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POPE RESOURCES
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DECLARATION OF ANNEXATION

MARY E. GAGOURY
JEFFERSON COUNTY AUDITOR
DEPUTY

THIS DECLARATION OF ANNEXATION (hereafter "Declaration") is made this 14th day of November, 1991, by POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP (hereafter "Declarant").

WITNESSETH:

WHEREAS, Declarant is the Developer and Owner of certain real property located in Jefferson County, Washington, commonly known as South Bay, which is a master planned community. The areas within South Bay are extensive and, accordingly, Declarant declares from time to time which properties shall be deemed to be included within South Bay by annexation; and

WHEREAS, the purpose of this Declaration of Annexation is to annex the Plat of Teal Lake Village, which is legally described in Exhibit A (hereafter "the Property") into South Bay and subject the Property to the South Bay Master Declaration of Covenants, Conditions, Restrictions, Assessments, Charges, Servitudes, Liens, Reservations and Easements (hereafter the "Declaration"), a copy of which is attached hereto as Exhibit B and incorporated herein by this reference.

NOW, THEREFORE, Declarant hereby declares as follows:

The Property, legally described in Exhibit A, attached hereto and incorporated herein by reference, is hereby declared to be annexed into South Bay; and the Property is hereby also

DECLARATION OF ANNEXATION - 1

EXHIBIT A

That portion of the South 1/2 of Section 16, and that portion of the North 1/2 of Section 21; All in Township 23 North, Range 1 East, N.M., Jefferson County, Washington, described as follows:

Beginning at the Southwest corner of said Section 16, the South line of the Southwest 1/4 of said Section having a bearing of North 89° 46' 12" West;

thence North 49° 43' 47" East 697.73 feet to road centerline Station 0+00 as shown on Sheets 2 and 3 of 4 Sheets, County Road Project No. 307, "Port Ludlow to Paradise Road", Swanson Road to Tala Shores Section, County Road No. 6, Jefferson County, Washington dated February 3, 1969;

thence South 89° 04' 57" East along said road centerline 4.50 feet to a point of curve;

thence Easterly along a curve to the right having a radius of 1,909.90 feet through a central angle of 11° 46' 30", an arc length of 392.51 feet;

thence South 77° 18' 27" East 847.60 feet to the centerline Station 12+44.6;

thence South 81° 36' 57" East 1,897.00 feet to centerline Station 31+41.6 and a point of curve;

thence Easterly along said road centerline on said curve to the left, having a radius of 716.30 feet, thru a central angle of 4° 16' 06", an arc distance of 53.36 feet to the True Point of Beginning;

thence Westerly along said centerline on a curve to the right, the center which bears North 04° 06' 57" East 716.30 feet, thru a central angle of 4° 16' 06", an arc distance of 53.36 feet to aforementioned centerline Station 12+44.6;

thence North 81° 36' 57" West along said road centerline 1,415.46 feet to the Northerly prolongation of the Easterly margin of Teal Lake Road as conveyed to Jefferson County by instrument recorded under Recording No. 216691;

thence South 20° 35' 33" West along said Easterly margin and its prolongation 1,009.07 feet to a point of curve;

thence Southerly along said Easterly margin and curve to the left, having a radius of 270.00 feet, thru a central angle of 44° 56' 00", an arc distance of 211.74 feet to the Southerly terminus of Teal Lake Road as conveyed to Jefferson County by instrument recorded under Recording No. 216691;

thence South 65° 39' 33" West along said Southerly terminus 60.00 feet to the Westerly margin of said Teal Lake Road and a point on a curve, the center which bears North 65° 39' 33" East 330.00 feet;

thence Southeasterly along the Easterly line of Fairway Village, a Condominium, according to the Condominium thereof recorded in Volume 1 of Condominiums, pages 219 thru 223, under Auditor's File No. 338531, records of Jefferson County, Washington and curve to the left, thru a central angle of 20° 04' 57", an arc distance of 115.67 feet to an angle point in said Easterly line;

thence leaving said Easterly line and continuing Southeasterly on said curve to the left, the center which bears North 45° 34' 36" East 330.00 feet, thru a central angle of 10° 44' 23", an arc distance of 61.86 feet;

thence South 55° 09' 47" East 63.82 feet to a point of curve;

thence Easterly on said curve to the left, having a radius of 245.00 feet, thru a central angle of 54° 18' 36", an arc distance of 232.23 feet;

thence North $70^{\circ} 31' 37''$ East 134.28 feet to a point of curve;
thence Easterly on said curve to the right, having a radius of
135.00 feet, thru a central angle of $84^{\circ} 06' 21''$, an arc distance
of 271.57 feet;
thence South $25^{\circ} 22' 02''$ East 64.15 feet to a point of curve;
thence Southerly on said curve to the left, having a radius of
1,075.00 feet, thru a central angle of $24^{\circ} 46' 26''$, an arc distance
of 464.82 feet to a point of reverse curve, the center which bears
South $39^{\circ} 51' 32''$ West 770.00 feet;
thence Southerly on said curve to the right, thru a central angle
of $8^{\circ} 31' 17''$ an arc distance of 114.52 feet;
thence North $40^{\circ} 23' 57''$ East 369.19 feet;
thence North $50^{\circ} 20' 36''$ West 124.67 feet to a point of curve;
thence Northerly on said curve to the right, having a radius of
25.00 feet, thru a central angle of $97^{\circ} 29' 00''$, an arc distance of
42.54 feet to a point of compound curve, the center which bears
South $42^{\circ} 51' 36''$ East 290.00 feet;
thence Easterly on said curve to the right, thru a central angle of
 $40^{\circ} 16' 21''$, an arc distance of 203.84 feet;
thence North $87^{\circ} 24' 45''$ East 132.69 feet to a point of curve;
thence Northerly on said curve to the left, having a radius of
50.00 feet, thru a central angle of $120^{\circ} 57' 27''$, an arc distance
of 105.56 feet;
thence North $56^{\circ} 27' 18''$ East 311.70 feet;
thence North $10^{\circ} 33' 05''$ West 326.65 feet;
thence North $11^{\circ} 32' 55''$ East 371.31 feet;
thence North $09^{\circ} 26' 54''$ West 305.22 feet to the True Point of
Beginning;

EXCEPT that portion lying within Paradise Bay Road.

Situate in the County of Jefferson, State of Washington.

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EXHIBIT B

SOUTH BAY MASTER DECLARATION OF
COVENANTS, CONDITIONS, RESTRICTIONS, ASSESSMENTS,
CHARGES, SERVICITUDES, LIENS, RESERVATIONS AND EASEMENTS

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SOUTH BAY MASTER DECLARATION OF COVENANTS, CONDITIONS, RESTRICTIONS, ASSESSMENTS, CHARGES, SERVITUDES, LIENS, RESERVATIONS AND EASEMENTS

THIS MASTER DECLARATION of Covenants, Conditions, Restrictions, Assessments, Charges, Servitudes, Liens, Reservations and Easements (hereinafter referred to as "the Declaration") is made this day of August, 1988, by POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP (hereafter referred to as "Declarant").

WITNESSETH:

WHEREAS, Declarant is the Developer and Owner of certain real property located in Jefferson County, Washington, commonly known as "South Bay". The areas within South Bay are extensive and, accordingly, Declarant will declare from time to time which properties are subject to this Declaration by filing a separate Declaration of Annexation upon the properties specifically designating that the properties are within South Bay and subjecting said properties to this Declaration; Initially, the property to be included within South Bay, subject to this Declaration, is legally described in Exhibit A, attached hereto and incorporated herein by this reference; and

WHEREAS, Declarant desires to develop, in stages, the aforesaid property and any additional properties which may from time to time be annexed pursuant to this Declaration and become a part of South Bay, into planned residential, commercial, recreational and other amenities for the benefit of the South Bay community; and

WHEREAS, at full development it is intended, without obligation, that South Bay will collectively have one or more residential communities, commercial buildings, recreational facilities, open spaces, walkways, paths, churches and other social, civic and cultural buildings and facilities; and

WHEREAS, as part of the various stages of development of the aforesaid property, Declarant intends, without obligation, to record various subdivision plats to dedicate portions of South Bay to the public for streets, roadways, drainage and general public use; and to record various Supplemental Declarations covering portions of South Bay, which Supplemental Declarations will designate the purposes for which such portions of South Bay may be used and may set additional covenants, conditions, restrictions, assessments, charges, servitudes, liens, reservations and easements applicable to such portions of South Bay; and

WHEREAS, Declarant desires to form one or more non-profit corporation(s) for the management, maintenance, social, physical, aesthetic and recreational purposes of benefiting South Bay Owners, Residents and Occupants, which non-profit corporations may (1) acquire, operate, manage and maintain recreational facilities and Common Areas declared to be maintained by the various associations in this Declaration or any subsequent Supplemental Declarations; (2) establish, levy, collect and disburse any assessments and other charges imposed hereunder; and (3) as the agent and representative of the Members, administer and enforce use and other restrictions imposed on various parts of South Bay; and

WHEREAS, Declarant therefore wishes to subject all of South Bay to the covenants, conditions, restrictions, assessments, charges, servitudes, liens, reservations and easements (hereinafter collectively referred to as "Covenants") herein-after set forth; and

WHEREAS, in order to cause the Covenants to run with the South Bay property, as well as any lands annexed to South Bay in the future, and to be binding upon South Bay and the Owners, Residents and Occupants thereof from and after the date of recording of this Declaration, Declarant hereby makes all conveyances of South Bay property, whether or not so provided therein, subject to the Covenants herein set forth; and by accepting deeds, assessments or other grants or conveyances to any portion of South Bay, the Owners, Residents and other transferees for themselves and their heirs, executors and administrators, trustees, personal representatives, successors and assigns, agree that they shall be personally and collectively bound by all of the Covenants (including but not limited to the obligation to pay assessments) hereinafter set forth.

NOW, THEREFORE, DECLARANT hereby declares, covenants and agrees as follows:

ARTICLE 1

DEFINITIONS

The following words, phrases or terms used in this Declaration shall have the following meanings:

Section 1.1. "Annexation Land" shall mean land which may be annexed to South Bay in whole or in part, from time to time, in accordance with the provisions of this Declaration.

Section 1.2. "Annual Assessment" shall mean the charge levied and assessed each year against each lot pursuant to Article 7 of this Declaration.

Section 1.3. "Architectural Review Committee" shall mean the committee of the Master Association to be created pursuant to Article 11 of this Declaration.

Section 1.4. "Articles" shall mean the Articles of Incorporation of the Master Association as the same may from time to time be amended or supplemented.

Section 1.5. "Assessable Property" shall mean any Lot, except such part or parts thereof as may from time to time constitute Exempt Property.

Section 1.6. "Assessment" shall mean an Annual Assessment or Special Assessment as provided in Article 7.

Section 1.7. "Assessment Lien" shall mean the lien created and imposed by Article 7.

Section 1.8. "Assessment Period" shall mean the time period established by the Board as set forth in Article 7.

Section 1.9. "Associate Members or Membership" shall mean individuals who are not Owners, Residents or Occupants, but who have been granted permission by the Board of Directors of the Master Association to utilize some or all of the Master Association Land, Common Areas or Recreational Facilities pursuant to Article 8.

Section 1.10. "Associate Membership Fee" shall mean the amount of other fee levied by the Board of Directors of the Master Association for use of Master Association Land, Common Areas or Recreational Facilities by Associate Members.

Section 1.11. "Board" shall mean the Board of Directors of the Master Association.

Section 1.12. "Bylaws" shall mean the Bylaws of the Master Association as the same may from time to time be amended or supplemented.

Section 1.13. "Common Area" and "Common Areas" shall mean (a) all Master Association Land; (b) all land within South Bay which the Declarant, by this Declaration or other recorded instrument, makes available for use by Members of the Master Association and evidences its intent to convey to the Association at a later date; and (c) all land within South Bay which comprises the trail or pathway system, or which the Declarant indicates on a recorded subdivision plat or within a Supplemental Declaration is to be used for the benefit of all Owners within South Bay, but expressly excluding any Open Space within a subdivision which shall be construed as Limited Common Area.

