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DECLARATION OF COVENANTS,
CONDITIONS, AND RESTRICTIONS

FOR

TORREON

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DECLARATION OF COVENANTS,
CONDITIONS, AND RESTRICTIONS
FOR
TORREON

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DECLARATION OF COVENANTS,
CONDITIONS, AND RESTRICTIONS
FOR
TORREON

This Declaration of Covenants, Conditions and Restrictions for Torreón ("Declaration") is made as of May 28, 1998, by Summit Development Company, L.L.C., an Arizona limited liability company ("Declarant").

INTRODUCTION TO THE COMMUNITY

Declarant is the owner of the real property legally described in Exhibit "A" attached hereto which is within the master planned community commonly referred to as Torreón in Show Low, Arizona. This Declaration creates mutually beneficial covenants, conditions and restrictions for such property and establishes a flexible but reasonable procedure for its overall development, administration, maintenance and preservation. As part of the development plan, Declarant has formed the Torreón Community Association, Inc., an association comprised of all Owners in Torreón. By executing this Declaration, Declarant intends to create an environmentally-sensitive community boasting a high quality of life for its residents. The Torreón Community Association, Inc. will be responsible for implementing the Declarant's goals for the community, as they are expressed herein. Foremost among these goals is the Declarant's desire to preserve and display the natural beauty of the surrounding environment through the plan of development and the uses of the land.

ARTICLE I

CREATION OF THE COMMUNITY

1.1 Initial Declaration. Declarant hereby declares that the property described in Exhibit "A" and any additional property subjected to this Declaration by Supplemental Declaration shall be held, sold, used, and conveyed subject to the covenants, conditions, and restrictions herein which shall run with the title to the land. This Declaration shall be binding on and shall inure to the benefit of all parties having any right, title, or interest in the Properties or any part thereof, their heirs, successors, successors-in-title, and assigns.

1.2 Duration. Unless terminated as provided below, this Declaration shall have perpetual duration. Unless otherwise provided by Arizona law, in which case such law shall control, this Declaration may not be terminated within 20 years of the date of recording without the consent of all Owners. After 20 years from the date of recording, this Declaration may be terminated only by an instrument in writing, signed by the Association and approved by 67% of the then Owners.

Such an instrument shall then be recorded in the Official Records to evidence the termination of this Declaration.

ARTICLE II

CONCEPTS AND DEFINITIONS

The terms used in this Declaration and not otherwise defined shall generally be given their natural, commonly accepted definitions except as otherwise specified. Certain capitalized terms shall be defined as set forth below.

2.1 "Architectural Review Committee". The committee which the Declarant or Board may create, subject to provisions of Article V, and at such time as it shall determine in its discretion, to review construction and administer and enforce architectural standards.

2.2 "Area of Common Responsibility". The Common Area, together with any other areas which become the responsibility of the Association, including the Neighborhood Entry and Access Improvements, as defined in Section 6.3.

2.3 "Articles". The Articles of Incorporation of Torreon Community Association, Inc., as they may be amended from time to time.

2.4 "Association". Torreon Community Association, Inc., an Arizona nonprofit corporation, its successors and assigns.

2.5 "Base Assessment" or "Regular Assessment". Assessments levied on all Units to fund Common Expenses, as more particularly described in Article IX.

2.6 "Benefited Assessment". Assessments levied on one or more but less than all Units, as more particularly described under Section 9.7.

2.7 "Board of Directors" or "Board". The body responsible for administration of the Association.

2.8 "Builder". Any Person which purchases one or more Units or parcels of land within Torreon for the purpose of constructing improvements for later sale to consumers, or for further subdivision, development, and/or resale in the ordinary course of such Person's business.

2.9 "By-Laws". The By-Laws of Torreon Community Association, Inc., as they may be amended from time to time.

2.10 "Class "B" Control Period". The period during which the Class "B" Member is entitled to appoint a majority of the Board as provided in Article VII below.

2.11 "Common Area". All real and personal property which the Association now or hereafter owns, leases, has easement rights to, or otherwise holds possessory or use rights in for the common use and enjoyment of the Owners. The term may include, without limitation, recreational facilities, entry features, signage, landscaped medians, lakes, streams, water courses and wetlands, as well as hiking, walking and bicycle trails; without limiting the foregoing, the term "Common Area" may also include that certain stream and stream bed running through the Properties and the Golf Course, and related improvements (including any pumps, pumping stations, wells, pipelines and water distribution facilities) (collectively, the "Stream") that Declarant may convey to the Association on such terms and conditions as the Association may approve.

2.12 "Common Expenses". The actual and estimated expenses incurred or anticipated to be incurred by the Association that are deemed by the Board to be for the general benefit of all Units, including expenses with respect to the Common Area and Area of Common Responsibility, reasonable management fees, expenditures for capital-type items, expenses payable under any Covenant to Share Costs, expenses payable pursuant to an agreement made by the Association permitting Owners to utilize improvements owned and/or operated by the owner of the Golf Course (including agreements whereby Owners have certain social membership rights to use the club facilities located thereon), and any reasonable reserve, as the Board may find necessary or appropriate.

2.13 "Covenant to Share Costs". Any declaration or other instrument executed by Declarant or the Association which creates easements or other rights for the benefit of the Association (or its Members) and the present and future owners of the real property subject to such declaration or other instrument and/or which obligates the Association and such owners to share the costs as described therein. Any Covenant to Share Costs may affect less than all Owners.

2.14 "Declarant". Summit Development Company, L.L.C., an Arizona limited liability company, or any successor, or assignee thereof designated as the Declarant in a written instrument executed by the immediately-preceding Declarant.

2.15 "Design Guidelines". The architectural, design, development, and other guidelines, standards, controls, and procedures promulgated by the Declarant or the Board including, but not limited to, application and review procedures, as they may be amended from time to time.

2.16 "Dwelling Unit". All buildings located within a Unit and used or intended to be used for a single-family residential use in conformity with the Governing Documents, including any garages, carports, open or closed patios and basements, as originally constructed.

2.17 "Exclusive Common Area". A portion of the Common Area intended for the exclusive use or primary benefit of one or more, but less than all, Neighborhoods, as more particularly described in Article XIII.

2.18 "Golf Course". The parcel or parcels of land adjacent to or within Torreon developed by the Declarant or any affiliate thereof, and which is operated as a golf course, together with all related and supporting facilities and improvements operated and/or maintained in connection therewith.

2.19 "Governing Documents". This Declaration together with the Articles and By-Laws of the Association, any declaration of easements, Covenants to Share Costs, the Design Guidelines, Use Restrictions, and any rules, regulations or policies adopted by the Board shall contain the standards for the Properties and the Association.

2.20 "Master Plan". The Master Plan for the development of Torreon filed with the City of Show Low, Arizona, as it may be amended, updated, or supplemented from time to time. Inclusion of property on the Master Plan shall not, under any circumstances, obligate Declarant to subject such property to this Declaration nor shall the exclusion of property from the Master Plan bar its later annexation.

2.21 "Member". A Person entitled to membership in the Association as an Owner of a Unit.

2.22 "Mortgage". A mortgage, deed of trust, deed to secure debt, or any other form of security deed.

2.23 "Mortgagee". A beneficiary or holder of a Mortgage.

2.24 "Neighborhood". A group of Units designated by Declarant, or the Board following expiration of the Class "B" Control Period, from time-to-time as a separate Neighborhood for any reasonable purpose including, without limitation, sharing Exclusive Common Areas and/or receiving other benefits or services from the Association which are not provided to all Units within the Properties, and/or for the purpose of electing Voting Members as provided in Article VII. A Neighborhood may be comprised of more than one housing type and may include noncontiguous parcels of property. A Neighborhood may be reconfigured from time to time in the discretion of the Declarant, or the Board following expiration of the Class "B" Control Period. If the Association provides benefits or services to less than all Units within a particular Neighborhood, then the benefited Units may, in the Board's discretion, constitute a sub-Neighborhood for purposes of determining and levying Neighborhood Assessments for such benefits or services.

2.25 "Neighborhood Assessments". Assessments levied against the Units in a particular Neighborhood or Neighborhoods to fund Neighborhood Expenses.

2.26 "Neighborhood Association". An owners' association, including a nonprofit corporation or an unincorporated association of owners, established by or with the approval of the Board having jurisdiction over any Neighborhood concurrent with, but subordinate to, the Association.

2.27 "Neighborhood Expenses". The actual and estimated expenses incurred or anticipated to be incurred for the benefit of the Owners within a particular Neighborhood or Neighborhoods, including expenses with respect to Exclusive Common Area benefiting the Owners and their Units within such Neighborhood.

2.28 "Official Records." The Office of the County Recorder of Navajo County, Arizona.

2.29 "Owner". Collectively, one or more Persons who hold the legal or equitable title to any Unit, but excluding in all cases any party holding an interest merely as security for the performance of an obligation. If a Unit is sold under a contract of sale, the purchaser (rather than the fee owner) will be considered the Owner, unless the contract specifically provides otherwise.

2.30 "Person". A human being, a corporation, a limited liability company, a partnership, a trustee, or any other legal entity.

2.31 "Properties". The real property described in Exhibit "A", together with any additional property annexed and made subject to this Declaration.

2.32 "Reviewing Body". The body authorized to exercise architectural review pursuant to Article V.

2.33 "Special Assessment". Assessments levied against all Owners to cover unanticipated costs, as more particularly described in Article IX.

2.34 "Supplemental Declaration". An amendment or supplement to this Declaration filed pursuant to Article X which subjects additional property to this Declaration, identifies any Common Area within the additional property, and/or imposes, expressly or by reference, additional restrictions and obligations on the land described therein.

2.35 "Unit". A portion of the Properties, whether improved or unimproved, which may be independently owned and is intended for development, use, and occupancy as an attached or detached residence for a single family. The term shall refer to the land, if any, which is part of the Unit as well as any improvements thereon.

2.36 "Use Restrictions". The rules and use restrictions adopted by the Board, as they may be modified, canceled, limited or expanded under Article IV.

2.37 "Voting Member". The representative selected by the Class "A" Members within each Neighborhood pursuant to Article VII to cast the Class "A" votes attributable to their Units on all matters requiring a vote of the membership.

CREATION AND MAINTENANCE OF COMMUNITY STANDARDS

ARTICLE III

ENVIRONMENTAL ACTIVITIES

The Declarant intends for the development and future use of Torreon to be carried out in an environmentally sensitive manner. In this regard, the Declarant has two goals: (1) to incorporate and feature the natural beauty of the surrounding environment into the physical development of Torreon, and (2) to regulate the use of the Properties such that any interference with the surrounding environment is minimized. It is the intention of this Declaration that the Association be given the authority through both express and implied powers to regulate landscaping, site planning and building design, construction, and activities on the Properties in order to achieve these goals.

The Association shall specifically be authorized to take an active role in raising the environmental consciousness of the residents of Torreon by, among other things, organizing environmental and educational programs for Torreon residents and others in the region. Such programs may be designed to promote public awareness of and participation in environmental activities throughout Torreon, and may address topics which include but need not be limited to conservation, management, and enhancement of the natural environment.

The Declarant, on behalf of itself, its successors and assigns, and the Association, acknowledges and agrees that the architectural and landscaping requirements and guidelines set forth in the Design Guidelines, as initially prepared, and as may be amended from time to time, shall remain consistent with the environmental and design philosophy espoused in this Article.

ARTICLE IV

USE AND CONDUCT

4.1 Framework for Regulation. The Declarant has established a general plan of development for Torreon in order to enhance the aesthetics and environment within Torreon and to engender a sense of community within the Properties. To accomplish this objective, the Properties are subject to the provisions of the Governing Documents governing individual conduct and use of or actions upon the Properties. In accordance with the Governing Documents, the Board and the Members shall have the ability to respond to changes in circumstances, conditions, needs, and desires affecting the Owners.

All provisions of the Governing Documents shall apply to all Persons on the Properties. The lessee and all occupants of leased Units shall be bound by the terms thereof, whether or not the lease so provides. All Owners shall be responsible for inserting a provision in any lease informing the lessee and all occupants of the Unit of all applicable rules and use restrictions affecting the Unit, the Common Area or Exclusive Common Area. If there exist any discrepancies, inconsistencies or conflicts between the provisions of this Declaration and any other Governing Documents, the provisions of this Declaration will prevail in all instances.

4.2 Rule Making Authority.

(a) Subject to the terms of this Article, the Board may adopt rules which modify, cancel, limit, create exceptions to, or expand the Use Restrictions.

(b) Alternatively, with the approval of the Declarant during the Class "B" Control Period, the Voting Members, at a meeting duly called for such purpose, may adopt rules which modify, cancel, limit, create exceptions to, or expand the Use Restrictions.

(c) Nothing in this Article shall authorize the Board or the Voting Members to modify, repeal or expand the Governing Documents to circumvent any requirements of the State of Arizona, the County of Navajo, Arizona, or the City of Show Low, Arizona, concerning the development of the Properties. This Declaration shall be implemented and interpreted consistent with the provisions of Arizona law.

4.3 Owners' Acknowledgment. All Owners are subject to the Use Restrictions and are given notice that (a) their ability to use their privately-owned property is limited thereby, and (b) the Board may add, delete, modify, create exceptions to, or amend the Use Restrictions. Each Owner by acceptance of a deed acknowledges and agrees that the use and enjoyment and marketability of his or her property can be affected by this provision and that the Use Restrictions and rules may change from time to time. In the event of a conflict between the Design Guidelines and the Use Restrictions, the Design Guidelines shall control.

4.4 Protection of Owners. Except as set forth in the initial Use Restrictions, neither the Board nor the Members may adopt any rule in violation of the following provisions:

(a) Similar Treatment. Similarly-situated Owners and occupants shall be treated similarly.

(b) Speech. The rights of Owners and occupants to display on their Unit political signs and symbols of the kinds normally displayed in or outside of residences located in single-family residential neighborhoods in individually owned property shall not be abridged, except that the Association may adopt reasonable time, place, and manner restrictions regulating signs and symbols which are visible from outside the Unit.

(c) Religious and Holiday Displays. The rights of Owners and occupants to display religious and holiday signs, symbols, and decorations on their Units of the kinds customarily displayed in residences located in single-family residential neighborhoods shall not be abridged, except that the Association may adopt reasonable time, place, and manner restrictions regulating displays which are visible from outside the Unit.

(d) Assembly. The rights of Owners and occupants to assemble on such portions of the Common Area as are designated by the Board from time to time shall not be eliminated; provided, however, the Board may adopt reasonable time, place, and manner restrictions on assembly. At no time shall the Common Area be construed as a place of public assembly.

(e) Household Composition. No rule shall interfere with the freedom of occupants of Units to determine the composition of their households, except that the Association shall have the power to require that all occupants be members of a single housekeeping unit and to limit the total number of occupants permitted in each Unit on the basis of the size and facilities of the Unit and its fair-share use of the Common Area. Notwithstanding the nature of any entity that may be an Owner, it is the intent of this Declaration that each Unit be occupied and utilized for residential purposes only by a single household, except with the express consent of the Association or as otherwise provided in a Supplemental Declaration.

