Fellow Shareholders:

In the wine making business you need a lot of things to go right to have a classic vintage year wine. You need a team to care for the vines, to harvest the grapes at just the right time, a lot of luck with the right weather and a winemaker to tie everything together to yield a wine that will stand the test of time.

We think 2017 will stand as a vintage year for Consolidated-Tomoka Land Co. We had a little luck (dodged another hurricane in September and became the beneficiary of a favorable new tax bill from Congress) and enjoyed the fruits of our labor from the past couple of years in the form of large transformational land closings. The highlights of our vintage year are as follows:

- Earnings of $7.53 per share; another record year of earnings, even without the $4.02 per share gift from Congress
- Sold 1,701 acres of land for $47 million, a company record and more than double the acres we sold in 2016
- Book value grew by 27%, or $7.01 per share to $32.98 per share
- 75% of the company's 8,100 acres of land is now under contract to 16 different buyers for over $150 million of potential proceeds
- Total Shareholder Return of more than 19%, outperforming our peers
- Invested $83 million in income-producing assets at an average yield of approximately 7.5%
- Developed two restaurants on our vacant beach parcel in Daytona that opened in January of this year
- Bought back over 135,000 shares of CTO stock for $7 million
- Raised the dividend by 50% on an annualized basis
- Welcomed two new highly qualified independent members to our board of directors
- Welcomed Latitude Margaritaville's 3,400-home grand opening in October and saw over 2,000 people attend their model home opening this February
- Watched North American start construction on their 400,000-sf lifestyle power center across from Tanger Outlets, with tenants such as Dave & Busters, TJ Maxx, Marshalls and Hobby Lobby

All of this activity resulted in our share price out-performing the real estate RMZ index. In fact, since August 2011, when current management arrived, shareholders have earned a compounded annual total return of almost 13%, compared with the RMZ Index annualized total return of 7.4%.

Performance Scorecard

	Basic EPS	Dividend	CTO Share Price Performance(1)	RMZ Index(1)	Book Value Per Share
2017	$ 7.53	$0.18	19.3%	5.1%	$32.98
2016	$ 2.86	$0.12	1.6%	8.6%	$25.97
2015	$ 1.44	$0.08	(5.4%)	2.5%	$22.81
2014	$ 1.11	$0.07	54.0%	30.4%	$21.83
2013	$ 0.64	$0.06	17.2%	2.5%	$20.53
2012	$ 0.10	$0.04	14.7%	17.8%	$19.58
2011	$(0.82)	$0.04	(6.2%)	8.7%	$19.77
2010	$(0.11)	$0.04	(17.2%)	28.5%	$20.55

(1) Includes re-invested dividends

In short, the sun is shining on our assets, business activity is strong, and we're hopeful 2018's harvest will be just as good. We are optimistic, but always looking at the sky for possible changing conditions. So far so good.

Income Properties

Last year's acquisition of nearly $80 million in income properties were in very strong locations and markets including the metropolitan areas of Boston, Portland, Tampa, Fort Worth and Sarasota helping us accelerate our transition from primarily land assets to a majority net lease income property company. These six properties were acquired at an average cap rate of 7.4% with an average lease duration of 8.9 years.

Our Company now owns an income property portfolio with more than 2 million square feet of rentable space and has an average lease term of 8.0 years in twelve states with North Carolina, Oregon, Florida and California contributing the highest rental income per state. The largest tenant/credit in our portfolio is the A- rated Wells Fargo, which provides a strong anchor to our increased cash flow. Including our recent acquisition of the commercial property in Aspen, Colorado, that I'll discuss later, the total net operating income of our portfolio now stands at over $28 million, which provides consistently strong cash flow to the Company. A small component, but a significant achievement in our increased income property portfolio, occurred early in the new year, when we completed the development of our 6-acre beachfront land site into two single-tenant net lease restaurants—Margaritaville's LandShark Bar & Grill, and Cocina 214. A big congrats to Scott Bullock, Vice President—Real Estate, for making this happen at warp speed and in time for January's Rolex 24 race at Daytona International Speedway. These restaurants have been doing a strong business since their opening, which is good news as we have incentive clauses in our leases to receive added rent if the operations do well.

