

GLADSTONE LAND Corp  
Form 10-Q  
May 02, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER: 001-35795**

**GLADSTONE LAND CORPORATION**  
**(Exact name of registrant as specified in its charter)**

**MARYLAND**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**54-1892552**  
**(I.R.S. Employer**  
**Identification No.)**

**1521 WESTBRANCH DRIVE, SUITE 100**

**MCLEAN, VIRGINIA**  
**(Address of principal executive offices)**

**22102**  
**(Zip Code)**

**(703) 287-5800**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

*(Check one):*

Large accelerated filer

Accelerated filer

Non-accelerated filer  *(Do not check if a smaller reporting company)*

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO .

The number of shares of the registrant's Common Stock, \$0.001 par value per share, outstanding as of April 29, 2016, was 9,992,941.



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**GLADSTONE LAND CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED**

**March 31, 2016**

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****GLADSTONE LAND CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS***(UNAUDITED)*

|  | <b>March 31,<br/>2016</b> | <b>December 31, 2015</b> |
|--|---------------------------|--------------------------|
| <b>ASSETS</b>  |                           |                          |
| Investments in real estate, net  | \$ 249,983,400            | \$ 221,783,425           |
| Lease intangibles, net   | 2,225,926                 | 1,763,541                |
| Cash and cash equivalents  | 2,193,360                 | 2,532,522                |
| Deferred financing costs related to borrowings under line of credit, net   | 128,424                   | 132,495                  |
| Other assets, net  | 2,439,519                 | 2,472,042                |
| <b>Total assets</b>  | <b>\$ 256,970,629</b>     | <b>\$ 228,684,025</b>    |
| <b>LIABILITIES AND EQUITY</b>  |                           |                          |
| <b>LIABILITIES:</b>  |                           |                          |
| Mortgage notes and bonds payable, net  | \$ 156,928,055            | \$ 141,578,935           |
| Borrowings under line of credit  | 2,800,000                 | 100,000                  |
| Accounts payable and accrued expenses  | 4,746,694                 | 3,495,339                |
| Due to related parties <sup>(1)</sup>  | 628,421                   | 565,593                  |
| Other liabilities  | 8,427,252                 | 4,937,439                |
| <b>Total liabilities</b>   | <b>173,530,422</b>        | <b>150,677,306</b>       |
| <i>Commitments and contingencies<sup>(2)</sup></i>   |                           |                          |
| <b>EQUITY:</b>   |                           |                          |
| Stockholders' equity:  |                           |                          |
| Common stock, \$0.001 par value; 20,000,000 shares authorized; 9,992,941 shares issued and outstanding as of March 31, 2016, and December 31, 2015 | 9,993                     | 9,993                    |
| Additional paid-in capital   | 87,494,870                | 86,892,095               |
| Accumulated deficit  | (9,860,106)               | (8,895,369)              |
| Total stockholders' equity   | 77,644,757                | 78,006,719               |
| Non-controlling interests in operating partnership   | 5,795,450                 |                          |
| <b>Total equity</b>  | <b>83,440,207</b>         | <b>78,006,719</b>        |

|                                     |                       |                       |
|-------------------------------------|-----------------------|-----------------------|
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 256,970,629</b> | <b>\$ 228,684,025</b> |
|-------------------------------------|-----------------------|-----------------------|

- (1) Refer to Note 4, Related-Party Transactions, for additional information.
- (2) Refer to Note 7, Commitments and Contingencies, for additional information.

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**GLADSTONE LAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(UNAUDITED)*

|  | <b>For the Three Months Ended March 31,</b> |                  |
|--|---|------------------|
|  | <b>2016</b>                                 | <b>2015</b>      |
| <b>OPERATING REVENUES:</b>                                 |   |                  |
| Rental revenue   | \$ 3,679,474                                | \$ 2,622,327     |
| Tenant recovery revenue                                    | 3,203                                       | 3,397            |
| Total operating revenues                                   | 3,682,677                                   | 2,625,724        |
| <b>OPERATING EXPENSES:</b>                                 |   |                  |
| Depreciation and amortization                              | 976,710                                     | 791,632          |
| Property operating expenses                                | 180,203                                     | 205,766          |
| Acquisition-related expenses                               | 95,224                                      | 170,680          |
| Management fees <sup>(1)</sup>                             | 387,154                                     | 295,748          |
| Administration fees <sup>(1)</sup>                         | 211,860                                     | 130,936          |
| General and administrative expenses                        | 431,326                                     | 397,354          |
| Operating expenses before credits from Adviser             | 2,282,477                                   | 1,992,116        |
| Credits to fees from Adviser <sup>(1)</sup>                |   | (320,905)        |
| Total operating expenses, net of credits to fees           | 2,282,477                                   | 1,671,211        |
| <b>OPERATING INCOME</b>                                    | <b>1,400,200</b>                            | <b>954,513</b>   |
| <b>OTHER INCOME (EXPENSE):</b>                             |   |                  |
| Other income   | 94,641                                      | 19,430           |
| Interest expense   | (1,254,849)                                 | (949,369)        |
| Total other expense  | (1,160,208)                                 | (929,939)        |
| <b>NET INCOME</b>  | <b>239,992</b>                              | <b>24,574</b>    |
| Less net income attributable to non-controlling interests  | (5,576)                                     |                  |
| <b>NET INCOME ATTRIBUTABLE TO THE COMPANY</b>              | <b>\$ 234,416</b>                           | <b>\$ 24,574</b> |
| <b>EARNINGS PER COMMON SHARE:</b>                          |   |                  |
| Basic and diluted  | \$ 0.02                                     | \$ 0.00          |
| <b>WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING</b> |   |                  |
| Basic and diluted  | 9,992,941                                   | 7,753,717        |

(1) Refer to Note 4, Related-Party Transactions, for additional information.

*The accompanying notes are an integral part of these condensed consolidated financial statements.*



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**GLADSTONE LAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
**(UNAUDITED)**

|   | Common Stock        |                 | Additional<br>Paid-in Capital | Accumulated<br>Deficit | Non-<br>Controlling<br>Interests | Total<br>Equity      |
|---|---------------------|-----------------|-------------------------------|------------------------|----------------------------------|----------------------|
|   | Number<br>of Shares | Par Value       |                               |                        |                                  |                      |
| <b>Balance at December 31,<br/>2014</b>   | <b>7,753,717</b>    | <b>\$ 7,754</b> | <b>\$ 65,366,309</b>          | <b>\$ (5,404,735)</b>  | <b>\$</b>                        | <b>\$ 59,969,328</b> |
| Net income  |                     |                 |                               | 568,545                |                                  | 568,545              |
| Proceeds from issuance of<br>common stock, net  | 2,239,224           | 2,239           | 21,525,786                    |                        |                                  | 21,528,025           |
| Distributions   |                     |                 |                               | (4,059,179)            |                                  | (4,059,179)          |
| <b>Balance at December 31,<br/>2015</b>   | <b>9,992,941</b>    | <b>\$ 9,993</b> | <b>\$ 86,892,095</b>          | <b>\$ (8,895,369)</b>  | <b>\$</b>                        | <b>\$ 78,006,719</b> |
| Net income  |                     |                 |                               | 234,416                | 5,576                            | 239,992              |
| Common stock offering costs   |                     |                 | (3,869)                       |                        |                                  | (3,869)              |
| Distributions   |                     |                 |                               | (1,199,153)            | (29,835)                         | (1,228,988)          |
| Issuance of OP Units as<br>consideration in real estate<br>acquisitions, net                                      |                     |                 |                               |                        | 6,426,353                        | 6,426,353            |
| Adjustment to non-controlling<br>interests resulting from<br>changes in ownership of the<br>Operating Partnership |                     |                 | 606,644                       |                        | (606,644)                        |                      |
| <b>Balance at March 31, 2016</b>  | <b>9,992,941</b>    | <b>\$ 9,993</b> | <b>\$ 87,494,870</b>          | <b>\$ (9,860,106)</b>  | <b>\$ 5,795,450</b>              | <b>\$ 83,440,207</b> |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**GLADSTONE LAND CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(UNAUDITED)*

|   | <b>For the Three Months Ended March 31,</b> |              |
|---|---|--------------|
|   | <b>2016</b>                                 | <b>2015</b>  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |   |              |
| Net income  | \$ 239,992                                  | \$ 24,574    |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |              |
| Depreciation and amortization   | 976,710                                     | 791,632      |
| Amortization of deferred financing costs  | 34,354                                      | 21,026       |
| Amortization of deferred rent assets and liabilities, net                         | (42,422)                                    | (64,146)     |
| Allowance for doubtful accounts   | (13,083)                                    |              |
| Changes in operating assets and liabilities:                                      |   |              |
| Other assets  | 40,407                                      | 45,255       |
| Accounts payable, accrued expenses and due to related parties                     | (530,117)                                   | (756,342)    |
| Other liabilities   | 3,527,927                                   | 203,307      |
| Net cash provided by operating activities   | 4,233,768                                   | 265,306      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |   |              |
| Acquisition of new real estate  | (19,067,237)                                | (19,869,405) |
| Capital expenditures on existing real estate                                      | (1,865,770)                                 | (398,064)    |
| Decrease in restricted cash   |   | 132,741      |
| Deposits on future acquisitions   | (200,000)                                   |              |
| Deposits applied against real estate investments                                  | (216,725)                                   |              |
| Deposits refunded   | 200,000                                     | 100,000      |
| Net cash used in investing activities   | (21,149,732)                                | (20,034,728) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |   |              |
| Offering costs  | (215,006)                                   | (36,766)     |
| Borrowings from mortgage notes payable  | 15,531,000                                  | 12,552,680   |
| Repayments on mortgage note payable   | (187,238)                                   | (103,238)    |
| Net borrowings from line of credit  | 2,700,000                                   | 7,800,000    |
| Payment of financing fees   | (22,966)                                    | (68,116)     |
| Distributions paid on common stock  | (1,199,153)                                 | (814,140)    |
| Distributions paid to non-controlling interests in Operating Partnership          | (29,835)                                    |              |
| Net cash provided by financing activities   | 16,576,802                                  | 19,330,420   |
| NET DECREASE IN CASH AND CASH EQUIVALENTS   | (339,162)                                   | (439,002)    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 2,532,522                                   | 2,619,342    |

