

## HARRELL DUNSTON PROPERTIES, INC.

### ANNUAL REPORT TO SHAREHOLDERS FOR YEAR 2016

To Our Shareholders,

The year 2016 was a year of gradual, steady improvement in our financial condition. Our insurance costs have been greatly reduced as a result of less refractory masonry and this saves the Company approximately \$ 4,400 per year or \$ 385 per month - this savings goes straight toward higher profitability for the Company. Our overall revenue for the Company increased from \$ 31,725 in 2015 to \$ 34,563 for year 2016. Our taxable income increased \$ 2,520 over the previous year – a net income of \$ 818 for 2016 versus a net loss of \$ 1,702 for 2015. If you subtract out the generous depreciation expense available to owners of rental real estate ( \$ 5,311 for year 2016 ), the Company had \$ 6,129 in available cash flow for the year for dividends, investment in the stock market, and to build up cash reserves. As of this week, the Company has approximately \$ 11,500 in cash with another \$ 1,800 due by May 5. We've been a little reluctant to make any deals as we've wanted to reach \$ 15,000 or so because it feels good to not be on the financial edge at this time.

The rental house segment of the business is doing fairly well. The rent is being paid regularly at this time although it was a little irregular last spring. We still receive \$ 850 per month for the rent. We did have a somewhat large repair expense of \$ 2,200 in late December for the compressor and new, additional Freon for the air conditioning system.

We've been fortunate that the stock market has moved up around 10 to 12% since the fall presidential election. We anticipated that the bank and financial stocks would move up with the ending of the Obama Administration's ongoing legal assault on large banks – thus our Bank of America and Royal Bank holdings have improved fairly well in price. Other stocks that have done well include First Citizens Bank, PNC Bank, Facebook, Home Depot, Berkshire Hathaway, Google ( and Alphabet ) and many more. Laggards include Oak Hill Investment, Genworth, Gilead Sciences, Amour Residential, Bojangles and Triangle Capital. We have some stocks where we only own 1 – 5 shares – such as Cracker Barrel, Insteel, Martin Marietta, and Aon. We just feel good about these companies and buy a few shares when the market dips 300 to 500 points on the Dow Jones Industrial Average.

We would like to begin being much more aggressive about buying either small percentages of properties or whole properties outright with a little cash and our common and preferred stock. We have our accounting up to date now and feel a little braver with our cash cushion. We probably need to bulk up our overall assets a little more before we approach a market maker about making a market in our stock right now.

One final note on our stockholdings. We currently own relatively small amounts of 83 different companies plus gold shares equal to ½ ounce and silver shares for 50 ounces. The overall value of the account ranges from \$ 81,000 to \$ 85,000 and we generally owe \$ 40,000 to \$ 41,000 on the account for an overall net position of \$ 41,000 to \$ 45,000.

The rental house and other land are worth around \$ 185,000 - \$ 190,000 with \$ 105,000 owed in mortgage debt. So with the land, the house, the stocks owned and cash in the bank the Company has \$ 145,000 - \$ 150,000 of net worth if liquidated. Of course, we have no future plans to liquidate and indeed we hope our assets and net worth will increase greatly over the years.

There were 3 purchases of our Common Shares in 2016 – all purchases were at a price \$ .15. There are just a few hundred shares shy of 2,800,000 Common Shares issued and outstanding – officers and directors own just over 2,100,000 of these shares. The Company currently has a “Market Cap” (Capitalization) of \$ 429,000.

We thank you for your continued support throughout the year and hope you enjoy your dividend

checks. Please feel free to attend the Annual Stockholder's Meeting in a few weeks. And you may bring a guest if you so choose.

Respectfully,

Melvin J. "Jeff" Harrell – President 4/27/2017