon demand, and for a reasonable charge, furnish a certificate signed by an officer of the Association setting forth whether the assessments on

a specified Lot have been paid. A properly executed certificate of the Association as to the status of assessments on a Lot is binding upon the corporation as of the date of issuance.

Section 9. Effect of Nonpayment of Assessments: Remedies of the Association. Any assessment not paid within thirty (30) days after the due date shall bear interest from the due date at the highest rate then permitted by North Carolina law. The Association may bring an action at law against the Owner personally obligated to pay the same, and/or foreclose the lien against the property. No Owner may bring an action at law against the Owner personally obligated to pay the same, or foreclose the lien against the property. No Owner may waive or otherwise escape liability for the assessments provided for herein by non-use of the Community Common Property or abandonment of his/her Lot.

Section 10. Subordination of the Lien to Mortgages and Ad Valorem Taxes. The lien of the assessments provided for herein shall be subordinate to the lien of any first mortgage (or deed of trust) and ad valorem taxes. Sale or transfer of any Lot shall not affect the assessment lien. However, the sale or transfer of any Lot pursuant to such mortgage or tax foreclosure, or any proceeding in lieu thereof, shall extinguish the lien of such assessments as to payments that became due prior to such sale or transfer. No sale or transfer shall relieve such Lot from liability for any assessments thereafter becoming due or from the lien thereof.

Section 11. Exempt Property. All properties dedicated to, and accepted by, a local public authority and all properties owned by a charitable or non-profit organization exempt from taxation by the laws of the State of North Carolina shall be exempt from the assessments created herein. However, no land or improvements devoted to dwelling use shall be exempt from said assessments.

Section 12. Working Capital. At the closing of the initial sale to an end-user buyer of each Lot subject to assessments hereunder, a sum equal to two (2) months assessment shall be collected and paid to the Association. Such payments shall not be considered advance payment of regular assessments.

ARTICLE VIII

USE RESTRICTIONS

Section 1. Rules and Regulations. The Board of Directors of the Association shall have the power to formulate, publish and enforce reasonable rules and regulations concerning the use and enjoyment the Community Common Property. Such rules and regulations may provide for imposition of fines or penalties for the violation thereof, or for the violation of any of the covenants and conditions contained in this Declaration. The Board shall have 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 attorney's fees. No rule or action by the Association or Board shall unreasonably impede the Declarant's right to develop the Properties.

Section 2. Use of Properties. No portion of the Properties (except for the temporary offices of the Declarant and other builders' and/or model units used by the Declarant and other builders and construction materials, storage, equipment, signs and parking of Declarant and other builders) shall be used, except for residential purposes and for purposes incidental or accessory thereto.

Section 3. Quiet Enjoyment. No obnoxious or offensive activity shall be carried on upon the Properties, nor shall anything be done which may be, or may become, a nuisance or annoyance to the neighborhood.

Section 4. Animals. No animals, livestock or poultry of any kind shall be kept or maintained on any Lot except that dogs, cats or other household pets may be kept or maintained provided that they are not kept or maintained for commercial purposes and are controlled in accordance with applicable governmental ordinances.

Section 5. Obstructions, etc. There shall be no obstruction of the Common Area, nor shall anything be kept, stored, altered, constructed or planted in or on the Common Area, or removed therefrom, without the prior consent of Declarant or the Association. *Provided, however,* Declarant and the Association shall have the right to install, place, repair, replace and maintain

signs in the Common Area and to install, maintain, repair and replace in the Common Area such materials, equipment and other apparatus as may be necessary to enable the Association to carry out its powers and duties under this Declaration.

Section 6. Signs. No sign of any kind shall be displayed to the public view on any Lot except for signs that are allowed by law and are approved by Declarant, and which are for one or more of the following purposes: (i) advertising the Lot for sale or rent, (ii) advertising the building contractor constructing improvements on the Lot during the initial construction and sales period, (iii) identifying the rental or sales office and/or model home of a building contractor who owns the Lot, (iv) identifying the subdivision or phase name and/or identifying the Lot number of a Lot; and (v) any other purpose approved by the Declarant (or by the Architectural Control Committee after the Class B membership terminates); provided however, the foregoing limitations shall not act to restrict or prohibit Declarant or the Association or any applicable governmental entity from erecting, maintaining, repairing and replacing (and Declarant hereby reserves for itself, the Association and such governmental entities the right to erect, maintain, repair and replace) on a Lot or on the Common Area, landscaped rights-of-way, roadway medians and in any easements reserved or granted for such purposes, signs and billboards advertising the Properties or portions of the Properties, or signs identifying various subdivisions or phases of the project, or regulatory, street and directional signs. Notwithstanding the foregoing, all signs erected and maintained on any Lot must conform to all applicable governmental requirements.

