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STATE OF NORTH CAROLINA

COUNTY OF NEW HANOVER

DECLARATION OF COVENANTS,
CONDITIONS AND RESTRICTIONS
POTOMAC WOODS, SECTION 4

THIS DECLARATION, made on the date hereinafter set forth by COASTAL CAROLINA DEVELOPERS, INC., hereinafter referred to as "Declarant" or "Developer".

WITNESSETH:

WHEREAS, Declarant is the owner of certain property in New Hanover County, North Carolina, which is more particularly described as POTOMAC WOODS SUBDIVISION, SECTION 4, as shown on map of same recorded in Map Book 42 at Page 29 in the New Hanover County Registry (hereinafter sometimes referred to as "POTOMAC WOODS, SECTION 4").

NOW, THEREFORE, Declarant hereby declares that all of the properties, including all lots, described above shall be held, sold and conveyed subject to the following easements, restrictions, covenants and conditions, which are for the purpose of protecting the value and desirability of, and which shall run with, the real property and be binding on all parties having any right, title or interest in the described properties or any part thereof, their heirs, successors and assigns, and shall inure to the benefit of each owner thereof.

ARTICLE I

DEFINITIONS

Section 1. "Association" shall mean and refer to POTOMAC WOODS OWNERS ASSOCIATION, or its successors and assigns, a non-profit corporation formed or to be formed by the Declarant primarily as an association for the lot owners of POTOMAC WOODS, all sections.

Section 2. "Owner" shall mean and refer to the record owner, whether one or more persons or entities, of a fee simple title to any Lot which is a part of the Properties, including contract sellers, but excluding those having such interest merely as security for the performance of an obligation.

Section 3. "Properties" shall mean and refer to that certain real property hereinbefore described, known as POTOMAC WOODS, SECTION 4 and/or such additions thereto as may hereafter be brought within the jurisdiction of the Association.

Section 4. "Common Area" shall mean all real property, if any, (including the improvements thereto) owned or maintained (subject to the authority of the Declarant) by the Association for the common use, benefit and enjoyment of the owners. The Common Area to be owned or maintained by the Association will be shown on a recorded plat recorded in the New Hanover County Registry.

Section 5. "Lot" shall mean and refer to those enumerated parcels of land upon which single family residences may be built as

shown upon that map recorded in Map Book 42 at Page 29 in the New Hanover County Registry and any other recorded subdivision map of the Properties. As used herein, "Lot" does not include "common areas".

Section 6. "Declarant" or "Developer" shall mean and refer to COASTAL CAROLINA DEVELOPERS, INC., its successors and assigns if such successors or assigns should acquire more than one undeveloped Lot from the Declarant or Developer for the purpose of development. "Undeveloped Lot" shall mean a lot which has not been subdivided or platted for sale or building purposes.

ARTICLE II

PROPERTY RIGHTS

Section 1. Owners' Easements of Enjoyment. Every owner shall have a right and easement of enjoyment in and to the Common Area (if any) which shall be appurtenant to and shall pass with the title to every Lot, subject to the following provisions:

(a) the right of the Association to suspend the voting rights and right to use of the Common Areas by an owner for any period during which any assessment against his Lot remains unpaid; and for a period not to exceed 60 days for any infraction of its published rules and regulations;

(b) the right of the Association to dedicate or transfer all or any part of the Common Area 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 an instrument agreeing to such dedication or transfer signed by two-thirds (2/3rds) vote of the members of the Association has been recorded;

(c) due to noise concerns, safety, liability and property damage reasons, no motorized, gas or electric vehicles, including dirt bikes and all terrain vehicles (ATV's) are permitted on the common areas or grounds of the properties. Only maintenance equipment needed to maintain the grounds are exempt from this rule.

(d) the rights of the Declarant as set forth herein.

Section 2. Delegation of Use. Any owner may delegate, in accordance with the By-Laws, his right of enjoyment to the Common Area the members of his family, his tenants, or contract purchasers who reside on the property.

ARTICLE III

MEMBERSHIP AND VOTING RIGHTS

Section 1. Every owner of a lot which is subject to assessment shall be a member of the Association. Membership shall be appurtenant to and may not be separated from ownership of any Lot which is subject to assessment.