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|  |    |           |    |           |
|--|----|-----------|----|-----------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ | 2,193,360 | \$ | 2,180,340 |
|--|----|-----------|----|-----------|

**NON-CASH INVESTING AND FINANCING INFORMATION:**

|   |    |           |    |  |
|---|----|-----------|----|--|
| Issuance of non-controlling interests in operating partnership in conjunction with acquisitions | \$ | 6,451,853 | \$ |  |
|---|----|-----------|----|--|

|   |  |           |  |           |
|---|--|-----------|--|-----------|
| Real estate additions included in Accounts payable, accrued expenses and due to related parties |  | 3,188,897 |  | 1,069,965 |
|---|--|-----------|--|-----------|

|   |  |       |  |         |
|---|--|-------|--|---------|
| Real estate additions included in Other liabilities |  | 5,935 |  | 700,000 |
|---|--|-------|--|---------|

|  |  |        |  |  |
|--|--|--------|--|--|
| Common stock offering and OP Unit issuance costs included in Accounts payable, accrued expenses and due to related parties |  | 36,475 |  |  |
|--|--|--------|--|--|

|  |  |        |  |       |
|--|--|--------|--|-------|
| Financing fees included in Accounts payable, accrued expenses and due to related parties |  | 27,079 |  | 6,194 |
|--|--|--------|--|-------|

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

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**GLADSTONE LAND CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 1. BUSINESS**

**Business**

Gladstone Land Corporation is a real estate investment trust ( REIT ) that was re-incorporated in Maryland on March 24, 2011, having been previously re-incorporated in Delaware on May 25, 2004, and having been originally incorporated in California on June 14, 1997. We are primarily in the business of owning and leasing farmland. We conduct substantially all of our operations through a subsidiary, Gladstone Land Limited Partnership (the Operating Partnership ), a Delaware limited partnership. Subject to certain restrictions and limitations, and pursuant to contractual agreements, our business is managed by Gladstone Management Corporation (the Adviser ), a Delaware corporation, and administrative services are provided to us by Gladstone Administration, LLC (the Administrator ), a Delaware limited liability company. Our Adviser and Administrator are both affiliates of ours.

All further references herein to we, us, our and the Company refer, collectively, to Gladstone Land Corporation and its consolidated subsidiaries, except where indicated otherwise.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Interim Financial Information**

Our interim financial statements are prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and pursuant to the requirements for reporting on Form 10-Q in accordance with Article 10 of Regulation S-X. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with GAAP are omitted. In the opinion of our management, all adjustments, consisting solely of normal recurring accruals, necessary for the fair presentation of financial statements for the interim period have been included. The interim financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission (the SEC ) on February 23, 2016 (the Form 10-K ). The results of operations for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

**Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

**Reclassifications**

Certain line items on the *Condensed Consolidated Balance Sheet* as of December 31, 2015, the *Condensed Consolidated Statement of Operations* for the three months ended March 31, 2015, and the *Condensed Consolidated*

*Statement of Cash Flows* for the three months ended March 31, 2015, have been reclassified to conform to the current period's presentation. These reclassifications had no impact on previously-reported stockholders' equity, net income or net change in cash and cash equivalents.

**Table of Contents****Non-controlling Interests**

Non-controlling interests are interests in the Operating Partnership not owned by us. We evaluate whether non-controlling interests are subject to redemption features outside of our control. As of March 31, 2016, the non-controlling interests in the Operating Partnership are redeemable for cash or, at our option, shares of our common stock and thus are reported in the equity section of the *Condensed Consolidated Balance Sheet* but separate from stockholders' equity. The amount reported for non-controlling interests on the *Condensed Statement of Operations* represents the portion of income from the Operating Partnership not attributable to us.

**Critical Accounting Policies**

The preparation of financial statements in accordance with GAAP requires management to make judgments that are subjective in nature in order to make certain estimates and assumptions, and the application of these accounting policies involves the exercise of judgment regarding the use of assumptions as to future uncertainties. A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements included in our Form 10-K. There were no material changes to our significant accounting policies during the three months ended March 31, 2016.

**Recently-Issued Accounting Guidance**

In April 2015, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires the presentation of debt issuance costs on the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred financing cost. ASU 2015-03 is effective for annual periods beginning after December 15, 2015, and we have adopted this provision for the three months ended March 31, 2016. As of March 31, 2016, and December 31, 2015, we had unamortized deferred financing costs related to mortgage notes and bonds payable of \$1.0 and \$1.1 million, respectively, which costs have been reclassified from Deferred financing costs, net, as reported on the *Consolidated Balance Sheet* as of December 31, 2015, in the Form 10-K, to Mortgage notes and bonds payable, net on the accompanying *Condensed Consolidated Balance Sheets*. All periods presented have been retroactively adjusted.

The following table summarizes the retrospective adjustment and the overall impact on the previously-reported consolidated financial statements:

|   | <b>As of December 31, 2015</b> |                                      |
|---|--------------------------------|--------------------------------------|
|   | <b>As</b>                      |                                      |
|   | <b>Previously<br/>Reported</b> | <b>Retrospective<br/>Application</b> |
| Deferred financing costs related to mortgage notes and bonds payable <sup>(1)</sup> | \$ 1,054,222                   | \$                                   |
| Mortgage notes and bonds payable, net   | 142,633,157                    | 141,578,935                          |

<sup>(1)</sup> Included as part of Deferred financing costs, net as reported on the *Consolidated Balance Sheet* in the Form 10-K.

In August 2015, the FASB issued ASU No. 2015-15, Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ( ASU 2015-15 ), which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line of credit arrangements as assets. ASU 2015-15 was effective immediately. As of each March 31, 2016, and December 31, 2015, we had unamortized deferred financing costs of approximately \$0.1 million related to our line of credit, and we will continue to present debt issuance costs related to line of credit arrangements as an asset on the accompanying *Condensed Consolidated Balance Sheets*.

On January 1, 2016, we adopted accounting guidance under Accounting Standards Codification ( ASC ) Topic 810, Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, ( ASC 810 ), which modifies the analysis we must perform to determine whether we should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities ( VIEs ) or voting interest model entities, but it modifies the requirements to qualify as a voting interest model entity. Under the revised guidance, our Operating Partnership will qualify as a VIE; however, as we already consolidate the Operating Partnership in

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our balance sheets, the identification of our Operating Partnership as a VIE has no impact on our consolidated financial statements. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption of this guidance. In addition, there were no other voting interest model entities under prior existing guidance determined to be VIEs under the revised guidance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): An Amendment of the FASB Accounting Standards Codification* (ASU 2016-02). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee, which classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis, respectively, over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months, regardless of the classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leasing standard, ASC 840, *Leases*, and is effective on January 1, 2019, with early adoption permitted. We are currently evaluating the overall impact of ASU 2016-02. We expect our legal expenses to increase marginally, as the new standard requires us to expense indirect leasing costs that were previously capitalized; however, we do not expect ASU 2016-02 to materially impact our consolidated financial statements, as we do not currently have any lease arrangements for which we are the lessee.



**Table of Contents****NOTE 3. REAL ESTATE AND INTANGIBLE ASSETS**

All of our properties are wholly owned on a fee-simple basis. The following table provides certain summary information about our 46 farms as of March 31, 2016:

| Property Name      | Location        | Date Acquired | Number of Farms | Total Acres   | Farm Acres    | Lease Expiration Date    | Net Cost Basis <sup>(1)</sup> | Encumbrances <sup>(2)</sup> |
|--------------------|-----------------|---------------|-----------------|---------------|---------------|--------------------------|-------------------------------|-----------------------------|
| San Andreas        | Watsonville, CA | 6/16/1997     | 1               | 307           | 238           | 12/31/2020               | \$ 4,776,750                  | \$ 4,816,404                |
| West Gonzales      | Oxnard, CA      | 9/15/1998     | 1               | 653           | 502           | 6/30/2020                | 12,142,787                    | 24,504,485                  |
| West Beach         | Watsonville, CA | 1/3/2011      | 3               | 196           | 195           | 12/31/2023               | 9,292,113                     | 4,691,842                   |
| Dalton Lane        | Watsonville, CA | 7/7/2011      | 1               | 72            | 70            | 10/31/2020               | 2,681,288                     | 1,554,536                   |
| Keysville Road     | Plant City, FL  | 10/26/2011    | 2               | 61            | 56            | 6/30/2020                | 1,240,187                     | 897,600                     |
| Colding Loop       | Wimauma, FL     | 8/9/2012      | 1               | 219           | 181           | 6/14/2018                | 3,929,122                     | 2,640,000                   |
| Trapnell Road      | Plant City, FL  | 9/12/2012     | 3               | 124           | 110           | 6/30/2017                | 3,903,277                     | 2,522,250                   |
| 38th Avenue        | Covert, MI      | 4/5/2013      | 1               | 119           | 89            | 4/4/2020                 | 1,265,366                     | 742,391                     |
| Sequoia Street     | Brooks, OR      | 5/31/2013     | 1               | 218           | 206           | 5/31/2028                | 3,100,817                     | 1,716,191                   |
| Natividad Road     | Salinas, CA     | 10/21/2013    | 1               | 166           | 166           | 10/31/2024               | 8,846,432                     | 3,875,268                   |
| 20th Avenue        | South Haven, MI | 11/5/2013     | 3               | 151           | 94            | 11/4/2018                | 1,871,211                     | 1,107,219                   |
| Broadway Road      | Moorpark, CA    | 12/16/2013    | 1               | 60            | 46            | 12/15/2023               | 2,878,356                     | 1,660,829                   |
| Oregon Trail       | Echo, OR        | 12/27/2013    | 1               | 1,895         | 1,640         | 12/31/2023               | 13,898,699                    | 7,750,535                   |
| East Shelton       | Willcox, AZ     | 12/27/2013    | 1               | 1,761         | 1,320         | 2/29/2024                | 7,827,371                     | 3,709,185                   |
| Collins Road       | Clatskanie, OR  | 5/30/2014     | 2               | 200           | 157           | 9/30/2024                | 2,396,272                     | 1,494,746                   |
| Spring Valley      | Watsonville, CA | 6/13/2014     | 1               | 145           | 110           | 9/30/2022                | 5,761,971                     | 3,266,297                   |
| McIntosh Road      | Dover, FL       | 6/20/2014     | 2               | 94            | 78            | 6/30/2019 <sup>(3)</sup> | 2,464,544                     | 1,519,620                   |
| Naumann Road       | Oxnard, CA      | 7/23/2014     | 1               | 68            | 66            | 7/31/2017                | 6,799,261                     | 3,814,369                   |
| Sycamore Road      | Arvin, CA       | 7/25/2014     | 1               | 326           | 322           | 10/31/2024               | 6,868,186                     | 3,210,936                   |
| Wauchula Road      | Duette, FL      | 9/29/2014     | 1               | 808           | 590           | 9/30/2024                | 13,713,300                    | 7,639,575                   |
| Santa Clara Avenue | Oxnard, CA      | 10/29/2014    | 2               | 333           | 331           | 7/31/2017                | 24,206,436                    | 13,840,241                  |
| Dufau Road         | Oxnard, CA      | 11/4/2014     | 1               | 65            | 64            | 11/3/2017                | 6,046,279                     | 3,675,000                   |
| Espinosa Road      | Salinas, CA     | 1/5/2015      | 1               | 331           | 329           | 10/31/2016               | 16,450,268                    | 10,178,000                  |
| Parrish Road       | Duette, FL      | 3/10/2015     | 1               | 419           | 412           | 6/30/2025                | 4,235,980                     | 2,374,680                   |
| Immokalee Exchange | Immokalee, FL   | 6/25/2015     | 2               | 2,678         | 1,644         | 6/30/2020                | 15,585,280                    | 9,360,000                   |
| Holt County        | Stuart, NE      | 8/20/2015     | 1               | 1,276         | 1,052         | 12/31/2018               | 5,460,180                     | 3,301,000                   |
| Rock County        | Bassett, NE     | 8/20/2015     | 1               | 1,283         | 1,049         | 12/31/2018               | 5,450,906                     | 3,301,000                   |
| Bear Mountain      | Arvin, CA       | 9/3/2015      | 3               | 854           | 841           | 1/9/2031                 | 22,656,128                    | 8,514,720                   |
| Corbitt Road       | Immokalee, FL   | 11/2/2015     | 1               | 691           | 390           | 12/31/2021               | 3,800,181                     | 3,760,000                   |
| Reagan Road        | Willcox, AZ     | 12/22/2015    | 1               | 1,239         | 875           | 12/31/2025               | 5,708,898                     | 3,807,000                   |
| Gunbarrel Road     | Alamosa, CO     | 3/3/2016      | 3               | 6,191         | 4,730         | 2/28/2021                | 25,637,561                    | 15,531,000                  |
|                    |                 |               | <b>46</b>       | <b>23,003</b> | <b>17,953</b> |                          | <b>\$ 250,895,407</b>         | <b>\$ 160,776,919</b>       |

- (1) Consists of the initial acquisition price (including the costs allocated to both tangible and intangible assets acquired and liabilities assumed), plus subsequent improvements and other capitalized costs associated with the properties, and adjusted for accumulated depreciation and amortization. Includes Investments in real estate, net and Lease intangibles, net; plus net above-market lease values included in Other assets; and less net below-market lease values, deferred revenue and unamortized tenant improvements included in Other liabilities, each as shown on the accompanying *Condensed Consolidated Balance Sheet*.
- (2) Excludes approximately \$1.0 million of deferred financing costs related to mortgage notes and bonds payable included in Mortgage notes and bonds payable, net on the accompanying *Condensed Consolidated Balance Sheet*.
- (3) There are two leases in place on this property, one expiring on June 30, 2017, and the other expiring on June 30, 2019.

**Table of Contents****Real Estate**

The following table sets forth the components of our investments in tangible real estate assets as of March 31, 2016, and December 31, 2015:

|                            | <b>March 31,<br/>2016</b> | <b>December 31, 2015</b> |
|----------------------------|---------------------------|--------------------------|
| <b>Real estate:</b>        |                           |                          |
| Land and land improvements | \$ 210,667,822            | \$ 192,020,381           |
| Irrigation systems         | 26,678,519                | 21,849,508               |
| Buildings                  | 14,623,118                | 11,184,647               |
| Horticulture               | 1,490,695                 | 1,490,695                |
| Other improvements         | 3,957,643                 | 1,872,606                |
| Real estate, at cost       | 257,417,797               | 228,417,837              |
| Accumulated depreciation   | (7,434,397)               | (6,634,412)              |
| <b>Real estate, net</b>    | <b>\$ 249,983,400</b>     | <b>\$ 221,783,425</b>    |

Real estate depreciation expense on these tangible assets was \$799,985 and \$512,513 for the three months ended March 31, 2016 and 2015, respectively.

**Intangible Assets and Liabilities**

The following table summarizes the carrying values of lease intangible assets and the related accumulated amortization as of March 31, 2016, and December 31, 2015:

|                               | <b>March 31, 2016</b> | <b>December 31, 2015</b> |
|-------------------------------|-----------------------|--------------------------|
| <b>Lease intangibles:</b>     |                       |                          |
| In-place leases               | \$ 1,607,932          | \$ 1,225,955             |
| Leasing costs                 | 934,245               | 677,112                  |
| Tenant relationships          | 886,743               | 886,743                  |
| Lease intangibles, at cost    | 3,428,920             | 2,789,810                |
| Accumulated amortization      | (1,202,994)           | (1,026,269)              |
| <b>Lease intangibles, net</b> | <b>\$ 2,225,926</b>   | <b>\$ 1,763,541</b>      |

Total amortization expense related to these lease intangible assets was \$176,725 and \$279,119 for the three months ended March 31, 2016 and 2015, respectively.

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The following table summarizes the carrying values of certain lease intangible assets or liabilities included in Other assets and Other liabilities, respectively, on the accompanying *Condensed Consolidated Balance Sheets* and the related accumulated amortization or accretion, respectively, as of March 31, 2016, and December 31, 2015.

| <b>Intangible Asset or Liability</b>                          | <b>As of March 31, 2016</b>     |                                      | <b>As of December 31, 2015</b>  |                                      |
|---|---------------------------------|--------------------------------------|---------------------------------|--------------------------------------|
|   | Deferred Rent Asset (Liability) | Accumulated (Amortization) Accretion | Deferred Rent Asset (Liability) | Accumulated (Amortization) Accretion |
| Above-market lease values <sup>(1)</sup>                      | \$ 19,528                       | \$ (9,167)                           | \$ 19,528                       | \$ (7,540)                           |
| Below-market lease values and deferred revenue <sup>(2)</sup> | (202,579)                       | 30,536                               | (202,579)                       | 23,205                               |
|   | <b>\$ (183,051)</b>             | <b>\$ 21,369</b>                     | <b>\$ (183,051)</b>             | <b>\$ 15,665</b>                     |

(1) Above-market lease values are included as part of Other assets in the accompanying *Condensed Consolidated Balance Sheets*, and the related amortization is recorded as a reduction of rental income.

(2) Below-market lease values and deferred revenue are included as a part of Other liabilities in the accompanying *Condensed Consolidated Balance Sheets*, and the related accretion is recorded as an increase to rental income.

Total amortization related to above-market lease values and deferred revenue was \$1,627 and \$5,395 for the three months ended March 31, 2016 and 2015, respectively. Total accretion related to below-market lease values and deferred revenue was \$7,331 and \$55,143 for the three months ended March 31, 2016 and 2015, respectively.

**New Real Estate Activity**

Certain acquisitions during the periods presented were accounted for as business combinations in accordance with ASC 805, as there was a prior leasing history on the property. As such, the fair value of all assets acquired and liabilities assumed were determined in accordance with ASC 805, and all acquisition-related costs were expensed as incurred, other than those costs that directly related to reviewing or assigning leases we assumed upon acquisition, which were capitalized as part of leasing costs. For acquisitions accounted for as asset acquisitions under ASC 360, all acquisition-related costs were capitalized and included as part of the fair value allocation of the identifiable tangible assets acquired, other than those costs that directly related to originating new leases we executed upon acquisition, which were capitalized as part of leasing costs.

In addition, total consideration for acquisitions may include a combination of cash and equity securities, such as limited partnership interests in the Operating Partnership ( OP Units ). When OP Units are issued in connection with acquisitions, we determine the fair value of the OP Units issued based on the number of units issued multiplied by the closing price of the Company's common stock on the date of acquisition.

**2016 New Real Estate Activity**

During the three months ended March 31, 2016, we acquired three new farms in one transaction, which is summarized in the table below.

| Property | Property Location | Acquisition Date | Total Acreage | Number of Farms | Primary Crop(s) | Lease Term | Renewal Options | Total Purchase Price | Acquisition Costs        | Annualized Straight-line Cash Rent <sup>(1)</sup> | Long-term Debt Issued |
|----------|-------------------|------------------|---------------|-----------------|-----------------|------------|-----------------|----------------------|--------------------------|---|-----------------------|
| (2)      | Alamosa, CO       | 3/3/2016         | 6,191         | 3               | Potatoes        | 5 years    | 1 (5 years)     | \$ 25,735,815        | \$ 88,889 <sup>(3)</sup> | \$ 1,590,614                                      | \$ 15,531,            |

(1) Annualized straight-line amount is based on the minimum cash rental payments guaranteed under the lease.

(2) As partial consideration for the acquisition of this property, we issued 745,879 OP Units, constituting an aggregate fair value of approximately \$6.5 million as of the acquisition date.

(3) Acquisition accounted for as a business combination under ASC 805. As such, all acquisition-related costs were expensed as incurred, other than direct leasing costs, which were capitalized. In aggregate, we incurred \$4,670 of direct leasing costs in connection with this acquisition.