Section 7. TV Antennas and Dishes. No satellite dishes of greater than one (1) meter in diameter shall be installed or permitted to remain on any of the Properties without the prior written approval of the Declarant, Board of Directors or Architectural Committee as provided in Article XII herein.

Section 8. Parking. No owner or his family, lessee or sublessee or guest of an Owner shall park or store any commercial vehicle, boat, trailer, camper or camper top, recreational vehicle, or any other similar object on any private street within or adjoining the Properties, or on any Lot. Notwithstanding the foregoing, guests and invitees of any Owner or lessee may park a

private passenger vehicle on the driveway or other portion of the Properties paved for parking of the vehicles for a period not to exceed seven (7) days. Furthermore, nothing herein shall be deemed to prohibit temporary parking of vehicles involved in deliveries to a Lot.

The Board of Directors shall have the right and authority to make, amend, implement and enforce such additional parking rules and regulations as it deem necessary or appropriate, and shall have the right and authority to enforce same, including, but not limited to, the right to levy fines for violations thereof. Furthermore, the Association shall have the right and authority to have towed any vehicle parked or maintained in violation of these or subsequently- adopted parking rules and regulations, the cost of which towing and storage shall be the responsibility of the Owner of the Lot to which such vehicle is registered.

ARTICLE IX

EASEMENTS

Section 1. Utility Easements. All of the Properties shall be subject to such easements for driveways, walkways, parking areas, water lines, sanitary sewers, storm drainage facilities, gas lines, telephone and electric power line and other public utilities as shall be established by the Declarant or by its predecessors in title, prior to subjecting the Properties to this Declaration; and the Association shall have the power and authority to grant and establish upon, over, under and across the Community Common Property conveyed to it, such further easements as are requisite for the convenient use and enjoyment of the Properties without approval of the membership as provided in the Articles of Incorporation.

Section 2. Adjoining Areas. Each Owner is hereby declared to have an easement and the same is hereby granted by the Declarant over all adjoining parcels for the purpose of accommodating any encroachment due to engineering errors, errors in original construction, settlement or shifting of a building, or any other cause. There shall be valid easements for the maintenance of said encroachment, settlement or shifting; *provided, however,* that in no event shall a valid easement for encroachment be created in favor of an Owner if said encroachment occurred due to the willful misconduct of said Owner.

Section 3. Unintentional Encroachments. In the event that any Lot shall encroach upon any Community Common Property or upon any other Lot for any reason not caused by the purposeful or negligent act of the Owner, then an easement appurtenant to such Lot shall exist for the continuance and maintenance of such encroachment upon the Community Common Property or other Lot for so long as such encroachment shall naturally exist; and, in the event that any portion of the Community Common Property shall encroach upon any Lot, then an easement shall exist for the continuance and maintenance of such encroachment of the Community Common Property onto any such Lot for so long as such encroachment shall naturally exist.

Section 4. Overhanging Roofs and Eaves. Each Lot within the Properties and the Owner thereof, is hereby declared to have an easement and the same is hereby granted by the Declarant, over each joining Lot and/or Community Common Property, as the case may be, for overhanging roofs and eaves and the maintenance thereof.

Section 5. Priority of Easements. Each of the easements hereinabove referred to shall be deemed to be established upon the recordation of this Declaration and shall henceforth be deemed to be covenants running with the land for the use and benefit of the Lots, and the Community Common Property, as the case may be, superior to all other encumbrances which may hereafter be applied against or in favor of the Properties or any portion thereof.

ARTICLE X

INSURANCE

Section 1. Insurance to be Maintained by the Association. The following insurance coverage shall be maintained in full force and effect by the Association:

- (a) Property damage insurance at one hundred percent (100%) of the current replacement cost of the Community Common Property, excluding those areas that are normally excluded from coverage such as land, earthen dams, foundation, excavation, etc. The property damage policy must protect against loss or damage by fire and all other hazards that are normally covered by the standard extended

coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard "all-risk" endorsement.