Section 2. The Association shall have two classes of voting membership:

Class A. Class A members shall be all Owners, with the exception of the Declarant, and shall be entitled to one vote for each Lot owned. When more than one person holds an interest in any Lot, all such persons shall be members. The vote for such Lot shall be exercised as they determine, but in no event shall more than one vote be cast with respect to any Lot.

Class B. The Class B member(s) shall be the Declarant and 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 vote outstanding in the Class A membership equals the total votes outstanding in the Class B membership, or
- (b) on December 31, 2010.

Section 3. Management of the affairs of the Association shall be the right and responsibility of its Board of Directors in accordance with this Declaration and the By-Laws, PROVIDED, HOWEVER, that any powers and duties exercised by the Board of Directors shall not affect, reduce or impair the authority or power of the Declarant to exercise its rights as developer, including, but not limited to, matters pertaining to planning, drainage, grading and subdivision plans.

ARTICLE IV

COVENANT FOR 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 therefor, 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 capital improvements, such assessments to be established and collected as hereinafter provided and (3) such other assessments or charges as the Declarant or the Board of Directors shall determine, including penalties for late payments. The annual and special assessments, together with fines, penalties, interest, costs and reasonable attorney's fees as determined by the Declarant or Association, 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 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 delinquent assessments shall not pass to his successors in title unless expressly assumed by them.

Section 2. Purpose of Assessments. The assessments levied by the Association shall be used exclusively to promote the health, safety and welfare of the residents in the Properties and for the improvement and maintenance of all easements, utilities and the Common Area, specifically including, but not limited to, the maintenance, repair and replacement of utility easements, stormwater drainage facilities and easements, delegated to the Association by the Declarant, and maintenance and repair of all other utility facilities and utility equipment not otherwise maintained and repaired by municipal, public or private utility authorities or by the Declarant. The assessments shall also be used for the maintenance and operation of all lighting facilities, if any, maintenance and repair of any amenities located upon the common areas, if any, maintenance of the entrance area and subdivision sign, the costs of enforcing this Declaration, and the payment of all other expenses associated with the Common Areas, including the prompt and full payment of all ad valorem property taxes and insurance for said common area(s). In addition, the assessments shall also be used for doing any other thing(s) necessary or desirable in the opinion of the Association to keep the property in neat and good order, and to provide for the health, welfare and safety of the Owners and residents of POTOMAC WOODS SUBDIVISION. **The assessments provided for hereunder shall also be used to fund the necessary expenses for drainage and stormwater management (as well as other common areas) in conjunction with adjacent and/or neighboring subdivisions which are part of the same drainage network or system as determined by the Declarant to be necessary or appropriate. Necessary expenses shall be determined and assessed equally on a per lot basis unless otherwise agreed to by the subdivisions in the drainage network.**

Section 3. Annual Assessment. A lot shall not be subject to annual assessments until the lot is sold by the Declarant to an Owner other than the Declarant.

(a) Until January 1 of the year immediately following the conveyance of the first Lot to an Owner, the maximum annual assessment shall be determined by the Declarant.

(b) From and after January 1 of the year immediately following the conveyance of the first Lot to an Owner, the maximum annual assessment may be increased each year not more than 5% above the maximum assessment for the previous year without a vote of the membership.

(c) From and after January 1 of the year immediately following the conveyance of the first Lot to an Owner, the maximum annual assessment may be increased above 5% only by a vote of two-thirds (2/3) of each class of members who are voting in person or by proxy, at a meeting duly called for this purpose.

(d) The Board of Directors may fix the annual assessment at an amount not in excess of the maximum as desired.