(f) Activities Within Dwellings. No rule shall interfere with the activities carried on within the confines of dwellings, except that the Association may prohibit activities not normally associated with property restricted to residential use, and it may restrict or prohibit any activities that create monetary costs for the Association or other Owners, that create a danger to the health or safety of occupants of other dwellings, that generate excessive noise or traffic, that create unsightly conditions visible outside the dwelling, that create an unreasonable source of annoyance or a nuisance, or that are illegal.

(g) Pets. Any rule prohibiting the keeping of ordinary household pets shall apply prospectively only and shall not require the removal of any pet which was being kept on the Properties in compliance with the rules in effect prior to the adoption of such rule. Nothing in this provision shall prevent the Association from requiring removal of any animal that presents an actual threat to the health or safety of residents or from requiring abatement of any nuisance or unreasonable source of annoyance as determined by the Board or its designee.

(h) Alienation. No rule shall prohibit the leasing or transferring of any Unit, or require consent of the Association or Board for leasing or transferring of any Unit; provided, the Association or the Board may require a minimum lease term of up to 12 months on a parcel by parcel basis. The Association may require that Owners use lease forms approved by the Association.

(i) Reasonable Rights to Develop. No rule or action by the Association or Board shall impede Declarant's right to develop, as generally anticipated in the Master Plan, including, but not limited to, the rights of the Declarant as set forth in Article X.

(j) Abridging Existing Rights. Any rule which would require Owners to dispose of personal property being kept on the Properties shall apply prospectively only and shall not require the removal of any property which was being kept on the Properties prior to the adoption of such rule and which was in compliance with all rules in force at such time unless otherwise required to be removed by law, or unless it constitutes a nuisance or a threat to the health or safety of any persons or property. Notwithstanding the above, the rights conferred under this subsection are for the benefit of affected Owners only and shall not be transferable or run with title to any Unit.

(k) Application of Rules. No rule shall be applied retroactively except as otherwise required by law.

ARTICLE V

ARCHITECTURAL APPROVAL

5.1 General Requirement for Prior Approval. No structure or improvement of any type whatsoever shall be placed, erected or installed upon any portion of the Properties, no alterations or improvements of or additions to the existing landscaping, and no improvements (including staking, clearing, excavation, grading, and other site work, and exterior alteration of existing improvements) shall take place within the Properties without the approval of the Reviewing Body, as established pursuant to Section 5.2. In addition to the construction of dwellings and other

buildings, it is specifically intended that the placement or posting of other structures (e.g., without limitation, fences, signs, antennae and satellite dishes, clotheslines, playground equipment, basketball hoops, pools, propane and other fuel tanks (other than portable gas grills), lighting, temporary structures, solar devices, and artificial vegetation) on the exterior of any Unit or other portion of the Properties shall require the approval of the Reviewing Body which approval shall be consistent with applicable law. Modifications to the interior of screened porches, patios, and similar portions of a Unit visible from outside the structures on the Unit shall be subject to this Article.

5.2 Architectural Review.

(a) New Construction. Until expiration of the Class "B" Control Period, the Declarant or the Architectural Review Committee ("ARC"), if one has been established, shall have exclusive authority to administer and enforce the architectural controls created pursuant to this Declaration and to review and act upon all applications submitted for approval. There shall be no surrender of this right prior to the expiration of the Class "B" Control Period except in a written instrument executed by Declarant and delivered to the Board. The ARC, if established, shall consist of at least three persons who shall serve and may be removed in the Declarant's sole discretion during the Class "B" Control Period and thereafter shall be appointed and removed by the Board.

(b) Fees; Assistance. The Board may establish and charge reasonable fees for review of applications hereunder and may require such fees to be paid in full prior to review of any application. Such fees may include the reasonable costs incurred in having any application reviewed by architects, landscape architects, engineers or other professionals (and may also include an additional refundable deposit, all or any portion of which may be retained by the Association if it is determined by the Reviewing Body that the applicant or any Person acting on behalf of the applicant has failed to comply with the Governing Documents). The Declarant and the Association may employ architects, engineers, or other persons as deemed necessary to perform the review. The Board may include the compensation of such persons in the Association's budget as a Common Expense.

5.3 Guidelines and Procedures.

(a) Design Guidelines. The Declarant has prepared or shall prepare the initial Design Guidelines which shall apply to all matters requiring approval pursuant to this Declaration. The Design Guidelines may contain general provisions applicable to all of the Properties, as well as specific provisions which vary from one portion of the Properties to another depending upon location, unique characteristics, intended use, the Master Plan, and any applicable zoning ordinances. The Design Guidelines are intended to provide guidance to Owners regarding matters of particular concern in considering applications hereunder. The Design Guidelines are not the exclusive basis for decisions of the Reviewing Body, and compliance with the Design Guidelines does not guarantee approval of any application.

During the Class "B" Control Period, the Declarant shall have the sole authority to amend the Design Guidelines from time to time in its discretion. Thereafter, the ARC shall have the authority to amend the Design Guidelines, with the consent of the Board, in a manner consistent with the philosophy for the development of Torreon as set forth in Article III. Subject to Article III, there shall be no limitation on the scope of amendments to the Design Guidelines; the Declarant is expressly authorized to amend the Design Guidelines to remove requirements previously imposed or otherwise to make the Design Guidelines more or less restrictive in whole or in part.

The Association shall make the Design Guidelines available to Owners and Builders who seek to engage in development or construction within the Properties, and all such Persons shall conduct their activities in accordance with such Design Guidelines. In the Declarant's discretion, the Design Guidelines may be recorded in the Official Records, in which event the recorded version, as it may be amended from time to time, shall control in the event of any dispute as to which version of the Design Guidelines was in effect at any particular time.

All structures and improvements constructed upon a Unit shall be constructed in substantial compliance with the plans and specifications for such improvements submitted and approved by the Reviewing Body. So long as the Reviewing Body has acted in good faith, its findings and conclusions with respect to appropriateness of, applicability of, or compliance with the Design Guidelines and this Declaration shall be final.

(b) Procedures. Prior to commencing any activity requiring approval under this Article V, an Owner shall submit an application for approval of the proposed work to the Reviewing Body. Such application shall be in the form required by the Reviewing Body and shall include plans and specifications ("Plans") showing site layout, structural design, exterior elevations, exterior materials and colors, signs, landscaping, drainage, lighting, irrigation, utility facilities layout and screening therefor and other features of proposed construction, as required by the Design Guidelines and as applicable. The Reviewing Body may require the submission of such additional information as it deems necessary to consider any application.

In reviewing each submission, the Reviewing Body may consider whatever reasonable factors it deems relevant, including, but not limited to, visual and environmental impact, ecological and archeological compatibility, natural platforms and finish grade elevation, harmony of external design with surrounding structures and environment, location in relation to surrounding structures and plant life, compliance with the general intent of the environmental and design philosophy stated in Article III, and architectural merit. Decisions may be based purely on aesthetic considerations. Each Owner acknowledges that

determinations as to such matters are purely subjective and opinions may vary as to the desirability and/or attractiveness of particular improvements.

The Reviewing Body shall, within the period specified in the Design Guidelines, advise the party submitting the same, in writing, at an address specified by such party at the time of submission, of (i) approval of Plans, or (ii) segments or features of the Plans which are deemed to be inconsistent or not in conformity with this Declaration and/or the Design Guidelines. If the Reviewing Body fails to advise the submitting party by written notice within the period specified in the Design Guidelines of either the approval or disapproval and suggestions for curing objections, approval shall be deemed to have been denied unless the Reviewing Body fails to respond within an additional 30 days following written request from the applicant, in which case approval shall be deemed as having been given. Notice shall be deemed to have been given at the time the envelope containing such notice, properly addressed, and postage prepaid, is deposited with the U.S. Postal Service, registered or certified mail, return receipt requested. Personal delivery and facsimile transmission of such written notice shall, however, be sufficient and shall be deemed to have been given at the time of delivery to the submitting party.

If construction does not commence on a project for which Plans have been approved within 120 days of such approval, such approval shall be deemed withdrawn, and it shall be necessary for the Owner to resubmit the Plans to the Reviewing Body for reconsideration. If construction is not completed on a project for which Plans have been approved within one year of such approval, such approval may, in the sole discretion of the Reviewing Body, be deemed withdrawn, and such incomplete construction shall then be deemed in violation of this Declaration.

5.4 No Waiver of Future Approvals. Each Owner acknowledges that the members of the Board and Reviewing Body will change from time to time and that interpretation, application and enforcement of the Governing Documents may vary accordingly. Approval of proposals, plans and specifications, or drawings for any work done or proposed, or in connection with any other matter requiring approval, shall not be deemed to constitute a waiver of the right to withhold approval as to any similar proposals, plans and specifications, drawings, or other matters subsequently or additionally submitted for approval. Should the Reviewing Body permit non-conforming improvements, it shall not be construed as a waiver of future enforcement rights or permission for future noncompliance.

5.5 Variances. The Reviewing Body may authorize variances or deny approvals (a) when reasonable circumstances dictate, such as unusual topography, natural obstructions, hardship or aesthetic or environmental considerations, and (b) when construction in substantial accordance with the variance would be consistent with the purposes of the Declaration and compatible with existing and anticipated uses of adjoining properties, or construction if not disapproved would have a significant detrimental effect on adjoining properties or Torreon. Notwithstanding the above,

the Reviewing Body may not authorize variances without the consent of the Declarant during the Class "B" Control Period.

5.6 Limitation of Liability. Neither the Declarant, the Association, the Board, the ARC, nor any member or officer of the foregoing, shall bear any responsibility for ensuring the structural integrity or soundness of approved construction or modifications, nor for ensuring compliance with building codes and other governmental requirements. Neither the Declarant, the Association, the Board, the ARC, nor any member or officer of any of the foregoing shall be held liable for any injury, damages, or loss arising out of the manner or quality of approved construction on or modifications to any Unit. In all such matters, the Declarant, the Board, the ARC and their members and officers shall be defended and indemnified on demand by the Association, including as provided in the By-Laws.

5.7 Enforcement. All approvals granted hereunder shall be deemed conditioned upon completion of all elements of the approved work and all work previously approved with respect to the same Unit, unless approval to modify any application has been obtained. The Association shall be primarily responsible for enforcement of this Article in accordance with the Governing Documents. If, however, in the discretion of the Declarant, the Association fails to take appropriate enforcement action within a reasonable time period, the Declarant, during the Class "B" Control Period or for so long as it owns any portion of the Properties or has a right to annex property pursuant to Section 10.1, shall be authorized to exercise any enforcement rights which could have been exercised by the Association.

ARTICLE VI

MAINTENANCE AND REPAIR

6.1 Level of Maintenance Required. Torreon shall be maintained in accordance with the Governing Documents and any development agreements or orders between the Declarant and the City of Show Low, Arizona. Each Person responsible for maintenance of any portion of the Properties shall maintain or provide for such maintenance in accordance with such standards, which may include special requirements or exemptions for property owned by the Declarant or the Association or for the Area of Common Responsibility.

Maintenance, as used in this Article, shall include, without limitation, repair and replacement as needed, as well as such other duties, including irrigation, as the Board may determine necessary or appropriate. During the Class "B" Control Period, the Declarant and, thereafter, the Board, may establish a higher standard for portions of the Properties that are environmentally or archeologically sensitive or that provide a greater than usual aesthetic value and may require additional maintenance for such areas to reflect the nature of such property.

Notwithstanding anything to the contrary contained herein, neither the Association, nor any Owner, nor any other Person responsible for the maintenance of a portion of the Properties shall be liable for property damage or personal injury occurring on, or arising out of the condition of, property which it does not own unless and only to the extent that it has been negligent in the performance of its maintenance responsibilities.

6.2 Owner's Responsibility. Each Owner shall maintain his or her Unit in accordance with the Governing Documents, unless such maintenance responsibility is otherwise assumed by or assigned to the Association or a Neighborhood pursuant to any Supplemental Declaration or other declaration of covenants applicable to such Unit.

In addition to any other enforcement rights provided for in the Governing Documents, if an Owner fails properly to perform his or her maintenance responsibility, the Association may perform such maintenance responsibilities and assess all costs incurred against such Owner in accordance with Article IX. The Association shall afford the Owner reasonable notice and an opportunity to cure the problem prior to entry, except when entry is required due to an emergency situation.

6.3 Neighborhood Responsibility. The Owners of Units within each Neighborhood shall be responsible for paying, through Neighborhood Assessments, the costs of operating, maintaining and insuring the Area of Common Responsibility within or adjacent to such Neighborhood. This may include, without limitation, the costs of maintaining any signage, entry features, rights-of-way and open space between the Units within the Neighborhood and adjacent public roads and private streets within the Neighborhood, regardless of ownership and regardless of the fact that such maintenance may be performed by the Association. As an alternative, the Board may resolve that such maintenance shall be performed by the applicable Neighborhood Association, if any. The Owners of Units within Neighborhoods to which an Exclusive Common Area is assigned shall be responsible for paying, through Neighborhood Assessments, the costs of operating, maintaining and insuring such Exclusive Common Area pursuant to Article XIII of this Declaration. Notwithstanding the foregoing, the Board may resolve and elect that the expenses for maintaining, operating, repairing, replacing and insuring entry features, private drives, guard gates and guard houses, and similar improvements (collectively, the "Neighborhood Entry and Access Improvements") be borne by the Association as a Common Expense. Such election by the Board shall not be deemed, by itself, an election that such Neighborhood Entry and Access Improvements do not constitute Exclusive Common Areas for any other purpose under this Declaration. The Board shall have no liability on account of its election made pursuant to this paragraph with respect to Neighborhood Entry and Access Improvements, or any activities of the Board or its agents with respect thereto.

The Association may, but shall not be obligated to, assume maintenance responsibility for property within any Neighborhood, in addition to any property which the Association is obligated to maintain, either by agreement with the Neighborhood Association, if any,

or because, in the opinion of the Board, the level and quality of service then being provided is not acceptable. All costs of such maintenance shall be assessed as a Neighborhood Assessment against the Units within the Neighborhood to which the services are provided. The provision of services in accordance with this Section shall not constitute discrimination within a class.

6.4 Responsibility for Repair and Replacement. By virtue of taking title to a Unit, each Owner covenants and agrees with all other Owners and with the Association to carry property insurance for the full replacement cost of all insurable improvements on his or her Unit, less a reasonable deductible, unless and to the extent either the Neighborhood Association (if any) for the Neighborhood in which the Unit is located or the Association carries such insurance (which they may but are not obligated to do hereunder) . Each Owner shall provide the Association with a certificate of insurance or similar evidence thereof.