- (b) Public liability insurance covering all Community Common Property and any other areas that are under the Association's control and supervision in an amount of at least \$1,000,000.00 for bodily injury and property damage for any single occurrence. All liability insurance shall contain cross liability endorsements to cover liability of the owners as a group to an individual owner.

Section 2. Premiums. Premiums for insurance policies purchased by the Association shall be paid by the Association and charged to Owners as an assessment according to the applicable provisions of this Declaration.

Section 3. Insurance Beneficiaries. All such insurance policies shall be purchased by the Association for the benefit of the Association and the Owners.

ARTICLE XI

ELECTRICAL SERVICE

Declarant reserves the right to subject the Properties to a contract for the installation of underground electric cables and/or the installation of street lighting, either or both of which may require an initial payment and/or a continuing monthly payment by the Owner of each lot within the Properties.

ARTICLE XII

ARCHITECTURAL CONTROL AND INSPECTION

Section 1. General Provisions. No erection, or installation of any improvements, including, but not limited to, residences, buildings, outbuildings, fences, walls and other structures, shall be undertaken upon the Properties, unless plans and specifications therefore, showing the nature, kind, shape, height, materials, and location of the proposed improvements shall have been submitted to Declarant and expressly approved in writing by it.

This Article shall not apply to the activities of the Declarant, or to the improvements to the Common Property by or on behalf of the Association. This Article may not be amended without

the Declarant's written consent so long as the Declarant owns any land subject to this Declaration or subject to annexation to this Declaration.

No subsequent alteration or modification of improvements may be undertaken on any of the Properties which shall not be subject to the foregoing requirement, without prior review and express written approval by the Declarant, or the Board of Directors of the Association (after such approval rights have been assigned to the Association; the Declarant reserves the right to assign all or any portion of its approval rights to the Association at any time), or by an "Architectural Committee" composed of three (3) or more representatives appointed by the Board.

Refusal or approval of plans, location, exterior color or finish, or specifications may be based by Declarant, Board of Directors or Architectural Committee, as the case may be, upon any ground, including purely aesthetic considerations, which in the sole and uncontrolled discretion of the Declarant, Board of Directors or Architectural Committee, as the case may be, shall seem sufficient.

In the event that the Declarant, or the Board of Directors or Architectural Committee, as the case may be, fails to approve or disapprove the site or design of any proposed improvements within thirty (30) days after plans and specifications therefore have been submitted and received, approval of the submitted items will be deemed granted, and the requirements of this Article will be deemed to have been fully met; provided, however, that the plans and specifications required to be submitted shall not be deemed to have been received by the Declarant, Association, or Architectural Committee, as the case may be, if they contain inaccurate or erroneous information or fail to present adequate information upon which the Declarant or the Board of Directors or Architectural Committee, as the case may be, can arrive at a decision.

The Declarant shall have the right, at its election, but shall not be required to, enter upon any of the Properties during site preparation or construction, erection or installation of improvements to inspect the work being undertaken, and to determine that such work is being performed in conformity with the approved plans and specifications and in a good and workmanlike manner, utilizing approved methods and good quality materials.

Section 2. No Waiver of Future Approvals. Approval of proposals, plans and specifications, or drawings for any work done or proposed, or in connection with any other matter requiring approval, shall not be deemed to constitute a waiver of the right to withhold approval as to any similar proposals, plans and specifications, drawings, or other matters subsequently or additionally submitted for approval.

Section 3. Limitation of Liability. Plans and specifications are not approved for engineering or structural design or quality of materials, and by approving such plans and specifications neither the Declarant, the Architectural Committee, the members thereof, nor the Association assumes liability or responsibility therefore, nor for any defect in any structure constructed from such plans and specifications. Neither Declarant, the Association, the Architectural Committee, the Board, nor the officers, directors, members, employees, and agents of any of them shall be liable in damages to anyone submitting plans and specifications to any of them for approval, or to any Owner of property affected by these restrictions by reason of mistake in judgment, negligence, or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve or disapprove any such plans or specifications. Every person who submits plans or specifications and every Owner agrees that such person or Owner will not bring any action or suit against Declarant, the Association, the Architectural Committee, the Board, or the officers, directors, members, employees, and agents of any of them to recover any damages and hereby releases, remises, quitclaims, and covenants not to sue for all claims, demands, and causes of action arising out of or in connection with any judgment, negligence, or nonfeasance and hereby waives the provisions of any law which provides that a general release does not extend to claims, demands, and causes of action not known at the time the release is given.