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 cost of any construction, reconstruction, repair or replacement of a capital improvement upon the Common Area, including fixtures and personal property related thereto, provided that any such assessment shall have the assent of two-thirds (2/3) 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. Insurance. The Board of Directors, on behalf of the Association, as a common expense, shall at all times keep the property, if any, of the Association insured against loss or damage by fire or other hazards and other such risks, including, but not limited to, directors' liability and public liability insurance, upon such terms and for such amounts as may be reasonably necessary from time to time to protect the Properties and Common Area, which insurance shall be payable in case of loss to the Association for all members. The Association shall have the sole authority to deal with the insurer in the settlement of claims. Such insurance shall be obtained without prejudice to the right of each member to insure his personal property for his own benefit at his own expense. In no event shall the insurance coverage obtained by the Association be brought into contribution with insurance purchased by members or their mortgagees. An individual lot owner's liability for damage to the common areas shall not be absolute, but rather only that determined in accordance with North Carolina law.

Section 6. Insurance Assessments. All insurance policy premiums on the Common Areas for the benefit of the Association purchased by the Board of Directors or its designee and any deductibles payable by the Association upon loss shall be a common expense, and the Association shall levy against the Owners equally as an additional annual assessment, (herein called "Insurance Assessment") which shall be in addition to the amounts provided for under Section 3 above, an amount sufficient to pay the annual cost of all such insurance premiums.

Section 7. Notice and Quorum for Any Action Authorized Under Sections 3 and 4. Written notice of any meeting called for the purpose of taking any action authorized under Section 3 or 4 shall be sent to all members not less than 30 days nor more than 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 the 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 60 days following the preceding meeting. No provision in this Section 7 shall operate to prevent the Declarant from enjoying and exercising the rights set forth in Article III above.

Section 8. Uniform Rate of Assessment. Both annual and special assessments must be fixed at a uniform rate for all Lots.

Section 9. Date of Commencement of Annual Assessments: Due Dates. The annual assessments provided for herein shall commence as to all Lots on the first day of the month following the

conveyance of the Common Area unless determined otherwise by the Board of Directors. 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 Association as of the date of its issuance. Notwithstanding any language to the contrary herein, as long as the Developer is actively developing POTOMAC WOODS and is primarily responsible for the maintenance of the Common Areas then the Developer may, in its sole discretion, choose not to levy or assess any lots for assessments.

Section 10. 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 maximum legal rate in effect when due along with such other penalties, fines, costs, expenses and attorney's fees as determined by the Declarant or Board of Directors. The Association 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 Common Area or abandonment of his Lot. Failure to pay assessments does not constitute a default under any insured mortgage owed by an Owner.

Section 11. Subordination of the Lien to Mortgages. The lien of the assessments provided for herein shall be subordinate to the lien of any first mortgage. Sale or transfer of any Lot shall not affect the assessment lien. However, the sale or transfer of any Lot pursuant to mortgage foreclosure or any proceeding in lieu thereof, shall extinguish the lien of such assessments as to payments which 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. Mortgagees are not required to collect assessments.

Section 12. Working Capital Assessment. At the time title to a lot is conveyed from Declarant to the initial owner other than the Declarant, said owner shall contribute to the Association as a working capital reserve the amount of Fifty Dollars (\$50.00). Such funds shall be used solely for initial operating and capital expenses of the association, including but not limited to insurance, supplies, furnishings and equipment. Amounts paid into the working capital fund are not to be considered as advance payments of regular assessments. Any working capital funds remaining at the end of the first full operating year may be transferred to and become part of the general funds of the Association in the discretion of the Declarant or Board of Directors, as appropriate.

Section 13. Maintenance by Association. The Association shall be responsible for maintaining, repairing and replacing all areas, facilities, easements and other matters referred to in Article IV, Section 2 above as may be directed or assigned by the Declarant.

Section 14. The Association formed pursuant to this Declaration shall become responsible for the stormwater management of the properties at such time as the Declarant/Developer turns over control of said Association to the owners or buyers of lots. At such time the Association shall sign such documentation as may be required by the State of North Carolina Department of Environmental and Natural Resources, Division of Water Quality, including but not limited to a stormwater management permit application, a Curb Outlet System Supplement, Permit Name/Ownership Change Form. In addition, the Association shall enter into any other agreements or documentation required by the State of North Carolina or any agency or department thereunder as well as any agency or department of the County of New Hanover. Any person or entity purchasing a lot in this subdivision shall be subject to and shall be deemed to have agreed to comply with and cooperate with the requirements herein.