Our 112,000-square foot neighborhood shopping center, The Grove at Winter Park, is currently 63% leased, with lease negotiations that could take us to 80% leased by the end of the year. We may then decide to harvest this asset and reinvest the sales proceeds into more of our core single-tenant net lease strategy.

There are other multi-tenant properties we own that provide a nice return for our shareholders, but we believe that continuing to sharpen our focus on the single-tenant net lease sector will yield more than just cash dividends. Therefore, you may see us prune more of our multi-tenant assets to reinvest in the core net lease sector. To that note, we have our four remaining multi-tenant office buildings in Daytona Beach under contract for approximately $11.4 million. Additionally, we started off 2018 with the $26.5 million acquisition of a class A commercial building in downtown Aspen which is master leased to a high-net-worth real estate family from Texas, that is actively leasing up this project. Our master lease starts out at a low rental rate and escalates rapidly and we have the ability to add percentage rent based on the NOI at the property. We like this acquisition as it provides two levels of rent payers, the master lessee and the subtenants of the property.

Land

Here come the homes! ICI Homes has delivered models on their 604-acre residential development, called Mosaic, which will consist of approximately 1,000 homes at completion. Latitude Margaritaville's monster 3,400-unit master-planned, active-adult residential community will start moving residents in this month; we expect new Daytona Beach residents every month for many years to come. There will be a lot of folks who need to buy groceries and gas, dine at restaurants, go to the movies, buy furniture, play golf and shop, which lends itself nicely to all the retail development right across Interstate 95 on former CTO lands.

Other projects coming out of the ground (literally) include North American's 400,000-square foot Tomoka Town Center, which is leased to Dave & Busters, Ulta Beauty, DSW, TJ Maxx, Hobby Lobby and Academy Sports & Outdoors, to name a few. North American and Eastwind are also expected to begin construction on a $39 million, 279-unit luxury apartment project this spring. Finally, B. Braun, the medical device maker, just opened their 400,000-square foot distribution center on land CTO sold to their developer, VanTrust.

We have 35 acres under contract to the unique Texas-based gas station operator Buc-ee's, and look forward to cashing their check for approximately $14 million this spring. We are waiting on an Army Corp permit to be issued. Have you heard about the Army Corp permit issues from us before? If you have ever driven the interstate highways of Texas, then you are surely familiar with Buc-ee's, which is known for the cleanest restrooms in the country (probably world) and their fresh-baked bread. Their operations are a sight to behold—with 120 gas pumps and 50,000-square feet of retail, it is indeed a cultural experience. Ours will be among their first in Florida.

The other large land contracts go something like this:

ICI Homes has another 1,000 acres under contract, Minto has another 1,600 acres under contract, and we have a contract to sell a 70% interest in 2,500 acres for $15 million for a wetland mitigation bank joint venture. This is expected to close in the 2nd Quarter of 2018. If you're wondering what a mitigation bank is, give me a call and I will transfer you to Steven Greathouse, our Senior Vice President—Investments, who spearheaded this complicated process.

If you assume two people per household from the Minto and ICI projects, you are talking about over 8,000 additional residents in Daytona Beach, which would increase its population by well over 10%! In addition, we have a couple of other smaller land tracts under contract to multi-family developers, which will provide much-needed housing to accommodate the local job growth.

LPGA International Golf Club

We were able to buy out our lease from the City of Daytona Beach, and now own 100% of this business and the underlying land. By being free of the lease, our consolidated ownership will allow us to monetize this asset once we experience better operations from the business, including the expected new club members from among the 30 or so folks who are expected to move in every month at neighboring Latitude Margaritaville.