ARTICLE XIII

EXTERIOR MAINTENANCE

Section 1. Maintenance on the Lots. In addition to maintenance of the Common Area, the Association shall provide exterior maintenance upon each Lot which is subject to

assessment hereunder, as follows: paint, repair, replace and care for roofs, gutters, downspouts, exterior building surfaces, trees, shrubs, grass, walks, mailboxes, fences installed by Declarant or the Association, exterior post lights (excluding electricity therefor), and other exterior improvements. Such exterior maintenance shall not include glass surfaces, screens, awnings, and if permitted, approved additions to dwellings made after completion of the initial dwelling (unless maintaining of such addition is affirmatively assumed by the Association) or the repair or reconstruction of any improvements on any Lot, the cost of which repair or reconstruction would be covered by casualty insurance, whether or not a policy of casualty insurance is in effect. Further, the owner of any lot may at his election plant trees, shrubs, flowers and grass in his rear yard and may also maintain portions or all of his rear yard provided that such maintenance by the owner does not hinder the Association in performing its maintenance of the exterior of the house and the remaining yard spaces. No such maintenance by a Lot owner shall reduce the assessment payable by him to the Association. If, in the opinion of the Association any such owner fails to maintain his rear yard in a neat and orderly manner, the Association may revoke the owner's maintenance rights for a period not to exceed one year. The Owner shall not plant any vegetation in the front yard except with the prior written approval of the Association.

(As a matter of information to future members of this Association, the developers wish to make it known that it is a part of the original plan of development to construct a variety of dwellings with a variety of exteriors for the good of the entire subdivision. Some dwellings will require far more maintenance than others because of the types of exterior exposures. Nevertheless, in order to avoid monotony and in order to achieve a harmony of design and textures, all of those connected with the conception, design, construction and financing of this subdivision as originally planned, are in accord in their belief that all members of the Association will be benefited by the variety of exteriors and, therefore, the Association should provide exterior maintenance and make a uniform rate of charge without regard to the actual cost of maintenance of each dwelling.)

In the event that the need for maintenance or repair is caused through the willful or negligent act of the Owner, his family, or guests, or invitees, the cost of such shall be added to and become a part of the assessment to which such Lot is subject.

Section 2. Association's Obligation to Maintain Storm Water Detention Facility.

As a condition of subdivision approval and as required by the Town of Southern Pines, the Declarant has installed certain underground storm water detention facility on the Properties. The description and location of the storm water detention facility is as shown on plans filed with the Town of Southern Pines.

The Association shall be responsible for maintenance of the underground storm water facility according to the following schedule: Inspection of the facility shall be made immediately after construction is complete to assure that the system is free of any construction related debris/material. For the first year after completion, the system shall be monitored and maintained by the Association on a quarterly basis, and after every large storm. The system shall be checked for build-up of trash, sediment, clogging of piping and cleaned accordingly. Once the performance characteristics of the facility have been verified, the monitoring schedule shall be twice annually (March and September). Trash shall be removed from all appurtenances.

Performance of the underground storm water detention facility also depends on other components (i.e., catch basins, junction boxes, storm drainage piping, etc.) General inspection and maintenance in these areas will help assure a greater service life of the system.

ARTICLE XIV

PARTY WALLS

Section 1. General Rules of Law to Apply. Each wall which is built as a part of the original construction upon the Properties and placed on the dividing line between the Lots and all reconstruction or extensions of such walls shall constitute party walls, and, to the extent not inconsistent with the provisions of this Article, the general rules of law regarding party walls, lateral support in below-ground construction and of liability for property damage due to negligence or willful acts or omissions shall apply thereto.

Section 2. Sharing of Repair and Maintenance. The cost of reasonable repair and maintenance of a party wall shall be shared by the Owners who make use of the wall in proportion to such use.