ARTICLE V

ARCHITECTURAL CONTROL

Section 1. No dwelling, residence, building, fence, wall or other structure shall be commenced, erected or maintained upon the Properties, nor shall any exterior addition to or change or alteration therein be made until the plans and specifications showing the nature, kind, shape, height, materials and location of the same shall have been submitted to and approved in writing as to harmony of external design and location in relation to surrounding structures and topography by the Declarant, or its designee, or if applicable, the Board of Directors of the Association, or by an architectural committee composed of three (3) or more representatives appointed by the Board. In the event said Board, or its designated committee, fails to approve or disapprove such design and location within thirty (30) days after said plans and specifications have been submitted to it, approval will not be required and this Article will be deemed to have been fully complied with provided that such addition, construction or alteration is in conformity with the overall plan, design and appearance of POTOMAC WOODS SUBDIVISION, SECTION 4 in general. Non-approval of any such plans, location or specification may be based upon any reasonable ground that in the discretion of the Declarant or Architectural Control Committee shall be deemed as inconsistent with the general development and the standards of quality of said subdivision and is materially detrimental to the value of the subdivided lots in said subdivision. One copy of all plans and related data shall be furnished to the Declarant or Architectural Control Committee, as the case may be, for its records. Neither the Declarant nor the Architectural Control Committee shall be responsible for any structural or other defects in plans and specifications submitted to it or any structure erected according to such plans and specifications.

Section 2. Developer's Rights. All duties and responsibilities conferred upon the Board of the Architectural Control Committee by this Declaration or the Bylaws of the Association shall be exercised and performed by the Declarant or its designee, so long as Declarant shall own any lot in the Properties or any additions annexed thereto by Supplemental Declaration or Amendment to this Declaration. Declarant reserves all rights as to planning, installation and construction of all matters concerning grading and drainage and all matters involving or pertaining to engineering and architectural matters. In addition, the Declarant shall have sole authority as to matters requiring compliance or adherence to state or county planning, land use, drainage and stormwater requirements or regulations.

Section 3. Approval of Plans:

A. No house plans will be approved unless the proposed house shall have a minimum of 1600 square feet of finished (heated) area as defined by the National Association of Home Builders Accredited Standard Committee's Proposed Standards Approved Sept. 30, 1995. The term "enclosed dwelling area" as used in the minimum requirements shall be the total enclosed area within a dwelling; provided, however, that such term does not include garages, terraces, decks, open porches and like areas.

B. The exterior of all houses and other structures must be completed within twelve (12) months after the construction of same shall have commenced, except where such completion is impossible or would result in great hardship to the Owner or builder, due to strikes, fires, national emergency, or natural calamities.

C. No improvement shall be erected, altered, placed upon, or permitted to remain on any lot other than one detached single family dwelling and garage or garages (whether attached or detached to the dwelling). No detached garage shall be more than one story in height and shall never be used for living quarters of any kind, either for guests, members of the family or servants, and the construction or maintenance of so-called "garage-apartments" on any lot is expressly prohibited. Storage and utility buildings, in conformity with the dwelling constructed on said lot, may be allowed only with the express written consent of the Developer.

ARTICLE VI

EASEMENTS

Section 1. Easements are reserved and may be granted by Declarant (or the Association, once the Declarant has assigned or transferred management and control of the Association to the owners) as necessary in the Common Areas for installation and maintenance of underground utilities and drainage facilities.

Section 2. An easement is hereby granted to all police, fire protection, ambulance and all similar persons, companies or agencies performing emergency services to enter upon the lots and Common Area in the performance of their duties.

Section 3. In case of an emergency originating in or threatening any lot or the common areas and facilities, regardless of whether any Lot Owner is present at the time of such emergency, the Board of Directors, or any other person authorized by it, shall have the right to enter upon any lot for the purpose of remedying or abating the causes of such emergency and making any other necessary repairs not performed by the Lot Owners, and such right of entry shall be immediate.

