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BYLAWS
OF
CLOUD NINE ESTATES HOMEOWNERS ASSOCIATION, INC.

ARTICLE 1. NAME

The name of the association shall be "Cloud Nine Estates Homeowners Association, Inc." (the "Association").

ARTICLE 2. OBJECT

Section 2.1 Purpose.

The object of the Association is to protect and enhance all properties lying within the boundaries of Cloud Nine Estates in Deschutes County, Oregon ("Property").

Section 2.2 Organization of the Association.

The Cloud Nine Homeowners Association shall be a non-profit corporation under ORS Chapter 65, the Oregon Nonprofit Corporations Act.

Section 2.3 Powers of the Association.

The Association shall have all the power granted to it by the Declarations, these Bylaws and the Oregon Planned Community Act as amended from time to time.

Section 2.4 Applicability.

The provisions of these Bylaws are applicable to the Property, the Cloud Nine Estates Homeowners Association, and all present or future Owners, tenants, occupants, or their employees, or any other person that might use the facilities of Cloud Nine Estates, in any manner.

Section 2.5 Definitions.

The definitions shall be the same as in Article 1, Definitions, of the Declaration of Covenants, Conditions and Restrictions for Cloud Nine Estates Homeowners Association, Inc.

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ARTICLE 3. MEMBERSHIP

Section 3.1 Membership in the Association.

Membership in the Association shall be by ownership, either by deed or purchase under a contract of sale, of one or more Lots. Each Owner shall automatically be a Member of the Association and shall remain a Member of the Association until such time as the ownership of all Lots terminates.

Section 3.2 Voting Rights.

3.2.1 Members. Declarant reserves all voting rights until such time as Declarant ceases to own any Lots in Cloud Nine Estates. Upon Declarant ceasing to own any Lots in Cloud Nine Estates or upon Declarant voluntarily relinquishing voting power, Members shall be entitled to one (1) vote for each Lot owned by the Member with respect to all matters upon which Owners are entitled to vote.

3.2.2 Lot. When more than one (1) person or entity owns a Lot, the vote for such Lot may be cast as they shall determine, but fractional voting is not allowed. Fractionalized or split votes shall be disregarded, except for purposes of determining a quorum.

Section 3.3 Majority of Owners.

As used in these Bylaws, the term "Majority" shall mean those Owners holding over fifty percent (50%) of the voting rights allocated to the Owners in accordance with the Declarations and these Bylaws. "Majority of Owners present" shall mean Owners holding over fifty percent (50%) of the votes present in person or by proxy.

Section 3.4 Quorum.

Except as otherwise provided in these Bylaws, the presence, in person, or by timely absentee ballot or proxy, of Owners holding twenty percent (20%) or more of the outstanding votes in the Association, as defined in these Bylaws, shall constitute a quorum. A legal meeting is one duly called pursuant to these Bylaws where a quorum is present. Unless otherwise stated in these Bylaws, the act of a Majority of Owners present shall be the act of the Members.

Section 3.5 Written Ballot.

Any action that may be taken at any annual, regular or special meeting of the Association may be taken without a meeting if the Association delivers a written ballot to every Association Member that is entitled to vote on the matter. The written ballot shall set forth each proposed action and provide an opportunity to vote for or against each proposed action. Matters proposed in the written ballot shall be deemed approved or rejected as provided by the Oregon Planned Community Act.

Section 3.6 Proxy.

The vote or votes of a Lot may be cast by absentee ballot or pursuant to a proxy executed by the Owner. Owner may not revoke a proxy, except by actual notice of revocation to the person presiding over a meeting of the Association. A proxy shall not be valid if it is undated or purports to be revocable without notice. A proxy shall terminate one year after its date unless the proxy specifies a shorter term.

Section 3.7 Place of Meetings.

Meetings of the Association shall be held at the Association's principal office or such other suitable place convenient to the Owners as may be designated by the Board of Directors.

Section 3.8 Annual Meetings.

The Association shall hold an Annual Meeting as directed by the Board of Directors. At such meeting, Members shall be elected to the Board of Directors in accordance with these Bylaws. The Owners may transact such other business of the Association as may properly come before them.

