Fellow Shareholders,

Being based in Daytona Beach, I cannot resist using car racing analogies to describe our progress in 2012. If 2011 was the year that Consolidated Tomoka was in the garage with the hood up while the Company retooled the engine, 2012 was the year we took the Company out on the track.

What you should know about CTO:

- We are continuing to grow our positive cash flow;
- Approximately half of our asset value is in income properties and approximately half of our asset value is in more than 11,000 acres of undeveloped land;
- Over time we intend to own less land and more income-producing property in major markets throughout the United States;
- The majority of our land holdings are in the City of Daytona Beach, within five miles of I-95, and within nine miles of the I-4 Interchange;
- We are conservatively leveraged with attractively priced debt; and
- The weighted average lease term on our single-tenant portfolio is nearly 11 years.

## New Team

We are pleased to have been able to attract a new team of professionals to CTO. This new team brings best practices and outside experience to accelerate a new Consolidated Tomoka. We welcomed Mark Patten as our new Senior Vice President and Chief Financial Officer (April 2012), Steven Greathouse as our new Vice President—Investments (January 2012), and Jeff Robbins as our new Director of Real Estate (August 2012). We welcomed Lisa Vorakoun as our new Controller in January of this year.

## The Numbers

In 2012, CTO had earnings of $0.10 per share. We hope to accelerate the momentum that was accomplished in 2012 and have expectations of higher earnings in 2013. Our earnings were held back by a non-cash reserve for a possible settlement with St. Johns River Water Management District that relates to certain of the Company's agricultural operations conducted prior to 2010 which equated to nearly $0.13 per share. We felt it was important to settle this costly litigation and have a productive relationship with this important agency. We also had a significant non-cash expense for stock compensation of approximately $1.0 million as well as some other expenses, which are expected to be lower in 2013. Additionally, we recognized a $427,000 loss at year-end related to the expected sale of a non-core single-tenant property that closed in February 2013.

## Investments

In 2012, we stepped on the gas a bit in acquiring strong single-tenant income properties in new larger markets with new credits. We now have more properties in Orange County, California, than we do in Orange County, Florida. Our closest property to the ocean is no longer our land along LPGA Boulevard in Daytona Beach (9 miles from the Atlantic), it is now our net-leased property acquired in December that is less than half a mile from the Pacific Ocean in Laguna Beach, California. In 2012, we acquired eight properties for approximately $26 million located in Colorado, California, Illinois, and Arizona. We welcomed JPMorgan Chase, Buffalo Wild Wings and Bank of America as new tenants in 2012. These acquisitions add balance to our portfolio in both geography and credit while also extending our weighted average lease term to eleven years.

In January 2013, we purchased our first single-tenant office investment consisting of two buildings leased to Hilton Resorts Corporation. We also purchased an additional four properties leased to Bank of America, N.A., in California. Finally, we purchased a Big Lots leased property, situated as an outparcel to Macerich's Arrowhead Mall in Glendale, Arizona. The January acquisitions totaled $27.6 million, which gave us a strong start to 2013.

We currently have 36 single-tenant properties in seven states with our largest four credits being Walgreens, CVS, Bank of America, and Hilton.

**Property Dispositions**

Like changing tires, we continue to recycle capital from our legacy properties and, in 2012, we sold two non-core income properties located in Georgia and North Georgia for approximately $8.0 million with an 8.4 average lease term. In February of 2013, we sold two properties located in Georgia and Florida for $7.6 million with a 9.2 average remaining lease term. We redeployed the capital from these assets into better real estate with longer lease terms.

**Land**

In 2012, we sold 16.6 acres of land to P&S Paving, Inc. for more than $37,000 per acre. We also sold parcels of land which were encumbered by community development bonds for a modest amount of money plus the assumption of some related obligations, but more importantly, we were able to trigger certain tax benefits with this sale and alleviate future bond obligations. The Company has entered into a refundable contract with a retailer on a small pad site at the southeast corner of LPGA and Williamson Boulevards on the east side of I-95.

We've seen positive indications that development and investment activity has increased in the Daytona Beach area, and we are hopeful that this is the start of long-lasting real estate recovery.

**Golf**

We continue to work diligently on improving the golf operations. In 2012, we were able to renegotiate the lease with the City of Daytona Beach, enabling us to keep the lease at $250,000 per year in base rent instead of escalating to $500,000 in September 2012. In return, we agreed to renovate the restaurant and have modest annual lease escalations. We spent approximately $425,000 to create Malcolm's, a first-class bar and grill with outdoor dining as well as a new pro shop. If you haven't visited Malcolm's yet, you should!