Section 4. The Declarant reserves unto itself, its successors and assigns, a perpetual, alienable and releasable easement and right on, over and under the ground with men and equipment to erect, maintain, inspect, repair and use electric and telephone poles, wires, cables, conduits, sewers, water mains and other suitable equipment for the conveyance and use of electricity, telephone equipment, gas, sewer, water or other public conveniences or utilities on, in, or over each lot and such other areas as are shown on the plat of the Properties recorded or to be recorded in the office of the Register of Deeds of New Hanover County; provided further, that the Declarant may cut drain ways for surface water whenever such action may appear to the Developer to be necessary in order to maintain reasonable standards of health, safety and appearance. These easements and rights expressly include the right to cut any trees, bushes or shrubbery, make any grading of the soil, or to take any other similar action reasonably necessary to provide economical and safe utility installation and to maintain reasonable standards of health, safety and appearance. It further reserves the right to locate wells, pumping stations, and tanks within residential areas, or on any residential lot now or subsequently designated for such use or to locate same upon any lot with the permission of the owner of such lot. Such rights may be exercised by any licensee of the Declarant, but this reservation shall not be considered an obligation of the Declarant to provide or maintain any such utility or service.

Section 5. The Declarant reserves unto itself, its successors and assigns, the right to subject the real property in this Subdivision to a contract with Carolina Power & Light Company for the installation of street lighting, which contract requires a continuing monthly payment to Carolina Power & Light Company by each residential customer for street lighting service.

Section 6. All easements and rights described herein are easements appurtenant, running with the land, and shall inure to the benefit of and be binding on the undersigned, its successors and assigns, and any owner, purchaser, mortgagee and other person having an interest in said land, or any part or portion thereof, regardless of whether or not reference to said easement is made in the respective deeds of conveyance, or in any mortgage or trust deed or other evidence of obligation, to the easements and rights described in this Declaration.

ARTICLE VII

DRAINAGE EASEMENTS

The following classification system shall apply to all drainage easements shown on all maps of Potomac Woods Subdivision

including all sections. Based upon the classification of each easement, it shall be maintained as explained hereinbelow either principally by the homeowners association or by the individual lot owners. There shall be two (2) classes of drainage easements to be known as: CLASS 1 and CLASS 2.

CLASS 1: CLASS 1 denotes a drainage easement that shall be maintained exclusively by the Owners Association ("Association"). The Association shall be responsible for all maintenance, repair and replacement of all CLASS 1 drainage easements identified on the recorded plats or maps of Potomac Woods. Notwithstanding, each individual lot owner shall have the personal responsibility to refrain from taking any action or doing anything of any nature whatsoever which impairs or damages the location, size, utility, function or the appearance of each such CLASS 1 drainage easement. Nothing herein is intended to prevent or prohibit individual lot owners from taking actions to maintain the appearance, such as mowing or cleaning, of CLASS 1 drainage easements.

CLASS 2: CLASS 2 denotes a drainage easement that is typically nothing more than a swale. The portion of any such swale located on any lot shall be maintained by that individual lot owner which shall include mowing it, keeping it clean of trash and debris and otherwise taking the steps reasonably necessary to ensure that the drainage easement operates properly and is not impaired in any way. Notwithstanding, if the CLASS 2 drainage easement in question lies within a subdivision which is being managed by an Owners Association then the Owners Association shall be responsible exclusively for maintaining the proper depth (and nothing else unless the Association agrees to do so) of all such CLASS 2 drainage easements.

ARTICLE VIII

UTILITIES

Section 1. Water Service. Water service for POTOMAC WOODS SUBDIVISION shall be provided by New Hanover County. No lot owner may drill or otherwise construct a water well on any lot in POTOMAC WOODS SUBDIVISION, SECTION 4, or use any other source of water supply for household use, except for irrigation purposes, and then only with the consent of New Hanover County. All charges for water service will be the responsibility of each individual lot owner.

Section 2. Sewer Service. Sewer service for POTOMAC WOODS SUBDIVISION shall be provided by New Hanover County. No lot owner may construct or install a sewage disposal system on any lot in POTOMAC WOODS SUBDIVISION, SECTION 4, without the express consent of the appropriate agency of New Hanover County. All charges for sewer service will be the responsibility of each individual lot owner.