Section 3.9 Special Meetings.

Special Meetings may be called by the President of the Association, the Board of Directors or by Petition signed by twenty-five percent (25%) or more of the Owners.

Section 3.10 Notice of Meetings.

Notice of each annual, special or meeting by ballot, stating the purpose, time and place of the meeting shall be mailed or hand-delivered to all Owners. Notice shall be mailed at least ten (10) days but not more than fifty (50) days prior to such meeting. The notice shall be mailed to the Owner's address last given the Secretary in writing by the Owner. If Lot ownership is split or the Lot has been sold on contract, notice shall be sent to a single address of which the Secretary has been notified in writing by such parties. The Notice shall state the time and place of the meeting and the items on the agenda, including the general nature of any proposed amendment to the Declarations or Bylaws, any budget changes, or any proposal to remove a Director or Officer.

Section 3.11 Transitional Advisory Committee.

The Declarant shall form a Transitional Advisory Committee to provide for the transition of administrative control of the Association from the Declarant to the members. The Declarant shall call a meeting of Owners for the purpose of selecting a Transitional Advisory Committee not later than the sixtieth (60th) day after the latter of: (a) the date the Declarant conveys fifty percent (50%) or more of the lots in the first or only phase of the planned community to Owners other than a successor Declarant; or, (b) the date the Declarant conveys ten lots in the planned community to Owners other than a successor Declarant. The transitional advisory committee shall consist of three (3) or more Members. The Owners, other than Declarant, shall select two (2) or more Members. The Declarant may select no more than one (1) Member. The committee shall have reasonable access to such information and documents which the Declarant is required to turn over to the Association under the Oregon Planned Community Act. If the Declarant fails to call the meeting required under this Section, any Owner may do so.

The function of the transitional committee shall be to facilitate transition from control of the administration of the Association by the Declarant to control by the Owners.

The Declarant shall give notice of the meeting required under this Section to each Owner at least ten (10), but not more than fifty (50) days prior to the meeting. The notice shall state the purpose of the meeting and the time and place where it is to be held. If such meeting is not called by the Declarant within the time specified, the meeting may be called and notice given by a Owner. If the Owners, other than the Declarant, do not select members for the committee under this Section, the Declarant shall have no further responsibility to form the committee.

Section 3.12 Turnover Meeting.

The Declarant shall call a meeting for the purpose of turning over administrative control of the Association from the Declarant to the Members after the expiration of one hundred twenty (120) days after seventy-five percent (75%) of the Lots have been sold and conveyed to Cloud Nine Estates' Owners other than the Declarant or his successor.

The Declarant shall give notice of the meeting to each Owner as provided in the Bylaws. If the Declarant does not call the meeting required under this section, any Owner may do so.

At the turnover meeting the Declarant shall relinquish control of the administration of the Association and the Owners shall assume such control and the Owners shall elect a board of directors in accordance with the provisions

of these Bylaws. Additionally, the Declarant shall deliver to the Association those items specified in the Oregon Planned Community Act to be turned over by the Declarant at the turnover meeting.

ARTICLE 4. BOARD OF DIRECTORS

Section 4.1 Number and Qualification.

The affairs of the Association shall be governed by a Board of Directors composed of three (3) to five (5) persons, all of whom shall be an Owner or Co-Owner of a Lot.

Section 4.2 Powers and Duties.

The Board of Directors shall have the powers and duties necessary for the administration of the affairs of the Association. The Board of Directors may act on behalf of the Association and may do all such acts and things as are not by law, or these Bylaws, directed to be exercised and done by the Owners.

Section 4.3 Other Duties.