Section 1.14. "Condominium Development" shall mean those areas within South Bay currently contemplated and subsequently designated for development of multifamily residential condominiums.

Section 1.15. "Covenants" shall mean the covenants, conditions, restrictions, assessments, charges, servitudes, liens, reservations and easements set forth herein.

Section 1.16. "Declarant" shall mean Pope Resources, A Delaware Limited Partnership organized under the laws of the State of Delaware, its successors and assigns, but only if such successors or assigns should acquire all or substantially all of the then-developed portions of South Bay from Declarant for the purpose of development. For purposes of this Declaration, and except where all or substantially all of the then-developed portions of South Bay are involved, no individual, corporation, trust, partnership or other entity who or which has purchased a lot or lots within South Bay from Declarant, or whose title to such lot is derived from a person who has purchased such property from Declarant, shall be deemed a successor or assign of Declarant.

Section 1.17. "Declaration" shall mean the Declaration of Covenants, Conditions, Restrictions, Assessments, Charges, Servitudes, Liens, Reservations and Easements, as amended or supplemented from time to time.

Section 1.18. "Declaration of Annexation" shall mean a recording subjecting Annexation Land to this Declaration.

Section 1.19. "Developer" shall mean and refer to Pope Resources, A Delaware Limited Partnership, and its successors and assigns as set forth in subparagraph 1.16.

Section 1.20. "Development Period" shall mean that period commencing with the recording of this Declaration and terminating upon the first to occur of (i) fifteen (15) years from such commencement date; (ii) the termination of Class B Membership; or (iii) written notice from Declarant to the Master Association of termination of the Development Period.

Section 1.21. "Dwelling Unit" shall mean any building or portion of a building, including a condominium unit, situated upon a lot designed and intended for use and occupancy as a residence by a single family.

Section 1.22. "Exempt Property" shall mean the following portions of South Bay:

- (a) All land and improvements owned by or dedicated to and accepted by the United States, the State of Washington or Jefferson County, or any political

subdivision thereof, for as long as any such governmental entity is the owner thereof or for so long as said dedication remains effective;

(b) All Master Association Land, Common Areas, Limited Common Areas and Recreational Facilities;

(c) All land within South Bay which the Declarant, by this Declaration or other recorded instrument, makes available for use by Members of the Master Association and evidences its intent to convey to the Master Association at a later date, including but not limited to the community center, common areas and natural and landscaped open spaces; and

(d) All commercial and religious sites.

Section 1.23. "First Mortgage" shall mean and refer to any unpaid and outstanding mortgage, deed of trust, or other security instrument on lots in South Bay recorded in the office of the Auditor of Jefferson County, Washington, having priority of record over all other recorded liens except those governmental liens made superior by statute. "First Mortgage" shall mean and refer to any person or entity named as a Mortgagee or Beneficiary under any First Mortgage or any successor to the interest of any such First Mortgage.

Section 1.24. "Golf Course" or "Golf Course Facilities" shall mean "Golf Course" and related facilities which may be developed at some time in the future and which may be owned and/or operated by Hope Resources, A Delaware Limited Partnership, together with all appurtenances thereto, including the maintenance and other buildings, vehicles and equipment associated therewith.

Section 1.25. "Governing Documents" shall mean the Articles and Bylaws of the Master Association, this Declaration, any applicable Supplemental Declaration and the South Bay Rules and any amendments thereto.

Section 1.26. "Government Mortgage Agency" shall mean the Federal Housing Administration, the Veterans Administration, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association or the Federal National Mortgage Association or any similar entity, public or private, authorized, approved or sponsored by any governmental agency to insure, guarantee, make or purchase mortgage loans.

Section 1.27. "Land Use Classifications" shall mean the classification to be established by the Declarant pursuant to Article 4, which designates the type of improvements which may be constructed on a lot or Common Area and the purposes for which such improvements and surrounding land may be utilized.

Section 1.28. "Limited Common Area" shall mean all land within South Bay which the Declarant designates on a recorded subdivision plat as Limited Common Area or Open Space (including any Village Association land) and with the exception of any trail or pathway system running therein, shall be reserved for the benefit of specific Lot Owners.

Section 1.29. "Lot" shall mean any area of real property within South Bay designated as a residential lot by any appropriate means of governmental approval recorded or approved by Declarant, with the exception of the Common Areas, Limited Common Areas and property dedicated to any governmental entity, but together with all appurtenances, improvements, and residences now or hereafter built or placed on the lot. Also, for purposes of this Declaration, Lot shall include any condominium unit located within South Bay as designated on any condominium declaration recorded by Declarant pursuant to the Washington Horizontal Property Act, RCW ch. 64.32 as it may be amended from time to time. Declarant shall have the right during the Development Period to designate any additional property as a "Lot", providing that its intended use is residential in nature.

Section 1.30. "Master Association" shall mean the Washington non-profit corporation to be organized by Declarant to administer and enforce the covenants and to exercise all rights, powers and duties set forth in this Declaration. Its successors and assigns. Declarant hereby reserves the exclusive right to cause such Master Association to be incorporated and intends to name the Master Association "The South Bay Community Association."

Section 1.31. "Master Association Land" shall mean such part or parts of South Bay, together with the buildings, structures and improvements thereon, and other real property which the Master Association may at any time own in fee or in leasehold interest, which property is designed for the use and enjoyment of the Members of the Master Association. As set forth herein, Master Association Land is also deemed to be Common Area for purposes of this Declaration.

Section 1.32. "Member" shall mean any person holding a Membership in the Master Association pursuant to this Declaration and without exception shall mean and refer to each Owner, including the Declarant, of a lot in South Bay that is subject to assessment; Membership in the Master Association shall be appurtenant to, and may not be separated from ownership of a lot.

Section 1.33. "Membership" shall mean a Membership in the Master Association and the rights granted to the Owners and Declarant pursuant to Article 6 to participate in the Master Association.

Section 1.34. "Occupant" shall mean any person, other than an Owner, in rightful possession of a lot.

Section 1.35. "Open Spaces" shall mean and refer to those areas designated on a recorded subdivision plat as Open Spaces. Unless otherwise stated in a subdivision plat or Supplemental Declaration, it is intended that all open spaces are Limited Common Areas for the benefit of the owners in specific subdivisions of South Bay.

Section 1.36. "Owner" shall mean the record owner of a fee simple interest in any lot, but excluding others who hold such title merely as security. Purchasers and their assignees under recorded real estate contracts shall be deemed Owners as against their respective heirs or assigns. An Owner shall include any person who holds record title to a lot in joint ownership with any other person or holds an undivided fee interest in any lot.

Section 1.37. "Recreational Facilities" shall mean all real property within South Bay (including improvements thereon) owned by the Master Association or Declarant for the common recreational use and enjoyment of the Members. Declarant shall convey to the Master Association any Recreational Facilities owned by Declarant prior to the termination of the Development period.

Section 1.38. "Resident" shall mean:

- (a) An Owner actually residing on a lot;
- (b) Each Purchaser under a real estate contract covering any lot actually residing on the lot; and
- (c) Members of the immediate family of each Owner and of each purchaser actually living in the same household in South Bay with such Owner or Purchaser; and
- (d) Tenants/Renters

Section 1.39. "Single Family" shall mean a group of one or more persons each related to the other by blood, marriage or legal adoption, or a group of not more than four (4) persons not all so related, who maintain a common household in a Dwelling Unit. For purposes of this Declaration, "single family" shall also include a corporation, partnership or other entity that owns a corporate residence or condominium unit for use by its directors, shareholders, employees, guests and invitees.

Section 1.40. "South Bay" shall mean the real property described in Exhibit A and development to be completed thereon, together with any additions or annexations thereto as permitted pursuant to this Declaration.

Section 1.41. "South Bay Rules" shall mean the rules for South Bay adopted by the Board pursuant to Article 5.

Section 1.42. "South Bay Design Standards" shall mean the rules and standards established by the Architectural Review Committee which rules shall be enforceable in the same manner as this Declaration.

Section 1.43. "Special Assessment" shall mean any assessment levied and assessed pursuant to the Special Assessment provisions of Article 7.

Section 1.44. "Special Use Fees" shall mean admission or other special use fees authorized by this Declaration which an Owner or any other person is obligated to pay to the Master Association over, above and in addition to any Annual or Special Assessments or Maintenance Charges imposed or payable hereunder.

Section 1.45. "Subdivision Plat" shall mean a recorded plat causing a legal subdivision of all or any portion of South Bay.

Section 1.46. "Supplemental Declaration" shall mean a Supplemental Declaration recorded pursuant to this Declaration to which portions of South Bay may hereafter be subjected. Each such Supplemental Declaration must be approved and executed by Declarant and recorded in Jefferson County.

Section 1.47. "Village Association" shall mean and refer to any Washington nonprofit corporation, except the Master Association, its successors and assigns, organized and established by Declarant pursuant to or in connection with any Supplemental Declaration governing a specific residential community within South Bay.

Section 1.48. "Visible From Neighboring Property" shall mean, with respect to any given object, that such object is or would be visible to a person six feet tall, standing at ground level on any part of a lot, Common Area or Limited Common Area neighboring that on which such object exists.

ARTICLE 2

PROPERTY SUBJECT TO SOUTH BAY DECLARATION

Section 2.1. General Declaration Creating South Bay. Declarant intends to develop South Bay into various lots and to sell and convey such lots to Owners. As portions of South Bay are developed, Declarant may record one or more Supplemental Declarations designating and governing Lots, Common Areas, Limited Common Areas and easements. Each such Supplemental Declaration shall incorporate this Declaration by reference and may establish such additional Covenants as may be appropriate.

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for that portion of South Bay, providing that said Covenants shall be consistent with this Declaration. Declarant hereby declares that all of the real property within South Bay is and shall be held, conveyed, encumbered, occupied, built upon or otherwise used, improved or transferred, in whole or in part, subject to this Declaration and any recorded Supplemental Declaration applicable thereto, as amended from time to time; provided, however, except proportion shall only be subject to those portions of this Declaration relating to covenants and restrictions imposed concerning placement of utilities and the use and maintenance of properties within South Bay.

This Declaration, and any Supplemental Declarations contemplated herein, are declared and agreed to be in furtherance of a general plan for the overall improvement of the various development components of South Bay and are established for the purpose of enhancing and perfecting the value, desirability and attractiveness of South Bay and every portion thereof. This Declaration, as hereafter may be modified or amended, shall run with the South Bay property described in Exhibit A, and any property subsequently added or annexed pursuant hereto, and shall be binding upon and inure to the benefit of Declarant, the Master Association, all Owners, Residents and Occupants, and their successors and assigns. Nothing in this Declaration shall be construed to prevent Declarant from dedicating or conveying portions of South Bay including, but not limited to, Common Areas, Limited Common Areas, streets, roadways and easements to any governmental entity or third party or for uses other than as a Lot, Association Land, Common Area, Limited Common Area or Recreational Facilities.

Section 2.2. Master Association and Village Association Board. Upon issuance of a Certificate of Incorporation by the State of Washington, the Covenants shall be binding upon and shall benefit the Master Association and any other Village Association formed to serve specific subdivisions of properties within South Bay.

Section 2.3. Superseded Declaration. This Declaration supersedes and is made in full substitution for any prior covenants, conditions or restrictions which may have been imposed on the real property described herein by Declarant or any of its predecessors in interest.

ARTICLE 3

EASEMENTS AND RIGHTS OF ENJOYMENT IN COMMON AREAS AND RECREATIONAL FACILITIES

Section 3.1. Easements of Enjoyment. With the exception of any Limited Common Areas, every Owner, Resident, Occupant and Member of the Master Association shall have a non-exclusive right and easement of enjoyment in and to the Common Areas and

Recreational Facilities, specifically including the trail and pathway system throughout South Bay, which easement shall be appurtenant to and shall pass with the title to every lot, subject to the following provisions:

3.1.1 The right of the Master Association to charge reasonable Special Use Fees for the use of any Recreational Facilities situated upon the Master Association Land or Common Areas. Special Use Fees shall be uniform among Members of the Master Association, but may vary among Associate Members and others permitted to use any of the facilities depending upon the circumstances and at the discretion of the Board.