ARTICLE IX

FIDELITY BONDS

Section 1. General. The Association shall maintain blanket fidelity bonds for all officers, directors, employees and all other

persons handling or responsible for funds of the Association. If the Association shall delegate some or all of the responsibility for the handling of its funds to a management agent, such fidelity bonds shall be maintained by such management agent for its officers, employees and agents handling or responsible for funds of or administered on behalf of the Association.

Section 2. Amount of Coverage. The total amount of fidelity bond coverage required shall be based upon best business judgment and shall not be less than the estimated maximum of funds, including reserve funds, in the custody of the Association or the management agent, as the case may be, at any given time during the term of each bond. However, in no event may the aggregate amount of such bonds be less than a sum equal to three months aggregate assessments on all lots plus reserve funds.

Section 3. Other Requirements. Fidelity bonds required herein must meet the following requirements:

- a. Fidelity bonds shall name the Association as an obligee.
- b. The bonds shall contain waivers by the issuers of the bonds of all defenses based upon the exclusion of persons serving without compensation from the definition of "employees", or similar terms or expressions.
- c. The premiums on all bonds required herein for the Association (except for premiums on fidelity bonds maintained by a management agent for its officers, employees and agents) shall be paid by the Association as a common expense.
- d. The bonds shall provide that they may not be canceled or substantially modified (including cancellation for non-payment of premium) without at least thirty (30) days prior written notice to the Association, to any insurance trustee and each Eligible Mortgage Holder.

ARTICLE X

GENERAL RESTRICTIONS

Section 1. No building or structure of any kind shall be located on any lot nearer than 25 feet from the front lot line. No building or structure of any kind shall be located on any lot nearer than 8 feet from any side or rear lot line, provided, however, if the owner of two or more adjoining lots shall elect to use them for one residence, the common boundary line or lines between the lots so used shall not be regarded as side boundary lines of the lots. Provided, that detached garages or approved storage or utility buildings may be constructed no nearer than 5 feet to the side or rear lines of any lot, provided, however, that no such structure or improvement shall encroach upon or be located within any easement shown on a recorded map. In computing the front and side setback distances called for in these restrictive covenants, measurements shall be from the base or ground level of the building or structure, and neither the overhang of eaves, not in excess of three feet, nor the establishment of uncovered stoops,

patios, decks, or steps within the setback area, shall be considered a violation of this covenant. Regardless of the set back requirements set forth herein, lot owners shall comply with the greater of the building set back and separation distances established by the New Hanover County Zoning and Subdivision Ordinances in effect at the time of construction of a dwelling or those set forth herein. Only with the written consent of the Developer, the front or side set back distances, exclusive of easements, as established by the Developer, herein may be waived or modified.

Section 2. The Developer reserves a 10-foot easement along the front lot line and a 5-foot easement along each side lot line and rear lot line of all lots in the subdivision for the purpose of the installation and maintenance of water, sewer, gas, electric, cable, telephone or other lines, cables, conduits, poles, pipes, and other equipment necessary or useful for furnishing electric power, gas, telephone service or other utilities, including water and sewer service, and for drainage. The 10-foot easement shall apply to all street frontages on lots having multiple street frontages. The Developer reserves the right to grant encroachment on these easements to utility companies to serve the subdivision.

Section 3. No culvert or pipe shall be placed in any street or road, ditch or drain unless it in all respects meets the standards set by the governmental authority having jurisdiction over the same. No drainways along any lot within the subdivision shall be filled or modified except by the Developer or at the request of State, Federal or local agencies.

All driveways shall be paved with either asphalt or concrete and if applicable shall be piped with driveway pipes of not less than 20 feet in length. Should the grade of the lot be more than 30 inches above the ditch bottom on the yard side of the ditch, the owner of such lot shall bulkhead the ditch with concrete, bagged sacrete or brick. No concrete blocks or cinder blocks or other materials shall be used in the bulkhead.