The Board of Directors shall have the authority to carry out and be responsible for the following matters:

- 4.3.1 Adopting a method of approving payment vouchers for expenses of the Association.
- 4.3.2 Designation and collection of assessments from the Owners, if any.
- 4.3.3 Establishment of a budget and payment of all common expenses of the Association, if any.
- 4.3.4 Establishment of reasonable fines for violation of the Declarations, Bylaws, Rules and Regulations of the Association.
- 4.3.5 Preparing and distributing annual financial statements of the Association to the Owners, if any.
- 4.3.6 Causing the Association to comply with the Oregon Planned Community Act relating to maintenance and distribution of financial statements and maintaining copies suitable for duplication of the following: CCRs, Bylaws, Association Rules and Regulations, most recent annual financial statement, and the current operating budget of the Association.
- 4.3.7 Additional duties imposed by the Oregon Planned Community Act, the CCRs, the Bylaws, or by resolution of the Association.

Section 4.4 Income Tax Returns; Determination of Fiscal Year.

The Board of Directors shall determine the manner in which all necessary income tax returns are filed, if any, and shall select persons to prepare and file such returns, and shall cause the necessary income tax returns for the Association to be filed annually.

Section 4.5 Budgets and Financial Statements.

4.5.1 In the event the Board assesses Owners and creates funds to be used for the enforcement of the CCRs or any other purposes, the Board of Directors, at least annually, shall adopt a budget for the planned community. Within thirty (30) days after adopting the annual budget for the planned community, the Board of Directors shall provide a summary of the budget to all Owners. If the Board of Directors fails to adopt a budget, the last adopted annual budget shall continue in effect.

4.5.2 The summary budget shall contain the information suggested by the Board. It may contain an estimate of revenue expenses, amount of total cash reserves currently available to the Association, and a Balance Sheet at the end of the fiscal year.

4.5.3 Within ninety (90) days after the end of the fiscal year, the Board of Directors shall distribute to each Owner and upon written request any mortgagee of a Lot, a copy of the Annual Financial Statement consisting of a Balance Sheet and Income and Expenses Statement for the preceding fiscal year.

Section 4.6 Association Records.

The Board shall make the Declarations, Bylaws, Association Rules and Regulations, most recent Financial Statement and current Operating Budget, if any, available for examination by an Owner or any mortgagee of a Lot. The documents shall be available upon written requests for copying during reasonable business hours. The Association may charge a reasonable fee for furnishing copies of any documents. The fee may include reasonable personnel costs for furnishing the documents, information or records.

Section 4.7 Election and Term of Office.

A Director's term shall be three (3) years. The term of office of Directors shall be staggered so that approximately one-third of the Directors term will expire in one (1) year; one-third in two (2) years; and the remaining one-third in three (3) years. The Directors shall hold office until their successors have been elected and hold their first meeting or are removed according to the Bylaws. The Association may increase or decrease the number of Directors and length of terms for which each is elected upon amendment of this Section. The Board of Directors may be elected by a single ballot with each owner permitted to vote the number of times there are for each vacancy. The nominees receiving the highest number of votes shall be Directors.

Section 4.8 Quorum.

At all meetings of the Board of Directors, a Majority of the existing Directors shall constitute a quorum for the transaction of business, and the acts of the Majority of the Directors present shall be the acts of the Board of Directors. If at any meeting of the Board of directors there is less than a quorum present, the Majority of those present may adjourn the meeting from time-to-time. At any such adjourned meeting, any business which might have been transacted at the meeting as originally called may be transacted without further notice.

Section 4.9 Vacancies.

Vacancies on the Board of Directors caused by any reason, other than the removal of a Director by a vote of the Association, shall be filled for the balance of the term by vote of a Majority of the remaining Directors, even though they may constitute less than a quorum. Each person so elected shall be a Director until a successor is elected upon expiration of the term for which such person was elected by the other Directors to serve.

Section 4.10 Removal of Directors.

At any legal Annual or Special Meeting, other than a meeting by ballot, any one or more of the Directors may be removed with or without cause, by Majority vote of the Owners. Owners may not remove Members appointed by the Declarant or persons who are ex-official Directors. Removal of a Director is not effective unless the matter of removal is an item on the agenda and stated in the notice for the meeting. Any Director whose removal is considered at the meeting, shall be given the opportunity to be heard at the meeting prior to a vote on such Director's removal. In the event a Director is removed, a successor Director may be elected to fill the vacancy.