3.1.2 The right of the Master Association to suspend the voting rights and right to use of the Master Association Land, Common Areas and Recreational Facilities by any Member (i) for any period during which any Assessment against such Owner's lot remains delinquent; (ii) for a period not to exceed sixty (60) days for any infraction of this Declaration, a Supplemental Declaration or the South Bay Rules; and (iii) for successive sixty (60) day periods if any such infraction is not corrected during any prior sixty (60) day suspension period;

3.1.3 The right of the Master Association to dedicate, grant or transfer such permits, licenses and easements for utilities, roads and/or other purposes consistent with the intended use of the Common Areas or as otherwise provided in this Master Declaration, or any Supplemental Declaration, and reasonably necessary or desirable for the proper use, maintenance or operation of any portion of South Bay, including Recreational Facilities, and which do not have any substantial adverse effect on the enjoyment of the Common Areas by the Members;

3.1.4 The right of the Master Association to regulate the use of the Common Areas and Recreational Facilities through the South Bay Rules and to prohibit access to those Common Areas, such as drainage easements, not intended for use by preservation of the Common Areas, including Recreational Facilities, for the safety and convenience of the users thereof and shall serve to promote the best interests of the Owners, Residents, and Occupants;

3.1.5 The right of the Master Association to prescribe which Members are permitted to use the Recreational Facilities and to determine who may be classified as Kids and to close or limit the use of the Common Areas and Recreational Facilities, or portions thereof, while maintaining and repairing the same;

3.1.6 The right of the Declarant, reserved hereby, to non-exclusive use of all Common Areas, Limited Common Areas and Recreational Facilities for display, sales, promotional, and other purposes deemed useful by Declarant and its agents and

Representatives in advertising or promoting South Bay. This right shall permit Declarant to allow unlimited use by guests and prospective customers of all Common areas, limited Common Areas and Recreational Facilities and shall terminate at the end of the Development period.

3.1.7 The right of the Master Association, in accordance with its Articles and Bylaws, to borrow money for the purpose of improving the Common Areas and/or Recreational Facilities and, with written consent of two-thirds (2/3) of the vote of each class of Membership and all First Mortgages, to mortgage said Common Areas and Recreational Facilities as security for any such loan.

Section 3.2. Delegation of Use.

3.2.1 Delegation by Master Association. The Master Association may, in accordance with the governing documents and the limitations therein contained, delegate the right of enjoyment in certain Common Areas and Recreational Facilities to Associate Members in consideration of the payment of an Associate Membership Fee and/or such Special Use Fees as may be established by the Board. Such delegation may also involve, at the discretion of the Board, negotiation and establishment by the Master Association of reciprocal easements, rights and licenses for Members to use common areas and facilities in nearby properties and developments.

3.2.2 Delegation by Owners. Any Owner may delegate, in accordance with the South Bay Rules adopted by the Board, his right of enjoyment to the Common Areas and Recreational Facilities to members of his family and his tenants provided, however, that if any Owner delegates such right of enjoyment to tenants, neither the Owner nor his family shall be entitled to use such facilities by reason of ownership of that lot during the period of delegation. Guests of an Owner may use such facilities only in accordance with the South Bay Rules adopted by the Board, which South Bay Rules may limit the number of guests who may use such facilities and may also provide for Special Use Fees. The Board may also promulgate rules and regulations limiting the use of the Common Areas and Recreational Facilities by Co-owners with respect to any Lot in co-ownership.

ARTICLE 4

LAND USE CLASSIFICATIONS, PERMITTED USES AND RESTRICTIONS

Section 4.1. Land Use Classifications. All portions of South Bay are zoned for development. The Land Use Classifications, restrictions, easements, right-of-ways, and other matters, including new or different uses and restrictions therefor may be fixed by Declarant in a Supplemental Declaration which may be recorded on that portion of South Bay being developed. Any such Supplemental Declaration shall be construed

as a supplement to this Declaration and fully a part hereof for all purposes to the same extent as if all of the provisions thereof were set forth in this Declaration and vice versa. Notwithstanding anything to the contrary in this Declaration, any Supplemental Declaration may establish Limited Common Areas and Village Association Lands that will be designated for the sole use and enjoyment of lots within the real property encompassed within the Supplemental Declaration. The land use classifications designated by a Supplemental Declaration shall be in accordance with the Land Use Classifications set forth herein and shall not be changed except as specifically permitted by this Declaration. Contemplated Land Use Classifications are as follows:

- 4.1.1 Single family attached and detached residential use;
- 4.1.2 Multifamily use, including, but not limited to, duplexes and condominiums;
- 4.1.3 Commercial use;
- 4.1.4 Master Association use, which may include Common Areas;
- 4.1.5 Religious use;
- 4.1.6 General public use;
- 4.1.7 Golf course and golf course facility use; and
- 4.1.8 Utility use.

Unless otherwise specifically provided in this Declaration, the definitions and characteristics of such Land Use Classifications, and specific permitted and prohibited uses within said Land Use Classifications, shall be determined in the relevant Supplemental Declaration.

Section 4.2. Covenants, Conditions, Restrictions and Easements Applicable to Lots Within All Land Use Classifications. The following covenants, conditions, restrictions and reservation of easements and rights shall apply to all lots regardless of Land Use Classifications.

4.2.1 Lot, Common Area and Limited Common Area Architectural Control. No improvements, alterations, repairs, excavation, grading, removal of trees with base trunk diameter exceeding six inches (6"), landscaping or other work which in any way alters the exterior appearance of any lot, Common Area or Limited Common Area within South Bay, or the improvements located thereon, from its natural or Declarant improved condition (existing as of completion of Declarant's construction thereon or improvements thereto) shall be made or performed without prior approval of the Architectural Review Committee, except as otherwise expressly provided in this Declaration. Other than as constructed by Declarant, no building, structure or landscaping shall be commenced, erected, planted, maintained, painted, improved, altered, or made without the prior written approval of the Architectural Review Committee. All subsequent

additions to, changes or alterations in any building, structure or landscaping, including exterior color scheme, and all changes in the grade of lots, Master Association Land, Common Areas, Limited Common Areas or Recreational Facilities, shall be subject to the prior written approval of the Architectural Review Committee. No changes or deviations in or from the plans and specifications once approved by the Architectural Review Committee shall be made without prior written approval of the Architectural Review Committee. All original construction as well as any modifications or additions thereto as shall be constructed by Declarant shall be exempt from the provisions of this Paragraph.

4.2.2 Animals. Unless specifically permitted or further restricted by a Supplemental Declaration, no animal, bird, fox, poultry or livestock, other than a reasonable number of generally recognized house or yard pets ("pets"), shall be maintained on any lot and then only if they are kept thereon solely as domestic pets and not for commercial purposes. No pets shall be allowed to make an unreasonable amount of noise or to become a nuisance. No structure for the care, housing or confinement of any pet shall be maintained so as to be visible from neighboring property. Each Owner shall be responsible for the removal and disposal of all solid animal waste of his pet from any lot, Common Area or Limited Common Area. No pet shall be permitted upon Common Areas, Limited Common Areas or Recreational Facilities unless controlled on a leash or similar device. Upon the written request of any Member, the Board shall conclusively determine, in its sole and absolute discretion, whether, for the purposes of this Section, a particular animal, bird, fox, poultry, or livestock is a generally recognized house or yard pet, whether such a pet is a nuisance or whether the number of pets on any lot is reasonable. Any decision rendered by the Board shall be final and binding and enforceable by Court Injunction and/or in the same manner as other restrictions contained herein.

4.2.3 Temporary Occupancy and Temporary Buildings. Incomplete building, shed, tent, shack, garage or barn, and no temporary buildings or structures of any kind, shall be used at any time for a residence, either temporary or permanent. Temporary buildings or structures used during the construction of improvements on any lot shall be removed immediately after the completion of construction.

4.2.4 Storage Sheds and Outside Storage. No storage buildings or sheds, whether prefabricated, metal or any other construction whatsoever, whether permanent or temporary, shall be moved, placed, assembled, constructed or otherwise maintained on any lot. Furniture, fixtures, appliances, or other goods not in active use shall not be stored on any lot in such manner that such items are visible from neighboring property of Common Areas.

4.2.5 Maintenance of Landscaping. All landscaping must be in accordance with the South Bay Design Standards as adopted by the Architectural Review Committee. Landscaping shall emphasize plantings and other features which will complement and enhance the native, existing character of South Bay. An Owner shall, within one hundred (100) days after the issuance of a Dwelling Unit Occupancy Permit substantially complete all landscaping of the lot not otherwise provided by Declarant. Approved landscaping shall be maintained as required to provide a neat and attractive appearance. The Architectural Review Committee shall be the sole and final judge as to whether or not landscaping meets the approved criteria and whether or not it is, at any given time, properly maintained.

4.2.6 Nuisances: Construction Activities; Hazardous Activities; Lighting. No rubbish or other debris of any kind shall be placed or permitted to accumulate upon or adjacent to any lot, and no odors or loud noises shall be permitted to arise or emit from any lot so as to render any such property or any portion thereof, or activity thereon, unsanitary, unsightly, offensive or detrimental to any other property in the vicinity thereof or to the occupants of such property. No other nuisance or unsafe or hazardous activity shall be permitted to exist or operate upon any lot so as to be offensive or detrimental to any other lot or to its Owner or Occupants. Normal construction activities and parking in connection with the building of improvements on a lot shall not be considered a nuisance or otherwise prohibited by this Declaration. The Board in its sole discretion shall have the right to determine the existence of any nuisance, which decision shall be binding and enforceable, without limiting the generality of the foregoing, no firearms shall be discharged within South Bay, and no explosives of any kind shall be discharged or stored upon any of the lots or permitted within South Bay, providing, however, that Declarant, its employees, agents and or contractors, shall be entitled to store and discharge explosives, if necessary, with regard to development of South Bay. No open fires shall be lighted or permitted on the lots, except in a contained outdoor fireplace or barbecue unit while attended. Artificial outdoor lighting shall be arranged so that the light is shaded and otherwise directed away from adjoining properties and so that no more than one foot candle of illumination leaves the property boundaries.

4.2.7 Repair of Structure. No structure on any lot shall be permitted to fall into disrepair and each such structure shall at all times be kept in good condition and repair and adequately painted or otherwise finished. In the event any structure is damaged or destroyed, then, subject to the approvals required herein, such structure shall be immediately repaired and rebuilt or shall be demolished.

4.2.8 Antennas. Unless specifically permitted by a Supplemental Declaration or placed by Declarant, or its duly delegated representative, no antenna, satellite dish or other device for the transmission or reception of television or radio

(including ham radio) signals or any other similar device shall be erected, used or maintained outdoors on any lot, unless approved by the Architectural Review Committee.

4.2.9 Trash Containers and Collection. No trash or other debris shall be placed or kept on any lot, except in covered military containers of a type and size which are approved by the Architectural Review Committee. In no event shall such containers be visible from neighboring property unless they are being made available for collection and then only for a period of time not exceeding fifteen (15) hours, which is deemed to be a reasonable time to effect collection. No outdoor incinerators shall be kept or maintained on any lot.

4.2.10 Clothes Drying Facilities and Playground Equipment. Unless specifically permitted by a Supplemental Declaration, the following shall not be erected or maintained on any lot if visible from neighboring property: (1) Outside clotheslines or other outside facilities for drying or airing clothes; and (2) Playground equipment including, but not limited to, swingsets, slides and sandboxes.

4.2.11 Machinery and Equipment. No machinery or equipment of any kind shall be placed, operated or maintained upon or adjacent to any lot except (1) such machinery or equipment as is usual and customary in connection with the use, maintenance or construction (during the period of construction) of a building, apartment structures, or other improvements; or (2) that which Declarant, Master Association, Village Association, or their duly authorized representatives, may require for the operation and maintenance of South Bay or a portion thereof.