Section 4. No commercial trade or activity, or any noxious trade or activity whatsoever, shall be carried on upon any lot, nor shall anything be done thereon which may be, or may become, an annoyance or nuisance to other lot owners. In the event yards in the subdivision are not properly maintained they may be cleaned by the Developer or Association at the owner's expense. Unsightly, inoperative junk cars and like eyesores cannot be maintained on any lot or on any street in the subdivision either prior to or after the dwelling has been erected and any such automobiles may be removed by the Developer at the lot owner's expense. This paragraph shall not be deemed to prohibit or limit in any way, the Developer or any person, company or firm approved by the Developer, from building houses or other improvements on the subject property and selling same.

Section 5. There shall not be placed or used on any lot any of the following structures: trailer, mobile home (including double-wide mobile home), tent, shack, garage apartment, barn, any other out building or any such structure of a permanent or temporary character. However, nothing herein shall be meant to prevent the construction but only with Developer's consent of

storage and utility buildings as set forth in Section 1 above. It is the express intention of the Developer that no trailer or mobile home (including a double-wide mobile home) shall be allowed on said property. Nothing herein shall be construed to prevent the use, upon Developer's approval, as set forth in Paragraph 3 above, of a prefabricated or modular home as long as same is consistent with the general development and the standards of quality of said subdivision and is not materially detrimental to the value of the subdivided lots in said subdivision.

Section 6. All buildings, structures and their appurtenances shall be maintained in a suitable state of repair, and in the event of destruction by fire or other casualty, premises are to be cleared and debris removed within ninety (90) days from date of such casualty.

Section 7. No animals, other than domesticated dogs, cats or other household pets, may be kept or housed on any lot. No dogs, cats or other household pets may be kept, bred or maintained for any commercial purposes, nor may they be kept in such numbers or of such nature as to be or become a nuisance to adjoining property owners or any residents of the subdivision. Any housing or shelter constructed for said domesticated dogs or cats shall be screened with fencing (or otherwise) that shall be approved by Declarant. Animals when not housed shall be on a leash at all times.

Section 8. No lot area shall be used or maintained as a dumping ground for rubbish, trash, garbage, or other waste, and such materials may not be kept on any lots, except in sanitary containers. All incinerators or other equipment for the storage or disposal of such materials shall be kept in a clean and sanitary condition. Upon completion of construction of a dwelling, and as a part of the construction, the owner thereof shall generally landscape his lot so as to be in keeping with the yards of his neighbors. The front yard areas of all dwellings shall be generally smoothed and sodded at all street fronts. The covenant contained in this Section 8 shall not be construed to prohibit or prevent a contractor from constructing a residence or other approved improvements so long as said contractor shall dispose of all debris, unused materials or any other matter in a timely fashion.

Section 9. No lot as shown on the maps of the subdivision above referred to shall be re-subdivided unless each part of the subdivided lot becomes a part of another whole lot, except, that Developer may subdivide any lot, so long as each portion of any such re-subdivided lot meets the requirements for said lots established by the New Hanover Zoning Ordinance.

Section 10. No fence shall be erected on any lot nearer the front property or lot line than the rear corners of the house erected on said lot, and all fences erected shall not exceed six (6) feet in height and shall be constructed of wood, brick, chain link, plastic or fiberglass type composition. Provided, however, no fencing may be allowed without the written approval of the Developer. No fence or structure of any kind shall be placed on or within any utility or drainage easements shown on the recorded map of POTOMAC WOODS SUBDIVISION, SECTION 4.

Section 11. Except for lots upon which are located model homes constructed by builders approved by the Declarant, no signs of any type or description shall be placed on or displayed on any residential lot except signs "For Rent" or "For Sale," which signs shall not exceed ten square feet in size. Model homes, including unrestricted signage, may remain in use as models as long as there are lots available for sale in said subdivision. Notwithstanding any language to the contrary, builders may erect in common areas temporary directional signs or signage not larger than ten square feet in size.