We also brought on a new golf management firm, Arcis Golf, to sharpen the focus on the operations of this club. They have already identified opportunities to lessen the cash burn of this tough business, so we believe better days are close at hand.

Loan Investments

We sold $15 million of our loan investments for an unleveraged IRR of 9.75%. If we funded 50% of these investments using our line of credit, our leveraged return of equity becomes a sporty 15% + IRR. We have two loans remaining for a total of $12 million with a current weighted average annual yield of approximately 9.50%. We expect both loans to be repaid this year, which will allow us to redeploy this capital to further our strategy of becoming single-tenant net lease-focused company.

Subsurface

In 2017, we sold 38,750 acres of subsurface interests in Osceola County for $2.1 million. In addition to his full-time duties as Senior Vice President, General Counsel and Corporate Secretary, Dan Smith led the charge in selling this interest. In October, we received another $856,683 from Kerogen Exploration related to their lease on 15,000 acres in Hendry County. We also amended the lease terms with Kerogen for an additional five years to the new expiration date of September 22, 2024. Kerogen has a new investor and a new team that are itching to see if there is oil on our leases. They anticipate drilling in the next 12 months, but need to get a drilling permit from the State, which is more challenging than perhaps it should be.

Capital Return/Balance Sheet

Last year we were very active in returning capital to our shareholders in the form of stock buybacks and raising the quarterly dividends. We bought back over $7 million of stock at around $53.27 per share, which appears to have been a great investment, looking at our stock's recent trading levels, and we also increased the quarterly dividend to $0.06 per share.

We were also successful in enhancing our unsecured credit facility by, amongst other things, increasing the commitment to $130 million and reducing the rate on the facility. Thanks to Mark Patten, our Senior Vice President and CFO for getting this accomplished and giving us attractively priced capital with flexible terms to continue to fund our growth.

Daytona Growth

Daytona continues to experience strong growth as evidenced by Brown & Brown's recent announcement to build a new $25 million, 250,000 square foot, 10-story headquarters building in downtown Daytona Beach, which will allow Brown & Brown to bring an additional 600 jobs from operations in Detroit and other locations. This is in addition to their existing 350 employees that are currently based in Daytona Beach. This new headquarters in downtown Daytona Beach will inject new life into Daytona's downtown core. We have been looking at additional distressed real estate investment opportunities in Daytona's downtown and beachside, as this area will surely benefit from the impressive employment and population growth that is occurring in Daytona. Those new employees are going to need those apartments and homes!

As mentioned before, B. Braun, the private German medical device company that purchased the local operations of Gambro, has already expanded their operations in the last twelve months and has recently opened a 400,000-square foot distribution center on land we sold to VanTrust. B. Braun is expected to add 175 new employees in Daytona Beach in the next couple of years, which will bring their local operation to a total of 300 employees. In case you are wondering, B. Braun manufactures saline bags for hospitals at this Daytona Beach location. All you need to do is Google the term "saline bags" to understand the favorable prospects for this business.

The premium sunglass manufacturer, Costa, was founded and is headquartered here in Daytona Beach, and is located right around the corner from our office. Even though this company was purchased by a global eye-wear company based in France, they have no intention to move the 300 local employees. In fact, they recently expanded their operations by leasing another 50,000 square feet of space across the street from their offices. If you haven't bought a pair of these fantastic glasses, you should—they have remarkable lenses that were pioneered by salt water fisherman, who demanded a better product.

REIT and New Tax Bill

Late in the year, Congress delivered a benefit to CTO shareholders by reducing our Federal tax rate from 35% to 21%, which boosted our year-end earnings by approximately $4.02 per share and our book value by almost $3.98 per share. Before the tax bill, CTO had $65.2 million in net deferred tax liabilities. With the new tax rate, our net deferred tax liabilities dropped to approximately $42.3 million.