Section 4.11 Regular Meetings.

Regular Meetings of the Board of Directors may be held at such time and place as shall be determined, from time-to-time, by a Majority of the Directors. Notice of Regular Meetings of the Board of Directors may be called by the

President of the Association on three (3) days' notice to each Director, given personally, by mail, telephone, fax or e-mail, which notice shall state the time, place and purpose of the meeting.

Section 4.12 Special Meetings.

Special Meetings of the Board of Directors may be called by the President or Secretary of the Association or on the written request of a majority of Directors. Special Meetings of the Board of Directors may be called on three (3) days' notice to each Director given personally, by mail, telephone, fax or e-mail, which notice shall state the time, place and purpose of the meeting.

Section 4.13 Emergency Meetings.

Emergency Meetings may be held without notice if the reason for the Emergency Meeting is stated in the Minutes of the meeting. Only Emergency Meetings of the Board of Directors may be conducted by telephonic communication. Such telephonic meetings shall be carried on by means of a "conference call" in which each Director may speak with any of the other Directors. The Directors shall keep telephone numbers on file with the President of the Association to be used for Telephonic Meetings. No notice to either Directors or Association Members shall be required for a Telephonic Meeting of the Board of Directors to be held for any emergency action; provided, however, no such Telephonic Meeting shall occur unless at least seventy-five percent (75%) of the Board of Directors participate in the same and after an attempt has been made to call each Director at the telephone number maintained on file with the Board of Directors for such purpose.

Section 4.14 Notice to Association Members of Board of Directors.

For other than an emergency meeting, notice of Board of Directors meetings shall be posted at a place on the Property at least three (3) days prior to the meeting or notice shall otherwise be provided to each Member of the Association reasonably calculated to inform all Members of such meeting. The posting of such notice shall be at a reasonable location which has been generally publicized to the Owners.

Section 4.15 Waiver of Notice to Directors.

Before, at or after any meeting of the Board of Directors, any Director may, in writing, waive notice of such meeting and such waiver shall be deemed equivalent to the giving of such notice. The attendance by a Director at any meeting of the Board shall be a waiver of notice by him or her. If all the Directors are present at any meeting of the Board, no notice to Directors shall be required and any business may be transacted at such meeting.

Section 4.16 Board of Directors Meetings Open to All Association Members.

4.16.1 All meetings of the Board of Directors shall be open to any and all Members of the Association, except that at the discretion of the Board of Directors the following matters may be considered an executive session:

4.16.1.1 Consultation with legal counsel concerning the rights and duties of the association regarding existing or potential litigation, or criminal matters;

4.16.1.2 Personnel matters including salary negotiations and employee discipline; and

4.16.1.3 Negotiation of contracts with third parties.

4.16.2 Except in the case of an emergency, the Board of Directors shall vote in an open meeting whether to meet in executive session. If the Board of Directors votes to meet in executive session, the presiding Officer of the Board of Directors shall state the general nature of the action to be considered and, as precisely as possible, when and under what circumstances the deliberations can be disclosed to others.

4.16.3 No Association Member shall have a right to participate in the Board of Directors meetings unless such Member is also a Member of the Board of Directors or is allowed to participate by the Board of Directors. The President of the Association shall have the authority to exclude any Association Member who disrupts the proceedings at a meeting of the Board of Directors.

Section 4.17 Compensation of Directors.

Directors shall not be compensated in any manner, except for out-of-pocket expenses, unless such compensation is approved by vote of the Owners.

Section 4.18 Written Statement of Assessments.

The Association shall provide, within ten (10) business days of receipt of a written request from an Owner, a written statement that provides: (1) the amount of the assessment due from the Owner and unpaid at the time the written request was received, including regular and special assessments, fines and other charges, accrued interest, and late payment charges; (2) the percentage rate at which interest accrues on the assessments that were not paid when due; and, (3) the percentage rate used to calculate the charges for late payment or amount of a fixed charge for late payment. The Association is not required to provide this information if the Association has commenced litigation by filing a Complaint against the Owner and the litigation is pending when the statement would otherwise be due.