Each Owner further covenants and agrees that in the event of damage to or destruction of structures on or comprising his Unit, the Owner shall proceed promptly to repair or to reconstruct in a manner consistent with the original construction or such other plans and specifications as are approved in accordance with Article V. Alternatively, the Owner shall clear the Unit of building debris and maintain it in a condition consistent with the environmental and design philosophy set forth in this Declaration. The Owner shall pay any costs which are not covered by insurance proceeds.

The requirements of this Section shall apply to any Neighborhood Association responsible for common property within the Neighborhood in the same manner as if the Neighborhood Association were an Owner and the common property were a Unit. Additional recorded covenants applicable to any Neighborhood may establish more stringent requirements, including for insurance and for rebuilding or reconstructing structures on the Units within such Neighborhood and for clearing and maintaining the Units if the structures are not rebuilt or reconstructed.

COMMUNITY GOVERNANCE AND ADMINISTRATION

ARTICLE VII

THE ASSOCIATION AND ITS MEMBERS

7.1 Functions of Association. The Association shall be (i) the entity responsible for management, maintenance, operation and control of the Area of Common Responsibility; (ii) the primary entity responsible for compliance with and enforcement of the Governing Documents; and (iii) the entity permitted to provide for and fund such community activities and services as deemed necessary, appropriate or desired in accordance with the Governing Documents. The Association shall also be responsible for preparing those statements and certificates required under Section 33-

1806 and 33-1807.I of the Arizona Revised Statutes ("ARS"). Any action, approval, duty or other matter to be performed or undertaken by the Association or the Board under the terms of the Governing Documents may be delegated in writing to any Neighborhood Association, or other person if the Board determines such delegation to be in the best interests of the Owners. The Association and all Neighborhood Associations, if any, shall perform its functions in accordance with the Governing Documents and Arizona law.

7.2 Membership. Every Owner shall be a Member of the Association. There shall be only one membership per Unit. If a Unit is owned by more than one Person, all co-Owners shall share the privileges of such membership, subject to reasonable Board regulation and the restrictions on voting set forth in Section 7.3(c) and in the By-Laws, and all such co-Owners shall be jointly and severally obligated to perform the responsibilities of Owners. The membership rights of an Owner which is not a natural person may be exercised only by any officer, director, partner or trustee, or by the individual designated from time to time by the Owner in a written instrument provided to the Secretary of the Association.

7.3 Voting. The Association shall have two classes of membership, Class "A" and Class "B."

(a) Class "A". Class "A" Members shall be all Owners except the Class "B" Member, if any. Class "A" Members shall have one vote for each Unit in which they hold the interest required for membership under Section 7.2, except that there shall be only one vote per Unit and no vote shall be exercised for any property which is exempt from assessment under Section 9.12. All Class "A" votes shall be cast as provided in Section 7.3(c) below. If a Unit consists of real property which has not been platted into individual Units, the Owner of such Unit shall be deemed to own the number of Units equal to the maximum number of individual units permitted for such Unit under the appropriate Master Plan.

(b) Class "B". The sole Class "B" Member shall be the Declarant. The Class "B" Member may appoint a majority of the members of the Board until termination of the Class "B" Control Period, as set forth below. Additional rights of the Class "B" Member, including the right to approve, or withhold approval of, actions proposed under this Declaration, the By-Laws and the Articles, are specified in the relevant sections of this Declaration, the By-Laws and the Articles.

The Class "B" membership, and thus the Class "B" Control Period, shall terminate upon the earlier of:

(1) when 95% of the total number of Units permitted under the most current Master Plan have been conveyed to Owners other than the Declarant or affiliates thereof;

(2) December 31, 2045; provided that, if the Declarant annexes additional property pursuant to the Declaration at any time after December 31, 2040, this date shall be extended for additional three-year periods for every 50 acres of property annexed, or any fraction thereof; or

(3) when, in its discretion, exercised in writing and delivered to the Board and recorded in the Official Records, the Declarant so determines.

Upon termination of the Class "B" membership, the Declarant shall be a Class "A" Member, entitled to as many votes as it owns Units.

(c) Exercise of Voting Rights. Except as otherwise specified in this Declaration or the By-Laws, the vote for each Unit owned by a Class "A" Member shall be exercised by the Voting Member representing the Neighborhood, as provided in Section 7.4(b). The Voting Member may cast all such votes as it, in its discretion, deems appropriate.

In any situation where a Member is entitled personally to exercise the vote for his or her Unit, and there is more than one Owner of such Unit, the vote for such Unit shall be exercised as the co-Owners determine among themselves and advise the Secretary of the Association in writing prior to the vote being taken. Absent such advice, the Unit's vote shall be suspended if more than one Person seeks to exercise it. Unless otherwise provided in this Declaration, any act for which the vote of the Members is required shall be approved if consented to by those Voting Members whose combined votes constitute more than fifty percent (50%) of all votes attributable to the Members entitled to vote thereon at any meeting or action in lieu of a meeting at which a quorum is present.

7.4 Neighborhoods and Voting Members

(a) Neighborhoods. Any Neighborhood, acting either through a majority of the Owners within the Neighborhood, or through a Neighborhood Association, if any, may request that the Association provide a higher level of service than that which the Association generally provides to all Neighborhoods, or may request that the Association provide special services for the benefit of Units in such Neighborhood. Upon the affirmative vote, written consent, or a combination thereof, of Owners of a majority of the Units within the Neighborhood, the Association shall provide the requested services. The cost of such services, which may include a reasonable administrative charge in such amount as the Board deems appropriate, shall be assessed against the Units within such Neighborhood as a Neighborhood Assessment.

(b) Voting Members. Each Neighborhood shall elect a Voting Member who shall be responsible for casting all votes attributable to Units owned by Class "A"

Members in the Neighborhood on all Association matters requiring a membership vote, except as otherwise specified in this Declaration or the By-Laws. In addition, each Neighborhood shall elect an alternate Voting Member who shall be responsible for casting such votes in the absence of the Voting Member. The Voting Member and alternate Voting Member from each Neighborhood shall be elected on an annual basis, either by written ballot cast by mail or at a meeting of the Class "A" Members within such Neighborhood, as the Board determines. The presence, in person or by proxy, of Class "A" Members representing a majority of the total Class "A" votes attributable to Units in the Neighborhood shall constitute a quorum at any Neighborhood meeting. Notice of any meeting of a Neighborhood, including for the purposes of electing a Voting Member, shall be sent to all Owners within a Neighborhood not less than ten (10) days or more than fifty (50) days in advance of the meeting.

The Board shall call for the first election of a Voting Member from a Neighborhood not later than the later of the one year after the conveyance of a Unit in the Neighborhood to a Person other than a Builder or six (6) months after the creation of the Neighborhood by the Board. Subsequent elections shall be held each year on a date established by the Board. Each Class "A" Member who owns a Unit within the Neighborhood shall be entitled to cast one vote per Unit owned. The candidate who receives the greatest number of votes shall be elected as Voting Member and the candidate receiving the next greatest number of votes shall be elected as the alternate Voting Member. The Voting Member and the alternate Voting Member shall serve a term of one year and until their successors are elected, it being understood that Voting Members may serve more than one term.

Any Voting Member may be removed, with or without cause, upon the vote or written petition of Owners representing at least 67% of the total number of Units owned by Class "A" Members in the Neighborhood which the Voting Member represents.

If the Class "A" Members within a Neighborhood fail to elect a Voting Member, whether by failure to procure a quorum at a meeting or otherwise, within sixty (60) days after the date of the annual meeting of the Neighborhood or after a vacancy in the Voting Member position is created, the Board shall appoint the Voting Member, who shall hold such position until a Voting Member is duly elected and qualified pursuant to this Section 7.4(b). Until such time, the Owners within such Neighborhood shall be entitled personally to cast the votes attributable to their respective Units on any issue requiring a membership vote under the Governing Documents.

ARTICLE VIII

ASSOCIATION POWERS AND RESPONSIBILITIES

8.1 Acceptance and Control of Association Property. The Association may acquire, hold, and dispose of tangible and intangible personal property and real property. Declarant may convey to the Association improved or unimproved real estate located within the Properties, including the Stream, personal property and leasehold and other property interests. Such property shall be accepted by the Association and thereafter shall be maintained as Area of Common Responsibility by the Association at its expense for the benefit of its Members.

8.2 Maintenance of the Area of Common Responsibility.

(a) The Association shall maintain and keep in good repair the Area of Common Responsibility. The Association may also maintain and improve other property which it does not own, including, without limitation, wetlands, streams, water courses, and stream beds, wildlife habitats, and property, including any trail systems, that may be dedicated to public use, if the Board determines that such maintenance is necessary or desirable and if otherwise permitted by applicable law.

Except as otherwise specifically provided herein, all costs for maintenance, repair and replacement of the Area of Common Responsibility shall be a Common Expense allocated among all Units as part of the Base Assessment, without prejudice to the right of the Association to seek reimbursement from Persons responsible for such work pursuant to this Declaration, any Covenant to Share Costs, other recorded covenants, or agreements with such Persons. All costs associated with maintenance, repair and replacement of Exclusive Common Areas shall be a Neighborhood Expense assessed as a Neighborhood Assessment against the Units within the Neighborhood(s) to which the Exclusive Common Area is assigned.

(b) The Association shall maintain the facilities and equipment within the Area of Common Responsibility in continuous operation, except for any periods necessary, as determined in the sole discretion of the Board, to perform required maintenance or repairs, unless the Board and the Class "B" Member, if any, agree in writing to discontinue such operation.

(c) The costs associated with maintenance, repair and replacement of the Area of Common Responsibility shall be a Common Expense; provided, the Association may seek reimbursement from the owner(s) of, or other Persons responsible for, certain portions of the Area of Common Responsibility pursuant to this Declaration, any Covenant to Share Costs, other recorded covenants, or agreements with the owner(s) thereof. Maintenance, repair and replacement of Exclusive Common Areas shall be a Neighborhood Expense

assessed to the Neighborhood(s) to which the Exclusive Common Areas are assigned, unless such Exclusive Common Areas have been designated as Neighborhood Entry and Access Improvements pursuant to Section 6.3. Nothing in this Section 8.2 shall prejudice the right of the Association to seek reimbursement from any Person whose negligent or wrongful acts or omissions necessitated such repairs or replacement.

8.3 Maintenance in Public Rights-of-Way. The Association may, in its reasonable discretion, locate and maintain all improvements that are located within or on public easements or public rights-of-way in accordance with applicable ordinances of the City of Show Low, Arizona and the terms of any easements or licenses applicable.

8.4 Insurance.

(a) Types and Limits of Insurance. To the extent deemed reasonably necessary by the Board, the Association shall obtain and continue in effect the following types of insurance, if reasonably available, or if not reasonably available, the most nearly equivalent coverages as are reasonably available:

(1) Blanket property insurance covering "risks of direct physical loss" on a "special form" basis (or comparable coverage by whatever name denominated) for all insurable improvements on the Common Area, if any, and on other portions of the Area of Common Responsibility to the extent that it has assumed responsibility for maintenance, repair and/or replacement in the event of a casualty. If such coverage is not generally available at reasonable cost, then "broad form" coverage may be substituted. The Association shall have the authority and interest to insure any property for which it has maintenance or repair responsibility, regardless of ownership. All property insurance policies obtained by the Association shall have policy limits sufficient to cover the full replacement cost of the insured improvements;

(2) Commercial general liability insurance on the Area of Common Responsibility, insuring the Association and its Members for damage or injury caused by the negligence of the Association or any of its Members, the Board, officers of the Association, employees, agents, or contractors while acting on its behalf. If generally available at reasonable cost, the commercial general liability coverage (including primary and any umbrella coverage) shall have a limit of at least \$1,000,000.00 per occurrence with respect to bodily injury, personal injury, and property damage; provided, should additional coverage and higher limits be available at reasonable cost which a reasonably prudent person would obtain, the Association shall obtain such additional coverages or limits;

(3) Workers compensation insurance and employers liability insurance, if and to the extent required by law;

(4) Directors and officers liability coverage;

(5) Fidelity insurance covering all Persons responsible for handling Association funds in an amount determined in the Board's best business judgment but not less than an amount equal to one-sixth of the annual Base Assessments on all Units plus reserves on hand. Fidelity insurance policies shall contain a waiver of all defenses based upon the exclusion of Persons serving without compensation; and

(6) Such additional insurance as the Board, in its best business judgment, determines advisable, which may include, without limitation, flood insurance, boiler and machinery insurance, and building ordinance coverage.

Premiums for all insurance on the Area of Common Responsibility shall be Common Expenses and shall be included in the Base Assessment, except that (i) premiums for property insurance obtained on behalf of a Neighborhood shall be charged to the Owners of Units within the benefited Neighborhood as a Neighborhood Assessment; and (ii) premiums for insurance on Exclusive Common Areas may be included in the Neighborhood Assessment of the Neighborhood(s) benefited unless the Board reasonably determines that other treatment of the premiums is more appropriate. The Association shall have no insurance responsibility for any portion of the Golf Course.

(b) Policy Requirements. All Association policies shall provide for a certificate of insurance to be furnished to each Member insured and to the Association. The policies may contain a reasonable deductible and the amount thereof shall not be subtracted from the face amount of the policy in determining whether the policy limits satisfy the requirements of Section 8.5(a). In the event of an insured loss, the deductible shall be treated as a Common Expense or a Neighborhood Expense in the same manner as the premiums for the applicable insurance coverage. However, if the Board reasonably determines, after notice and an opportunity to be heard in accordance with the By-Laws, that the loss is the result of the negligence or willful misconduct of one or more Owners, their guests, invitees, or lessees, then the Board may assess the full amount of such deductible against such Owner(s) and their Unit(s) as a Benefited Assessment.

All insurance coverage obtained by the Board shall:

(1) be written with a company authorized to do business in the State of Arizona which satisfies the requirements of the Federal National Mortgage

Association, or such other secondary mortgage market agencies or federal agencies as the Board deems appropriate;

(2) be written in the name of the Association as trustee for the benefited parties. Policies on the Common Area and Area of Common Responsibility shall be for the benefit of the Association and its Members. Policies secured on behalf of a Neighborhood shall be for the benefit of the Owners of Units within the Neighborhood and their Mortgagees, as their interests may appear;

(3) not be brought into contribution with insurance purchased by Owners, occupants, or their Mortgagees individually;

(4) contain an inflation-guard endorsement; and

(5) include an agreed-amount endorsement, if the policy contains a coinsurance clause.