As discussed over the years, we have been studying the benefits of converting to a REIT once our land portfolio has been monetized to the point that we have an abundance of income properties and land is more in our rearview mirror. If the $150 million of land that is currently under contract closes along its expected timeline (fingers crossed) then our Company should be ready for this potential conversion by the end of 2019. We had the Earnings & Profit study completed, which estimated that as of December 31, 2017, in connection with a potential REIT conversion, we would need to distribute approximately $38 million (at the mid-point of the estimated range), or almost $7.00 per share, as a dividend to our shareholders. This E&P dividend, which in these situations customarily is paid 80% in the form of stock and 20% in cash, is taxable to most shareholders, if you meet the requirements, at the long-term capital gains tax rate of around 20% (24% when you include your extra tax courtesy of Obamacare). Obviously, if you want to know what the actual tax consequences of the E&P dividend would be to you – contact your tax advisor.

If you want to know more about REIT conversions and the E&P dividend, call us or look at some recent REIT conversions that have plenty of information on this process. These companies include Alexander Baldwin, Rayonier, Forest City, and Lamar Communications.

A REIT conversion will allow our shareholders to benefit from the corporate Federal tax rate going from 21% to effectively zero! We think this makes a lot of sense as the REIT sector is now a more than $1 trillion industry. So, there are obviously others who believe in the REIT structure as well.

Mark Patten has been researching and leading this effort into becoming a REIT. There are a lot of steps involved in the REIT conversion process and luckily Mark and his team are on top of this process.

Corporate Activities

We are delighted to have had Christopher W. Haga join our Board of Directors this past fall. Chris is a partner with Carlson Capital, which has been a long-time significant shareholder of CTO. Carlson Capital was founded by Clint Carlson in 1993 and currently manages approximately $8.6 billion in hedge fund and CLO assets. Of the seven independent directors, three are new to the Board within the last two years. As we continue to review and refresh the Board, we are thankful for both the experienced members who have recently concluded their years of productive service, and we look forward to continued success under the guidance and oversight of the members recently added to the Board.

Our Board members provide essential wisdom from their extensive experience and diverse backgrounds, including public real estate experience, that benefits all of our shareholders. We want to especially thank John (Jack) Allen, who is retiring from the Board, for his dedication and tireless efforts. Jack was instrumental, along with some of our other current and past directors, in shining the light on needed changes at CTO (before I arrived, of course) and doing the heavy lifting of taking a company facing some operational challenges and an inefficient overhead structure, to CTO's current position of delivering strong returns for our shareholders in a very efficient manner. Jack has been a Board member since 2009, so he has seen the before pictures of CTO and leaves us in good shape for the future. Thanks to Jack for helping get us to where we are. We wish him well. A special thanks to all of our directors, as well as Dan Smith, who for the last 18 months or so have been dealing with a seemingly non-stop proxy contest, which has increased the work, cost and burden on our Board and management team.

Finally, and most importantly, I want to again thank the other 13 members of our team at the corporate headquarters of Consolidated Tomoka who make it happen every day. We are grateful to have dedicated employees who have been here working hard "making hay while the sun is shining." I am grateful for each one of them and for their commitment to our Company. Thank you all.

As mentioned last year, we not only believe that Daytona Beach is witnessing a true renaissance of a small beach town, but as ambassadors for this community, we enjoy meeting people and telling this story over and over again, because it is not being reported on as much as it should be.

We encourage you to see for yourself and attend our annual meeting at our 100%-owned LPGA International Golf Club on April 25, 2018. If you do make it to Daytona, please visit Latitude Margaritaville's sales center and tour their model homes. After our annual meeting (or before), head over to the beach and have a margarita at Cocina 214 restaurant and then walk over to LandShark Bar & Grill and enjoy the best burger in Daytona Beach and a LandShark Beer (then Uber home).

On behalf of the CTO Board of Directors, I want to thank you for your continued support.

John P. Albright
President and
Chief Executive Officer