Section 3. Destruction By Fire or Other Casualty. If a party wall is destroyed or damaged by fire or other casualty, any Owner who has used the wall may restore it, and if the other Owners thereafter make use of the wall, they shall contribute to the cost of restoration thereof in proportion to such use without prejudice, however, to the right of any such Owners to call for a larger contribution from the others under any rule of law regarding liability for negligent or willful acts or omissions.

Section 4. Easement and Right of Entry for Repair, Maintenance, and Reconstruction. The owner of any Lot may construct, reconstruct, repair, or extend a party wall in any direction (subject to and within the limitations of architectural control and other limitations of these Covenants) with the right to go upon the adjoining Lot to the extent reasonably necessary to perform such construction. Such construction shall be done expeditiously. Upon completion of such construction, such owner shall restore the adjoining Lot to as near the same condition which prevailed on it before the commencement of such construction as is reasonably practicable.

Section 5. Weatherproofing. Notwithstanding any other provision of this Article, an Owner who by his negligent or willful act causes the party wall to be exposed to the elements shall bear the whole cost of furnishing the necessary protection against such elements.

Section 6. 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 7. Certification by Adjoining Property Owner That No Contribution is Due. If any Owner desires to sell his property, he may, in order to assure a prospective purchaser that no adjoining property owner has a right of contribution as provided in this Article XIV, request of the adjoining property approval will not be required and this Article will be deemed to have been fully complied with.

ARTICLE XV

GENERAL PROVISIONS

Section 1. Enforcement. The Association, or any Owner, shall have the right to enforce, by any proceeding at law or in equity, all restrictions, conditions, covenants, reservations, liens and charges now or hereafter imposed by the provisions, of this Declaration. Failure by the Association or by any Owner to enforce any covenant or restriction hereby contained shall in no event be deemed a waiver of the right to do so thereafter.

Section 2. 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 3. Duration and Amendments.

(a) The covenants and restrictions of this Declaration shall run with and bind the land, and shall inure to the benefit of and be enforceable by the Association, the Declarant or the Owner of any Lot subject to this Declaration, their respective legal representatives, heirs, successors and assigns, for a term of thirty (30) years from the date this Declaration is recorded, after which time said covenants shall be automatically extended for successive periods of ten (10) years unless the Association approves a change in the covenants and restrictions. The covenants and restrictions of this Declaration may be amended at any time if seventy-five percent (75%) of the vote of each class of Members at a duly called meeting of the Association at which a quorum is present approves the change; provided that prior to the sale of the first Lot, this Declaration may be amended by the Declarant without consent of the Members.

Any amendment must be recorded in the Office of the Register of Deeds of Moore County, North Carolina.

(b) The Declarant, so long as it shall retain control of the Association, shall have the right to amend this Declaration to conform to the requirements of any law or governmental agency having legal jurisdiction over the Properties or to qualify the Properties or any Lots and improvements thereon for mortgage or improvement loans made, insured or guaranteed by a government agency or to comply with the requirements of law or regulations of any corporation or agency belonging to, sponsored by, or under the substantial control of, the United States Government or the State of North Carolina, regarding purchase or sale in such lots and improvements, or mortgage interests therein, as well as any other law or regulation relating to the control of the Properties, including, without limitation, ecological controls, construction standards, aesthetics, and matters affecting the public health, safety and general welfare. A letter from an official of any such corporation or agency, including, without limitation, the Veterans Administration, U.S. Department of Housing and Urban Development, the Federal Home Loan Mortgage Corporation, Government National Mortgage Corporation, or the Federal National Mortgage Association, requesting or suggesting an amendment necessary to comply with the requirements of such corporation or agency shall be sufficient evidence of the approval of such corporation or agency, provided that the changes made substantially conform to such request or suggestion.

(c) No amendment which would change or delete any provision herein required by any governmental authority shall become effective until submitted to and approved by that authority; provided, however, if that authority fails to approve or disapprove such amendment within thirty (30) days after the same has been submitted to it, such approval shall not be required and this covenant shall be deemed to have been fully complied with.

(d) As long as there is a Class B membership, and if Declarant determines to qualify the Properties for Federal Housing Administration or Veterans Administration approval the following actions will require the prior written approval of the Federal Housing Administration or the Veterans Administration: Annexation of additional property, dedication of Community Common Property, and amendment of this Declaration.