4.2.12 Signs. No signs whatsoever which are visible from neighboring property shall be erected or maintained on any lot or Common Areas except:

(1) Signs required by legal proceedings, and then the sign shall not exceed 18" x 24", unless mandated by Court or Washington law;

(11) One "For Sale" or "For Rent" sign not exceeding 18" x 24" in area;

(111) One identification sign for individual residences not exceeding 18" x 24";

(1V) Signs of Declarant or signs authorized by Declarant for placement on any property within South Bay; and

(V) Signs receiving prior written approval from the Architectural Review Committee specifying the size, colors, design, message content, location and period for which said sign may be displayed.

All such signs shall be removed by the Owner promptly upon completion of their intended use.

4.2.13 Restriction on Further Subdivision, Proper Restrictions and Rezoning. Unless permitted by a Supplemental Declaration, no lot shall be further subdivided by any Owner, no portion less than all of any such lot, nor any easement or other interest therein, shall be conveyed, transferred or rented by any Owner, without the prior written approval of the Board. This provision shall not, in any way, limit Declarant from subdividing or separating into lots any property at any time owned by Declarant and which has not previously been subdivided into lots or from resubdividing the same. No portion of a lot but the entire lot, together with the improvements thereof, may be rented, and then only to a Single Family, as defined herein. No further covenants, conditions, restrictions or easements shall be recorded by any Owner or other person against any lot without the provisions thereof having been first approved in writing by the Board, and any covenants, conditions, restrictions or easements recorded without such approval being evidenced thereon shall be null and void. No application for rezoning of any lot, and no applications for variances or use permits, shall be filed with any governmental authority unless the proposed use of the lot has been approved by the Board and any applicable Supplemental Declaration.

4.2.14 Utilities and Utility Easements.

(a) Each lot shall be connected to sanitary sewer and water utilities provided by Ludlow Water Company and/or Ludlow Sewer Company, their successors and assigns, and shall remain connected to said utilities until such time as said company are no longer offering utility services to lot Owners within South Bay. Lot Owners shall be subject to reasonable monthly or periodic service charges as determined by the provider, utility company and/or State of Washington. Lot Owners may also be required to pay a reasonable hook-up charge to said utilities in the event that they were not installed by Declarant during the initial construction of a Dwelling Unit on any given lot.

(b) A blanket easement is hereby granted, conveyed and created upon, across, over and under the Master Association Land, Common Areas, including Recreational Facilities, Limited Common Areas, and each lot for ingress, egress, installation, repair and maintenance of all Declarant authorized utilities as installed in connection with the initial development of said properties including, but not limited to, water, sewer, gas, telephone, electricity and cable television systems. The easement is hereby limited in scope to only that portion of the affected properties reasonably necessary to effectuate the initial installation, repair and maintenance of said utilities. Subject to consent of Declarant, and pursuant to this easement, a providing utility or service company may install and maintain

facilities and equipment on said properties and sites and maintain wires, circuits and conduits on, in and under the roofs and exterior walls of buildings and/or dwellings in connection with initial installation; provided that such utility or service company shall promptly remove all debris and restore the surface of any affected property, along with any buildings or dwellings thereon, as nearly as possible to the condition it was in at the time of commencement of such work.

4.2.15 Utility Service. No lines, wires, or other devices for the communication or transmission of electric current or power, including telephone, television, and radio signals, shall be erected, placed or maintained anywhere in or upon any lot unless the same shall be contained in conduits or cables installed and maintained underground or on buildings or other structures initially constructed by Declarant, or subsequently approved by the Architectural Review Committee, and any governmental or public authority with jurisdiction. The erection of temporary power or telephone structures incident to the construction of buildings or structures by Declarant or as approved by the Architectural Review Committee is permissible.

4.2.16 Walls, Fences and Hedges. Unless authorized by a Supplemental Declaration, and other than as initially constructed by Declarant, no walls, fences or hedges of any type shall be constructed or maintained on any lot.

4.2.17 Trucks, Trailers, Recreational Vehicles, Campers or Boats. Unless permitted by Supplemental Declaration, no motor vehicle classed by manufacturer rating as exceeding 3/4 ton, recreational vehicle, mobile home, travel trailer, tent trailer, utility trailer, camper shell, detached camper, boat, boat trailer, or other similar equipment or vehicles may be parked, maintained, constructed, reconstructed or repaired on any lot, Common Area, limited Common Area or street in South Bay, provided, however, that this Subsection shall not apply to trucks, trailers, campers and similar vehicles parked in non-residential areas designated for such parking by Declarant or the Board. Notwithstanding the foregoing, any of the above-described vehicles may be stored in a garage approved by the Architectural Review Committee, providing said vehicles are not visible from neighboring property or Common Areas. The Architectural Review Committee may, however, at its discretion, determine limitations as to the size and shape of such vehicles to be stored, and such storage areas may not be permitted on lots solely on the merits of the overall aesthetic impact for the lot. This Subsection shall not apply to cleaning, loading or unloading and short term parking which shall be permitted for a cumulative period not to exceed seventy-two (72) hours in any calendar month.

4.2.18 Motor Vehicles. No automobile, motorcycle, motorbike, or other motor vehicle shall be constructed, reconstructed, repaired or rebuilt upon any lot, Common Area, limited Common Area or street in South Bay, and no inoperable or unlicensed vehicle may be stored or parked so as to be visible from neighboring property, Common Areas, limited Common Areas or streets; provided, however, that this Subsection shall not apply to emergency vehicle repairs which require less than twenty-four (24) hours to complete; and (ii) vehicles parked in garages, which are not visible from neighboring property, Common Areas, limited Common Areas or streets.

4.2.19 Parking. It is the intent of the Declarant to restrict on-street and court driveway parking as much as possible. Vehicles of all owners, Residents and Occupants, and their employees, guests and invitees, are to be kept in the garages and residential driveways of lot Owners, and other designated parking areas wherever and whenever such facilities are sufficient to accommodate the number of vehicles at a lot. No parking is allowed on court driveways.

4.2.20 Right of Entry. During reasonable hours and upon reasonable notice to the Owner, Resident or Occupant of a lot, any Member of the Architectural Review Committee, any member of the Board, Declarant, or any authorized representative of any of them, shall have the right to enter upon and inspect any lot, and the improvements thereon, except for the interior portions of any dwelling unit, for the purpose of ascertaining compliance with this Declaration.

4.2.21 Declarant's Exemption. Nothing contained in this Declaration shall be construed to prevent the erection or maintenance by Declarant, or its duly authorized agents, of any buildings, utilities, structures, improvements or signs necessary or convenient to the development or sale of property within South Bay.

4.2.22 Health, Safety and Welfare. In the event additional uses, activities, and facilities are deemed by the Board to be a nuisance or to adversely affect the health, safety or welfare of Owners, Residents or Occupants, the Board may make rules restricting or regulating their presence in South Bay as part of the South Bay Rules or it may direct the Architectural Review Committee to make rules governing their presence on lots as part of the architectural guidelines.

4.2.23 Additional Wells. To preserve the water supply in the area, no water wells shall be placed on any lot, Common Area, limited Common Area or Recreational Property.

4.2.24 Disputes. The Master Association shall have jurisdiction over activities permitted on Master Association Land, Common Areas and Recreational Facilities. All disputes, complaints or matters of change in existing or future use restriction shall be submitted to the Board for determination unless otherwise provided herein to be within the authority of the Architectural Review Committee. The decision of the Board or Architectural Review Committee shall be final.

Section 4.3. Pesticides, Herbicides and Fungicides. Within South Bay, pesticides and herbicides shall only be applied by applicators licensed by the Washington State Department of Agriculture consistent with the requirements of the Washington Pesticide Application Act, RCW 17.21, and the Washington Pesticide Control Act, RCW 15.58, as either Act may, from time to time, be amended or modified. Pesticides, herbicides and fungicides with the shortest half-life shall be used. A two week half-life is desirable. Moreover, pesticides appearing on the United States Environmental Protection Agency's "priority list of leaching pesticides" shall not be used. Pesticides, herbicides and fertilizers shall be applied during the dry summer season, rather than the winter runoff periods.

ARTICLE 5

ORGANIZATION OF MASTER ASSOCIATION:

Section 5.1. Formation of Master Association. The Master Association shall be charged with the duties and vested with the powers prescribed by law and set forth in the Governing Documents. Neither the Articles nor Bylaws of the Master Association shall, for any reason, be amended or otherwise changed or interpreted so as to be inconsistent with this Declaration.

Section 5.2. Board of Directors and Officers. The affairs of the Master Association shall be conducted by the Board and such Officers as the Board may elect or appoint in accordance with the Master Association's Articles of Incorporation and Bylaws as the same may be amended from time to time. The Board shall be composed of at least three (3) and no more than nine (9) members. The initial Board shall be composed of five (5) members. The Master Association, through the Board, unless specifically provided otherwise, shall have the right and duty to enforce this Declaration and all Supplemental Declarations, except with regard to those matters specifically provided in any Supplemental Declaration to be handled by a Village Association within any given subdivision, and shall have the right and be responsible for the prompt and efficient management and operation of the Master Association Land, Common Areas and Recreational Facilities, including:

5.2.1 Maintaining and landscaping the Master Association Land, Common Areas, Recreational Facilities and any other properties controlled by the Master Association, including easements, trails, paths and roads or streets, if any, providing, however, that the Master Association shall not be responsible for maintaining any limited Common Areas, except the trails thereon, in a given subdivision;

5.2.2 Maintaining the storm water and drainage control systems, including, but not limited to, catch basins, piping, conveyance facilities, retaining and detritage ponds and all separators, on Master Association Land, Common Areas and Recreational Facilities;

5.2.3 Operating, maintaining (including insuring, at the discretion of the Board) and rebuilding, if necessary, signs, monuments, walls, fences, and other improvements originally constructed by the Master Association or Declarant on Master Association Land, Common Areas and easements granted to the Master Association, if any;

5.2.4 Paying real estate taxes, assessments and other charges on Master Association Land, Common Areas and Recreational Facilities; and

5.2.5 Insuring all improvements which the Master Association is obligated to maintain against damage by casualty as the Board deems appropriate;

5.2.6 Hiring, firing, supervising and paying employees and independent contractors to carry out the obligations of the Master Association as set forth herein;

5.2.7 Maintaining liability insurance to protect the Master Association and the Board from any liability caused by occurrences or happenings on or about any property owned or maintained by the Master Association (including, but not limited to, errors and omissions insurance for the Board);

5.2.8 Maintaining workmen's compensation insurance for the employees of the Master Association;

5.2.9 Purchasing all goods, supplies, labor and services reasonably necessary for the performance of the obligations set forth herein;

5.2.10 Establishing and maintaining such cash reserves, if any, as the Master Association may, in its sole and absolute discretion, deem reasonably necessary for the maintenance and repair of the Master Association Land, Common Areas and Recreational Facilities;

5.2.11 Payment for all utility services of the Master Association;

5.2.12 Providing and maintaining security services to the Master Association land, Common Area, Recreation facilities and lots to the extent deemed desirable by the Board;

5.2.13 Entering into such agreements and taking such actions as are reasonably necessary and convenient for the accomplishment of the obligations set forth in this Declaration, the Articles of Incorporation and Bylaws and the operation and maintenance of the Master Association Land, Common Areas and Recreational Facilities; and

5.2.14 Such other matters and powers as are provided in (1) the Articles of Incorporation and Bylaws; and (2) Washington State law, as may be amended from time to time, for a non-profit corporation.

Section 5.3. The South Bay Rules. The Board shall be empowered to adopt, amend, or repeal such South Bay Rules as it deems reasonable and appropriate, which shall be binding upon all persons and entities subject to this Declaration, whether members of the Master Association or not; provided, however, that the South Bay Rules shall not discriminate among Members and shall not be inconsistent with the other Governing Documents. The South Bay Rules may also include the establishment of a system of fines and penalties for enforcement of such Rules. The South Bay Rules may be established, modified or amended at any special or regular meeting of the Board.