Section 12. No boat, motor boat, camper, trailer, school bus, motor home, mobile home, truck rated over one (1) ton, or other vehicle similar to any of the same shall be permitted to remain on any lot, or in any parking space on or adjacent to any lot, unless written permission for the same is first obtained from the Declarant or unless the same is properly stored in an enclosed area behind a fence which must be first approved by the Declarant and built in accordance with this Declaration with a minimum height of six (6) feet. No motorized, gas or electric, motor bikes or all terrain vehicles (ATV's) shall be operated on the properties except for actual authorized maintenance purposes on an individual owner's lot.

Section 13. In accordance with the requirements of the State of North Carolina, a system for the drainage of storm water from all of the lots of POTOMAC WOODS SUBDIVISION, SECTION 4 has been established including (a) the establishment of drainage easements along some of the side and rear lot lines of the lots in said Section, (b) the establishment of various drainage ponds within said Section, as well as (c) the use of the streets and roads of said Section for drainage purposes, all of which are shown upon the map of said Section, recorded as referenced above. The design of said system allows all such storm water to drain from said Section into the area storm water drainage system. The operation and integrity of said area-wide storm water drainage system requires the owners of lots within said Section to take various preventive maintenance steps to prevent any sand, silt or other unwanted erosion materials from entering the system from the lots in said Section and to allow for the necessary maintenance of all drainage easements and other areas designated as a part of the storm water drainage system. Therefore, all owners of lots in POTOMAC WOODS SUBDIVISION, SECTION 4, by accepting a deed for their lot or lots from the Declarant, do hereby covenant and agree to be bound by the following restrictions:

a. Nothing other than grass shall be allowed or permitted to be placed within any drainage, water or sewer easement that is established on any lot by the map of said Section referenced above. Not by way of limitation, but by way of example, shrubs, trees and other vegetation, fences, walls, storage buildings and all other structures and improvements, of whatever nature or kind, are prohibited from being located within any such easement area; and

b. For any lot bounded on any one or more sides by either a drainage ditch, pond or other open drainage easement area, as shown on said recorded map, no sheet flow or surface flow of

storm water shall be permitted from said lot into any ditch of two and one-half (2 1/2) feet in depth or greater, any pond or other open drainage easement area of two and one-half (2 1/2) feet or greater. In lieu thereof, the owner of said lot shall grade and maintain a berm along the entire length of the common boundary or boundaries of said lot and any such drainage area, sufficient in size to prevent any surface or sheet flow drainage from occurring except at one outfall location along said berm; which outfall location shall either be piped or riprapped to prevent any amount of erosion caused by surface water drainage at that location; and

c. Although not required, owners are encouraged to grade and maintain along the side lot lines of their lots a swale or depression sufficient in size to encourage surface water drainage toward said swales and then toward all streets fronting said lot. No one may pipe, fill in or alter any lot line swale used to meet North Carolina Stormwater Management Permit requirements; and

d. Any and all erosion from said lot occurring at the time of occupancy of any residence constructed on said lot must be stabilized and controlled as described hereinabove within sixty (60) days of occupancy of said residence by the owner of record; and

e. The Declarant, its successors and assigns, shall have the absolute authority and right to design, construct and implement drainage and grading plans without the consent or approval of the Association.

f. Any and all other terms, conditions or restrictions contained within the Declaration which conflict with any of the provisions of this Section 13 are to be deemed and interpreted in strict accord and harmony with the provisions of this Section 13.

Section 14. No more than 4200 square feet of any lot, including that portion of the right-of-way between the edge of pavement and the front lot line, shall be covered by impervious structures, including asphalt, gravel, concrete, brick, stone, slate or similar material, not including wood decking or the water surface of swimming pools. This covenant is intended to ensure continued compliance with the stormwater permit issued by the State of North Carolina. This covenant may not be changed or deleted without the consent of the State.

Section 15. Developer shall have no responsibility for maintaining any drainage easements located on any lot. All maintenance for all easements located on any lot shall be the responsibility of the owner of said lot, his successors and/or assigns. Within all utility and drainage easements no structure, planting or other material shall be placed or permitted to remain which may damage or interfere with the installation or maintenance of utilities or which may change the direction or flow of drainage channels in the easements.

Section 16. Notwithstanding any provision, covenant or language contained in the Declaration of Restrictions or any Declaration of Restrictions for any section of POTOMAC WOODS