ARTICLE 5. OFFICERS

Section 5.1 Designation.

The principal Officers of the Association shall be a President, Vice-President, Secretary and Treasurer.

Section 5.2 Election of Officers.

The Officers of the Association may be elected by the Board of Directors from its members, and shall hold office at the pleasure of the Board.

Section 5.3 Removal of Officers.

Upon an affirmative vote of a Majority of the members of the Board of Directors, any Officer may be removed, either with or without cause, and his or her successor elected at any regular or special meeting of the Board of Directors.

Section 5.4 President.

The President shall be the chief executive Officer of the Association. The President shall preside at all meetings of the Association and Board of Directors. The President shall have all of the general powers and duties which are usually vested in the office of president of an association, including, but not limited to, the power to appoint committees from among the Owners from time-to-time as he or she may in his or her discretion decide is appropriate to assist in the conduct of the affairs of the Association.

Section 5.5 Vice-President.

The Vice-President shall act in the stead of the President if the President is unable or fails to act.

Section 5.6 Secretary.

The Secretary shall keep the Minutes of all meetings of the Board of Directors and the Minutes of all meetings of the Association; he or she shall have charge of such books and papers as the Board of Directors may direct; and he or she shall, in general, perform all the duties incident of the office of the Secretary.

Section 5.7 Treasurer.

The Treasurer shall have responsibility for Association funds and securities not otherwise held by the managing agent as directed by the Board of Directors, and shall be responsible for keeping complete and accurate accounts of all receipts and disbursements in books belonging to the Association. He or she shall be responsible for the deposit of all monies and other valuable effects in the name, and to the credit, of the Association in such depositories as may from time-to-time be designated by the Board of Directors.

Section 5.8 Directors as Officers.

Any Director may be an Officer of the Association.

ARTICLE 6. OBLIGATIONS OF THE OWNERS.

Section 6.1 Assessments.

All Owners shall pay assessments imposed by the Association to meet the Association's general common expenses as described in the Declarations, Bylaws, and Oregon Planned Community Act. Assessments shall be payable on a periodic basis as determined by the Board of Directors. Generally, general and special assessments shall be allocated equally among the Lots. However, the following assessments may be assessed in different manners: (1) improved and unimproved Lots; (2) any common expense or any part of a common expense benefiting fewer than all of the Lots may be assessed exclusively against the Lots or the Lots benefited; (3) if the Board of Directors determines that any common expense is the fault of any Owner the Association may assess the expense exclusively against the Lot of the Owner.

Section 6.2 Initial Assessment.

There shall be no initial assessment. Future assessments shall be subject to review by the Board of Directors.

Section 6.3 Special Assessments.

The Board of Directors shall have the power to levy special assessments against an owner or all owners in the following manner for the following purposes:

6.3.1 Upon vote of a majority of the Board to collect amounts due to the Association from an owner for breach of the owner's obligations under the Declarations, these Bylaws, or the Association's rules and regulations; or

6.3.2 To make capital acquisitions, additions or improvements.

Section 6.4 Duty to Pay Assessments.

An Owner may not claim exemption from liability for contribution towards the common expenses by abandoning the Owner's Lot. An Owner may not claim to offset an assessment for failure of the Association to perform the Association's obligations.

Section 6.5 Default.

Failure by an Owner to pay any assessment of the Association when due shall be a default by such Owner of his or her obligations pursuant to these Bylaws, the CCRs and the Oregon Planned Community Act. Any assessment or any installment of assessment that is past due shall bear interest at the rate established by resolution of the Board of Directors. The Board of Directors may impose its option. The Association shall be entitled to any remedy at law, including a lien, which may be enforced upon compliance with the provisions of the Oregon Planned Community Act and the Declarations. In any foreclosure suit by the Association with respect to such lien, the Association shall be entitled to collect reasonable rent from the defaulting Owner for the use of his or her Lot or shall be entitled to the

appointment of a receiver. Any default by the Owner under any provisions of the Declarations, these Bylaws or the Oregon Planned Community Act shall be deemed to be a default by the Owner of any mortgage to which the Owner is a party or to which the Lot is subject.