The South Bay Rules are deemed incorporated herein by this reference and shall have the same force and effect as if they were set forth in and were part of this Declaration and shall be binding on all persons or entities having an interest in, or make any use of, any part of the Master Association Land, Common Areas and/or Recreational Facilities, whether or not Members of the Master Association and whether or not copies of the South Bay Rules are actually received by such persons or entities. The South Bay Rules, as adopted, amended, modified or repealed shall be available for review at the principal office of the Master Association to each person or entity reasonably entitled thereto. In the event of any conflict between any provisions of the South Bay Rules and any provisions of the other Governing Documents, the provisions of the South Bay Rules shall be deemed to be superseded by the provisions of this Declaration, any Supplemental Declaration, the Articles of Incorporation or Bylaws to the extent of any such conflict. Any monetary penalties or fines imposed by the South Bay Rules shall be treated as an assessment which may become a lien against the Members' lot and enforceable by a sale thereof.

Section 5.4. Non-Liability of Officials and Indemnification. To the fullest extent permitted by Washington State law, Declarant, and every Director, Officer, Committee Member (specifically including members of the Architectural Review Committee), Manager(s), or other employees of the Master Association and of the Declarant, shall not be personally liable hereunder to any Member, or to any other person or entity, including the Master Association, for any damage, loss or prejudice suffered or claimed on account of any act, omission, error, or negligence and shall be indemnified and defended by the Master Association; provided, however, the provisions set forth in this Section 5.4 shall not apply to any person who has failed to act in good faith or has engaged in willful or intentional misconduct.

Section 5.5. Village Associations. Each and every Village Association in South Bay, and the Articles of Incorporation, Bylaws and Rules and Regulations thereof, shall be expressly subject and subordinate to the terms and provisions of this Declaration. The foregoing notwithstanding, and with the exception of the right of the Master Association to grant easements as set forth herein, a Supplemental Declaration shall control and be superior to this Declaration and insofar as it pertains to the maintenance, regulation and administration of any Limited Common Areas, facilities, amenities and lots owned by the Village Association and on any lots to be maintained by said Village Association in a given subdivision.

Section 5.6. Managing Agent. The Master Association, through the Board, is authorized to employ a Managing Agent or other persons and to contract with independent contractors or managing agents to perform all or any part of the duties and responsibilities of the Master Association. The Master Association, through its Board, is also expressly authorized to enter into one or more management agreements with third parties in order to facilitate efficient operations and to carry out its obligations. It shall be the primary purpose of such management agreement(s) to provide for the administration, management, repair and maintenance of the Master Association Land, Common Areas and Recreational Facilities and all improvements thereon, to assess, collect and apply the assessments, and to enforce this Declaration.

The terms of the management agreement shall be as determined by the Board to be in the best interest of the Master Association, and shall be subject to the Governing Documents. Any management agreement shall not exceed a term of one (1) year unless the terms thereof have been approved by a majority vote of each Class of Membership of the Master Association, but may be renewed by agreement of the parties for successive one (1) year periods and shall provide for termination by either party with or without cause and without payment of a termination fee upon ninety (90) days' written notice; provided, however, that

The Master Association may terminate the agreement for cause immediately upon thirty (30) days' written notice, and, provided further, that in the event of misconduct, the Master Association may terminate the agreement immediately with no notice whatsoever.

The Master Association is expressly authorized to contract with Declarant, or an affiliate, representative or company involving some or all of the same individuals as Declarant, in order to provide management and/or maintenance services or to perform any other duties of the Master Association or the Board. Each Owner, Resident and Occupant shall be bound by the terms and conditions of all management agreements entered into by the Board. A copy of all management agreements shall be available to each Owner upon request at the Master Association Office, or such other location within South Bay as designated by the Board.

Section 5.7. Records and Accounting. The Master Association shall keep, of course to be kept, true and correct books and records in accordance with generally accepted accounting principles. Financial statements for the Master Association shall be regularly prepared and available at the Master Association Office to all members as follows:

5.7.1 A pro forma operating statement (budget for each fiscal year shall be available for distribution not less than sixty (60) days before the beginning of the fiscal year);

5.7.2 An annual report shall be available for distribution within one hundred twenty (120) days after the close of the fiscal year consisting of a balance sheet as of the end of the fiscal year, an operating (income) statement for the fiscal year, and a statement of changes in financial position for the fiscal year.

5.7.3 The annual report shall be prepared by an independent accountant for any fiscal year in which the gross income to the Master Association exceeds \$75,000.00. If the annual report is not prepared by an independent accountant, it shall be accompanied by the certificate of an authorized officer of the Master Association that the statements were prepared without audit from the books and records of the Master Association.

Section 5.8. Inspection of Books and Records. The membership register, books of account and minutes of meetings of the Members, of the Board and of Committees of the Board shall be made available for inspection and copying by any Member at any reasonable time, at the office of the Master Association or at such other place within South Bay as the Board shall prescribe. The Board shall establish reasonable rules with respect to: (1) notice to be given to the custodian of the records by the Member desiring to make the inspection; (2) hours and days of the week

when such an inspection may be made; and (3) payment of the cost of reproducing copies of documents requested by a Member. Every Director shall have the absolute right at any reasonable time to inspect all books, records and documents of the Master Association and the physical properties owned or controlled by the Master Association.

ARTICLE 6

MEMBERSHIPS AND VOTING

Section 6.1. Lot Owners. Every Owner of a Lot, including Declarant, shall be a Member of the Master Association. Membership shall be apportioned to and may not be separated from ownership of the lot to which the Membership is attributable. There shall be only one Membership for each Lot, which Membership shall be shared by any Owners of interests therein.

Section 6.2. Declarant. Declarant shall be a Member of the Master Association for so long as it holds a Class B Membership pursuant hereto or owns any property in South Bay.

Section 6.3. Voting. The Master Association shall have two (2) classes of voting memberships:

Class A. Class A Memberships shall be all Memberships, except the Class B Membership held by Declarant, and each Owner shall be entitled to one vote for each Lot owned, subject to the authority of the Board to suspend the voting rights of the Owner for violations of this Declaration in accordance with the provisions hereof.

Class B. Class B Memberships shall be held by the Declarant and the Class B Membership shall be entitled to three (3) votes for each Lot owned by Declarant. For purposes of this Section only, and in order to provide for the complete development of South Bay as currently contemplated, Declarant for voting purposes shall be deemed to be the Owner of the total number of lots to be developed in South Bay, which is hereby declared to be eight hundred (800). Less the number of Lots owned by the Class A Members at the end of the Master Association's fiscal year. The Class B Membership shall cease and be converted to Class A Memberships on the happening of the first of the following events:

(a) When the total votes outstanding in Class A Membership equals eight hundred (800);

(b) When the Declarant voluntarily terminates the Class B Membership by written notice to the Master Association, at which time Declarant will receive Class A Membership for each Lot created within approved and recorded subdivisions within South Bay; or

Section 6.4. Right to Vote. The right to vote in Association actions shall be subject to the following conditions:

(c) At the end of the Development Period.

B.4.1 No change in a Membership shall be effective for voting purposes unless and until the Board is given actual written notice of such change. The vote for each Membership must be cast as a unit; fractional votes shall not be allowed. If a Membership is owned by more than one person or entity and such Owners are unable to agree among themselves as to how their vote or votes shall be cast, they shall lose their right to vote on the matter in question. If any Member casts a vote representing a certain Membership, it will thereafter be conclusively presumed for all purposes that he was acting with the authority and consent of all Owners of the Membership unless objection thereto is made at the time the vote is cast.

6.4.2 Any mortgagee who acquires title to a lot pursuant to a judgment or foreclosure or a trustee sale shall automatically become entitled to exercise all voting rights which the Owner of said lot would otherwise have had.

6.4.3 If any lender to whom Declarant has assigned, or hereafter assigns, as security, all or substantially all of its rights under this Declaration succeeds to the interests of the Declarant by virtue of said assignment, the absolute voting rights of the Declarant as provided herein shall not be terminated thereby, and such lender shall hold the Declarant's Memberships and voting rights on the same terms as they were held by Declarant.

Section 6.5. Transfer of Membership. The rights and obligations of Membership in the Master Association shall not be assigned, transferred, pledged, conveyed or alienated in any way except upon conveyance of an Owner's lot by deed, intestate succession, testamentary disposition, foreclosure of a Mortgage, or other legal process pursuant to the laws of the State of Washington or the United States.

Section 6.6. Associate Membership. The Board may by resolution establish Associate Memberships for individuals who are not Owners or Occupants, as defined herein, but who wish to utilize the Master Association Land, Common Areas or Recreational Facilities owned or controlled by the Master Association. Associate Memberships shall be granted or denied in the sole discretion of the Board and may be in consideration of such Membership Fee, Special Use Fee, recreational improvements or other consideration as the Board deems appropriate. Notwithstanding anything to the contrary herein, Associate Members shall (1) be bound by all Rules and Regulations of the Master Association, this Declaration to the extent applicable to one of the Master Association Land, Common Areas and Recreational Facilities, and special rules promulgated by the Master Association with regard

to Associate Memberships; and (2) have no vote in the Master Association.

ARTICLE 7

COVENANT FOR ASSESSMENTS AND CREATION OF LIEN

Section 7.1. Creation of Lien and Personal Obligation of Assessments. The Declarant, for and on behalf of the Association established within South Bay, hereby covenants and agrees, and each Owner by acceptance of a deed herefor (whether or not it shall be so expressed in such deed) is deemed to covenant and agree to pay to the Master Association the following: Assessments charges established hereunder: (1) Annual Assessments; and (2) Special Assessments for capital improvements or other extraordinary expenses or costs. The Annual and Special Assessments, together with interest, costs, and reasonable attorneys' fees, shall be a charge on the lot and shall constitute a continuing servitude and lien with power of sale upon the lot against which each such Assessment is made. The lien may be enforced by foreclosure of the lien on the delinquent Owner's lot by the Master Association in like manner as a mortgage on real property. The lien for each unpaid Assessment attaches to each lot at the beginning of each Assessment Period and shall continue to be a lien against such lot until paid. The costs and expenses for filing any notice of lien shall be added to the Assessment for the lot against which it is filed and collected as part and parcel thereof. Each such Annual and Special Assessment, together with interest, costs and reasonable attorneys' fees, shall also be the personal obligation of the Owner of the lot at the time when the Assessment or Charge fell due. The personal obligation for delinquent Assessments shall not pass to the successors in title of the Owner unless expressly assumed by them.

Section 7.2. Annual Assessments. In order to provide for the uses and purposes specified in Article 9 hereof, including the establishment of replacement and maintenance reserves, the Board in each year, commencing in 1980, shall assess an Annual Assessment against each lot where there has been issued an Occupancy Permit for a dwelling thereon for sixty (60) days or more. Each lot shall be responsible for paying the Annual Assessment, or a pro rata share thereof, from the sixtieth (60th) day following the issuance of said Occupancy Permit. The amount of the Annual Assessment shall be established by the Board but shall be determined with the objective of fulfilling the Master Association's obligations under this Declaration.

Section 7.3. Uniform Rate of Assessment. The amount of any Annual or Special Assessment shall be fixed at a uniform rate per lot. Annual Assessments shall be collected in advance on a monthly, quarterly or annual basis and Special Assessments may be collected as specified by the Board, unless otherwise

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determined by the resolution of the Members of the Master Association approving the Special Assessment.

Section 7.4. Superlative of Assessment Lien. The Master Association's lien on each lot for assessments shall be superior to any homestead exemption now or hereafter provided by the laws of the State of Washington or any exemption now or hereafter provided by the laws of the United States. Since the Owner will receive a copy of this Declaration prior to closing and/or the Declaration is recorded in public record, the acceptance of a deed subject to this Declaration shall constitute a voluntary and informed waiver of the homestead right by the Owner and an acknowledgment that the lien should be paid prior to any homestead claim. The Assessment Liens of the Master Association shall be superior in all cases to the Assessment Liens of the Village Associations established by Supplemental Declaration.