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We determined the fair value of assets acquired and liabilities assumed related to the property acquired during the three months ended March 31, 2016, to be as follows:

| Property Name  | Land and Land Improvements | Buildings    | Irrigation Systems | Other Improvements | In-place Leases | Leasing Costs | Total Purchase Price |
|----------------|----------------------------|--------------|--------------------|--------------------|-----------------|---------------|----------------------|
| Gunbarrel Road | \$ 16,755,814              | \$ 3,438,291 | \$ 2,830,738       | \$ 2,079,102       | \$ 381,977      | \$ 249,893    | \$ 25,735,815        |

The allocation of the purchase price for the property acquired during the three months ended March 31, 2016, is preliminary and may change during the measurement period if we obtain new information regarding the assets acquired or liabilities assumed at the acquisition date.

Below is a summary of the total operating revenues and earnings recognized on the property acquired during the three months ended March 31, 2016:

| Property Name  | Acquisition Date | Operating Revenues | Earnings <sup>(1)</sup> |
|----------------|------------------|--------------------|-------------------------|
| Gunbarrel Road | 3/3/2016         | \$ 123,999         | \$ 21,075               |

(1) Earnings are calculated as net income less interest expense and any acquisition-related costs that are required to be expensed if the acquisition is treated as a business combination under ASC 805.

**2015 New Real Estate Activity**

During the three months ended March 31, 2015, we acquired two new farms in two separate transactions, which are summarized in the table below.

| Property Location | Acquisition Date | Total Acreage | Number of Farms | Primary Crop(s) | Lease Term | Renewal Options | Total Purchase Price | Acquisition Costs        | Annualized Straight-line Cash Rent <sup>(1)</sup> | Long-Term Debt |
|-------------------|------------------|---------------|-----------------|-----------------|------------|-----------------|----------------------|--------------------------|---|----------------|
| Salinas, CA       | 1/5/2015         | 331           | 1               | Strawberries    | 1.8 years  | None            | \$ 16,905,500        | \$ 89,885 <sup>(3)</sup> | \$ 778,342  | \$ 10,100,000  |
| Duette, FL        | 3/10/2015        | 419           | 1               | Strawberries    | 10.3 years | 2 (5 years)     | 3,913,280            | 103,610 <sup>(3)</sup>   | 251,832   | 2,300,000      |
|                   |                  | 750           | 2               |                 |            |                 | \$ 20,818,780        | \$ 193,495               | \$ 1,030,174                                      | \$ 12,500,000  |

(1) Annualized straight-line amount is based on the minimum cash rental payments guaranteed under the lease.

(2) In connection with this acquisition, our Adviser earned a finder's fee of \$320,905, which the Adviser fully credited back to us during the three months ended March 31, 2015. See Note 4, Related-Party Transactions for

further discussion on this fee.

- (3) Acquisition accounted for as a business combination under ASC 805. As such, all acquisition-related costs were expensed as incurred, other than direct leasing costs, which were capitalized. In aggregate, we incurred \$2,625 of direct leasing costs in connection with these acquisitions.

We determined the fair value of assets acquired and liabilities assumed related to the properties acquired during the three months ended March 31, 2015, to be as follows:

| Property Name | Buildings                  |                  |                   |                 |               | Tenant Relationships | Total Purchase Price |
|---------------|----------------------------|------------------|-------------------|-----------------|---------------|----------------------|----------------------|
|               | Land and Land Improvements | and Improvements | Irrigation System | In-place Leases | Leasing Costs |                      |                      |
| Espinosa Road | \$ 15,852,466              | \$ 84,478        | \$ 497,401        | \$ 246,472      | \$ 43,895     | \$ 180,788           | \$ 16,905,500        |
| Parrish Road  | 2,403,064                  | 42,619           | 1,299,851         | 54,405          | 77,449        | 35,892               | 3,913,280            |
|               | \$ 18,255,530              | \$ 127,097       | \$ 1,797,252      | \$ 300,877      | \$ 121,344    | \$ 216,680           | \$ 20,818,780        |

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Below is a summary of the total operating revenues and earnings recognized on the properties acquired during the three months ended March 31, 2015:

| <b>Property Name</b> | <b>Acquisition Date</b> | <b>Operating Revenues</b> | <b>Earnings<sup>(1)</sup></b> |
|----------------------|-------------------------|---------------------------|-------------------------------|
| Espinosa Road        | 1/5/2015                | \$ 186,216                | \$ 97,058                     |
| Parrish Road         | 3/10/2015               | 14,216                    | 7,179                         |
|                      |                         | <b>\$ 200,432</b>         | <b>\$ 104,237</b>             |

<sup>(1)</sup> Earnings are calculated as net income less interest expense and any acquisition-related costs that are required to be expensed if the acquisition is treated as a business combination under ASC 805.

**Acquired Intangibles and Liabilities**

The following table shows the weighted-average amortization period, in years, for the intangible assets acquired and liabilities assumed in connection with the new properties acquired during the three months ended March 31, 2016 and 2015:

| <b>Intangible Assets and Liabilities</b>     | <b>Weighted-Average Amortization Period (in Years)</b> |             |
|--|--|-------------|
|  | <b>2016</b>  | <b>2015</b> |
| In-place leases                              | 5.1  | 3.4         |
| Leasing costs                                | 5.1  | 7.2         |
| Tenant relationships                         |  | 4.9         |
| <b>All intangible assets and liabilities</b> | <b>5.1</b>   | <b>4.6</b>  |

**Pro-Forma Financials**

We acquired three farms during the three months ended March 31, 2016, and two farms during the three months ended March 31, 2015. The following table reflects pro-forma consolidated financial information as if each farm was acquired on January 1 of the respective prior fiscal year. In addition, pro-forma earnings have been adjusted to assume that acquisition-related costs related to these farms were incurred at the beginning of the previous fiscal year.

|                         | <b>For the Three Months Ended March 31,</b> |                    |
|-------------------------|---|--------------------|
|                         | <b>2016</b>                                 | <b>2015</b>        |
|                         | <i>(Unaudited)</i>                          | <i>(Unaudited)</i> |
| <b>Operating Data:</b>  |   |                    |
| Total operating revenue | \$ 3,761,746                                | \$ 3,080,488       |



|  |    |         |    |        |
|--|----|---------|----|--------|
| Net income attributable to the company | \$ | 156,241 | \$ | 37,637 |
|--|----|---------|----|--------|

**Share and Per-share Data:**

|  |    |      |    |      |
|--|----|------|----|------|
| Earnings per share of common stock basic and diluted | \$ | 0.01 | \$ | 0.00 |
|--|----|------|----|------|

|  |  |            |  |           |
|--|--|------------|--|-----------|
| Weighted-average common shares outstanding basic and diluted |  | 10,738,820 |  | 7,880,328 |
|--|--|------------|--|-----------|

The pro-forma consolidated results are prepared for informational purposes only. They are not necessarily indicative of what our consolidated financial condition or results of operations actually would have been assuming the acquisitions had occurred at the beginning of the respective previous periods, nor do they purport to represent our consolidated financial position or results of operations for future periods.

**Significant Existing Real Estate Activity**

On February 1, 2016, we completed certain irrigation improvements on Sycamore Road to increase overall water availability at a total cost of \$993,319. As stipulated in the lease agreement with our tenant, we will earn additional rent on the total cost commensurate with the annual yield on the farmland, which will result in additional straight-line rental income of \$53,550 per year throughout the remaining lease term.

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On February 8, 2016, we renewed the lease with the tenant occupying one of our McIntosh Road farms, which was set to expire on June 30, 2016. The lease was renewed for an additional three years, through June 30, 2019, with annualized, straight-line rental income of \$63,000, representing a 17.9% increase over that of the previous lease.

**Portfolio Diversification and Concentrations***Diversification*

The following table summarizes the geographic locations, by state, of our properties with leases in place as of March 31, 2016 and 2015:

| State      | As of and For the Three Months Ended March 31, 2016 |               |                  |                     |                           | As of and For the Three Months Ended March 31, 2015 |              |                  |                     |                           |
|------------|---|---------------|------------------|---------------------|---------------------------|---|--------------|------------------|---------------------|---------------------------|
|            | Number of Farms                                     | Total Acres   | % of Total Acres | Rental Revenue      | % of Total Rental Revenue | Number of Farms                                     | Total Acres  | % of Total Acres | Rental Revenue      | % of Total Rental Revenue |
| California | 18  | 3,576         | 15.6%            | \$ 2,140,166        | 58.2%                     | 15  | 2,722        | 31.0%            | \$ 1,839,707        | 70.2%                     |
| Florida    | 13  | 5,094         | 22.1%            | 743,087             | 20.2%                     | 10  | 1,723        | 19.6%            | 349,488             | 13.3%                     |
| Oregon     | 4   | 2,313         | 10.1%            | 292,481             | 7.9%                      | 4   | 2,313        | 26.3%            | 291,537             | 11.1%                     |
| Arizona    | 2   | 3,000         | 13.0%            | 172,461             | 4.7%                      | 1   | 1,761        | 20.0%            | 79,916              | 3.0%                      |
| Nebraska   | 2   | 2,559         | 11.1%            | 144,907             | 3.9%                      |   |              | 0.0%             |                     | 0.0%                      |
| Colorado   | 3   | 6,191         | 26.9%            | 124,000             | 3.4%                      |   |              | 0.0%             |                     | 0.0%                      |
| Michigan   | 4   | 270           | 1.2%             | 62,372              | 1.7%                      | 4   | 270          | 3.1%             | 61,679              | 2.4%                      |
|            | <b>46</b>   | <b>23,003</b> | <b>100.0%</b>    | <b>\$ 3,679,474</b> | <b>100.0%</b>             | <b>34</b>   | <b>8,789</b> | <b>100.0%</b>    | <b>\$ 2,622,327</b> | <b>100.0%</b>             |

*Concentrations**Credit Risk*

As of March 31, 2016, our farms were leased to 34 different, third-party tenants, with certain tenants leasing more than one farm. Dole Food Company ( Dole ) leases two of our farms, and aggregate rental revenue attributable to Dole accounted for approximately \$0.7 million, or 20%, of the rental revenue recorded during the three months ended March 31, 2016. If Dole fails to make rental payments or elects to terminate its lease, and the land cannot be re-leased on satisfactory terms, there could be a material adverse effect on our financial performance and ability to continue operations. No other individual tenant represented greater than 10.0% of the total rental revenue recorded during the three months ended March 31, 2016.