In addition, the Board shall use reasonable efforts to secure insurance policies which list the Owners as additional insureds and provide:

(1) a waiver of subrogation as to any claims against the Association's Board, officers, employees, and its manager, the Owners and their tenants, servants, agents, and guests;

(2) a waiver of the insurer's rights to repair and reconstruct instead of paying cash;

(3) an endorsement precluding cancellation, invalidation, suspension, or non-renewal by the insurer on account of any one or more individual Owners, or on account of any curable defect or violation without prior written demand to the Association to cure the defect or violation and allowance of a reasonable time to cure;

(4) an endorsement excluding Owners' individual policies from consideration under any "other insurance" clause;

(5) an endorsement requiring at least 30 days' prior written notice to the Association of any cancellation, substantial modification, or non-renewal;

(6) a cross-liability provision; and

(7) a provision vesting in the Board exclusive authority to adjust losses; provided, however, no Mortgagee having an interest in such losses may be prohibited from participating in the settlement negotiations, if any, related to the loss.

(c) Damage and Destruction. Immediately after damage or destruction to all or any part of the Properties covered by insurance written in the name of the Association, the Board or its duly authorized agent shall file and adjust all insurance claims and obtain reliable and detailed estimates of the cost of repair or reconstruction. Repair or reconstruction, as used in this paragraph, means repairing or restoring the property to substantially the condition in which it existed prior to the damage, allowing for changes or improvements necessitated by changes in applicable building codes or desired architectural and design alternatives.

Any damage to or destruction of the Common Area shall be repaired or reconstructed unless the Board elects to call for a vote on such matters and Voting Members representing at least 75% of the total Class "A" votes and the Class "B" Member, if any, decide within 6 months after the loss not to repair or reconstruct.

If either the insurance proceeds or reliable and detailed estimates of the cost of repair or reconstruction, or both, are not available to the Association within such period, then the period shall be extended until such funds or information are available.

If determined in the manner described above that the damage or destruction to the Common Area shall not be repaired or reconstructed and no alternative improvements are authorized, the affected property shall be cleared of all debris and ruins and thereafter shall be maintained by the Association in a neat and attractive landscaped condition.

Any insurance proceeds remaining after paying the costs of repair or reconstruction, or after such settlement as is necessary and appropriate, shall be retained by and for the benefit of the Association.

If insurance proceeds are insufficient to cover the costs of repair or reconstruction, the Board may, without a vote of the Voting Members, levy Special Assessments to cover the shortfall against those Owners responsible for the premiums for the applicable insurance coverage.

8.5 Compliance and Enforcement.

(a) Every Owner and every occupant of a Unit shall comply with the Governing Documents and all rules, regulations and policies of the Association. The Board may impose sanctions for violation of the foregoing, after notice and an opportunity for a

hearing in accordance with the procedures set forth in the By-Laws. Such sanctions may include, without limitation, some or all of the following:

(1) reasonable monetary fines (including for failure to grant reasonable permission to enter a Unit as may be reasonably requested by the Association in accordance with this Declaration) which shall constitute a lien upon the violator's Unit. (If any occupant, guest or invitee of a Unit violates the Declaration, the By-Laws or any rule or regulation and a fine is imposed, the fine shall first be assessed against the occupant; provided, however, if the fine is not paid by the occupant within the time period set by the Board, the Owner shall pay the fine upon notice from the Board);

(2) suspending an Owner's right to vote;

(3) suspending any Person's right to use any recreational facilities within the Common Area (provided, however, nothing herein shall authorize the Board to prohibit ingress or egress to or from a Unit), or notifying the owner of the Golf Course of such violation and suspending and/or terminating (or causing the owner of the Golf Course to suspend and/or terminate) the right, license or privilege of such Person to use any facilities or improvements of the Golf Course (including as an association member) where such right, license or privilege was created pursuant to an agreement between the Association and such owner of the Golf Course;

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

(5) exercising self-help or taking action to abate any violation of the Governing Documents in a non-emergency situation (specifically including, but not limited to, the towing of vehicles that are in violation of any applicable parking rules and regulations);

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

(7) without liability to any Person, precluding any contractor, subcontractor, agent, employee or other invitee of an Owner who fails to comply

with the terms and provisions of Article V from continuing or performing any further activities in the Properties; and

(8) levying Benefited Assessments to cover costs incurred by the Association to bring a Unit into compliance with the Governing Documents.

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

- (1) exercising self-help in any emergency situation; and
- (2) bringing suit at law or in equity to enjoin any violation or to recover monetary damages or both.

All remedies set forth in the Governing Documents shall be cumulative of any remedies available at law or in equity. In any action to enforce the provisions of the Governing Documents or any rule or regulation, the Association shall be entitled to recover all costs, including, without limitation, attorneys fees and court costs, reasonably incurred in such action.

The Association shall not be obligated to take action to enforce any covenant, restriction, or rule which the Board reasonably determines is, or is likely to be construed as, inconsistent with the applicable law, or in any case in which the Board reasonably determines that it would not be economically prudent or would otherwise not be of sufficient benefit to the Association to justify taking enforcement action. Any such determination shall not be construed a waiver of the right of the Association to enforce such provision at a later time under other circumstances or estop the Association from enforcing any other covenant, restriction or rule.

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

8.7 Powers of the Association Relating to Neighborhoods. The Association shall have the right, in its sole discretion, to delegate to an appropriate Neighborhood Association any responsibility or authority it may have with respect to any Neighborhood including, without limitation, establishing the level of services, Neighborhood Assessments, reserves for such Neighborhoods and the budgets applicable to such Neighborhoods. Each Neighborhood Association shall promptly furnish to the Board written reports specifying any action taken pursuant to any

authority purported to be granted to it. The Association may disapprove any action taken or contemplated by any Neighborhood Association which the Board reasonably determines to be adverse to the interests of the Association or its Members or inconsistent with the Governing Documents. If the Board makes such a determination, it shall advise the Neighborhood Association, in writing, of such determination and no action referred to in such notice shall become effective or be implemented until and unless the Association and Declarant, during the Class "B" Control Period, shall have approved such action, in writing. The Association also may require specific action to be taken by any Neighborhood Association to fulfill its obligations and responsibilities under this Declaration or any other applicable covenants. Without limiting the generality of the foregoing, the Association may (a) require specific maintenance or repairs or aesthetic changes to be effectuated by the Neighborhood Association, and (b) require that a proposed Neighborhood budget include the cost of such work.

Any action specified by the Association in a written notice pursuant to the foregoing paragraph shall be taken within the reasonable time frame set in such written notice. If the Neighborhood Association fails to comply with such requirements, the Association shall have the right to take such action and to enter upon, over and across any property reasonably necessary in order to take such action.

8.8 Disclaimer of Liability. The Association may, but shall not be obligated to, maintain or support certain activities within the Properties designed to promote the health, safety and welfare of Owners and occupants of any Unit. Notwithstanding anything contained in the Governing Documents or any other document governing or binding the Association, neither the Association, the Board, any officers of the Association, the management company of the Association, the Declarant nor any successor Declarant shall be liable or responsible for, or in any manner a guarantor or insurer of, the health, safety or welfare of any Owner or occupant of any Unit or any tenant, guest or invitee of any Owner or occupant or for any property of any such Persons. Each Owner and occupant of a Unit and each tenant, guest and invitee of any Owner or occupant shall assume all risks associated with the use and enjoyment of the Properties, including all recreational facilities, if any, and may be required to execute specific liability waivers from time to time as a condition of such use.

Neither the Association, the Board, any officers of the Association, the Association's management company, the Declarant, nor any successor Declarant shall be liable or responsible for any personal injury, illness or any other loss or damage caused by the presence or malfunction of utility lines, or utility sub-stations adjacent to, near, over, or on the Properties. Each Owner and occupant of a Unit and each tenant, guest, and invitee of any Owner, Declarant, or occupant shall assume all risk of personal injury, illness, or other loss or damage arising from the presence or malfunction of utility lines, utility sub-stations, and electromagnetic fields and further acknowledges that the Association, the Board, the officers of the Association, the management company of the Association, the Declarant or any successor Declarant have made no representations or warranties, nor has any Owner or occupant, or any tenant, guest, or invitee of any Owner, Declarant, or occupant

relied upon any representations or warranties, expressed or implied, relative to the condition or impact of utility lines or utility sub-stations, or electromagnetic fields.

No provision of the Governing Documents shall be interpreted as creating a duty of the Association, the Board, the officers of the Association, the management company of the Association, the Declarant nor any successor Declarant to protect or further the health, safety or welfare of any Person(s), even if the funds of the Association are used for any such purpose.

Each Owner (by virtue of his or her acceptance of title to his or her Unit) and each other Person having an interest in or lien upon, or making any use of, any portion of the Properties (by virtue of accepting such interest or lien or making such use) shall be bound by this Section and shall be deemed to have waived any and all rights, claims, demands and causes of action against the Association, the Board, the officers of the Association, the Association's management company, the Declarant and any successor Declarant arising from or connected with any matter for which the liability has been disclaimed.

8.9 Provision of Services. The Association may provide services and facilities for the Members of the Association and for third parties if the Board determines it to be in the best interest of the Association. The Association shall be authorized to enter into contracts or other similar agreements with other entities, including Declarant, to provide such services and facilities. In addition to Common Expense charges, the Board shall be authorized to charge additional use and consumption fees for selected services and facilities. By way of example, some services and facilities which may be so provided include landscape maintenance, pest control service, cable television service, security, caretaker, fire protection, utilities, and similar services and facilities. The Board shall be permitted to modify or cancel existing services or facilities provided, if any, or to provide additional services and facilities. Nothing contained herein is a representation as to what services and facilities will or will not be provided.

8.10 Security. It is the goal of all Owners, including Declarant, to have a safe and healthy environment. The Association may, but shall not be obligated to, maintain or support certain activities within the Properties designed to make the Properties safer than they otherwise might be; provided, neither the Association, the Board, the officers of the Association, the Association's management company, nor the Declarant or any successor Declarant, shall in any way be considered insurers or guarantors of security within the Properties. Neither the Association, the Board, the officers of the Association, the Association's management company, nor the Declarant or any successor Declarant shall be held liable for any loss or damage for failure to provide adequate security or for the ineffectiveness of security measures undertaken.

All Owners and occupants of any Unit, and all tenants, guests, and invitees of any Owner or the Declarant, acknowledge that the Association and its officers, its Board of Directors, the Association's management company, the Declarant, or any successor Declarant, do not represent or warrant that any entrance (gated, secured or otherwise), patrolling of the Properties, neighborhood

watch group, volunteer security patrol, or any security system may not be compromised or circumvented; nor that any entrance, patrolling of the Properties, neighborhood watch group, volunteer security patrol, or any security systems will prevent loss by burglary, theft, hold-up, or otherwise; nor that any entrance, patrolling of the Properties, neighborhood watch group, volunteer security patrol, any fire protection system, burglar alarm system, or other security systems will in all cases provide the detection or protection for which the system is designed or intended.

All Owners and occupants of any Unit and all tenants, guests, and invitees of any Owner or the Declarant assume all risks for loss or damage to Persons, to Units, and to the contents of Units and no Owner, occupant, or any tenant, guest, or invitee of any Owner or the Declarant may rely upon any representations or warranties, express or implied, relative to any entrance, patrolling of the Properties, neighborhood watch group, volunteer security patrol, or any security systems recommended or installed or any security measures undertaken within the Properties.

Guardhouses and/or guard gates may be constructed at various entrances to the Properties and some or all Neighborhoods in order to limit access and to provide more privacy for the Owners. Each Owner and occupant, and their families, guests and invitees acknowledge that any guardhouse and/or guard gate may restrict or delay entry by the Police, the Fire Department, ambulances and other emergency vehicles or personnel. Each Owner and other occupant and their families, guests and invitees agree to assume the risk that any guardhouse and/or guard gate may restrict or delay entry by emergency vehicles and personnel. Neither the Association, the Board, the officers of the Association, the Association's management company, nor the Declarant or any successor Declarant shall be liable to any Owner or other occupant or their families, guests or invitees for any claims or damages resulting, directly or indirectly, from the construction, existence, or maintenance of any guardhouse and/or guard gate.

Each Owner and other occupant and their families, guests and invitees acknowledge that any guardhouse and/or guard gate does not guarantee the safety or security of the Owners and other occupants and their families, guests and invitees or guarantee that no unauthorized Person will gain access to the Project.

8.11 Governmental, Educational and Religious Interests. During the Class "B" Control Period, Declarant and thereafter the Board may designate sites within the Properties for government, education or religious activities and interests, including, but not limited to, fire, police, utility facilities, schools or education facilities, houses of worship, libraries, parks, art, nature study, museum, and other public facilities. The sites may include Common Areas and, in such case, the Association shall dedicate and convey such sites as directed by the Declarant and no membership approval shall be required.

8.12 Equestrian/Pedestrian Trail System Open to the Public. All Owners hereby acknowledge that equestrian, hiking, bicycle, pedestrian or similar type trail system or systems located within all or a portion of the Properties may be maintained by the Association, and may be

open for the use and enjoyment of the public in accordance with any applicable rules, regulations and ordinances of the City of Show Low.

ARTICLE IX

ASSOCIATION FINANCES

9.1 Budgeting and Allocating Common Expenses. Not less than 30 days before the beginning of each fiscal year, the Board shall prepare a budget covering the Common Expenses estimated to be incurred during the coming year. The budget may include a reserve fund as provided below.

The Base Assessment shall be levied equally against all Units subject to assessment and shall be set at a level which is reasonably expected to produce total receipts for the Association equal to the total budgeted Common Expenses, including contributions to reserves. In determining the level of assessments, the Board, in its discretion, may consider other sources of funds available to the Association. In addition, the Board shall take into account the number of Units subject to assessment under Section 9.10 on the first day of the fiscal year for which the budget is prepared and the number of Units reasonably anticipated to become subject to assessment during the fiscal year.

The Declarant may, but shall not be obligated to, reduce the Base Assessment for any fiscal year by payment of a subsidy (in addition to any amounts paid by Declarant under Section 9.5), which may be either a contribution, an advance against future assessments due from the Declarant, or a loan, in the Declarant's discretion. Any such subsidy shall be disclosed as a line item in the Common Expense budget. The payment of such subsidy in any year shall not obligate the Declarant to continue payment of such subsidy in future years.

Notice of assessments shall be posted in a prominent place within the Properties and included in the Association's newsletter, if any. If the Board fails for any reason to determine the budget for any year, then and until such time as a budget shall have been determined, the budget in effect for the immediately preceding year shall continue for the current year.

9.2 Budgeting and Allocating Neighborhood Expenses. At least 30 days before the beginning of each fiscal year, the Association shall prepare a separate budget for each Neighborhood covering the estimated Neighborhood Expenses, if any, expected to be incurred on behalf of such Neighborhood during the coming year and covering each Neighborhood's annual share of the "Improvement Costs," as defined below. The budget may include a reserve fund as provided in Section 9.3. Any Neighborhood, upon a majority vote of the Owners within such neighborhood, may request that additional services or an increased level of services be provided, and in such case, any additional costs shall be added to such budget. Such budget may include a reserve contribution establishing a fund for repair and replacement of items maintained as a Neighborhood Expense, if

any, as well as any other assessments permitted under Section 9.4 below. Neighborhood Expenses shall be levied as a Neighborhood Assessment against all Units subject to assessment within such Neighborhood and shall be allocated equally among such Units.