Section 7.5. Maximum Annual Assessment. The Initial Annual Assessment period shall commence on the sixteenth (60th) day following the issuance of the first Occupancy Permit for a Dwelling Unit within South Bay, and each subsequent Annual Assessment period shall correspond with the fiscal year of the Master Association. The Annual Assessment to be established by the Board may not exceed a certain amount (the "Maximum Annual Assessment") determined in accordance with the following provisions:

7.5.1 During the Initial Annual Assessment period, the Maximum Annual Assessment against each Dweller shall be \$540.00 per year for each lot subject to Assessment.

7.5.2 Effective with commencement of the first full fiscal year (the second Annual Assessment period) and continuing through the fifth (5th) full fiscal year, the Maximum Annual Assessment may be increased by the Board without a vote of the Membership by a maximum of twenty percent (20%) over the previous year's Annual Assessment. Any such increase shall be effective at the beginning of each fiscal year. Beginning with the sixth (6th) full fiscal year, and each subsequent fiscal year thereafter, the Maximum Annual Assessment may be increased by the Board without a vote of the Membership by a maximum amount equal to the greater of either (1) five percent (5%) over the previous year's Annual Assessment, or (2) the percentage increase in the Consumer Price Index, Seattle/Everett Metropolitan Area (or such other closest Geographic Area available), as published by the Department of Labor, Washington, D.C., or successor governmental agency, between the first day of the previous full fiscal year and the first day of the current full fiscal year. Any such increase shall be effective at the beginning of each fiscal year.

7.5.3 The Maximum Annual Assessment may be increased above the amount set forth in Subsection 7.5.2 above, provided

that any such increase shall have the assent of a majority of the votes of the Class A Membership and a majority of the votes of the Class B Membership who are voting in person or by proxy at a meeting duly called for this purpose, as provided in Section 7.9 below.

Section 7.6. Special Assessments for Capital Improvements and Extraneous Expenses. The Master Association may, in any Assessment period, levy a Special Assessment applicable to that period only, for the purpose of defraying, in whole or in part, the cost of any acquisition, construction, reconstruction, repair or replacement of a capital improvement upon Master Association Land, Common Areas or Recreational Facilities, including buildings, structures, fixtures and personal property related thereto, or for the purpose of defraying other extraordinary expenses; provided, that in any fiscal year, the Board may not, without the vote or written assent of a majority of each class of Membership, levy Special Assessments which in the aggregate, exceed five percent (5%) of the budgeted Gross Expenses of the Master Association for that fiscal year. The provisions of this Section are not intended to preclude or limit the assessment, collection or use of Annual Assessments for the aforesaid purposes.

Section 7.7. Special Use Fees. The Master Association is authorized to bill for, sue for, collect, administer and disburse all Special Use Fees and the payment thereof shall be secured by the Assessment Lien.

Section 7.8. Notice and Quorum. Written notice of any meeting called for the purpose of taking any action under Sections 7.5 or 7.6 of this Article shall be sent to all Member not less than thirty (30) days nor more than sixty (60) days in advance of the meeting. At any such meeting called, the presence of Members or of proxies entitled to cast sixty percent (60%) of all the votes (exclusive of suspended voting rights) of each class of Membership shall constitute a quorum.

Section 7.9. Establishment of Annual Assessment Period. The Annual Assessment Period for collection of assessments shall be designated by the Board and, with the exception of the first Assessment Period, shall correspond to the Master Association's fiscal year.

Section 7.10. Billing and Collection Procedures. The Board shall have the right to adopt procedures consistent herewith for the purpose of levying and collecting Annual and Special Assessments. The failure of the Master Association to send a bill to a Member shall not relieve any Member of his liability for any Assessment under this Declaration, but the Assessment Lien therefor shall not be foreclosed or otherwise enforced until the Member has been given not less than thirty (30) days' written notice, at the address of the Member on the

records of the Master Association. Such notice may be given at any time prior to or after delinquency of such payment. The Master Association shall be under no duty to refund any payments received by it even though a lot is sold during an Assessment Period; successor Owners shall be given credit for prepayments, on a prorated basis, made by prior Owners. The Master Association may charge new Members who become such during an Assessment Period an administrative fee related to the issuance or replacement of new Membership cards, if applicable, and updating Membership records.

Section 7.11. Collection Costs and Interest on Delinquent Assessments. Any delinquent installment of Annual or Special Assessment shall bear interest from thirty (30) days after the due date until paid at a uniform rate established by the Board which rate shall not exceed the maximum interest rate legally allowed by Washington State. The Member shall be liable for all collection costs, including attorneys' fees, incurred by the Master Association. The Board may also record a Notice of Delinquent Assessment against any lot as to which an Annual or Special Assessment is delinquent and constitute a lien, and may further establish a fixed fee to reimburse the Master Association for its costs associated with recording such Notice of Payment, which fixed fee shall be treated as a collection cost of the Master Association secured by the Assessment Lien.

Section 7.12. Evidence of Payment of Annual and Special Assessments. Upon receipt of a written request by a Member or any other person, the Master Association within ten (10) days shall issue a written certificate stating (a) that all Annual and Special Assessments (including interest, costs and attorneys' fees) have been paid with respect to any specified lot as of the date of such certificate, or (b) if all Annual and Special Assessments have not been paid, the amount of such Annual and/or Special Assessments (including interest, costs and attorneys' fees, if any) due and payable as of such date. The Master Association may make a reasonable charge for the issuance of such certificates. Any such certificate, when duly issued as herein provided, shall be conclusive and binding with respect to any matter therein stated as against any bona fide purchaser of, or lender on, the lot in question.

Section 7.13. Property Exempted From the Annual and Special Assessments. Property shall be exempted from the Assessment of Annual and Special Assessments; provided, however, that in the event of any change of ownership of exempt property results in all or any part thereof becoming assessable property in any way, the same thereupon shall be subject to the assessment of the Annual and Special Assessments (provided as of the date it became assessable property) and the Assessment Lien.

Section 7.14. Declarant Subsidy. So long as the Class B Membership exists, Declarant shall subsidize the financial operations of the Master Association in the event all assessments and every other revenue source (income) received by the Master Association fails to equal or exceed the actual expense incurred during the fiscal year. The terms and conditions of the subsidy shall be established by written agreement between Declarant and the Master Association. Declarant shall have no obligation for any such short fall resulting from the levying of any Assessment in an amount less than the maximum authorized for that Annual Assessment Period, or by expenditures for capital improvements, unless the same has been previously approved in writing by Declarant. The subsidy contemplated herein shall terminate at the close of the fiscal year in which the Class B Membership of Declarant is converted to Class A Membership unless earlier terminated by virtue of the self-sufficient financial condition of the Master Association.

ARTICLE 8

ENFORCEMENT OF PAYMENT OF ANNUAL AND SPECIAL ASSESSMENTS AND OF ASSESSMENT LIEN

Section 8.1. Master Association As Enforcing Body. The Master Association shall have the right to enforce the provisions of this Declaration. However, if the Master Association shall fail or refuse to enforce this Declaration or any provision hereof for any unreasonable period of time, after written request to do so, then any Member may enforce them on behalf of the Master Association, but not at the expense of the Master Association, by any appropriate actions, whether in law or in equity.

Section 8.2. Master Association's Remedies to Enforce Payment of Annual and Special Assessments. The Master Association may enforce payment of any delinquent Annual or Special Assessments, together with all collection costs and attorneys' fees, by taking either or both of the following actions, concurrently or separately:

8.2.1 Bring an action at law and recover judgment against the Member personally obligated to pay the Annual or Special Assessments; and

8.2.2 Foreclose the Assessment Lien against the Lot in accordance with the then prevailing Washington law relating to the foreclosure of real estate mortgages (including the right to recover any deficiency).

Section 8.3. Subordination of Assessment Lien to First Mortgage Priority Lien. The Assessment Lien provided for herein shall be subordinate to any first mortgage lien and any liens for taxes and other public charges which by applicable law are expressly made superior. Except as above provided, the

Assessment Lien shall be superior to any and all charges, liens or encumbrances which hereafter in any manner may arise or be imposed upon each lot. Sale or transfer of any lot shall not affect the Assessment Lien; provided, however, that if the sale or transfer is pursuant to foreclosure of a First Mortgage or pursuant to any judicial sale or proceeding, the purchaser at the mortgage foreclosure, deed of trust or judicial sale, shall take the lot free of the Assessment Lien. However, such purchaser shall take subject to all Annual and Special Assessments, and the Assessment Lien thereof accruing subsequent to the date of issuance of the sheriff's or trustee's deed.

Section 8.4. Suspension of Membership. In addition to the remedies set forth herein, and not to the exclusion or prejudice thereof, the Board may also suspend a member from the Master Association and the privileges of Membership, including use of Master Association Land, Common Areas and Recreation Facilities, for non-payment of Annual and/or Special Assessments.

ARTICLE 9

USE OF FUNDS: BONDING POWER

Section 9.1. Purposes for Which Master Association's Funds May be Used. The Master Association shall apply all funds collected and received by it for the common good and benefit of the Members by devoting said funds, among other things, to the acquisition, construction, alteration, maintenance, provision and operation of any and all land, properties, improvements, recreational facilities, services, projects, security, programs, studies and systems, within or without South Bay, which may be necessary, desirable or beneficial. The following are some, but not all, of the areas in which the Master Association may seek to provide for such common benefit: Social interaction among Members, maintenance, repair and improvement of Master Association Land, Common Areas and Recreational Facilities, liability insurance, communications, transportation, health, utilities, public services, safety, security and indemnification of Directors, Officers, employees and representatives of the Master Association as provided for herein.

Section 9.2. Bonding Power. The Master Association may borrow money in such amounts, at such rates, upon such terms and security, and for such period of time as the Board determines is necessary or appropriate.

Section 9.3. Master Association's Rights in Spending Funds From Year to Year. The Master Association shall not be obligated to spend in any year all the sums received by it in such year (whether by way of Annual or Special Assessments, fees or otherwise), and may carry forward as surplus any balances remaining. The Master Association shall not be obligated to reduce the amount of the Annual Assessment in the succeeding year if a surplus exists from a prior year and the Master

Association may carry forward from year to year such surplus as the Board in its discretion may determine to be desirable.

ARTICLE 10

MAINTENANCE

Section 10.1. Master Association Land, Common Areas, Recreational Facilities and Portions of Public Rights-Of-Way. The Master Association shall maintain or provide for the maintenance of the Master Association Land, Common Areas, Recreational Facilities, including the trail system, and all landscaping located within Public Rights-Of-Way within, or contiguous to, the Master Association Land, Common Areas and Recreational Facilities, including, but not limited to, landscaping and trees adjacent to streets and within cut-de-sacs.

Section 10.2. Assessment of Certain Costs of Maintenance and Repair of Master Association Land, Common Areas and Recreational Facilities. In the event that the need for maintenance or repair is caused through the willful or negligent act or omission of any Owner, Resident or Occupant, their guests or invitees, of a lot, the cost of such maintenance or repair may, in the discretion of the Board, be charged directly to the Owner of the lot and shall be payable in accordance with the time period established by the Board. An Assessment Lien shall secure repayment and be enforceable in the same manner as other Assessments provided for herein.