*Geographic Risk*

18 of our 46 farms owned as of March 31, 2016, are located in California, and 13 farms are located in Florida. As of March 31, 2016, our farmland in California accounted for 3,576 acres, or 15.6% of the total acreage we owned. Furthermore, these farms accounted for approximately \$2.1 million, or 58.2%, of the rental revenue recorded during the three months ended March 31, 2016. However, these farms are spread across three of the many different growing regions within California. As of March 31, 2016, our farmland in Florida accounted for 5,094 acres, or 22.1% of the total acreage we owned, and these farms accounted for approximately \$0.7 million, or 20.2%, of the rental revenue

recorded during the three months ended March 31, 2016. Though we seek to continue to further diversify geographically, as may be desirable or feasible, should an unexpected natural disaster occur where our properties are located, there could be a material adverse effect on our financial performance and ability to continue operations. No other single state accounted for more than 10.0% of the total rental revenue recorded during the three months ended March 31, 2016.

**NOTE 4. RELATED-PARTY TRANSACTIONS**

We are externally managed pursuant to contractual arrangements with our Adviser and our Administrator, which collectively employ all of our personnel and pay their salaries, benefits and general expenses directly. Both our Adviser and

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Administrators are affiliates of ours, as their parent company is owned and controlled by Mr. David Gladstone, our chairman and chief executive officer. In addition, two of our executive officers, Mr. Gladstone and Mr. Terry Brubaker (our vice chairman and chief operating officer), serve as directors and executive officers of each of our Adviser and Administrator. Mr. Michael LiCalsi, our general counsel and secretary, serves as our Administrator's president.

The current advisory agreement with our Adviser (the *Advisory Agreement*) and the current administration agreement with our Administrator (the *Administration Agreement*) became effective February 1, 2013. A summary of each of these agreements is provided in Note 4 to our consolidated financial statements included in our Form 10-K. There were no material changes to either agreement during the three months ended March 31, 2016.

The following table summarizes the management fees, incentive fees and associated credits and the administration fees reflected in our accompanying *Condensed Consolidated Statements of Operations*:

|  | <b>For the Three Months Ended March 31,</b> |                    |
|--|---|--------------------|
|  | <b>2016</b>                                 | <b>2015</b>        |
| Management fees <sup>(1)(2)</sup>  | \$ 387,154                                  | \$ 295,748         |
| Credits from voluntary, irrevocable waiver by Adviser's board of directors <sup>(2)(3)</sup> |   | (320,905)          |
| <b>Net fee to (from) our Adviser</b>   | <b>\$ 387,154</b>                           | <b>\$ (25,157)</b> |
| <b>Administration fees<sup>(1)(2)</sup></b>  | <b>\$ 211,860</b>                           | <b>\$ 130,936</b>  |

(1) Pursuant to the Advisory and Administration Agreements, respectively, which became effective on February 1, 2013.

(2) Reflected as a line item on our accompanying *Consolidated Statements of Operations*.

(3) The credit received from our Adviser for the three months ended March 31, 2015, was attributable to a finder's fee earned by our Adviser in connection with a farm we acquired during the three months ended March 31, 2015, which fee was granted to us as a one-time, voluntary and irrevocable waiver to be applied against the fees we pay to our Adviser.

**Related-Party Fees Due**

Amounts due to related parties on our accompanying *Condensed Consolidated Balance Sheets* as of March 31, 2016, and December 31, 2015, were as follows:

|                                     | <b>March 31, 2016</b> | <b>December 31, 2015</b> |
|-------------------------------------|-----------------------|--------------------------|
| Management fee due to Adviser       | \$ 387,154            | \$ 362,373               |
| Other due to Adviser <sup>(1)</sup> | 29,407                | 13,140                   |
| <b>Total due to Adviser</b>         | <b>416,561</b>        | <b>375,513</b>           |

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|   |                   |                   |
|---|-------------------|-------------------|
| Administration fee due to Administrator           | 211,860           | 190,080           |
| <b>Total due to Administrator</b>                 | <b>211,860</b>    | <b>190,080</b>    |
| <b>Total due to related parties<sup>(2)</sup></b> | <b>\$ 628,421</b> | <b>\$ 565,593</b> |

- (1) Other fees due to related parties primarily relate to miscellaneous general and administrative expenses paid by our Adviser or Administrator on our behalf.
- (2) Reflected as a line item on our accompanying *Condensed Consolidated Balance Sheets*.

**Table of Contents****NOTE 5. BORROWINGS**

Our borrowings as of March 31, 2016, and December 31, 2015, are summarized below:

| Type of Issuance       | Date(s) of Issuance | Initial Commitment | Maturity Date <sup>(1)</sup> | As of March 31, 2016                |                                     |                           | As of December 31, 2015             |                                     |
|------------------------|---------------------|--------------------|------------------------------|-------------------------------------|-------------------------------------|---------------------------|-------------------------------------|-------------------------------------|
|                        |                     |                    |                              | Principal Outstanding               | Stated Interest Rate <sup>(2)</sup> | Undrawn Commitment        | Principal Outstanding               | Stated Interest Rate <sup>(2)</sup> |
| Mortgage Note Payable  | 5/9/2014            | 100,000,000        | 1/5/2029 <sup>(3)</sup>      | \$ 87,470,194                       | 3.35%                               | 12,529,806 <sup>(4)</sup> | \$ 87,470,194                       | 3.35%                               |
| Line of Credit         | 5/9/2014            | 25,000,000         | 4/5/2024                     | 2,800,000                           | 2.86%                               | 22,200,000 <sup>(4)</sup> | 100,000                             | 2.58%                               |
| Mortgage Notes Payable | 9/19/2014 11/2/2015 | 22,185,880         | 4/4/2031                     | 21,353,725                          | 3.42% <sup>(5)</sup>                |                           | 21,456,963                          | 3.42% <sup>(5)</sup>                |
| Bonds Payable          | 12/11/2014          | 75,000,000         | 9/12/2020 <sup>(6)</sup>     | 49,153,000                          | 2.93%                               | 25,847,000 <sup>(7)</sup> | 33,706,000                          | 2.87%                               |
|                        |                     |                    |                              | <b>\$ 160,776,919<sup>(8)</sup></b> |                                     | <b>\$ 60,576,806</b>      | <b>\$ 142,733,157<sup>(8)</sup></b> |                                     |

(1) Where applicable, represents the weighted-average maturity date.

(2) Where applicable, represents the weighted-average, blended rate on the respective borrowing facilities as of each March 31, 2016, and December 31, 2015.

(3) If facility not fully utilized by December 31, 2017, MetLife has the option to be relieved of its obligations to disburse the additional funds under the loan.

(4) Based on the properties that were pledged as collateral under the MetLife Facility as of each March 31, 2016, and December 31, 2015, approximately \$18.7 million and \$8.9 million, respectively, of the aggregate undrawn commitment under the facility was available for us to draw.

(5) Rate is before interest patronage. 2015 interest patronage (as described below) received resulted in a 16.1% reduction to the stated interest rate on such borrowings.

(6) If facility is not fully utilized by December 11, 2016, Farmer Mac has the option to be relieved of its obligations to purchase additional bonds under the facility.

(7) At each of March 31, 2016, and December 31, 2015, there was no additional availability to draw under this facility, as no additional properties had been pledged as collateral.

(8) Excludes approximately \$1.0 million and \$1.1 million as of March 31, 2016, and December 31, 2015, respectively, of deferred financing costs related to mortgage notes and bonds payable included in Mortgage notes and bonds payable, net on the accompanying *Condensed Consolidated Balance Sheets*.

In addition, as of March 31, 2016, and December 31, 2015, we had approximately \$1.0 million and \$1.1 million, respectively, of net deferred financing costs related to mortgage notes and bonds payable, which are included in the Mortgage notes and bonds payable, net line item on the accompanying *Condensed Consolidated Balance Sheets*.

The weighted-average interest rate charged on all of our borrowings, excluding the impact of deferred financing costs and before any interest patronage, or refunded interest, was 3.29% and 3.55% for the three months ended March 31,

2016 and 2015, respectively. 2015 interest patronage from Farm Credit CFL (as defined below) borrowings, which patronage was received during the three months ended March 31, 2016, resulted in a 16.1% reduction to the stated interest rates on such borrowings. We are unable to estimate the amount of patronage to be received, if any, related to interest accrued during 2016 on our Farm Credit CFL borrowings.

### **MetLife Facility**

On May 9, 2014, we closed on a facility with Metropolitan Life Insurance Company ( MetLife ) that consists of a \$100.0 million long-term note payable that is scheduled to mature on January 5, 2029 (the MetLife Note Payable ), and a \$25.0 million revolving equity line of credit that is scheduled to mature on April 5, 2024 (the MetLife Line of Credit and, together with the MetLife Note Payable, the MetLife Facility ). As amended on September 3, 2015, advances under the MetLife Note Payable bear interest at a fixed rate of 3.35% per annum, plus an unused line fee of 0.20% on undrawn amounts, and interest rates for subsequent disbursements will be based on prevailing market rates at the time of such disbursements. The interest rates on advances and subsequent disbursements will be subject to adjustment every five years. If the full commitment amount of \$100.0 million is not drawn by December 31, 2017, MetLife has the option to be relieved of its obligation to disburse the additional funds under this loan. Advances under the MetLife Line of Credit bear interest at a variable rate equal to the three-month LIBOR plus a spread of 2.25%, with a minimum annualized rate of 2.50%, plus an unused fee of 0.20% on undrawn amounts. The interest rate spread on borrowings under the MetLife Line of Credit will be subject to adjustment on April 5, 2017.

