

HARRELL DUNSTON PROPERTIES, INC.

ANNUAL REPORT TO SHAREHOLDERS FOR YEAR 2013

To Our Shareholders,

The year 2013 was a year of mixed financial results for Harrell Dunston Properties, Inc. (“the Company”). Due to lower rental income, less masonry revenues and increased worker’s compensation costs, the Company had an operating loss of \$ 2,377.00 for 2013 as compared to a net profit of \$ 8,109.00 for year 2012 and \$ 3,470.00 for year 2011. On the other hand, due to an increased effort to invest aggressively in the stock market in 2012, we benefited from higher common stock prices and from using up to 40% margin in our Scottrade account. On a cost basis, the value of our account increased from \$ 1,800 at Dec. 31, 2011 to \$ 17,370.00 on Dec. 31, 2012 and then \$ 24,583.00 at the end of 2013. The actual market value of the portfolio of up to 50 individual stocks increased from approximately \$ 21,000.00 to over \$ 55,000.00 but the amount of margin loan increased from \$ 0.00 to just over \$ 25,000.00 on average. As such, the Company had a net equity position of just over \$ 30,000.00 in it’s account as of Dec. 31, 2013. With the amount of cash in the First-Citizens account and the BB&T accounts usually staying between \$ 4,000.00 and \$ 8,000.00, we have generally had approximately \$ 35,000.00 in cash or available equity funds to operate the business.

The Company was disappointed in it’s rental income for the year 2013. The tenant for the previous two and a half years lost his job and left the house ill-maintained at their leaving. They had kept the house well for the previous two years. The next tenant used financial fraud to become a squatter for two months, so we had to evict them and learned a good lesson. In all, we lost approximately \$ 4,400.00 in scheduled rent and almost \$ 1,800.00 in clean up and maintenance expenses. We now have a much better tenant with a strong track record and the rent has been increased from \$ 800.00 to \$ 850.00 per month. While this may be a little low for the house’s value, we’d like a little stability for a few years if possible.

As for the future, we would like to buy outright or trade our stock for real estate as opportunities present themselves. Had our common shares been more tradable, we would have had at least two good opportunities to trade for properties. We have had two conversations with “market makers” and two conversations with “stock transfer agents” to determine if we could have our shares publicly -traded. While it is definitely possible in the near future, there has been an unfortunate trend for Pink Sheet stocks and Microcap OTC -BB stocks to experience difficulty having their stock approved for Electronic Trading by the Depository Trust and Clearing Corporation ( DTC ). For the past 3 years or so, they’ve made it expensive to trade small stocks unless they’re nationally registered through the Securities and Exchange Commission ( SEC ). However, some attorneys and stockbrokers think this will change and is just an over-reaction to a few securities fraud incidents by “bad actors” stockbrokers and security issuers. Eventually, we will have our shares registered for aftermarket sales and they’ll become more tradable through “Market Makers” . For now, if your shares were issued one year or more before May 4, 2014 you can legally sell your shares without restrictions unless you’re a

Company officer or Director or own at least 10% of the Company's outstanding shares. However, it will involve high commission costs and the stockbroker cannot "solicit" buyers - he can only arrange trades with his customers who already have expressed an interest in buying our Company's shares. There were 6 very small sales of common shares during the year and all 6 were for a price of \$ .15 per share. There are 2,798,676 common shares outstanding and 68 total shareholders. Management and other officers or "control persons" own approximately 77% of the outstanding common shares.

While the Company originally was started with the goal of building houses and developing real estate, it is fairly clear that our future lies in using our stock to trade for medium and hard-to-sell properties and prudent but aggressive common stock purchases for our investment account. There are numerous opportunities to trade for properties if your stock can be sold through stockbrokers so that the real estate seller can simultaneously or relatively quickly receive cash for his shares. While not every one would be persuaded or of a mind to do so, just a few percent of many thousands of sellers could make for a good business and provide a much needed service to mankind - an ever-ready and at all times buyer for any real estate at a full or near-full price ( and sometimes without the seller having to pay any real estate commission). Some sellers will sell to us just to avoid having to pay that 6% commission out of their profit on selling their home or other property. Of course, our success will depend on the development of a wide and deep trading market for our shares so the seller can depend on price stability and good future performance of the stock should the seller decide to hold a few shares for price appreciation.

Along with this Annual Report there are financial statements, a Notice of Shareholders Meeting and a Proposal to Shareholders Form. Some of our shareholders will receive share certificates from our past stock splits where I haven't been able to physically give them to you. Also included is a small dividend check for each shareholder except for those shareholders who have requested to receive more shares instead of a cash dividend.

A final note. At some future time it is likely that each shareholder ( unless I photocopied his check for the purchase of shares ) will receive an " Affidavit for Purchase, Receipt as Gift, or Purchase by Other Consideration" Form. This will probably be necessary to prove to the DTC and FINRA ( the association for stockbrokers ) that each share transaction was bona fide and that you've owned your shares for at least one year. It gives market makers, stockbrokers and clearing and stock transfer agents legal cover in case of fraudulent schemes. Until recently, it was not necessary to go to such efforts to have your stock traded. Showing and depositing your share certificate was all that was required as long as the issuing company could show it was a real operating business.

Should you have any questions, you can reach me at ( 252 ) 661- 7408. Let's work hard and look forward to a successful 2014.

Sincerely,

Melvin J. " Jeff " Harrell  
President  
May 4, 2014