ARTICLE 7. USE AND OCCUPANCY RESTRICTIONS; RULES OF CONDUCT

Section 7.1 Design Review Committee.

No improvement of any type shall be erected, placed, altered, maintained or permitted to remain on any Lot until final plans and specifications showing the nature, kind, shape, height, materials, color, and location of same have been submitted to and improved in writing by the Design Review Committee. The procedures for approval are described in the Declarations and in the Empire Village Design Review Rules and Guidelines.

Section 7.2 Domestic Animals.

An Owner of a Lot may keep not more than three outdoor pets. Outdoor pets shall mean dogs or cats allowed outside the home. An Owner may not keep livestock, horses, fowl or other animals outside. Owners of pets shall abide by all applicable leash laws and sanitary regulations. Dogs and cats shall not be kept, bred or raised for commercial purposes. The Board of Directors shall have the right to require any Owner to remove any pet that is a nuisance or that interferes with the right to the quiet enjoyment by the owner and occupants of Living Units. Any dispute arising out of this Section shall be decided by a majority of the Board of Directors. Any decision of the Board on this matter shall be binding upon the member or members affected. Nothing in this section shall prohibit or limit Owners to the number of indoor pets.

Section 7.3 Appearance of Living Units.

No Owner will cause anything to be hung, displayed, or placed on the walls, doors, windows, roof or exterior of any Living Unit or otherwise change the appearance of any Living Unit without compliance with the Declarations, Bylaws, Design Guidelines and Rules and Regulations of the Association.

Section 7.4 Nuisances.

No nuisances will be allowed upon the Property, nor any use or practice that is the source of annoyance to residents or which interferes with the peaceful possession and proper use of the Property by its residents. Residents shall exercise extreme care about creating disturbances, making noises or using musical instruments radios, televisions and amplifiers that may disturb other residents. All parts of the Project will be kept in a clean and sanitary condition, and no rubbish, refuse or garbage allowed to accumulate, nor any fire hazard allowed to exist. All such garbage and trash shall be placed inside disposal containers.

Section 7.5 Improper, Offensive or Unlawful Use.

No improper, offensive or unlawful use will be made of the Property nor any part of it; all valid laws, zoning ordinances and regulations of governmental bodies having jurisdiction will be observed. The responsibility of meeting the requirements of governmental bodies for maintenance, modification or repair of the Property will be carried out and paid for in the same manner as the responsibility for the maintenance and repair of the Property concerned.

Section 7.6 Trash Collection and Storage.

No trash or unsightly material shall be dumped or stored upon any Lot. All trash and trash cans shall be concealed behind such structures as may properly be built pursuant to this Declarations, and may be left outdoors only for the period reasonably required for collection and removal.

Section 7.7 Vehicle Repair.

All vehicle repair shall be conducted in a closed garage of any Lot. Vehicle shall be interpreted as broadly as possible and shall include but not limited to automobiles and recreational vehicles.

Section 7.8 Additional Rules.

Rules and regulations concerning regulations for the operation of the Association may be made and amended from time to time by the Board of Directors. Copies of such rules and regulations will be furnished to all Owners and residents of the Project, upon request.

ARTICLE 8. INSURANCE

The Board of Directors shall obtain and maintain at all times insurance of the type and kind and in the amounts referred by Oregon Planned Community Act or as determined by the Board of Directors from time-to-time. Insurance may include Directors' insurance. The Board of Directors shall, if reasonably available, obtain terms in insurance policies, which provide a waiver of subrogation by the insurer as to any claims against the Board of Directors of the Association, any Owner or any guest of an Owner.

ARTICLE 9. AMENDMENT

Amendments to the Bylaws may be proposed by a majority of the Board of Directors or by at least thirty percent (30%) of the Owners of the planned community. Amendments shall be approved either by a Majority of Owners present in person or by proxy at a duly constituted meeting or by ballot vote certified by the President and Secretary of the Association as having been adopted in accordance with the Bylaws. Amendments shall be recorded in the office of the recording officer.