Notice of the Neighborhood Assessment shall be provided as set forth in Section 9.1. If the Board fails for any reason to determine the Neighborhood budget for any year, then and until such time as such budget shall have been determined as provided herein, the Neighborhood budget in effect for the immediately preceding year shall continue for the current year. The Board shall have no liability for under-budgeting or under-assessing with respect to a Neighborhood, Neighborhood Assessments, or Neighborhood Expenses, and each Neighborhood, and the Units in such Neighborhood, shall be liable therefor in any corrected or supplemental budget or assessment.

The Properties are subject to liens securing the payment of improvement bonds ("Bonds") issued by the City of Show Low, Arizona Improvement District No. 5 ("District"), which bonds were issued in order that the Declarant, its affiliates and the City of Show Low may construct certain infrastructure improvements benefitting the Properties as a whole. In addition, expenditures from the proceeds of Bonds issued by the District will be used to create and construct additional infrastructure improvements within and benefitting certain of the properties to be designated as Neighborhoods by Declarant, which portions are more particularly described on the attached Exhibit "A". In order to establish a uniform rate of assessment for all the Properties, taking into account assessments permitted under this Declaration as well as assessments secured by the liens in favor of the District, the Association shall have authority to assess each Neighborhood for the costs and expenses incurred in connection with such infrastructure improvements constructed with respect to and primarily benefitting each Neighborhood ("Improvement Costs"). Sums necessary to fund such Improvement Costs shall be advanced by Declarant or its affiliates (or such sums shall be procured by Declarant as a loan from third parties), shall be agreed upon by Declarant and the Association prior to the establishment of any Neighborhood to which they relate, shall be evidenced by written obligations in favor of the lender of such sums, and shall be repaid on terms not less favorable than those imposed by the District with respect to repayment of its assessments for similar infrastructure improvements.

9.3 Budgeting for Reserves. The Board shall prepare, on an annual basis, reserve budgets for both general and Neighborhood purposes which take into account the number and nature of replaceable assets, the expected life of each asset, and the expected repair or replacement cost of each asset. Such reserve budgets may also anticipate making additional capital improvements and purchasing additional capital assets. The Board shall include in the Base Assessments and Neighborhood Assessments reserve contributions in amounts sufficient to meet these projected needs, if any, as well as reserves to meet any other reasonable purpose, including reserves for delinquent assessments.

The Board may adopt resolutions regarding the expenditure of reserve funds, including policies designating the nature of assets for which reserve funds may be expended. Such

policies may differ for general Association purposes and for each Neighborhood. During the Class "B" Control Period, neither the Association nor the Board shall adopt, modify, limit, or expand such policies without the Declarant's prior written consent.

9.4 Authority to Assess Owners, Time of Payment. The Association may levy assessments against each Unit for Association or Neighborhood expenses as the Board may specifically authorize from time to time. There shall be four types of assessments for Association expenses: (a) Base Assessments; (b) Neighborhood Assessments; (c) Special Assessments; and (d) Benefited Assessments. Each Owner, by acquiring legal or equitable title for any portion of the Properties, is deemed to covenant and agree to pay these assessments.

Assessments shall be paid in such manner and by such dates as the Board may establish. If any Owner is delinquent in paying any assessments or other charges levied on his or her Unit, the Board may assess a late charge and require unpaid installments of all outstanding assessments to be paid in full immediately.

9.5 Declarant's Option to Fund Budget Deficits. During the Class "B" Control Period, Declarant may annually elect either to pay assessments on all of its unsold Units or to pay the shortage (or operating deficit), if any, for such fiscal year; provided however, Declarant shall not be responsible for any shortage resulting from the failure of any Owner to pay assessments applicable to such Owner. Such "shortage" shall be deemed to exist if Income and Revenues, as defined in paragraph (a) below, are less than Expenditures incurred, as defined in paragraph (b) below.

(a) Income and Revenues are: the amount of all income and revenue of any kind received and/or earned by the Association, excluding refundable deposits.

(b) Expenditures are: the amount of all actual operating expenses incurred, or obligated for, by the Association during the fiscal year, including any reserve contributions for such year, but excluding all non-cash expenses such as depreciation or amortization, all expenditures and reserve contributions for making additional capital improvements or purchasing additional capital assets, and all expenditures made from reserve funds.

(c) Unless the Declarant otherwise notifies the Board in writing at least 60 days before the beginning of each fiscal year, the Declarant shall be deemed to have elected to continue paying on the same basis as during the immediately preceding fiscal year. The Association is specifically authorized to enter into subsidy contracts or contracts for "in-kind" contribution of services, materials, or a combination of services and materials with the Declarant or other entities for payment of Common Expenses. After termination of the Class "B" Control Period, the Declarant shall pay assessments on its unsold Units in the same manner as any other Owner.

9.6 Special Assessments. In addition to other authorized assessments, the Board may levy Special Assessments from time to time to cover unbudgeted expenses or expenses in excess of those budgeted, including sums expended on capital-type items, to the extent not included within Base Assessments. Such Special Assessment may be levied against the entire membership, if for Common Expenses, or against the Units within any Neighborhood, if for Neighborhood Expenses. Such Special Assessments shall become effective unless disapproved by the Declarant during the Class "B" Control Period within 60 days following the levy of such assessment. Special Assessments shall be payable in such manner and at such times as determined by the Board and may be payable in installments extending beyond the fiscal year in which the Special Assessment is approved.

9.7 Benefited Assessments. The Board may levy Benefited Assessments against particular Units for expenses incurred or to be incurred by the Association or any Neighborhood Association as follows:

(a) to cover the costs or reasonable portion thereof, including overhead and administrative costs, of providing benefits, items, or services to the Unit or occupants thereof upon request of the Owner pursuant to a menu of special services which the Board may from time to time authorize, which assessments may be levied in advance of the provision of the requested benefit, item or service as a deposit against charges to be incurred by the Owner; and

(b) to cover costs incurred (including overhead and administrative costs) in bringing the Unit into compliance with the Governing Documents or costs incurred (including overhead and administrative costs) as a consequence of the conduct of the Owner or occupants of the Unit, their licensees, invitees, or guests; provided, the Board shall give the Unit Owner prior written notice and an opportunity for a hearing before levying a Benefited Assessment under this subsection (b).

The Board may also levy a Benefited Assessment against the Units within a Neighborhood to reimburse the Association for costs incurred (including overhead and administrative costs) in bringing the Neighborhood into compliance with the provisions of the Governing Documents.

9.8 Personal Obligation. Each Owner is deemed to covenant and agree to pay all assessments authorized in this Declaration (and, with respect to Units owned jointly, all such Owners are deemed to covenant and agree to pay assessments jointly and severally). All assessments, together with interest from the due date of such assessment at the rate of 18% per annum unless a different rate is determined by the Board, reasonable late charges established by Board, costs, and attorney's fees, shall be the personal obligation of the Person who was the Owner of such Unit at the time the assessment arose. Upon a transfer of legal or equitable title to a Unit, the grantee shall be jointly and severally liable for any assessments and other charges due at the time of conveyance.

However, no first Mortgagee who obtains title to a Unit by exercising the remedies provided in its Mortgage shall be liable for unpaid assessments which accrued prior to such acquisition of title.

No Owner may exempt himself from liability for assessments by non-use of Common Area, abandonment of his Unit, or any other means. The obligation to pay assessments is a separate and independent covenant on the part of each Owner. No diminution or abatement of assessments or set-off shall be claimed or allowed for any alleged failure of the Association or Board or the applicable Neighborhood Association and its board to take some action or perform some function required of it, or for inconvenience or discomfort arising from the making of repairs or improvements, or from any other action it takes.

The Board shall, upon written request, furnish to any Owner liable for any type of assessment or its Mortgagee a certificate in writing signed by an officer of the Board or its designated agent setting forth whether such assessment has been paid and the amount of any unpaid assessments, within the time periods prescribed by law. A properly-executed certificate of the Board as to the status of assessments on a Unit will be binding on the Board as of the date of issuance of the certificate and for the time periods specified in the certificate. Payment of a processing fee for the issuance of such certificate may be required.

9.9 Lien for Assessments. All assessments shall constitute a lien against the Unit against which they are levied until paid unless otherwise specifically precluded in this Declaration. The lien shall also secure payment of all interest, late charges, costs of collection and such lien shall be superior to all other liens, except (a) the liens of all taxes, bonds, assessments, and other levies which by law would be superior, and (b) the lien or charge of any first Mortgage of record (meaning any recorded Mortgage with first priority over other Mortgages) made in good faith and for value. By recordation of this Declaration, the Association is granted a perfected, consensual and continuing lien upon each Unit against which an assessment is made or has been incurred for the payment of amounts due pursuant to this Declaration, and any further recordation of any claim of lien or notice of lien is not required for perfection or enforcement of the Association's lien for assessments and other such amounts. The Association may enforce such lien, when any assessment or other charge is delinquent, or take any other action either independently or simultaneous to the extent permitted at law or in equity.

The Association may bid for the Unit at the foreclosure sale and acquire, hold, lease, mortgage, and convey the Unit. While a Unit is owned by the Association following foreclosure: (a) no right to vote shall be exercised on its behalf; (b) no assessment shall be levied on it; and (c) each other Unit shall be charged, in addition to its usual assessment, its equal pro rata share of the assessment that would have been charged such Unit had it not been acquired by the Association. The Association may sue or take any other action permitted at law or in equity for unpaid Common Expenses and costs without foreclosing or waiving the lien securing the same.

The sale or transfer of any Unit shall not affect the assessment lien or relieve such Unit from the lien for any subsequent assessments. However, a Mortgagee holding a first Mortgage of record or other purchaser of a Unit who obtains title pursuant to foreclosure of the Mortgage shall not be personally liable for assessments on such Unit due prior to such acquisition of title. Such unpaid assessments shall be deemed to be Common Expenses collectible from Owners of all Units subject to assessment, including such acquirer, its successors and assigns.

9.10 Date of Commencement of Assessment Obligations. The obligation to pay assessments shall commence as to each Unit on the first day of the month following: (a) the date the Unit is made subject to this Declaration, or (b) the date the Association or any Neighborhood Association first determines a budget and levies assessments pursuant to this Article, whichever is later. The first annual Base and Neighborhood Assessments against each Unit shall be adjusted according to the number of months remaining in the fiscal year at the time assessments commence on the Unit.

9.11 Failure to Assess. Failure of the Board to fix assessment amounts or rates or to deliver or mail each Owner an assessment notice shall not be deemed a waiver, modification, or a release of any Owner from the obligation to pay assessments. In such event, each Owner shall continue to pay assessments on the same basis as for the last year for which an assessment was made, if any, until a new assessment is made, at which time the Association or Neighborhood Association, if any, may retroactively assess any shortfalls in collections.

9.12 Exempt Property: The following property shall be exempt from payment of assessments:

- (a) all Common Area;
- (b) all property dedicated to and accepted by any governmental authority or public utility; and
- (c) all property owned and maintained by a Neighborhood Association exclusively for the common use and enjoyment of its members.

In addition, the Declarant and/or the Association shall have the right, but not the obligation, to grant exemptions to certain Persons qualifying for tax-exempt status under Section 501(c) of the Internal Revenue Code so long as such Persons own and operate property subject to this Declaration for purposes listed in Section 501 (c) and for the purposes for which such exemption was granted.

9.13 Capitalization of Association. Upon acquisition of legal or equitable title to a Unit by any Person other than a Builder or a Mortgagee by foreclosure or by operation of law, the purchasing Owner shall make a contribution to the working capital of the Association in an amount equal to \$200 per Unit or such other amount as reasonably determined by the Board. This amount shall be in addition to, not in lieu of, any other assessments, and shall not be considered an advance payment of any assessments. This amount shall be deposited into the purchase and sales escrow and disbursed therefrom to the Association for use in covering operating expenses and other expenses, fundings, reserves or meeting any other obligations incurred by the Association pursuant to the terms of this Declaration.

COMMUNITY DEVELOPMENT

ARTICLE X

EXPANSION AND REDUCTION OF THE COMMUNITY

10.1 Expansion by the Declarant. Declarant may from time to time subject to the provisions of this Declaration all or any portion of the property described in Exhibit "B" or any other real property located adjacent to or in the vicinity thereof by filing a Supplemental Declaration in the Official Records describing the additional property to be subjected. A Supplemental Declaration filed pursuant to this Section shall not require the consent of any Person except the owner of such property, if other than Declarant.

The Declarant's right to expand the community pursuant to this Section shall expire upon termination of the Class "B" Control Period or 20 years after the recording of this Declaration in the Official Records, whichever is earlier. Nothing in this Declaration shall be construed to require the Declarant or any successor to subject additional property to this Declaration or to develop any of the property described in Exhibit "B" in any manner whatsoever.

10.2 Expansion by the Association. The Association may also subject additional property to the provisions of this Declaration by filing a Supplemental Declaration in the Official Records describing the additional property. Any such Supplemental Declaration shall require the affirmative vote of Voting Members representing a majority of the Class "A" votes of the Association and the consent of the owner of the additional property. In addition, during the Class "B" Control Period, the consent of the Declarant shall be necessary. The Supplemental Declaration shall be signed by the President and Secretary of the Association, by the owner of the additional property, and by Declarant, if Declarant's consent is necessary.

10.3 Additional Covenants and Easements. The Declarant may subject any portion of the Properties to additional covenants and easements, including covenants obligating the Association to maintain and insure such property and authorizing the Association to recover its costs

through Neighborhood Assessments. Such additional covenants and easements may be set forth either in a Supplemental Declaration subjecting such property to this Declaration or in a separate Supplemental Declaration referencing property previously subjected to this Declaration. If the property is owned by someone other than Declarant, then the consent of the Owner(s) shall be necessary and shall be evidenced by their execution of the Supplemental Declaration. Any such Supplemental Declaration may supplement, create exceptions to, or otherwise modify the terms of this Declaration as it applies to the subject property in order to reflect the different character and intended use of such property.

10.4 Effect of Filing Supplemental Declaration. Any Supplemental Declaration filed pursuant to this Article shall be effective upon recording in the Official Records unless otherwise specified in such Supplemental Declaration. On the effective date of the Supplemental Declaration, any additional property subjected to this Declaration shall be assigned voting rights in the Association and assessment liability in accordance with the provisions of this Declaration.

10.5 De-annexation of Property. Declarant reserves the right to de-annex any real property from the terms of this Declaration at any time during the Class "B" Control Period without prior notice and without the consent of any Person, for the purpose of removing such real property from the coverage of this Declaration or clarifying that such property is no longer subject to annexation, provided such action is not materially adverse to the overall, uniform scheme of development for the Properties. If Declarant elects to de-annex any property, Declarant shall record a Supplemental Declaration in the Official Records.