As of March 31, 2016, there is approximately \$87.5 million outstanding under the MetLife Note Payable that bears interest at a fixed rate of 3.35% per annum and \$2.8 million outstanding under the MetLife Line of Credit that bears interest at a rate of 2.86% per annum. While approximately \$34.7 million of the full commitment amount remains undrawn, based on the current level of collateral pledged, as of March 31, 2016, we had approximately \$18.7 million of aggregate availability under the MetLife Facility. As of March 31, 2016, we were in compliance with all covenants under the facility.

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### **Farm Credit CFL Notes Payable**

From time to time since September 19, 2014, we, through certain subsidiaries of our Operating Partnership, have entered into various loan agreements with Farm Credit of Central Florida, FLCA ( Farm Credit CFL ). As of March 31, 2016, we have approximately \$21.4 million of aggregate borrowings outstanding to Farm Credit CFL that bear interest (before interest patronage) at a weighted-average rate of 3.42%. 2015 interest patronage from Farm Credit CFL borrowings resulted in a 16.1% reduction to the stated interest rates on such borrowings. As of March 31, 2016, we were in compliance with all covenants applicable to these borrowings.

### **Farmer Mac Facility**

On December 5, 2014, we, through certain subsidiaries of our Operating Partnership, entered into a bond purchase agreement (the Bond Purchase Agreement ) with Federal Agricultural Mortgage Corporation ( Farmer Mac ) and Farmer Mac Mortgage Securities Corporation (the Bond Purchaser ), for a secured note purchase facility that provides for bond issuances up to an aggregate principal amount of \$75.0 million (the Farmer Mac Facility ).

On March 3, 2016, in connection with the acquisition of Gunbarrel Road, we completed the issuances of two bonds under the Farmer Mac Facility: (i) an \$11.1 million, seven-year, interest-only bond with a fixed interest rate of 3.08% throughout its term, and (ii) a \$4.4 million, seven-year, amortizing bond with a fixed interest rate of 2.98% throughout its term.

As of March 31, 2016, the aggregate amount of bonds issued under the Farmer Mac Facility is approximately \$49.2 million at a weighted-average interest rate of approximately 2.93%. As of March 31, 2016, we were in compliance with all covenants under the facility.

### **Fair Value**

As of March 31, 2016, the aggregate fair value of our long-term, fixed-rate mortgage notes and bonds payable was approximately \$157.6 million, as compared to an aggregate carrying value of \$155.9 million. The fair value of our long-term, fixed-rate mortgage notes and bonds payable is valued using Level 3 inputs under the hierarchy established by ASC 820-10, Fair Value Measurements and Disclosures, and is calculated based on a discounted cash flow analysis, using discount rates based on management's estimates of market interest rates on long-term debt with comparable terms. Due to their short-term nature and the lack of changes in market credit spreads, the aggregate fair value of our short-term, variable-rate mortgage notes and bonds payable as of March 31, 2016, is deemed to approximate their aggregate carrying value of approximately \$2.1 million. Further, due to the revolving nature of the MetLife Line of Credit and the lack of changes in market credit spreads, its fair value as of March 31, 2016, is deemed to approximate its carrying value of \$2.8 million.

## **NOTE 6. EQUITY**

### **Stockholders' Equity**

As of each March 31, 2016, and December 31, 2015, there were 20,000,000 shares of common stock, par value \$0.001 per share, authorized and 9,992,941 shares issued and outstanding.

### **Non-Controlling Interests in Operating Partnership**



We consolidate our Operating Partnership, which is a majority-owned partnership. As of March 31, 2016, and December 31, 2015, we owned 93.1% and 100.0%, respectively, of the outstanding OP Units.

On or after 12 months after becoming a holder of OP Units, each limited partner, other than the Company, has the right, subject to the terms and conditions set forth in the partnership agreement of the Operating Partnership, to require the Operating Partnership to redeem all or a portion of such units in exchange for cash or, at the Company's option, shares of our common stock on a one-for-one basis. The cash redemption per OP Unit would be based on the market price of our common stock at the time of redemption. A limited partner will not be entitled to exercise redemption rights if the delivery of common stock to the redeeming limited partner would breach restrictions on the ownership of common stock imposed under our charter and other limitations thereof.

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Regardless of the rights described above, the Operating Partnership will not have an obligation to issue cash to a unitholder upon a redemption request if the Company elects to redeem the OP Units for shares of its common stock. When a non-Company unitholder redeems an OP Unit, non-controlling interest in the Operating Partnership is reduced, and stockholders' equity is increased.

The Operating Partnership is required to make distributions on each OP Unit in the same amount as those paid on each share of the Company's common stock, with the distributions on the OP Units held by the Company being utilized to make distributions to the Company's common stockholders.

As of March 31, 2016, there were 745,879 OP Units held by non-controlling limited partners.

**Distributions**

The distributions to common stockholders declared by our Board of Directors and paid by us during the three months ended March 31, 2016 and 2015 are reflected in the table below.

| <b>Fiscal Year</b>                           | <b>Declaration Date</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Distributions per<br/>Common<br/>Share</b> |
|--|-------------------------|--------------------|---------------------|---|
| <b>2016</b>                                  | January 12, 2016        | January 22, 2016   | February 2, 2016    | \$ 0.040                                      |
|  | January 12, 2016        | February 18, 2016  | February 29, 2016   | 0.040   |
|  | January 12, 2016        | March 21, 2016     | March 31, 2016      | 0.040   |
| <b>Three Months ended<br/>March 31, 2016</b> |                         |                    |                     | <b>\$ 0.120</b>                               |
| <b>2015</b>                                  | January 13, 2015        | January 23, 2015   | February 3, 2015    | \$ 0.035                                      |
|  | January 13, 2015        | February 18, 2015  | February 27, 2015   | 0.035   |
|  | January 13, 2015        | March 20, 2015     | March 31, 2015      | 0.035   |
| <b>Three Months ended<br/>March 31, 2015</b> |                         |                    |                     | <b>\$ 0.105</b>                               |

We will provide information related to the federal income tax characterization of our 2016 distributions in an IRS Form 1099-DIV, which will be mailed to our stockholders in January 2017.

**Registration Statement**

We filed a universal registration statement on Form S-3 (File No. 333-194539) with the SEC on March 13, 2014, which the SEC declared effective on April 2, 2014. This universal registration statement permits us to issue up to an aggregate of \$300.0 million in securities, consisting of common stock, senior common stock, preferred stock, subscription rights, debt securities and depository shares, including through separate, concurrent offerings of two or more of such securities. As of March 31, 2016 we have issued 2,156,080 shares of common stock for gross proceeds of \$23.3 million under this universal registration statement.

**At-the-Market Program**

On August 7, 2015, we entered into equity distribution agreements (commonly referred to as at-the-market agreements or our Sales Agreements ) with Cantor Fitzgerald & Co. and Ladenburg Thalmann & Co., Inc., each a Sales Agent, under which we may issue and sell, from time to time and through the Sales Agents, shares of our common stock having an aggregate offering price of up to \$30.0 million (the ATM Program ). During the three months ended March 31, 2016, no shares were issued or sold under the ATM Program. Through March 31, 2016, we have issued and sold 32,627 shares of our common stock at an average sales price of \$9.19 per share under the ATM Program for gross proceeds of approximately \$300,000 and net proceeds of \$295,000.

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**Table of Contents****NOTE 7. COMMITMENTS AND CONTINGENCIES****Operating Obligations**

In connection with the lease we executed upon our acquisition of Wauchula Road in September 2014, we agreed to fund certain irrigation upgrades at the tenant's option. Initially, 125 of the 590 farm acres on the property were subject to drip irrigation. Pursuant to the lease, the tenant had the option to construct irrigation improvements necessary to convert all or a portion of the drip-irrigated acres to overhead irrigation and be reimbursed by us, up to a maximum aggregate cost of \$1.5 million. Construction of these improvements was completed during the three months ended March 31, 2016, at a total cost of \$569,607, and, accordingly, we have reflected this commitment in each of the Real estate, at cost and Accrued expenses line items on our *Condensed Consolidated Balance Sheets*. Upon us reimbursing the tenant for the total cost of these improvements, which reimbursement occurred on April 5, 2016, we will begin earning additional rental income in the amount of \$92,634 per year throughout the remaining lease term.

Upon acquiring Espinosa Road in January 2015, we assumed an eminent domain lawsuit brought by the California Department of Transportation ( CalTrans ) against the previous owner of the property for approximately 4.5 acres of nonfarmable land. CalTrans had offered \$160,000 to the previous owner as payment for the 4.5 acres; however, this offer was rejected by the previous owner. We intend to accept this offer of \$160,000 as fair compensation for the 4.5 nonfarmable acres, and we expect this matter to be settled by September 30, 2016.

In connection with our acquisition of Parrish Road in March 2015, for which we initially paid approximately \$3.2 million, we committed to providing \$700,000 as additional compensation and \$45,000 as reimbursement for other miscellaneous costs, contingent upon the approval by a local water management district of increases in certain water permits on the property. We expect these permits to be approved during the three months ending June 30, 2016. As this amount is expected to be paid in full within three months, carrying value is deemed to approximate its fair value. In addition, we also committed to providing up to an additional \$500,000 of capital to the tenant for certain irrigation improvements and upgrades on the property, for which we will earn additional rent on the total amount of capital committed by us, as stipulated in the lease. As of December 31, 2015, these improvements had been completed at a total cost of \$528,815, and, accordingly, we have reflected our commitment of \$500,000 in each of the Real estate, at cost and Accrued expenses line items on our *Condensed Consolidated Balance Sheets*, while the cost overrun of \$28,815, which will not require reimbursement by us, was recorded as a tenant improvement. Upon us reimbursing the tenant for our portion of the total costs, which occurred on April 5, 2016, we will begin earning additional rental income in the amount of \$139,073 per year throughout the remaining lease term.