ARTICLE 10. FINES AND CHARGES

Section 10.1 Fines for Violation of Declarations, Bylaws, Rules and Regulations of the Association.

The Board of Directors may levy reasonable fines against a Member for any violation of the Declaration of Covenants, Conditions and Restrictions, the Bylaws, the Rules and Regulations, or the Oregon Planned Community Act. Fines may be levied due to the action of a Member, Member's guest or invitee or an Occupant of a property owned by the Member.

10.1.1 Notice and Hearing: In the event of a violation, the Association shall provide the Member with notice of the violation. The Member shall be given a reasonable opportunity, under the circumstances, to correct the violation. If the violation is a first-time and unintentional offense, the Board may, in their sole discretion, accept assurances that the violation will not be repeated. The Member shall be entitled, upon request made within ten (10) days of notice by the Association, to a hearing before the Board of Directors or any designated committee to contest the violation or fine. At the hearing, the Member may be represented by legal counsel and have a reasonable amount of time to produce statements, evidence, and witnesses. The minutes of the hearing shall contain a written statement of the results of the hearing and the fine, if any, that is imposed. The Association is not required to provide notice and opportunity to be heard for recurring or continuing violations unless at least ninety (90) days have passed from the time of the previous violation. If a hearing is not requested within the ten (10) day period the violation and/or fine shall be noted and imposed.

10.1.2 Continuing Violations: In the case of a continuing or persistent violation: (1) Each day the violation continues after written notice shall be deemed a separate and distinct violation and, subject to a separate daily fine, up to a maximum of thirty (30) daily fines per violation; and (2) The Board may require the Member to post a bond or other form of security in order to ensure future compliance. For any such violation that cannot be cured immediately, no further fines shall be levied after such time as the Member begins a good faith cure.

10.1.3 Lien Against Lot: Fines shall constitute a personal obligation of the Member, as well as a lien upon the property of the Member, which lien may be foreclosed in the same manner as a lien for unpaid Association assessments pursuant to the Oregon Planned Community Act.

10.1.4 Fees and Costs: The Member shall be liable for all attorney fees, costs and expenses of any nature incurred by the Association incident to the levy or collection of the fine, including appellate proceedings.

10.1.5 Crediting Payments: The Association shall apply all partial payments by the Member to the Member's outstanding balance in the following order:

- Attorney's fees and costs;
- Late fees and interest;
- Fines and Charges;
- Special assessments; and
- Regular assessments, with payment being applied to the oldest balance first.

Partial payments will not waive the Association's right to pursue full payment and/or enforce its bylaws, declaration, and rules and regulations.

10.1.6 Schedule of Fines:

10.1.6.1 Except for tree removal fines, Fines shall be between \$25.00 and \$2,500.00. The amount of the fine shall be determined in the sole discretion of the Board of Directors. The Board of Directors may assess fines based upon the type and nature of the breach, the length of time of the breach, the responsiveness of the Owner to the Board of Directors' requests to cure the breach and any other factors the Board of Directors determines appropriate.

10.1.6.2 Fines for unauthorized tree removal shall be \$100.00 per tree per removal, together with \$100.00 per inch of diameter of the tree, measured three feet from the ground. By way of example, removal of an eight inch tree warrants a fine of \$900.00 (*\$100.00 for removal plus \$100.00 x 8" = \$900.00*).

Section 10.2 Charges.

In the event any assessments are not received when due, the Association may charge up to five percent (5%) of the payment or Fifty Dollars (\$50.00), whichever is greater. Unpaid assessments shall bear interest at the rate of fifteen percent (15%) per annum. Owner shall reimburse the Association for all costs and attorney fees expended (*including at trial and on appeal*) incurred by the Association in collecting assessments.