Section 4. Availability of Documents. The Association will have current copies of the Declaration, By-Laws, and other rules concerning Elk Ridge Townhomes Homeowners Association as well as the Association's own books, records and financial statements available for inspection during normal business hours by owners and by holders, insurers and guarantors of first mortgages that are secured by Lots in Elk Ridge Townhomes Homeowners Association.

Section 5. Rights of Eligible Mortgage Holders. Eligible Mortgage Holders are those holders of a first mortgage or deed of trust on a Lot ("Eligible Mortgages") who have requested the Association to notify them of any proposed action that requires the consent of a specified percentage of Eligible Mortgage Holders. Amendments of a material nature to this Declaration or the By-Laws of the Association require the approval of Eligible Mortgage Holders representing at least fifty-one percent (51%) of the holders of Eligible Mortgages. Any action to terminate this Declaration or the legal status of the Association for reasons other than substantial destruction or condemnation of the Properties, shall require the approval of Eligible Mortgage Holders representing at least sixty-seven percent (67%) of the holders of Eligible Mortgages.

The holder, insurer, or guarantor of a mortgage or deed of trust on any Lot in Elk Ridge Townhomes Homeowners Association is entitled to timely written notice of:

- (a) Any condemnation or casualty loss that affects a material portion of Elk Ridge Townhomes Homeowners Association;
- (b) A lapse, cancellation or material modification of an insurance policy or fidelity bond maintained by the Association; and
- (c) Any proposed action that requires the consent of a specified percentage of Eligible Mortgage Holders. To obtain this information, the mortgage holder, insurer, or

guarantor should send a written request to the Association, stating both its name and address and the unit number or address of the unit covered by its mortgage or deed of trust.

Section 6. Condemnation. If any part of the Community Common Property shall be taken (or conveyed in lieu of or under threat of condemnation) by any authority having the power of condemnation or eminent domain, each Owner shall be entitled to written notice of such taking or conveyance prior to disbursement of any condemnation award or proceeds from such conveyance. Such award or proceed shall be payable to the Association for the benefit of the Owners.

Section 7. Titles. The titles, headings and captions that have been used throughout this Declaration are for convenience only and are not to be used in construing this Declaration or any part thereof.

Section 8. Number and Gender. Whenever the context of this Declaration requires, the singular shall include the plural and one gender shall include all.

Section 9. No Exemption. No Owner or other party may exempt himself from the coverage hereof or obligations imposed hereby by non-use or abandonment of such Owner's Lots or the Common Area.

Section 10. Conflict Between Declaration and Articles of Incorporation, Bylaws. Whenever there exists a conflict between the provisions of this Declaration and the Articles of Incorporation or Bylaws of the Association, the provisions of this Declaration shall control, and whenever there is a conflict between the provisions of the Articles of Incorporation and Bylaws, the provisions of the Articles of Incorporation shall control. In the event of a conflict between the Act and this Declaration, the Act shall control.

Section 11. Laws of North Carolina. 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 12. Assignment. Declarant specifically reserves the right, in its sole discretion, at any time and from time to time, to assign (temporarily or permanently) any or all of its rights, privileges and powers under this Declaration or under any Supplemental Declaration.

THE REST OF THIS PAGE LEFT BLANK INTENTIONALLY.

IN WITNESS WHEREOF, the undersigned, being the Declarant, has caused this instrument to be executed as of the ____ day of _____, 2006.

PINNACLE DEVELOPMENT CORPORATION, INC.

By: _____ (SEAL)
Marcel Osias Goneau, Jr., President

ATTEST:

Jason D. Grant, Secretary

STATE OF NORTH CAROLINA

ACKNOWLEDGEMENT

COUNTY OF _____

I, _____, a Notary Public of the County and State aforesaid, certify that JASON D. GRANT, personally came before me this day and acknowledged that he/she is Secretary/Assistant Secretary of PINNACLE DEVELOPMENT CORPORATION, INC., a North Carolina corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by its President, sealed with its corporate seal and attested by JASON D. GRANT as its Secretary/Assistant Secretary.

Witness my hand and official stamp or seal, this ____ day of _____, 2006.

NOTARY PUBLIC

My commission expires: _____

EXHIBIT A

BEING all that certain real property as shown on plat of Elk Ridge Townhomes, as recorded in Book of Maps 13, Page 352, Moore County Registry, North Carolina.