In connection with the lease we executed upon our acquisition of Bear Mountain in September 2015, we agreed to fund the development of the property into an almond orchard. The development will include the removal of 274 acres of old grape vineyards, the installation of a new irrigation system, including the drilling of three new wells, and the planting of over 800 acres of new almond trees. The project is estimated to cost approximately \$7.8 million and is expected to be completed by June 30, 2016. As stipulated in the lease, we will earn additional rent on the total cost of the development project commensurate with the yield on the initial acquisition and based on the timing of related cash disbursement made by us. As of March 31, 2016, we have expended or accrued approximately \$3.7 million related to this project; however, we are unable to estimate the total amount of additional rent to be earned related to this project at this time.

**Table of Contents****Litigation**

We are not currently subject to any material known or threatened litigation.

**NOTE 8. EARNINGS PER SHARE OF COMMON STOCK**

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2016 and 2015, computed using the weighted average number of shares outstanding during the respective periods. The non-controlling limited partners' outstanding OP Units (which may be redeemed for shares of common stock) have been excluded from the diluted earnings per share calculation, as there would be no effect on the amounts since the non-controlling limited partners' share of income would also be added back to net income. Net income figures are presented net of non-controlling interests in the earnings per share calculations.

|  | <b>For the Three Months Ended March 31,</b> |                |
|--|---|----------------|
|  | <b>2016</b>                                 | <b>2015</b>    |
| Net income attributable to the Company                                 | \$ 234,416                                  | \$ 24,574      |
| Weighted average number of common shares outstanding basic and diluted | 9,992,941                                   | 7,753,717      |
| <b>Basic and diluted earnings per common share</b>                     | <b>\$ 0.02</b>                              | <b>\$ 0.00</b> |

For the three months ended March 31, 2016, the weighted-average number of OP Units held by non-controlling limited partners was 237,698. There were no OP Units held by anyone other than the Company during 2015.

**NOTE 9. SUBSEQUENT EVENTS****Leasing Activity**

On April 5, 2016, we reimbursed the tenant occupying our Wauchula Road property for \$569,607 of costs incurred to construct certain irrigation improvements on the farm. As stipulated in the lease, beginning with the three months ending June 30, 2016, we will earn an additional \$92,634 of annualized, straight-line rental income on this farm throughout the remaining lease term.

On April 5, 2016, we reimbursed the tenant occupying our Parrish Road farm for \$500,000, which represented our portion of the costs incurred to construct certain irrigation improvements on the farm. As stipulated in the lease, beginning with the three months ending June 30, 2016, we will earn an additional \$139,073 of annualized, straight-line rental income on this farm throughout the remaining lease term.

**Investing and Financing Activity**

On April 5, 2016, we acquired one farm comprised of 453 acres of farmland in Fresno County, California ( Calaveras Avenue ), for approximately \$15.5 million. The property includes 435 planted acres of pistachio trees ranging from 5 to 19 years old. At closing, we executed a new 10-year, triple-net lease with a new tenant that includes one five-year extension option. The lease consists of a fixed cash rent component plus a variable rent component based on the gross crop revenues earned on the property and provides for minimum annualized, straight-line cash rents of \$773,500. We

will account for this acquisition as an asset acquisition in accordance with ASC 360; however, the initial accounting for this transaction is not yet complete, making certain disclosures unavailable at this time.

In connection with the acquisition of Calaveras Avenue, on April 4, 2016, we closed on a loan from Farm Credit West, FLCA ( Farm Credit West ) for approximately \$9.3 million. The mortgage note is scheduled to mature on November 1, 2040, and will bear interest (before interest patronage) at a fixed rate of 3.54% per annum through April 30, 2021, thereafter converting to a variable rate determined by Farm Credit West, unless another fixed rate is established.

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**Table of Contents****Distributions**

On April 12, 2016, our Board of Directors declared the following monthly cash distributions to common stockholders:

| <b>Record Date</b> | <b>Payment Date</b> | <b>Distribution per<br/>Common<br/>Share</b> |
|--------------------|---------------------|--|
| April 22, 2016     | May 2, 2016         | \$ 0.04125                                   |
| May 19, 2016       | May 31, 2016        | 0.04125                                      |
| June 17, 2016      | June 30, 2016       | 0.04125                                      |
| <b>Total:</b>      |                     | <b>\$ 0.12375</b>                            |

The same amounts will be paid as distributions on each OP Unit held by non-controlling limited partners of the Operating Partnership as of the above record dates.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*All statements contained herein, other than historical facts, may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements may relate to, among other things, future events or our future performance or financial condition. In some cases, you can identify forward-looking statements by terminology such as may, might, believe, will, provided, anticipate, future, could, growth, plan, intend, expect, should, would, if, seek, possible, potential, likely or the negative of such terms or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our business, financial condition, liquidity, results of operations, funds from operations or prospects to be materially different from any future business, financial condition, liquidity, results of operations, funds from operations or prospects expressed or implied by such forward-looking statements and include, but are not limited to:*

*Changes in our industry, interest rates or the general economy;*

*Natural disasters or climactic changes impacting the regions in which our tenants operate;*

*The degree and nature of our competition;*

*Failure to maintain our qualification as a REIT;*

*Changes in our business strategy; and*

*Loss of our key personnel.*

*For further information about these and other factors that could affect our future results, please see the caption titled Risk Factors in our Annual Report on Form 10-K (the Form 10-K) for the year ended December 31, 2015, which we filed with the Securities and Exchange Commission (the SEC) on February 23, 2016. We caution readers not to place undue reliance on any such forward-looking statements, which are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report on Form 10-Q (the Quarterly Report), except as required by law.*

*All references to we, our, us and the Company in this Quarterly Report mean Gladstone Land Corporation and its consolidated subsidiaries, except where it is made clear that the term refers only to Gladstone Land Corporation.*

**OVERVIEW**

**General**



We are an externally-managed real estate investment trust ( REIT ) that is engaged primarily in the business of owning and leasing farmland; we are not a grower, nor do we farm the properties we own. We currently own 47 farms comprised of 23,456 acres across seven states in the U.S. (Arizona, California, Colorado, Florida, Michigan, Nebraska and Oregon). We also own several farm-related facilities, such as cooling facilities, box barns, packinghouses, processing facilities and various storage facilities. These farms and facilities are leased to 35 different, unrelated tenants that are either independent or corporate farming operations. We intend to acquire more farmland in these and other states in our regions of focus that is already or will be leased to farmers, and we expect that most of our future tenants will also be independent or corporate farming operations that are unrelated to us. We also expect to acquire more property related to farming, such as cooling facilities, freezer buildings, packinghouses, box barns, silos, storage facilities, greenhouses, processing plants and distribution centers. We generally lease our properties on a triple-net basis, an arrangement under which, in addition to rent, the tenant is required to pay the related taxes, insurance costs (including drought insurance if we were to acquire properties that depend upon rainwater for irrigation), maintenance and other operating costs. We may also elect to sell farmland at certain times, such as when the land could be developed by others for urban or suburban uses.

We were incorporated in 1997, primarily for the purpose of operating strawberry farms through our former subsidiary, Coastal Berry Company, LLC ( Coastal Berry ), an entity that provided growing, packaging, marketing and distribution of fresh berries and other agricultural products. We operated Coastal Berry as our primary business until 2004, when it was sold to Dole Food Company ( Dole ). Since 2004, our operations have consisted of leasing our farms to third-party tenants. We do not currently intend to enter into the business of growing, packing or marketing farmed products; however, if we do so in the future, we expect that it would be through a taxable REIT subsidiary ( TRS ).

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We conduct substantially all of our investment activities through, and all of our properties are held, directly or indirectly, by, Gladstone Land Limited Partnership (the Operating Partnership). Gladstone Land Corporation controls the Operating Partnership as its sole general partner and currently owns approximately 93.1% of the units of limited partnership interest in the Operating Partnership ( OP Units ).

We intend to continue to lease our farms and farm-related facilities to independent or corporate farming operations that sell their products through national corporate marketers-distributors. We expect to continue to earn rental and interest income from our investments.

Gladstone Management Corporation (our Adviser ) manages our real estate portfolio pursuant to an advisory agreement, and Gladstone Administration, LLC (our Administrator ) provides administrative services to us pursuant to an administration agreement. Our Adviser and our Administrator collectively employ all of our personnel and pay directly their salaries, benefits and general expenses.

## **Leases**

Most of our agricultural leases are on a triple-net basis and have original terms ranging from 3 to 10 years for farms growing row crops and 5 to 15 years for farms growing permanent crops, often with options to extend the lease further. Rent is generally payable to us up front on either an annual or semi-annual basis. Further, most of our leases contain provisions that provide for annual increases in the rental amounts payable by the tenants, often referred to as escalation clauses. The escalation clauses may specify fixed dollar amount or percentage increases each year, or it may be variable, based on standard cost of living or inflation indices. In addition, some leases that are longer-term in nature may require a regular survey of comparable land rents, with the rent owed per the lease being adjusted to reflect then-current market rents. We also have leases that include variable rents based on the success of the harvest each year. In these types of agreements, we will generally require the lease to include the guarantee of a minimum amount of rental income that satisfies our investment return criteria. Currently, our 47 farms are leased under agricultural leases with original terms ranging from 3 to 15 years, with 31 farms leased on a pure triple-net basis, and 16 farms leased on a partial-net basis, with the landlord responsible for all or a portion of the related property taxes. Additionally, four of our farms are leased under agreements that include a variable rent component.

We monitor our tenants' credit quality on an ongoing basis by, among other things, periodically conducting site visits of the properties to ensure farming operations are taking place and to assess the general maintenance of the properties. To date, we have not identified any changes to credit quality of our tenants, and all tenants continue to pay pursuant to the terms of their respective leases.

## **Lease Expirations**

Farm leases are often short-term in nature, so in any given year, we may have multiple leases up for renewal or extension. As of January 1, 2016, we had two agricultural leases that were originally due to expire in 2016. We renewed one lease prior to its expiration for an additional three years at an annualized, straight-line rental rate representing an increase of 17.9% over that of the previous lease. This lease was renewed prior to its expiration and with the existing tenant, thus incurring no downtime on the farm.