ARTICLE 11. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

The Association shall indemnify any Director, Officer, and may indemnify any employee or agent who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative (other than an action by the Association) by reason of the fact that he or she is or was a Director, Officer, employee or agent of the Association or is or was serving at the request of the Association as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such suit, action or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of the Association, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or with a plea of no contest or its equivalent, shall not of itself create a presumption that a person did not act in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interest of the Association, and, with respect to any criminal action or proceedings, had reasonable cause to believe his or her conduct was unlawful. Payment under this

clause may be made during the pendency of such claim, action, suit or proceeding as and when incurred, subject only to the right of the Association, should it be proven at a later time that the person had no right to such payments or to reclaim any payments made during the proceeding. All persons who are ultimately held liable for their actions on behalf of the Association as a Director or Officer shall have a right of contribution over and against all other Directors or Officers and Members of the Association who participated with or benefited from the acts which created said liability.

ARTICLE 12. COMPLIANCE WITH BYLAWS AND OTHER RESTRICTIONS REQUIRED, EFFECT OF NONCOMPLIANCE

Section 12.1 Compliance.

Each Owner and the Declarant shall comply with the Declarations, Bylaws and administrative Rules and Regulations adopted by the Association. Failure to comply shall be grounds for an action maintainable by the Association or by an aggrieved Owner.

Section 12.2 Assessment Collection Costs; Suits and Actions.

Owners shall be obliged to pay reasonable fees and costs including, but not limited to, attorney fees incurred in connection with efforts to collect any delinquent unpaid assessments. In addition to the regular assessments for operating expenses and the funding of reserves, such assessments may include fees, late charges, fines, charges and interest imposed pursuant to Oregon law. In the event suit or action is commenced by the Association for the collection of any amounts due pursuant to these Bylaws or for the enforcement of any provisions of the Declarations, Bylaws, Rules or the Oregon Planned Community Act, the Owner or Owners, jointly and severally, will in addition to all other obligations, pay the costs of such suit or action, including reasonable attorney fees to be fixed by the trial court and, in the event of an appeal, the cost of the appeal, together with reasonable attorney fees in the appellate court to be fixed by such court.

ARTICLE 13. MISCELLANEOUS

Section 13.1 Rules of Order.

Meetings of the Association and the Board of Directors shall be conducted according to the latest addition of Robert's Rules of Order published by the Robert's Rules Association.

Section 13.2 Notices.

13.2.1 All notices to any Owner shall be sent to such address as may have been designated by him or her from time-to-time, in writing, to the Board of Directors, or if no address has been designated, then to the Owner's Lot.

13.2.2 All notices to the Board of Directors shall be sent to such address as may be designated by the Board of Directors from time-to-time.

Section 13.3 Waiver.

No restriction, condition, obligation or provision contained in these Bylaws shall be abrogated or waived by failure to enforce the same irrespective of the number of violations or breaches which may occur.

Section 13.4 Compliance.

These Bylaws are intended to comply with the provisions of the Oregon Planned Community Act and the Declarations. In case any of the provisions of these Bylaws conflict with the provisions of the Oregon Planned Community Act, the statutory provisions shall apply. In case of any conflict between the provisions of these Bylaws and the Declarations, the provisions of the Declarations shall apply.

The Bylaws have been adopted by the Declarant of Cloud Nine Estates Homeowners Association, Inc.

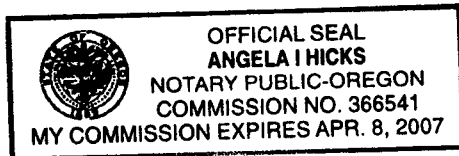
DATED this 6th day of MAY, 2003.

**CLOUD NINE ESTATES HOMEOWNERS
ASSOCIATION, INC.**

By: William J. Matthews - President
William J. Matthews, President
WILLIAM J. MATTHEWS
CONSTRUCTION, INC., Declarant

STATE OF OREGON)
) ss.
County of Deschutes)

On this 6th day of MAY, 2003, personally appeared before me, William J. Matthews, who being duly sworn, states he is the President of WILLIAM J. MATTHEWS CONSTRUCTION, INC., an Oregon corporation and that the foregoing instrument was signed and sealed on behalf of said corporation and he acknowledged said instrument to be the voluntary act and deed of said corporation.



Angela I Hicks
Notary Public for Oregon