Our membership growth is now catching up with where we should be as a semi-private club. We've nearly doubled the golf members since January 2012 and the excitement from the members seems to be growing. Our new manager, Club Corp, has done an admirable job managing expenses while providing a better guest experience than before. In just under a full year of having a new driver, we've cut the operating loss in half. We plan to continue 2013 with increased memberships, efficient costs, and better results.

**Oil/Billboard/Subsurface**

In 2012, we received the second payment under an eight-year oil lease, which covers 136,000 full interest acre equivalents in Lee and Hendry Counties. The lessee for this acreage brought in a capital partner at the end of 2012 with the intention of moving forward with exploratory well drilling. There is no guarantee of drilling in 2013, nor is there a guarantee that they will hit oil, but we're hopeful there will be oil under our leases. Any commercial success will help fuel our cash flow!

Our existing royalty agreements for the two wells we have with another operator, which is located in the same approximate area of our new lease, pumped over $280,000 into CTO's bank account in 2012, more than 20% over 2011.

In 2012, our billboard income doubled to approximately $150,000. We were able to secure more favorable terms on our leases, and the operators are seeing better lease rates on the billboards, a portion of which flows to us. 75,000 cars per day drive along I-95. That's a lot of eyes!

## Agricultural Operations

In 2012, we were active with a timber sale, a new hay lease, and expanded hunting leases. In aggregate, our agriculture operations were basically break-even. This was a strong improvement over our $500,000 loss in 2011.

## Financing

As of February 28, 2013, we have approximately $50.2 million of debt with a mixture of floating and fixed rates. Our credit line now has three lenders and an expanded funding level of $66 million, which will allow us to continue to grow our business. In the past twelve months, CTO has embarked on new lending relationships with four institutions at attractive terms and rate. We are optimistic this group of lenders will help the Company continue to grow.

## Dividends

We have paid dividends every year since 1976 and have no plans to change this policy. Last year, our dividend was $0.04. We review our dividend policy annually.

## Area Highlights

What you should know about Daytona Beach:

- Embry-Riddle Aeronautical University began construction on a $39 million, 140,000 square-foot College of Arts and Sciences building on its campus near the Daytona Beach International Airport. Embry-Riddle also plans to start construction this year on a 220,000 square-foot student center. All of this construction will ensure that this 5,200 student university remains the preeminent aeronautical university in the country and an important fabric in the Daytona Beach community.
- In 2012, I had the pleasure of getting out and meeting some of the local manufacturing backbone of the Daytona Beach area. Many of these manufacturers are aggressively expanding their businesses and hiring new employees, which is a positive sign.
- The I-4 widening is in full throttle mode. This $134 million project is scheduled to be completed in October 2014 and will provide more capacity along I-4 through to the I-95 interchange.
- International Speedway Corporation has been in the planning stages for a 180-acre development and redevelopment of its speedway and neighboring lands in Daytona Beach. If they move forward with this development, Daytona Beach could see several hundred million dollars invested locally.

## Housing

We continue to see home building activity pick up in Volusia County. Volusia County's housing permits increased by 60%, from 477 in 2011 to 762 in 2012. We hope this growth continues. Just this past year, KB Home sold approximately 55 homes in the Grande Champion development within LPGA International. KB Home has also been raising prices over the past year, which is a good trend for our area.

## "Are you kind of like St. Joe?"

This was probably the question most asked as I introduced myself to the investment community. We are like St. Joe in that we are based in Florida and own undeveloped land in the state. However, from there the differences are quite clear. CTO's more than 11,000 acres are located along I-95, which has an average daily traffic count of approximately 75,000 vehicles. We are situated in an area with a 100-mile population of over 6.0 million. St. Joe owns 40 times the amount of land as CTO in the proximity of I-10 which has less than half of the traffic and a third of the 100-mile population.

## Relative Value

Consolidated Tomoka's stock returned 14.71% in 2012 versus the S&P 500, which returned 15.89%, therefore we underperformed the broader market (assuming reinvested dividends). Our book value increased to $20.00 per share, but our total book value of $114 million is still less than what *The Scream,* a painting by Edvard Munch, sold for at auction last year. It's a pretty spectacular example of relative value, considering Munch painted four versions of the masterpiece!

## Corporate Actions

We are closer to reaching our goal of reducing the size of our board to seven directors. Linda Loomis Shelley decided to not stand for re-election and the Board elected not to replace this seat. As a result, we will have eight board members after our shareholder meeting in April. We thank Ms. Shelley for her leadership and service.

In 2012, we bought back 14,634 shares at $31.00 through an odd-lot tender which involved 283 shareholders

I look forward to seeing you in Daytona Beach for our annual shareholders meeting on April 24, 2013.

John P. Albright
President and Chief Executive Officer