ARTICLE XI

RIGHTS RESERVED TO DECLARANT

11.1 Construction of Improvements. The Declarant and its employees, agents and designees shall have a right and easement over and upon all of the Common Area for the purpose of making, constructing, installing, modifying, expanding, replacing, and removing any improvements to the Common Area as it deems appropriate in its sole discretion.

11.2 Right to Use Common Area. The Declarant and its designees may maintain and carry on upon portions of the Common Area such facilities and activities as, in the sole opinion of the Declarant, may be required, convenient, or incidental to the construction or sale of Units, including, but not limited to, business offices, signs, model Dwelling Units, and sales offices. The Declarant and its designees shall have easements for access to and use of such facilities.

The Declarant and its designees, during the course of construction on the Properties adjacent to any Common Area, may use such Common Area for temporary storage and for facilitating construction on adjacent property. The user of such Common Area will return the

Common Area to the condition it was in prior to its use. If the Declarant use under this Section results in additional costs to the Association, the Declarant shall reimburse the Association for such costs, but the Declarant shall not be obligated to pay any use fees, rent or similar charges for its use of Common Areas pursuant to this Section.

The Declarant and its employees, agents and designees shall also have a right and easement over and upon all of the Common Area for the purpose of making, constructing and installing such improvements to the Common Area as it deems appropriate in its sole discretion.

11.3 Other Covenants Prohibited. No Person shall record any declaration of covenants, conditions and restrictions, or declaration of condominium or similar instrument affecting any portion of the Properties during the Class "B" Control Period without Declarant's written consent. Any attempted recordation without such consent shall result in such instrument being void and of no force and effect unless subsequently approved by recorded consent signed by the Declarant.

11.4 Right to Approve Changes. Notwithstanding any contrary provision of this Declaration, no amendment to or modification of any rules, use guidelines or restrictions, or Governing Documents affecting the Properties shall be effective without prior notice to and the written approval of the Declarant during the Class "B" Control Period.

11.5 Right to Transfer or Assign Declarant Rights. Any or all of the rights and obligations of the Declarant set forth in this Declaration may be transferred to other Persons. No such transfer shall be effective unless it is in a written instrument signed by the Declarant and duly recorded in the Official Records.

11.6 Amendment. This Article shall not be amended without the prior written consent of Declarant during the Class "B" Control Period. The rights contained in this Article shall terminate upon the earlier of (a) 50 years after the conveyance of the first Unit to an Owner, or (b) the recording by Declarant of a written statement terminating such rights. Thereafter, the Declarant and its designees may continue to use the Common Area for purposes stated in this Article only pursuant to a rental or lease agreement between the Declarant and/or such designee and the Association.

PROPERTY RIGHTS WITHIN THE COMMUNITY

ARTICLE XII

EASEMENTS

12.1 Easements in Common Area. Every Owner shall have a right and nonexclusive easement of use, access, and enjoyment in and to the Common Area, and such right and nonexclusive easement shall be appurtenant to such Owner's Unit, subject to:

- (a) This Declaration, and any other applicable covenants;
- (b) Any restrictions or limitations contained in any deed conveying such property to the Association;
- (c) The right of the Board to adopt rules, regulations or policies regulating the use and enjoyment of the Common Area, including rules restricting use of recreational facilities within the Common Area to owners of Units and their guests, and rules limiting the number of occupants and guests who may use the Common Area;
- (d) The right of the Board to suspend the right of an Owner to use recreational facilities within the Common Area;
- (e) The right of the Association to dedicate or transfer all or any part of the Common Area to governmental entities ;
- (f) The right of the Board to impose reasonable membership requirements and charge reasonable membership, admission, or other fees for the use of any recreational facility situated upon the Common Area;
- (g) The right of the Board to permit use of any Common Area recreational, educational, or cultural facilities by non-Owners, their families, lessees, invitees and guests;
- (h) The right of the Board to create, enter agreements with, grant easements to and transfer portions of the Common Area to non-profit or tax-exempt organizations ;
- (i) The right of the Board, with respect to Common Area, to enter agreements with or grant easements to neighboring property owners, including, without limitation, the owner of the Golf Course and the owners of the property described as Exhibit "B".

(j) The right of the Association to mortgage, pledge, or hypothecate any or all of its real or personal property as security for Association obligations;

(k) The rights of certain Owners to the exclusive use of those portions of the Common Area designated as Exclusive Common Area (and, as to such Exclusive Common Area, the right of any applicable Neighborhood Association to exercise those rights set forth in subsection 12.1(c), above);

(l) The right of the Board to change the use of any portion of the Common Area (with the consent of the Declarant during the Class "B" Control Period); and

(m) The rights and obligations of the Association, acting through its Board, to restrict, regulate or limit Owners' and occupants' use of the Common Area for health and safety purposes, or for environmental preservation purposes, including, without limitation, wildlife corridors, winter wildlife ranges and natural wildlife habitat.

12.2 Easements of Encroachment. Declarant reserves unto itself easements of encroachment, and easements for maintenance and use of any permitted encroachment, between each Unit and any adjacent Common Area and between adjacent Units due to the unintentional placement or settling or shifting of the improvements constructed, reconstructed, or altered thereon (in accordance with this Declaration) to a distance of not more than three feet, as measured from any point on the common boundary along a line perpendicular to such boundary. However, in no event shall an easement for encroachment exist if such encroachment occurred due to willful and knowing conduct on the part of the Declarant. Additionally, Declarant reserves easements of encroachment (not more than one foot in distance from any Unit boundary line) for Unit Owners if the encroachment was unintentional and the encroaching item or structure was built in substantial conformity with plans approved by the appropriate Reviewing Body pursuant to Article V.

12.3 Easements for Utilities, Etc. Declarant reserves unto itself, and grants to the Association, an easement for the purpose of access and maintenance upon, across, over, and under all of the Properties to the extent reasonably necessary to install, replace, repair, and maintain cable television systems, master television antenna systems, security and similar systems, roads, walkways, bicycle pathways, trails, lakes, ponds, streams or other watercourses (including the Stream), wetlands, drainage systems, street lights, signage, and all utilities, including, but not limited to, water, sewers, meter boxes, telephone, gas, and electricity. The Declarant and/or the Association may assign these rights to any local utility supplier, cable company, security company or other company providing a service or utility to Torreon subject to the limitations herein.

This easement shall not entitle the holders to construct or install any of the foregoing systems, facilities, or utilities over, under or through any existing Dwelling Unit, and any damage to a Unit resulting from the exercise of this easement shall promptly be repaired by, and at the

expense of, the Person exercising the easement. The exercise of this easement shall not unreasonably interfere with the use of any Unit and, except in an emergency, entry onto any Unit shall be made only after reasonable notice to the Owner or occupant.

Declarant specifically grants to the local utility suppliers easements across the Properties for ingress, egress, installation, reading, replacing, repairing, and maintaining utility meters and boxes. However, the exercise of this easement shall not extend to permitting entry into the Dwelling Unit on any Unit, nor shall any utilities be installed or relocated on the Properties, except as approved by the Board and Declarant during the Class "B" Control Period.

12.4 Easements to Serve Additional Property. The Declarant hereby reserves unto itself and its duly-authorized agents, representatives, employees, successors, assigns, licensees, and Mortgagees, an easement over the Common Area for the purposes of enjoyment, use, access, and development of the property described in Exhibit "B" whether or not such property is made subject to this Declaration. This easement includes, but is not limited to, a right of ingress and egress over the Common Area for construction of roads and for connecting and installing utilities on such property. Declarant further agrees that if the easement is exercised for permanent enjoyment and use of and/or access to such property, and such property or any portion thereof is not made subject to this Declaration, the Declarant shall enter into a reasonable agreement with the Association to share the cost of maintenance of any access roadway serving such property.

12.5 Easements for Golf Course.

(a) Every Unit and the Common Area and the common property of any Neighborhood Association are burdened with an easement permitting golf balls unintentionally to come upon such Common Area, Units or common property of a Neighborhood and for golfers at reasonable times and in a reasonable manner to come upon the Common Area, common property of a Neighborhood, or the exterior portions of a Unit to retrieve errant golf balls; provided, however, if any Unit is fenced or walled, the golfer shall seek the Owner's permission before entry. The existence of this easement shall not relieve golfers of liability for damage caused by errant golf balls. Under no circumstances shall any of the following Persons be held liable for any damage or injury resulting from errant golf balls or the exercise of this easement: the Declarant; the Association or its Members (in their capacity as such), the Board, officers of the Association, the management company of the Association; the owner(s) of the Golf Course, or its successors, successors-in-title to the Golf Course, or assigns; any successor Declarant; or any builder or contractor (in their capacities as such).

(b) The Properties immediately adjacent to the Golf Course are hereby burdened with a non-exclusive easement in favor of the owner of such course for overspray of water, materials used in connection with fertilization, and effluent from any irrigation system serving such course. The owner(s) of the Golf Course may use treated effluent in the

irrigation of any Golf Course. Under no circumstance shall any of the following Persons be held liable for any damage or injury resulting from such overspray or the exercise of this easement: the Declarant; the Association or its Members (in their capacity as such), the Board, officers of the Association, the management company of the Association; the owner(s) of the Golf Course; or its successors, successors-in-title to the Golf Course, or assigns; any successor Declarant; or any builder or contractor (in their capacities as such).

(c) The owner(s) of the Golf Course, its respective agents, successors and assigns, shall have a perpetual, exclusive easement of access over the Properties for the purpose of retrieving golf balls from bodies of water within the Common Area (and the common property of any Neighborhood Association) lying reasonably within range of golf balls hit from such Golf Course.

(d) The owner(s) of the Golf Course, its respective agents, successors and assigns, shall have a perpetual non-exclusive easement, to the extent reasonably necessary, over the Properties for the installation, operation, maintenance, repair, replacement, monitoring and controlling of irrigation systems and equipment, including, without limitation, wells, pumps and pipelines, serving all or portions of the Golf Course.

(e) The Properties are hereby burdened with easements in favor of the Golf Course for natural drainage of storm water runoff from such Golf Course.

(f) The Properties are hereby burdened with easements in favor of the Golf Course for golf cart paths serving such Golf Course. Under no circumstances shall the Association or the owner(s) of the Golf Course, or their respective agents, successors, or assigns, be held liable for any damage or injury resulting from the exercise of this easement.

(g) The owner(s) of the Golf Course, its respective agents, successors and assigns, as well as its members, guests, invitees, employees, and authorized users of the Golf Course shall at all times have a right and non-exclusive easement of access and use over the golf cart paths, if any, located within the Properties as reasonably necessary for the use and enjoyment of the Golf Course.

(h) There is hereby established for the benefit of the owner(s) of the Golf Course, its respective agents, successors and assigns, as well as its members, guests, invitees, employees, and authorized users of the Golf Course, a right and nonexclusive easement of access and use over all roadways located within the Properties reasonably necessary to travel between the entrance to the Properties and the Golf Course. Without limiting the generality of the foregoing, members of the Golf Course and guests and authorized users of the Golf Course shall have the right to park their vehicles on the roadways located within the Properties at reasonable times before, during and after tournaments and other similar

functions held by or at the Golf Course to the extent that the Golf Course has insufficient parking to accommodate such vehicles.

12.6 Easements for Cross-Drainage. Every Unit and the Common Area shall be burdened with easements for natural drainage of storm water runoff from other portions of the Properties; provided, no Person shall discharge any water, backwash any pool, spa or similar improvements, or alter the natural drainage on any Unit to increase materially the drainage of storm water onto adjacent portions of the Properties, the Golf Course or the Common Areas without the consent of the Owner(s) of the affected property, the Board, and the Declarant during the Class "B" Control Period.

12.7 Right of Entry. The Association shall have the right, but not the obligation, and a perpetual easement is hereby granted to the Association, to enter all portions of the Properties, including each Unit, for emergency, security, and safety reasons. Such right may be exercised by the authorized agents of the Association, its Board, officers or committees, and by all police officers, fire fighters, ambulance personnel, and similar emergency personnel in the performance of their duties. Except in emergencies, entry onto a Unit shall be only during reasonable hours and after notice to and permission from the Owner thereof. This easement includes the right to enter any dwelling on any Unit to cure any condition which increases the risk of fire or other hazard if an Owner fails or refuses to cure the condition within a reasonable time after request by the Board, but does not authorize entry into any Dwelling Unit without permission of the Owner, except by emergency personnel acting in their official capacities. Public providers of emergency services shall have access to Units in an emergency as provided by state law and, if applicable, City of Show Low, Arizona, operating policies.

12.8 Easements for Maintenance and Enforcement. Authorized agents of the Association, shall have the right, and a perpetual easement is hereby granted to the Association, to enter all portions of the Properties, including each Unit to (a) perform its maintenance responsibilities under Article VI, and (b) make inspections to ensure compliance with this Declaration. Except in emergencies, entry onto a Unit shall be only during reasonable hours and after notice to and permission from the Owner. This easement shall be exercised with a minimum of interference to the quiet enjoyment to Owners' property, and any physical damage caused by the Association shall be repaired by the Association at its expense. The Association also may enter a Unit to abate or remove, using such measures as may be reasonably necessary, any structure, thing or condition which violates the Governing Documents.

12.9 Rights to Storm Water Runoff, Effluent and Water Reclamation. Declarant hereby reserves for itself and its designees, including but not limited to the owner of the Golf Course, all rights to ground water, surface water, storm water runoff, and effluent located or produced within the Properties. Such right shall include an easement over the Properties for access, and for installation and maintenance of facilities and equipment to capture and transport such water,

runoff and effluent. This Section may not be amended without the consent of the Declarant or its successor, and the rights created in this Section shall survive termination of this Declaration.

The Properties are hereby burdened with a non-exclusive easement in favor of the Association for overspray of water from any irrigation system serving the Area of Common Responsibility. The Association may use treated effluent in the irrigation of any Area of Common Responsibility. Under no circumstances shall the Association or any other Person be held liable for any damage or injury resulting from such overspray or the exercise of this easement.

12.10 Easements for Lake and Pond Maintenance and Flood Water. Declarant reserves for itself, the Association, and their successors, assigns, and designees, the nonexclusive right and easement, but not the obligation, to enter upon the lakes, ponds, rivers, streams (including the Stream), and wetlands located within the Area of Common Responsibility to, without limitation, (a) construct, maintain, and repair wells, pumps and water distribution facilities in order to provide water for the irrigation of any of the Area of Common Responsibility including the Stream; (b) construct, maintain, and repair any bulkhead, wall, dam, or other structure retaining or channeling water; and (c) remove trash and other debris therefrom and fulfill their maintenance responsibilities as provided in this Declaration. Declarant, the Association, and their successors, assigns and designees shall have an access easement over and across any of the Properties abutting or containing any portion of any of the lakes, ponds, rivers, streams, or wetlands to the extent reasonably necessary to exercise their rights under this Section.