ARTICLE 11

ARCHITECTURAL REVIEW COMMITTEE

Section 11.1. Establishment. The Declarant shall establish an Architectural Review Committee to perform the functions set forth in this Declaration and shall adopt procedural rules and regulations for the performance of such duties, including procedures for the preparation, submission and determination of the application for any approvals required by this Declaration. The Architectural Review Committee shall consist of not less than three (3) nor more than five (5) members. Initially, the Architectural Review Committee shall consist of five (5) members. Declarant shall have the right to appoint the members of the Architectural Review Committee until ninety percent (90%) of contemplated lots in South Bay, including those in recorded subdivisions as well as those subdivisions to be completed in the future, have been sold; provided, however, that Declarant or any other member of the Architectural Review Committee, by written notification to the Board, may resign from the Architectural Review Committee at any time. Moreover, the Declarant shall have the right at any time, by written notification to the Board, to delegate the right of selection of the Architectural Review Committee to the Board. Upon termination of Declarant's

right of appointment, the Board shall have the power to appoint all of the members of the Architectural Review Committee. Members of the Architectural Review Committee are not required to be architects or owners. Decisions of the Architectural Review Committee shall be by a majority vote of its members. Subject to the provisions of Section 11.3, the decision of the Architectural Review Committee shall be final on all matters submitted to it pursuant to this Declaration.

Section 11.2. Review by Committee. With the exception of structures designed and/or constructed by Declarant, prior written approval by the Architectural Review Committee shall be required for all new construction in South Bay. In addition, no alteration or modification to an existing dwelling unit constructed by Declarant or other structure previously approved by the committee shall be made unless complete plans and specifications therefor have been first submitted to and approved in writing by the Architectural Review Committee. The Committee shall exercise its best judgment to the end that all such changes, improvements and alterations requested for properties within South Bay conform to and harmonize with the existing surroundings, residences, landscaping and structures. The provisions of this Article shall apply to all properties within South Bay including, but not necessarily limited to commercial, recreational and religious properties.

Section 11.3. Appeal. Any Owner aggrieved by a decision of the Architectural Review Committee may appeal the decision to said Committee in accordance with procedures to be established by the Architectural Review Committee. Such procedures may include the requirement that the appellant has modified the requested action or has new information which would in the Committee's opinion warrant a reconsideration. If the Committee fails to allow an appeal or if the Committee, after appeal, again rules in a manner that aggrieves the appellant, then the decision of the Committee is final and cannot be appealed to any judicial forum.

Section 11.4. Fee. The Board may establish a reasonable processing fee to cover the costs of the Master Association in considering any requests for approvals submitted to the Committee, which fee shall be paid at the time the request for approval is submitted.

Section 11.5. South Bay Design Standards. South Bay Design Standards shall include written guidelines setting forth the minimum standards for the design, height, square footage, location, style, structure, color, mode of architecture, mode of landscaping and relevant criteria deemed important by the Architectural Review Committee or by the Declarant for the construction of improvements. The Initial Design Standards shall be subject to all provisions of this Declaration and shall not, so long as Declarant owns any lot in South Bay, be amended

or waived without the written consent of the Declarant. The purpose of the Design Standards is to preserve and promote the character and orderly development of South Bay as designed and developed by Declarant. By acceptance of a deed for any lot in South Bay, each Owner thereof and his successors and assigns agree to be bound by all provisions of the South Bay Design Standards and to use diligence in keeping abreast of the provisions thereof and any amendments thereto.

Section 11.6. Violation of Approved Plans. If the Architectural Review Committee determines that work on any lot has not been completed in compliance with the final plans approved by the Committee, the Committee or the Master Association may notify the Owner in writing of such non-compliance within thirty (30) days of inspection, specifying in reasonable detail the particulars of non-compliance and may require the Owner to remedy the same. If the Owner fails to remedy such non-compliance or to commence and continue diligently toward achieving compliance, Declarant or the Master Association shall have the right to order upon the lot of any Owner and to perform compliance or remedy non-compliance as ordered by the Architectural Review Committee and the cost of such performance or remedy shall be due within ten (10) business days after receipt of written demand therefor. If the Owner fails to remedy such non-compliance or to commence and continue diligently toward achieving compliance, Declarant or the Master Association shall notify the Owner that it shall take action to remove the non-complying improvements and/or initiate litigation for injunctive relief and/or damages and recovery of costs incurred.

Section 11.7. Non-Liability for Approval of Plans. Architectural Review Committee approval of plans shall not constitute a representation, warranty or guarantee that such plans and specifications comply with good engineering or design or with zoning or building ordinances, or other governmental regulations or restrictions, by approving such plans and specifications, neither the Architectural Review Committee, the members thereof, the Master Association, any Member thereof, the Board nor Declarant assumes any liability or responsibility therefor, or for any defect in the structure constructed from such plans or specifications. None of the above stated entities or individuals shall be liable to any Member, Owner, Resident, Occupant or other person or entity for any damage, loss, or prejudice suffered or claimed on account of (a) the approval or disapproval of any Plans, drawings and specifications, whether or not defective, or (b) the construction or performance of any work, whether or not pursuant to the approved plans, drawings, and specifications.

Section 11.8. Declarant Exemption. The Architectural Review Committee shall have no authority, power or jurisdiction

over lots or other property within South Bay owned by Declarant, and the provisions of this Article shall not apply to Lots or other property within South Bay owned by Declarant until such time as Declarant conveys title to the Lot or property to a purchaser thereof. Until the end of the Development Period, this Article shall not be amended without Declarant's written consent set forth on the amendment.

ARTICLE 12

RIGHTS AND POWERS OF THE MASTER ASSOCIATION

Section 12.1. Master Association's Rights and Powers as Set Forth in Article and Bylaws. In addition to the rights and powers of the Master Association set forth in the Declaration, the Master Association shall have such rights and powers as are set forth in its Articles of Incorporation and Bylaws. Upon incorporation of the Master Association, a copy of the Articles and Bylaws of the Master Association shall be available for inspection and copying at the office of the Master Association during reasonable business hours.

Section 12.2. Contracts with Others for Performance of Master Association's Duties. Subject to the restrictions and limitations contained herein, the Master Association may enter into contracts and transactions with others, including Declarant and its affiliated companies, and such contracts or transactions shall not be invalidated or in any way affected by the fact that one or more Directors or Officers of the Master Association or members of any Committee is employed by or otherwise connected with Declarant or its affiliates, provided that the fact of such interest shall be disclosed or known to the other Directors acting upon such contract or transaction, and provided further that the transaction or contract is fair and reasonable.

ARTICLE 13

INSURANCE

Section 13.1. Insurance on Master Association Land, Common Areas and Recreational Facilities. The Master Association shall maintain insurance covering all insurable improvements located or constructed upon Master Association Land, Common Areas and Recreational Facilities. The Master Association shall maintain the following types of insurance, to the extent that such insurance is reasonably available, considering the cost and risk coverage provided by such insurance:

13.1.1 Property Insurance. A policy of property insurance covering all insurable improvements located on Master Association Land, Common Areas and Recreational Facilities with a "Replacement Cost Endorsement." Such insurance shall afford protection against loss of damage by fire and other perils normally covered by the standard extended coverage endorsement

and such other risks customarily covered with respect to projects similar in construction, location, and use, including all perils normally covered by the standard all risk endorsement, where such is available.

13.1.2 Liability Insurance. A comprehensive policy of public liability insurance covering all of the Master Association Land, Common Areas and Recreational Facilities in an amount not less than One Million Dollars (\$1,000,000.00) covering bodily injury, including death to persons, personal injury, and property damage liability arising out of a single occurrence, and such other risks as shall customarily be covered with respect to projects similar in construction, location and use.

13.1.3 Cancellation. An insurance policy provided for herein may not be cancelled or substantially diminished or reduced in coverage without at least thirty (30) days' prior written notice to the Master Association and Declarant during the Development Period.

Section 13.2. Damage to Master Association Land, Common Areas and Recreational Facilities. In the event of damage to, or destruction of, all or a portion of the Master Association Land, Common Areas or Recreational Facilities due to fire or other adversity or disaster, the insurance proceeds, if sufficient to reconstruct or repair the damage, shall be paid by the Master Association for such reconstruction and repair. If the insurance proceeds with respect to such damage or destruction are insufficient to repair and reconstruct the damage or destruction, the Master Association shall present to the Members a notice of Special Assessment for approval by the Membership in accordance with Article 7 hereof. If such Special Assessment not approved, the insurance proceeds may, after first being used to clean and landscape damaged areas, be applied in accordance with the wishes of the Membership upon the approval of Members and Eligible First Mortgagees as set forth in Article 15 hereof, except that the proceeds shall not be distributed to the Owners, unless made jointly payable to Owners and the First Mortgagees, if any, of their respective lots.

Section 13.3. Other Insurance to be Maintained by Owners. Insurance coverage on the furnishings and other items of personal property belonging to an Owner, public liability insurance coverage upon each lot, and hazard insurance coverage on the improvements constructed on lots shall be the responsibility of the Owner thereof.

Section 13.4. Annual Review of Insurance Policies. All insurance policies carried by the Master Association shall be reviewed annually by the Board to ascertain that the coverage provided by such policies is reasonably adequate in view of expected and likely risks insured by the Master Association.

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ARTICLE 14

EASEMENTS

Section 14.1. Maintenance Easement. An easement is reserved and granted to the Master Association, its Officers, Directors, Agents, employees, and assigns, upon, across, over, in, and under Master Association Land, Common Areas, Limited Common Areas, Recreational Facilities and Lots to enable the Master Association to perform the duties and functions which it is obligated or permitted to perform pursuant to this Declaration.

Section 14.2. Future Utility Easements.

14.2.1 Notwithstanding anything to the contrary hereto, Declarant reserves the right to grant easements, licenses and permits during the Development Period upon, across, over and under the Master Association Land, Common Areas, Limited Common Areas and Recreational Facilities for drainage and for the installation, replacement, repair and maintenance of utilities including, but not limited to, water, sewer, gas, telephone, electricity and cable television systems.

14.2.2 Commencing at the termination of the Development Period, the Master Association shall have the right to grant easements, licenses and permits upon, across, over and under the Master Association Land, Common Areas, Limited Common Areas and Recreational Facilities for drainage and for the installation, replacement, repair and maintenance of utilities, including, but not limited to, water, sewer, gas, telephone, electricity and cable television systems; providing said easements, licenses and permits shall be (1) consistent with the intended use of said properties; (2) reasonably necessary or desirable for the proper use, maintenance and operation of said properties; and (3) substantially without adverse effect on the employment of said properties by the Members. With regard to Limited Common Areas, the rights set forth in this Subsection shall not be deemed exclusive if a Supplemental Declaration grants a corresponding right to Village Associations within Limited Common Areas within given Villages.

Section 14.3 View Easement. A blanket non-exclusive easement is reserved and granted to Declarant and the Master Association upon, across, over, and under the Master Association Land, Common Areas, Limited Common Areas and Recreational Facilities for the preservation, maintenance and enhancement of the view from each lot within South Bay. The Board shall have the right to take whatever action is necessary or desirable, at its sole discretion, to preserve, maintain and enhance the view on any lot, Master Association Land, Common Areas, Limited Common Areas or Recreational Facilities, including, but not limited to, the

right to top and/or remove trees and brush from the property subject to this easement.

Section 14.4. Rights of Declarant Incident to Construction. An easement is reserved by and granted to Declarant, its successors and assigns, for access, ingress, and egress over in, upon, under, and across the Master Association Land, Common Areas, Limited Common Areas and Recreational Facilities, including, but not limited to, the right to store materials thereon and to make such other use thereof as may be reasonably necessary or incidental to Declarant's construction in South Bay; provided, however, that no such rights of easements shall be exercised by Declarant in such a manner as to unreasonably interfere with the occupancy, use, enjoyment, or access by any Owner to that Owner's lot. The easement created pursuant to this Section shall automatically cease at the end of the Development Period.

Section 14.5. Maintenance of Walls, Improvements and Easements. An easement is reserved and granted in favor of Declarant and the Master Association, their successors, assigns, employees and agents, upon, over and across each lot adjacent to any boundaries of the Common Areas or Recreational Facilities for reasonable ingress, egress, installation, replacement, maintenance, and repair of any improvement which Declarant may construct or cause to be constructed on or near any such property.

Section 14.6. Easements Deemed Created. All conveyances of Lots hereafter made, whether by the Declarant or otherwise, shall be construed to grant and reserve the easements contained in Master Declaration, even though no specific reference to such easements appears in the instrument of such conveyance.