There is further reserved herein for the benefit of Declarant, the Association, and their successors, assigns and designees, a perpetual, nonexclusive right and easement of access and encroachment over the Common Area and Units (but not the dwellings thereon) adjacent to or within one hundred feet of lake beds, ponds, rivers, streams and wetlands within the Properties, in order to (a) temporarily flood and back water upon and maintain water over such portions of the Properties; (b) fill, drain, dredge, deepen, clean, fertilize, dye, and generally maintain the lakes, ponds, rivers, streams, and wetlands within the Area of Common Responsibility subject to the approval of all appropriate regulatory bodies; (c) maintain and landscape the slopes and banks pertaining to such lakes, ponds, rivers, streams, and wetlands; and (d) enter upon and across such portions of the Properties for the purpose of exercising their rights under this Section. All Persons entitled to exercise these easements shall use reasonable care in and repair any damage resulting from, the intentional exercise of the rights granted under such easements. Nothing herein shall be construed to make Declarant, the Association, or any other Person liable for damage resulting from flooding due to heavy rainfall, hurricanes, or other natural occurrences.

12.11 Easement for Use of Private Streets. The Declarant hereby creates a perpetual, nonexclusive easement for access, ingress and egress over the private streets within the Common Area (and any Exclusive Common Area), for law enforcement, fire fighting, paramedic, rescue and other emergency vehicles, equipment and personnel; for school buses; for U.S. Postal Service delivery vehicles and personnel; private delivery or courier services; and for vehicles, equipment and

personnel providing garbage collection service to the Properties; provided, such easement shall not authorize any such Persons to enter the Properties except while acting in their official capacities.

12.12 Easements for Tax Exempt Organizations. Tax-exempt organizations designated or established by the Declarant or the Association to maintain or assist in the preservation of any environmentally-sensitive areas, including but not limited to any wetlands or wildlife habitat areas, shall have easements over the Common Area to the extent necessary to carry out their responsibilities.

ARTICLE XIII

EXCLUSIVE COMMON AREAS

13.1 Purpose. Certain portions of the Common Area may be designated as Exclusive Common Areas and reserved for the exclusive use or primary benefit of Owners, occupants and invitees of Units within a particular Neighborhood or Neighborhoods. By way of illustration and not limitation, Exclusive Common Areas may include entry features, shared private drives, and recreational facilities such as swimming pools, trails, and other portions of the Common Area within a particular Neighborhood or Neighborhoods. All costs associated with maintenance, repair, replacement, and insurance of Exclusive Common Areas shall be assessed as a Neighborhood Assessment against the Owners of Units in those Neighborhoods to which the Exclusive Common Area is assigned, except as to those Neighborhood Entry and Access Improvements which the Board has elected to maintain, repair, replace and insure pursuant to Section 6.3, the costs associated therewith constituting a Common Expense.

13.2 Designation. Initially, the Declarant shall designate any Exclusive Common Area. No such assignment shall preclude the Declarant from later assigning use of the same Exclusive Common Area to additional Units and/or Neighborhoods during the Class "B" Control Period.

Thereafter, a portion of the Common Area may be assigned as Exclusive Common Area of a particular Neighborhood or Neighborhoods and Exclusive Common Area may be reassigned upon approval of the Board and the vote of Voting Members representing a majority of the Class "A" votes in the Association, including a majority of the Class "A" votes within the Neighborhood(s) to which the Exclusive Common Areas are assigned, if applicable.

13.3 Use by Others. The Association may permit Owners of Units in other Neighborhoods to use all or a portion of Exclusive Common Areas upon such terms and conditions as the Association deems reasonable.

ARTICLE XIV

PARTY WALLS AND OTHER SHARED STRUCTURES

14.1 General Rules of Law to Apply. Each wall, driveway or similar structure built as a part of the original construction on the Units which serves and/or separates any two adjoining Units shall constitute a party structure. To the extent not inconsistent with the provisions of this Section, the general rules of law regarding party walls and liability for property damage due to negligence or willful acts or omissions shall apply thereto.

14.2 Maintenance: Damage and Destruction. All Owners whose Unit is served or separated by any party structure shall share the cost of reasonable repair and maintenance of such structure equally. If a party structure is destroyed or damaged by fire or other casualty, then to the extent that such damage is not covered by insurance and repaired out of the proceeds of insurance, any Owner who has used the structure may restore it. If other Owners subsequently use the structure they shall contribute to the restoration cost in equal proportions. However, such contribution will not prejudice the right to call for a larger contribution from the other users under any rule of law regarding liability for negligent or willful acts or omissions.

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

14.4 Disputes. Any dispute concerning a party structure shall be subject to the dispute resolution procedures set forth in Article XV.

RELATIONSHIPS WITHIN AND OUTSIDE THE COMMUNITY

ARTICLE XV

DISPUTE RESOLUTION AND LIMITATION ON LITIGATION

15.1 Agreement to Avoid Litigation. The Declarant, the Association, its officers, directors, and committee members, all Persons subject to this Declaration (including Owners, their family members and tenants), and any Person not otherwise subject to this Declaration who agrees to submit to this Article (collectively, "Bound Parties") agree to encourage the amicable resolution of disputes involving the Properties, without the emotional and financial costs of litigation. Accordingly, each Bound Party covenants and agrees that specified claims, grievances, controversies, disagreements or disputes described in this Section ("Claims") shall be resolved using alternative dispute resolution procedures in lieu of filing suit in any court, provided that the term

"Claim" shall not include the acts of the Association and its agents to enforce the terms of this Declaration.

15.2 Claims. Unless specifically exempted in this Section XV, all Claims arising out of or relating to (i) the interpretation, application or enforcement of the Governing Documents, or (ii) the failure of the Declarant, the Association or the Board to properly conduct elections, give adequate notice of meetings, properly conduct meetings, allow inspection of books and records, or establish adequate reserve funds or (iii) the authority of the Association or the Board to take or not take any action under the Governing Documents; or (iv) the performance or non-performance by any Bound Parties of any of the respective obligations or responsibilities under the Governing Documents to or on behalf of any other Bound Parties; or (v) the rights, obligations and duties of any Bound Party under the Governing Documents or relating to the design or construction of improvements on the shall be subject to the provisions of Section 15.3.

Notwithstanding the above, unless all parties thereto otherwise agree, the following shall not be Claims and shall not be subject to the provisions of Section 15.3:

(a) any action or suit by the Association to enforce the provisions of Article IX (Association Finances) including, without limitation, actions taken to enforce the collection of any assessments, to enforce or foreclose any lien in favor of the Association, or to determine the priority of any lien for assessments;

(b) any suit by the Association to obtain a temporary or permanent restraining order (or emergency equitable relief) and such other ancillary relief as the court may deem necessary in order to maintain the status quo and preserve the Association's ability to enforce the provisions of Article IV (Use and Conduct) and Article V (Architectural Approval);

(c) any suit between Owners, which does not include Declarant or the Association as a party, if such suit asserts a Claim which would constitute a cause of action independent of the Governing Documents;

(d) any claim, grievance, controversy, disagreement or dispute that primarily involves (i) title to any Unit or Common Area, (ii) the interpretation or enforcement of any express or implied warranty made in connection with the sale of a Unit; (iii) the eviction of a tenant from a Unit, or (iv) and employment matter between the Association and any employee of the Association;

(e) any action taken arising out of any separate written contract between Owners, between Declarant and any Owner, or between Declarant and any Builder that would constitute a cause of action under the laws of the State of Arizona in absence of the Governing Documents;

- (f) any suit in which any indispensable party is not a Bound Party; and
- (g) any suit as to which any applicable statute of limitations would expire within 180 days of giving the Notice required by Section 15.3(a) unless the party or parties against whom the Claim is made agree to toll the statute of limitations as to such Claim for such period as may reasonably be necessary to comply with this Article.

With the consent of all parties thereto, any of the above may be submitted to the alternative dispute resolution procedures set forth in Section 15.3.

15.3 Mandatory Procedures.

(a) Notice. Any Bound Party having a Claim ("Claimant") against any other Bound Party ("Respondent") (collectively, the "Parties") shall notify each Respondent in writing and provide a copy to the Board (the "Notice"), stating plainly and concisely:

- (1) the nature of the Claim, including the date, time, location, Persons involved and Respondent's role in the Claim;
- (2) the legal basis of the Claim (i.e., the specific authority out of which the Claim arises);
- (3) Claimant's proposed remedy; and
- (4) that Claimant will meet with Respondent to discuss in good faith ways to resolve the Claim.

(b) Negotiation and Mediation.

(1) The Parties shall make every reasonable effort to meet in person and confer for the purpose of resolving the Claim by good faith negotiation. If requested in writing by the Board, accompanied by a copy of the Notice, the Board may appoint a representative to assist the Parties in negotiation.

(2) If the Parties do not resolve the Claim within 30 days of the date of the Notice (or within such other period as may be agreed upon by the Parties) ("Termination of Negotiations"), Claimant shall have 30 additional days to submit the Claim to such entity as is designated by the Association for mediating claims or, if the Parties otherwise agree, to an independent agency providing dispute resolution services in Arizona.

(3) If Claimant does not submit the Claim to mediation within such time, or does not appear for the mediation, Claimant shall be deemed to have waived the Claim, and Respondent shall be released and discharged from any and all liability to Claimant on account of such Claim; provided, nothing herein shall release or discharge Respondent from any liability to any Person other than the Claimant.

(4) Any settlement of the Claim through mediation shall be documented in writing by the mediator and signed by the Parties. If the Parties do not settle the Claim within 30 days after submission of the matter to the mediation, or within such time as determined by the mediator, the mediator shall issue a notice of termination of the mediation proceedings ("Termination of Mediation"). The Termination of Mediation notice shall set forth when and where the Parties met, that the Parties are at an impasse, the nature of the impasse, and the date that mediation was terminated. The Termination of Mediation may also establish any undisputed factual findings or agreed resolutions, as agreed upon by the Parties.

(5) All mediation discussions are privileged and confidential. Persons who are not Parties are not allowed to attend the mediation conference without the consent of the Parties. Any mediation resolution may be enforced in a court of law. Each of the Parties to a Claim will bear its own costs incurred prior to and during the negotiation and mediation proceeding described herein, including the fees of its attorney or other representative. Each Party to a Claim will share equally all costs of the mediator and, if and to the extent required, will pay its respective share of the costs in advance of the mediation as a condition to its continuation of the prosecution or defense of the Claim.

The Claimant shall thereafter be entitled to sue in any court of competent jurisdiction or to initiate proceedings before any appropriate administrative tribunal on the Claim.

15.4 Enforcement of Resolution. If the Parties agree to a resolution of any Claim through negotiation or mediation in accordance with Section 15.3 and any Party thereafter fails to abide by the terms of such agreement, then any other Party may file suit or initiate administrative proceedings to enforce such agreement without the need to again comply with the procedures set forth in Section 15.3. In such event, the Party taking action to enforce the agreement or award shall be entitled to recover from the non-complying Party (or if more than one noncomplying Party, from all such Parties pro rata) all costs incurred in enforcing such agreement or Award, including, without limitation, attorneys' fees and court costs.

ARTICLE XVI

GOLF COURSE

Access to and use of the Golf Course is strictly subject to the rules and procedures of the owner(s) of such Golf Course, and no Person gains any right to enter or to use the Golf Course by virtue of membership in the Association or ownership or occupancy of a Unit, except to the extent of the terms of any agreement between the Association or Declarant and the owner(s) of the Golf Course (which agreement may limit use by Owners to certain recreational facilities associated with the Golf Course other than the golf course itself).

All Persons, including all Owners, are hereby advised that no representations or warranties have been or are made by the Declarant, the Association, any Builder, or by any Person acting on behalf of any of the foregoing, with regard to the continuing ownership or operation of the Golf Course. No purported representation or warranty in such regard, written or oral, shall be effective unless specifically set forth in a written instrument executed by the record owner(s) of the Golf Course.

The ownership or operation of the Golf Course may change at any time by virtue of, but without limitation, (a) the sale to or assumption of operations by an independent Person, (b) establishment of, or conversion of the membership structure to, an "equity" club or similar arrangement whereby the members of the Golf Course or an entity owned or controlled by its members become the owner(s) and/or operator(s) of the Golf Course; or (c) the conveyance of the Golf Course to one or more affiliates, shareholders, employees, or independent contractors of the Declarant. No consent of the Association, any Neighborhood Association, any Voting Member, or any Owner shall be required to effectuate any change in ownership or operation of the Golf Course, except as may be required by the terms of any written agreements entered into by such owners.

Rights to use the Golf Course will be granted only to such persons, and on such terms and conditions, as may be determined by the owner(s) of the Golf Course. Such owner(s) shall have the right, from time to time in their sole and absolute discretion and without notice, to amend or waive the terms and conditions of use of their Golf Course and to terminate use rights altogether (subject to the terms of any written agreements entered into by such owner(s)).

CHANGES IN THE COMMUNITY

ARTICLE XVII

RELATIONSHIPS WITH OTHER ENTITIES

17.1 Relationship With Tax-Exempt Organizations. The Declarant or the Association may create, enter into agreements or contracts with, or grant exclusive and/or non-

exclusive easements over the Common Area to non-profit, tax-exempt organizations, the operation of which confers some benefit upon the Properties, the Association, its Members, or residents. The Association may contribute money, real or personal property, or services to such entity. Any such contribution shall be a Common Expense and included as a line item in the Association's annual budget. For the purposes of this Section, a "tax-exempt organization" shall mean an entity which is exempt from federal income taxes under the Internal Revenue Code ("Code"), such as, but not limited to, entities which are exempt from federal income taxes under Sections 501(c)(3) or 501(c)(4), as the Code may be amended from time to time.

The Association may maintain multiple-use facilities within the Properties for temporary use by tax-exempt organizations. Such use may be on a scheduled or "first-come, first-served" basis. A reasonable maintenance and use fee may be charged for the use of such facilities.

17.2 Environmental Entities. During the Class "B" Control Period, the Declarant shall have the right to enter into agreements with environmental entities for the purpose of observing, maintaining, or preserving environmentally-sensitive areas located within the Properties and monitoring or conducting such natural resource, habitat preservation or other environmental programs or plans which may be implemented within the Properties. Entities designated by the Declarant shall have the right to enter the Properties and perform environmental activities subject to reasonable time, place, and manner restrictions adopted by the Board. The Board shall have the right to enter into agreements with environmental entities with the consent of the Declarant during the Class "B" Control Period.

17.3 Cost Sharing with Nonresidential Properties. Adjacent to or in the vicinity of the Properties, there may be certain nonresidential areas, including, without limitation, the Golf Course, multi-family developments (apartments), churches, schools, retail shopping areas, and commercial parcels which may not be subject to this Declaration, are not dedicated to the public, and are neither Units nor Common Area as defined in this Declaration (hereinafter "nonresidential properties").

The Declarant or the Association shall be authorized to enter into a Covenant to Share Costs with owners of nonresidential properties under which such nonresidential owners shall be obligated to share in certain costs incurred by the Association associated with the maintenance, repair, replacement, and insuring of such property which the Association is obligated to maintain, repair, replace, or insure pursuant to this Declaration and which is used by or which benefits jointly the owners of the nonresidential properties and the Owners within the Properties. The Association shall be obligated to perform the duties and functions set forth for it in the Covenant to Share Costs.

17.4 Conflicts. This Declaration is not intended to supersede applicable City and County ordinances and all Owners and Members are required to comply with City of Show Low and Navajo County codes and ordinances. In the event of any conflict between the standards set forth

in this Declaration or any Supplemental Declaration, and the standards contained in City of Show Low and Navajo County ordinances, the more stringent standard shall be applied.

CHANGES IN THE COMMUNITY

ARTICLE XVIII

CHANGES IN OWNERSHIP OF UNITS

Any Owner desiring to sell or otherwise transfer title to his or her Unit shall give the Board at least fourteen days' prior written notice of the name and address of the purchaser or transferee, the date of such transfer of title, and such other information as the Board may reasonably require. In addition, all Owners acknowledge that the Association may be required to provide resale disclosure statements or other similar type information required by applicable law and may charge such Owner a reasonable fee, in addition to any assessments, for the provision of such information. The transferor shall continue to be jointly and severally responsible with the transferee for all obligations of the Owner of the Unit, including assessment obligations, until the later of the date upon which such notice is received by the Board or title to the Unit is transferred.

ARTICLE XIX

CHANGES IN COMMON AREA

19.1 Condemnation. Whenever any part of the Common Area shall be taken or conveyed under threat of condemnation by any authority having the power of eminent domain, each Owner shall be entitled to notice thereof by posting in a prominent place within the Properties and included in the Association's newsletter, if any. The Board may convey Common Area under threat of condemnation if the Board reasonably determines that it is in the best interest of the Association and is approved in writing by Declarant during the Class "B" Control Period.

The award made for such taking shall be payable to the Association as trustee for all Owners to be disbursed as follows:

If the taking involves a portion of the Common Area on which improvements have been constructed, the Association shall restore or replace such improvements on the remaining land included in the Common Area to the extent practicable, unless within 60 days after such taking the Declarant, so long as the Declarant owns any portion of the Properties or has the right to annex property, shall otherwise agree. Any such construction shall be in accordance with plans approved by the Board.

If the taking does not involve any improvements on the Common Area, or if a decision is made not to repair or restore, or if net funds remain after any such restoration or

replacement is complete, then such award or net funds shall be disbursed to the Association and used for such purposes as the Board shall determine.

19.2 No Partition. Except as permitted in this Declaration, the Common Area shall remain undivided, and no Person shall bring any action for partition of the whole or any part thereof without the written consent of all Owners and Mortgagees.

19.3 Dedication of Common Area. The Association may dedicate or grant easements over portions of the Common Area to any local, state, or federal governmental entity.

ARTICLE XX

AMENDMENT OF DECLARATION

20.1 Amendment by Declarant. Until termination of the Class "B" Control Period, Declarant may unilaterally amend this Declaration for any purpose. Thereafter, the Declarant may unilaterally amend this Declaration if such amendment is (i) necessary to bring any provision into compliance with any applicable governmental statutes, rule, regulation, or judicial determination; (ii) necessary to enable any reputable title insurance company to issue title insurance coverage on the Units; (iii) required by an institutional or governmental lender or purchaser of Mortgage loans, including, for example, the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, to enable it to make or purchase Mortgage loans on the Units; (iv) necessary to enable any governmental agency or reputable private insurance company to guarantee or insure Mortgage loans on the Units; or (v) otherwise necessary to satisfy the requirements of any governmental agency for approval of this Declaration. However, any such amendment shall not adversely affect the title to any Unit unless the affected Owner shall consent thereto in writing.

20.2 Amendment by Owners. Except as otherwise specifically provided in this Declaration, this Declaration may be amended only by the affirmative vote or written consent, or any combination thereof, of Voting Members representing at least 67% of the total Class "A" votes, and the consent of the Declarant, during the Class "B" Control Period.

Notwithstanding the above, the percentage of votes necessary to amend a specific clause shall not be less than the prescribed percentage of affirmative votes required for action to be taken under that clause.

20.3 Validity and Effective Date of Amendments. Amendments in accordance with this Declaration shall become effective upon recordation in the Official Records, unless a later effective date is specified therein.

IN WITNESS WHEREOF, the undersigned Declarant has executed this Declaration this 27th day of May, 1998.

"Declarant"

Summit Development Company, L.L.C.,
an Arizona limited liability company

By: Desert Troon Limited, L.L.C., an
Arizona limited liability company
its Managing Member

By: Desert Troon Investments, Inc.,
an Arizona corporation, its Managing
Member

By: [Signature]
Its: [Signature]

STATE OF ARIZONA)
) ss.
COUNTY OF MARICOPA)

The foregoing instrument was acknowledged before me this 27th day of May, 1998, by Gary L. Jones as Vice Pres. of Desert Troon Investments, Inc., an Arizona corporation, as the managing member of Desert Troon Limited, L.L.C., an Arizona limited liability company, as the managing member of Summit Development Company, L.L.C., an Arizona limited liability company, on behalf of the company.

Name: Claudette J. Bullard
Notary Public

My Commission Expires:
Jan. 15, 2000

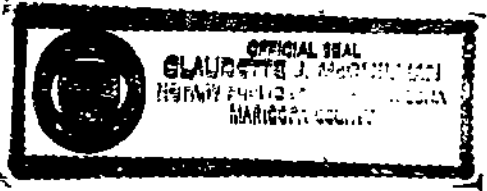


EXHIBIT A

Lots 1 through 109, inclusive, **HOMESTEAD UNIT ONE AT TORREON**, according to Book 18 of Plats, pages 60, 61 and 62, records of Navajo County, Arizona.

EXCEPT all coal as reserved in instruments recorded in Docket 823, page 458, and Docket 884, page 847 (Affecting Lots lying within Section 25); and

Lots 1 through 113, inclusive, **RENDEZVOUS UNIT ONE AT TORREON**, according to Book 18 of Plats, pages 56, 57, 58 and 59, records of Navajo County, Arizona.

EXHIBIT B

LEGAL DESCRIPTION

Being portions of Section 23, Section 25 and Section 26, all in Township 10 North, Range 21 East of the Gila and Salt River Meridian, Navajo County, Arizona, more particularly described as follows:

BEGINNING at the Northwest Corner of said Section 23, from which the West Quarter Corner of said Section 23 bears South 00°48'41" East, a distance of 2617.74 feet;

thence North 89°22'03" East (of record North 89°22'37" East) along the North line of said Section 23, a distance of 1333.74 feet (of record 1333.61 feet) to a point being the Northeast Corner of the Northwest Quarter of the Northwest Quarter of said Section 23;

thence South 00°36'46" East (of record South 00°37'00" East) along the East line of the Northwest Quarter of the Northwest Quarter of said Section 23, a distance of 1315.52 feet (of record 1315.32 feet) to a point, being the Northwest Corner of the Southeast Quarter of the Northwest Quarter of said Section 23;

thence North 89°32'33" East (of record North 89°31'45" East) along the North line of the Southeast Quarter of the Northwest Quarter of said Section 23, a distance of 1326.74 feet (of record 1327.48 feet) to a point being the Northeast Corner of the Southeast Quarter of the Northwest Quarter of said Section 23;

thence North 89°33'46" East (of record North 89°34'54" East) along the North line of the Southwest Quarter of the Northeast Quarter of said Section 23, a distance 152.23 feet (of record 152.23 feet);

thence South 00°00'51" East (of record South 00°05'22" East), a distance of 75.37 feet (of record 75.00 feet);

thence South 74°34'27" East (of record South 74°27'42" East), a distance of 470.15 feet (of record 469.76 feet);

thence North 38°07'29" East (of record North 38°14'08" East), a distance of 260.74 feet (of record 261.41 feet) to a point on said North line;

thence North 38°07'29" East (of record North 38°14'08" East), a distance of 88.87 feet (of record 88.59 feet) to a point on the Southerly right of way line of Arizona State Route 260, said point being a point on a circular curve, the radius point of which bears North 34°06'41" East, a distance of 3919.72 feet (of record 3919.72 feet);

thence Southeasterly along the arc of said curve and along said right of way line, through a central angle of 01°50'03" (of record 01°49'38"), a distance of 125.48 feet (of record 125.00 feet) to a point on said North line;

thence Southeasterly along the arc of said curve and along said right of way line, through a central angle of 06°51'19" (of record 06°51'02"), a distance of 468.98 feet (of record 468.66 feet) to a point on the West line of the Southeast Quarter of the Northeast Quarter of said Section 23;

thence South 00°24'57" East (of record South 00°25'49" East) along said West line, a distance of 1103.96 feet (of record 1104.38 feet) to a point on the latitudinal midsection line of said Section 23, being the Southwest Corner of the Southeast Quarter of the Northeast Quarter of said Section 23;

thence North 89°57'15" East (of record North 89°56'57" East) along said midsection line, a distance of 1337.50 feet (of record 1337.96 feet) to the East Quarter Corner of said Section 23;

EXHIBIT "B"

thence South 89°36'28" West (of record South 89°37'01" West) along the South line of the North Half of the Southwest Quarter of said Section 25, a distance of 663.38 feet to the Northeast Corner of the West Half of the East Half of the Southwest Quarter of the Southwest Quarter of said Section 25;

thence South 00°18'11" West along the East line thereof, a distance of 1324.10 feet to the Southeast Corner thereof;

thence South 89°34'32" West along the South line of said Section 25, a distance of 995.74 feet to the Southwest Corner of said Section 25, being also the Southeast Corner of said Section 26;

thence South 89°55'00" West along the South line of said Section 26, a distance of 2628.61 feet to the South Quarter Corner of said Section 26;

thence South 89°55'47" West along said South line of said Section 26, a distance of 2629.16 feet to the Southwest Corner of said Section 26;

thence North 00°38'36" West along the West line of said Section 26, a distance of 1330.23 feet to the Southwest Corner of the Northwest Quarter of the Southwest Quarter of said Section 26;

thence North 00°37'09" West (of record North 00°38'42" West) along said West line, a distance of 1330.45 feet (of record 1330.43 feet) to the West Quarter Corner of said Section 26;

thence North 00°08'05" West (of record North 00°09'57" West), along said West line, a distance of 2655.45 feet (of record 2655.54 feet) to the Northwest Corner of said Section 26, being also the Southwest Corner of said Section 23;

thence North 00°03'13" West (of record North 00°03'21" West) along the West line of said Section 23, a distance of 2655.43 feet (of record 2655.90 feet) to the West Quarter Corner of said Section 23;

thence North 00°48'41" West (of record North 00°48'41" West) along said West line, a distance of 2617.74 feet (of record 2617.21 feet) to the POINT OF BEGINNING.

TOGETHER WITH:

That certain portion of Section 25, Township 10 North, Range 21 East of the Gila and Salt River Meridian, Navajo County, Arizona, more particularly described as follows:

COMMENCING at the Southwest Corner of said section;

Thence North 89°34'32" East along the South line of said section a distance of 995.74 feet to the Southwest Corner of the East Half of the East Half of the Southwest Quarter of the Southwest Quarter of said section, said Southeast Corner being the POINT OF BEGINNING;

Thence North 00°18'11" East along the West line of said East Half a distance of 1324.10 feet to the Northwest Corner of said East Half;

Thence North 89°36'28" East along the South line of the North Half of the Southwest Quarter of said section a distance of 663.38 feet to the Northeast Corner of the West Half of the West Half of the Southeast Quarter of the Southwest Quarter of said section;

Thence South 00°17'03" West along the East line of said West Half a distance of 1323.72 feet to the Southeast Corner of said West Half;

Thence South 89°34'32" West along the South line of said section a distance of 663.82 feet to the POINT OF BEGINNING.



thence South 00°02'29" West (of record South 00°01'19" West) along the East line of said Section 23, a distance of 2657.85 feet (of record 2658.32 feet) to the Southeast Corner of said Section 23, being also the Northeast Corner of said Section 26;

thence South 00°10'14" West (of record South 00°09'03" West) along the East line of said Section 26, being also the West line of said Section 25, a distance of 499.18 feet (of record 499.10 feet);

thence North 89°43'46" East (of record North 89°44'03" East), a distance of 1992.01 feet (of record 1992.12 feet);

thence South 00°13'19" West (of record South 00°13'12" West), a distance of 2160.73 feet (of record 2160.18 feet) to a point on the latitudinal midsection line of said Section 25;

thence South 00°09'20" West (of record South 00°08'59" West), a distance of 330.95 feet (of record 330.97 feet) to the Northeast Corner of the Southeast Quarter of the Northwest Quarter of the Northeast Quarter of the Southwest Quarter of said Section 25, said Corner being also a point on a circular curve, the radius point of which bears North 40°36'22" East (of record North 40°36'12" East), a distance of 512.08 feet (of record 512.08 feet);

thence Southeasterly, along the arc of said curve and along the Northerly right of way line of an 80.00 feet wide road access easement, through a central angle of 40°15'19" (of record 40°18'37"), a distance of 359.78 feet (of record 360.27 feet) to a point on the West line of the Southeast Quarter of the Northeast Quarter of the Northeast Quarter of the Southwest Quarter of said Section 25;

thence North 00°27'38" East (of record North 00°17'03" East) along said West line, a distance of 125.33 feet (of record 125.41 feet) to the Northwest Corner thereof;

thence North 89°38'19" East (of record North 89°38'52" East) along the North line thereof and along the North line of the South Half of the North Half of the Northwest Quarter of the Southeast Quarter of said Section 25, a distance of 950.61 feet (of record 960.01 feet) to a point on the Northwesterly right of way line of Arizona State Highway 60, said point being a point on a circular curve, the radius point of which bears South 60°59'36" East (of record South 61°00'23" East), a distance of 11,607.29 feet (of record 11,607.29 feet);

thence Southwesterly, along the arc of said curve and along said right of way line, through a central angle of 08°46'44" (of record 08°46'13"), a distance of 1778.48 feet (of record 1776.73 feet) to the point of tangency of said curve;

thence South 20°13'21" West (of record South 20°13'24" West) along said right of way line, being non-tangent to the aforementioned curve, a distance of 752.73 feet (of record 753.80 feet) to a point on the South line of said Section 25;

thence South 89°34'40" West (of record South 89°34'32" West) along said South line, a distance of 635.17 feet (of record 635.18 feet) to the Southwest Corner of the East Half of the West Half of the Southeast Quarter of the Southwest Quarter of said Section 25;

thence North 00°17'03" East (of record North 00°16'46" East) along the West line thereof, a distance of 1323.72 feet (of record 1323.43 feet) to the Northwest Corner thereof;