ARTICLE 15

FIRST MORTGAGES

Section 15.1. Member and First Mortgage Approval. Subject to all provisions of this Declaration, the Master Association shall not, unless it has obtained the prior written consent of at least sixty-seven percent (67%) of the votes of each class of Membership, and fifty-one percent (51%) of the votes of the Eligible First Mortgages (based upon one vote for each First Mortgage owned), amend any material provisions of this Declaration which govern any of the following: (a) Voting; (b) Assessments, Assessment Plans, or subordination of such plans; (c) reserves for maintenance or repair of Master Association Land, Common Areas or Recreational Facilities; (d) Insurance; (e) rights to use of the Master Association Land, Common Areas or Recreational Facilities; (f) responsibility for maintenance and repair of any portion of South Bay; (g) annexation of additional properties; (h) boundaries of any lot; (i) interests in the Master Association Land, Common Areas and Recreational

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Facilities; (j) any provisions which are for the express benefit of First Mortgages or Governmental Mortgage Accounts; or (k) effectuate any decision to terminate professional management and assume self-management of the Master Association when professional management has previously been required by any First Mortgage; and (l) repair or restoration of the Properties, after a hazard or partial condemnation, in a manner other than that specified in this Declaration.

15.1.1 An amendment to this Declaration shall not be considered material if it is for the purpose of correcting technical errors or for clarification, nor shall an amendment be considered material if it is made as a result of or in connection with a plan of expansion, annexation, or phased development as provided in this Declaration.

15.1.2 "Eligible First Mortgages" as set forth in this Section are those First Mortgages who have requested the Master Association to notify them of any proposed action that requires the consent of a specified percentage of eligible mortgage holders.

Section 15.2. Notice of Action. Upon written request to the Master Association, identifying the name and address of the First Mortgage and the address of the property which is subject to such first mortgage, each such First Mortgage shall be entitled to timely written notice of:

15.2.1 Any condemnation loss or casualty loss which affects a material portion of South Bay;

15.2.2 Any delinquency in the payment of assessments or charges owed to the Master Association by the Owner of the lot subject to a first mortgage held by such first mortgage, or not default by such Owner in any obligation under this Declaration, and the Board has actual knowledge of such default, when such delinquency and/or default remains uncured for a period of sixty (60) days; and

15.2.3 Any proposed action which would require the consent of a specified percentage of First Mortgages as provided in this Article 15.

ARTICLE 16

CONDEMNATION

Section 16.1. Actions and Awards. In the event proceedings are initiated by any governmental entity seeking to take eminent domain of the Master Association Land, Common Area or Recreational Facilities, or any part thereof, or any interest therein, with a value as reasonably determined by the Master Association in excess of Ten Thousand and No/100 Dollars

(\$10,000.00), the Master Association shall give prompt notice thereof to all Members. The Master Association shall have full power and authority to defend in said proceedings, and to represent the Owners in any negotiations, settlements and agreements with a condemning authority for acquisition of the Master Association Land, Common Areas or Recreational Facilities, or part thereof, but the Master Association shall not enter into any such proceedings, settlements or agreements pursuant to which all or any portion or interest in the Master Association Land, Common Areas and Recreational Facilities, or improvements located thereon, are relinquished, without giving all Members at least fifteen (15) days prior written notice thereof. In the event following such proceedings, there is such a taking in condemnation or by eminent domain of a part of all of said Properties, the award made for such taking shall be applied by the Master Association to such repair and restoration of the remaining Master Association Land, Common Areas or Recreational Facilities, or improvements thereon, as the Board, in its discretion, shall determine. If the full amount of such award is not so expended, the Master Association shall disburse the net proceeds of such award to the lot Owners. Each lot will receive one (1) equal share, provided that the Master Association shall first pay out of the share of each Owner the amount of any unpaid assessment items or charges on his lot. No provision of this Declaration shall be deemed to give an Owner or any other party priority over the rights of a First Mortgagee in the case of a distribution to an Owner of insurance proceeds or condemnation awards for losses to or taking of lots, Master Association Land, Common Areas, limited Common Areas or Recreational Facilities, or any combination thereof.

ARTICLE 17

TERMS; AMENDMENTS; TERMINATION

Section 17.1. Term; Method of Termination. This Declaration shall be effective upon the date of recordation hereof and, as amended from time to time, shall continue in full force and effect for a term of twenty-five (25) years from the date this Declaration is recorded. From and after said date, this Declaration, as amended, shall be automatically extended for successive periods of ten (10) years each, unless there is an affirmative vote to terminate this Declaration by the then Members casting a majority percent (90%) of the total votes at an election held for such purpose. No vote to terminate this Declaration shall be effective unless and until the written consent to such termination has been obtained, within a period from six (6) months prior to such vote to six (6) months after such vote, from all First Mortgagees. If the necessary votes and consents are obtained, the Board shall record a Certificate of Termination in the Jefferson County records. Thereupon this Declaration shall have no further force and effect.

Section 17.2. Amendments.

17.2.1. As long as there is a Class B Membership, this Declaration may be amended by obtaining approval of fifty-one percent (51%) or more of each class of Membership, provided that there shall also be full compliance with all other provisions herein. However, as long as there is a Class B Membership, the following actions will require the prior approval of the Federal Housing Administration ("FHA") if there is an FHA insured mortgage on any lot and Veterans Administration ("VA") if there is a VA guaranteed mortgage on any lot: Annexation of additional properties, dedication of Common Areas and amendment of this Declaration.

17.2.2. When there is no longer a Class B Membership, this Declaration may be amended by obtaining approval of seventy-five percent (75%) of the total outstanding votes of the Master Association, provided that there shall also be full compliance with all other provisions hereof.

17.2.3. Any amendment to this Declaration shall be recorded with the Jefferson County Auditor as a Certificate of Amendment, duly signed and acknowledged by the President of the Master Association. The Certificate of Amendment shall set forth in full the amendment adopted, and except as provided in Section 17.3 below, shall certify that at an election duly called and held pursuant to the provisions of the Articles and Bylaws, the Members casting the required percentages of the total outstanding votes of the Master Association voted affirmatively for the adoption of the amendment. Notwithstanding the foregoing provisions, the percentage of the outstanding votes necessary to amend a specific clause or provision shall not be less than the percentage of affirmative votes prescribed for action to be taken under that clause.

Section 17.3. Right of Amendment if Requested by Governmental Mortgage Agency or Federally Chartered Lending Institution. Anything in this Article to the contrary notwithstanding, Declarant reserves the right to amend all or any part of this Declaration to such an extent and with such language as may be requested by Governmental Mortgage Agencies and to further amend to the extent requested by any other federal, state or local Governmental agency which requests such an amendment as a condition precedent to such agency's approval of this Declaration, or by any federally chartered lending institution as a condition precedent to lending funds on the security of any Lots(s). Any such amendment shall be effected by the recording, by Declarant, of a Certificate of Amendment duly signed by the authorized agents, officers or Declarant, as applicable, with their signatures acknowledged, specifying the Governmental Mortgage Agency, the federal, state or local Governmental agency or the federally chartered lending institution requesting the amendment and setting forth the amendatory language requested by such agency or institution.

ARTICLE 18

MISCELLANEOUS.

Section 18.1. Interpretation of the Covenants. Except for judicial construction, the Master Association, by its Board, shall have the exclusive right to construe and interpret the provisions of this Declaration. In the absence of any adjudication to the contrary, the Master Association's construction or interpretation of the provisions hereof shall be final, conclusive and binding as to all persons and properly benefited or bound by the covenants and provisions hereof.

Section 18.2. Severability. Any determination by any court of competent jurisdiction that any provision of this Declaration is invalid or unenforceable shall not affect the validity or enforceability of any of the other provisions hereof.

Section 18.3. Rule Against Perpetuities. If any interest purported to be granted by this Declaration is challenged in or the Rule Against Perpetuities or any related rule, the interest shall be construed as becoming void and of no effect as of the date of the applicable period of perpetuities counted from the date when the period of perpetuities starts to run on the challenged interest.

Section 18.4. Annexation.

18.4.1. Additional property may be annexed hereunder with the consent of a majority of the votes of the Class B Membership, if there is a Class B Membership at the time.

18.4.2. Notwithstanding the foregoing, the Declarant may, until the end of the development period, annex into South Bay additional property within the General vicinity of South Bay without the consent of the Master Association, any Village Association, Owners or Members (or any percentage thereof) and without the consent of any First Mortgage, Insurers, or guarantors, except as expressly provided to the contrary in Section 17.2.1.

18.4.3. Each such annexation shall be effective by recording a "Declaration of Annexation" in the office of the Jefferson County Auditor, which document shall subject the properties described in such document to this Declaration.

18.4.4. All provisions of this Declaration, including, but not limited to those provisions regarding obligations to pay assessments and charges to the Master Association, and any right to cast votes as Members of the Master Association, shall apply to annexed property, including, but not limited to all fees.

contained therein immediately upon recording a Declaration of Amencation.

Section 18.5. Declarant's Disclaimer of Representations. Anything to the contrary in this Declaration notwithstanding, and except as otherwise may be expressly set forth on a recorded plat or other instrument recorded in the office of the County Auditor of Jefferson County, Washington, Declarant makes no warranties or representations whatsoever that the plans presently envisioned for the complete development of South Day Road or will be carried out, or that any land now owned or hereafter acquired by it is or will be subjected to this Declaration, or that any such land (whether or not it has been subjected to this Declaration) is or will be committed to or developed for a particular (or any) use, or that if such land is once used for a particular use, such use will continue in effect.

Section 18.6. References to the Covenants in Deeds. Deeds to any instrument affecting any lot or any part of South Day may contain the covenants herein set forth by reference to this Declaration; but regardless of whether any such reference is made in any deed or instrument, each and all of the covenants shall be binding upon the grantee-owner or other person claiming through any instrument and his heirs, executors, administrators, successors and assigns.

Section 18.7. Successors and Assigns of Declarant. Any reference in this Declaration to Declarant shall include any successors or assigns of Declarant's rights and powers hereunder.

Section 18.8. Gender and Number. Wherever the context of this Declaration so requires, words used in the masculine gender shall include the feminine and neuter genders; words used in the neuter gender shall include the masculine and feminine genders; words in the singular shall include the plural; and words in the plural shall include the singular.

Section 18.9. Captions and Titles. All captions, titles or headings of the Articles and Sections in this Declaration are for the purpose of reference and convenience only and are not to be deemed to limit, modify or otherwise affect any of the provisions hereof or to be used in determining the intent or context thereof.

Section 18.10. Notices. Unless otherwise required by the Governing Documents, notice of any meeting, action or proposed action by the Master Association, Board or any Committee to be given to any Owner shall be deemed satisfied if notice of such action or meeting is given in person or by regular mail, postage paid, not less than three (3) days prior to the date such notice is effective. Each Owner shall register his mailing address with the Master Association for the purposes of such notice.

All notices, demands, or other notices intended to be served upon the Board or the Master Association shall be sent by certified mail, postage prepaid, to the business office of the Master Association. This Section shall not be construed to require that any notice be given if not otherwise required and shall not prohibit satisfaction of any notice required in any other manner.

IN WITNESS WHEREOF, POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP, has hereunto caused its authorized officials to execute this Declaration as of the day and year first above-written:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP, Declarant, by MGP, Inc., a Delaware corporation, its General Partner

By: George Folquett, President and Chief Executive Officer

STATE OF WASHINGTON)) ss: County of Kitsap)

On this 22 day of August, 1989, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared George Folquett, to me known to be the President and Chief Executive Officer of MGP, Inc., a Delaware Corporation, which is known to me to be the General Partner of Pope Resources, A Delaware Limited Partnership, the partnership that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said partnership, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute the said instrument;

WITNESS MY HAND AND OFFICIAL SEAL hereto affixed the day and year first above written:



George Folquett
NOTARY PUBLIC in and for the State of Washington, residing at 1211 1st St. SE
My Commission Expires: 12/31/92