We have one remaining agricultural lease due to expire in 2016. We have begun negotiations with the existing tenant on the farm, and we anticipate renewing the lease prior to its expiration. Further, given the current market conditions in the region where the farm is located, we expect to be able to renew the lease at a higher rental rate than that of the existing lease. However, there can be no assurance that we will be able to renew the lease at a rate favorable to us, if at all, or be able to find a replacement tenant, if necessary.



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The following table summarizes the lease expirations by year for our properties with leases in place as of March 31, 2016:

| Year          | Number of        | Expiring       | % of          | Rental Revenue for the            | % of Total     |
|---------------|------------------|----------------|---------------|-----------------------------------|----------------|
|               | Expiring Leases  | Leased Acreage | Total Acreage | Three Months Ended March 31, 2016 | Rental Revenue |
| 2016          | 3 <sup>(1)</sup> | 331            | 1.5%          | \$ 202,601                        | 5.5%           |
| 2017          | 8                | 647            | 2.8%          | 544,190                           | 14.8%          |
| 2018          | 5                | 2,929          | 12.7%         | 237,722                           | 6.5%           |
| 2019          | 1                | 37             | 0.2%          | 14,759                            | 0.4%           |
| 2020          | 6                | 3,890          | 16.9%         | 1,064,324                         | 28.9%          |
| 2021          | 3                | 6,882          | 29.9%         | 186,931                           | 5.1%           |
| Thereafter    | 13               | 8,287          | 36.0%         | 1,428,947                         | 38.8%          |
| <b>Totals</b> | <b>39</b>        | <b>23,003</b>  | <b>100.0%</b> | <b>\$ 3,679,474</b>               | <b>100.0%</b>  |

<sup>(1)</sup> Includes: (i) the agricultural lease mentioned above, (ii) a surface area lease on a portion of one property leased to an oil company that is renewed on a year-to-year basis, for which we recorded \$8,016 of rental revenue during the three months ended March 31, 2016, and (iii) a residential lease on one of our properties that is not expected to be renewed upon its expiration in 2016 and for which no rental revenue was recorded during the three months ended March 31, 2016.

**Recent Developments***Investment and Leasing Activity**Property Acquisitions*

Since January 1, 2016, we have acquired four farms in two separate transactions, which are summarized in the table below:

| Property Name                 | Property Location | Acquisition Date | Total Acreage | Number of Farms | Primary Crop(s) | Lease Term | Renewal Options | Total Purchase Price | Acquisition Costs        | Annualized Straight-line Cash Rent <sup>(1)</sup> |
|-------------------------------|-------------------|------------------|---------------|-----------------|-----------------|------------|-----------------|----------------------|--------------------------|---|
| Gunbarrel Road <sup>(2)</sup> | Alamosa, CO       | 3/3/2016         | 6,191         | 3               | Potatoes        | 5 years    | 1 (5 years)     | \$ 25,735,815        | \$ 88,889 <sup>(3)</sup> | \$ 1,590,614                                      |
| Calaveras Avenue              | Coalinga, CA      | 4/5/2016         | 453           | 1               | Pistachios      | 10 years   | 1 (5 years)     | 15,470,000           | 24,568 <sup>(4)</sup>    | 773,500 <sup>(5)</sup>                            |

<sup>(1)</sup> Annualized straight-line amount is based on the minimum cash rental payments guaranteed under the lease.

- (2) As partial consideration for the acquisition of this property, we issued 745,879 OP Units, constituting an aggregate fair value of approximately \$6.5 million as of the acquisition date.
- (3) Acquisition accounted for as a business combination under ASC 805. As such, all acquisition-related costs were expensed as incurred, other than direct leasing costs, which were capitalized. In aggregate, we incurred \$4,670 of direct leasing costs in connection with this acquisition.
- (4) Acquisition will be accounted for as an asset acquisition under ASC 360. As such, all acquisition-related costs will be capitalized and allocated among the identifiable assets acquired. The figure above represents only costs accrued for as of the date of this filing.
- (5) This lease provides for a variable rent component based on the gross crop revenues earned on the property. The figure above represents only the minimum cash rents guaranteed under the lease.

*Existing Properties*

Since January 1, 2016, the following significant events occurred with regard to our already-existing properties:

*Sycamore Road.* On February 1, 2016, we completed certain irrigation improvements on Sycamore Road to increase overall water availability at a total cost to us of \$993,319. As stipulated in the lease agreement, we will earn additional rent on the total cost commensurate with the annual yield on the farmland, which will result in additional straight-line rental income of \$53,550 per year throughout the remaining lease term.

*McIntosh Road.* On February 8, 2016, we renewed the lease with the tenant occupying one of our McIntosh Road farms, which was set to expire on June 30, 2016. The lease was renewed for an additional three years, through June 30, 2019, with annualized, straight-line rental income of \$63,000, representing a 17.9% increase over that of the previous lease.

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*Wauchula Road.* On April 5, 2016, we reimbursed the tenant for \$569,607 of costs incurred to construct certain irrigation improvements on the farm. As stipulated in the lease, beginning with the three months ending June 30, 2016, we will earn an additional \$92,634 of annualized, straight-line rental income on this farm throughout the remaining lease term.

*Parrish Road.* On April 5, 2016, we reimbursed the tenant \$500,000, which represented our portion of the costs incurred to construct certain irrigation improvements on the farm. As stipulated in the lease, beginning with the three months ending June 30, 2016, we will earn an additional \$139,073 of annualized, straight-line rental income on this farm throughout the remaining lease term.

**Financing Activity***MetLife Facility*

During the three months ended March 31, 2016, certain of our properties pledged as collateral under our credit facility with Metropolitan Life Insurance Company ( MetLife ), which consists of a \$100.0 million long-term note payable (the MetLife Note Payable ) and a \$25.0 million revolving equity line of credit (the MetLife Line of Credit and, together with the MetLife Note Payable, the MetLife Facility ) were re-appraised, which resulted in an overall increase in the valuation of our collateral pool under the facility, providing us with approximately \$12.5 million of additional borrowing availability. Based on current borrowings outstanding under the MetLife Facility, our total current borrowing availability is approximately \$9.5 million.

*Farm Credit CFL*

During the three months ended March 31, 2016, we received interest patronage, or refunded interest, from Farm Credit of Central Florida, FLCA ( Farm Credit CFL ) representing a 16.1% refund of the interest accrued on all borrowings from Farm Credit CFL during the year ended December 31, 2015. This interest patronage reduced the interest rates on our borrowings from Farm Credit CFL during the year ended December 31, 2015, from a weighted-average stated interest rate of 3.42% to a weighted-average effective interest rate of 2.87%. However, we are unable to estimate the amount of interest patronage to be received, if any, related to interest accrued during 2016 on our Farm Credit CFL borrowings.

*Farm Credit West*

On April 4, 2016, we closed on a loan from Farm Credit West, FLCA ( Farm Credit West ) for approximately \$9.3 million. Terms of this note are summarized in the following table:

| Date of Issuance | Initial Commitment | Maturity Date | Principal Amortization | Interest Rate Terms <sup>(1)</sup>                 |
|------------------|--------------------|---------------|------------------------|--|
| 4/4/2016         | \$ 9,282,000       | 11/1/2040     | 25 years               | 3.54% fixed through 4/30/2021, variable thereafter |

<sup>(1)</sup> Rate represents the stated interest rate, before interest patronage. Proceeds from this note were used to fund new property acquisitions.



**Table of Contents***Farmer Mac*

Pursuant to a bond purchase agreement we entered into on December 5, 2014, with Federal Agricultural Mortgage Corporation ( Farmer Mac ) and Farmer Mac Mortgage Securities Corporation for a secured note purchase facility that provides for bond issuances up to an aggregate principal amount of \$75.0 million (the Farmer Mac Facility ), we issued two bonds since January 1, 2016, the terms of which are summarized in the following table:

| <b>Date of Issuance</b> | <b>Amount</b>        | <b>Maturity Date</b> | <b>Principal Amortization</b> | <b>Interest Rate Terms</b>   |
|-------------------------|----------------------|----------------------|-------------------------------|------------------------------|
| 3/3/2016                | \$ 11,100,000        | 2/24/2023            | None                          | 3.08%, fixed throughout term |
| 3/3/2016                | 4,431,000            | 2/24/2023            | 10 years                      | 2.98%, fixed throughout term |
|                         | <b>\$ 15,531,000</b> |                      |                               |                              |

Proceeds from these bond issuances were used to fund new property acquisitions.

**Portfolio Diversity**

Since our initial public offering in January 2013 (the IPO ), we have expanded our original portfolio of 12 farms leased to 7 different, unrelated tenants to a current portfolio of 47 farms leased to 35 different, unrelated tenants. While our focus remains in farmland suitable for growing fresh produce annual row crops, we have also begun to diversify our portfolio into farmland suitable for other crop types, including permanent crops, consisting primarily of almonds, blueberries and pistachios, and certain commodity crops, consisting primarily of corn and beans. The following table summarizes the different sources of revenues for our properties with leases in place as of and for the three months ended March 31, 2016 and 2015:

| <b>Revenue Source</b>                           | <b>As of and For the Three Months Ended March 31, 2016</b> |                       |                       |                           | <b>As of and For the Three Months Ended March 31, 2015</b> |                       |                       |                           | <b>Annualized GAAP Rental Revenue as of March 31, 2016</b> |                           |
|---|--|-----------------------|-----------------------|---------------------------|--|-----------------------|-----------------------|---------------------------|--|---------------------------|
|   | <b>Total</b>   |                       | <b>% of Total</b>     |                           | <b>Total</b>   |                       | <b>% of Total</b>     |                           | <b>Total</b>   |                           |
|   | <b>Farmable Acres</b>                                      | <b>Farmable Acres</b> | <b>Rental Revenue</b> | <b>% of Total Revenue</b> | <b>Farmable Acres</b>                                      | <b>Farmable Acres</b> | <b>Rental Revenue</b> | <b>% of Total Revenue</b> | <b>Rental Revenue</b>                                      | <b>% of Total Revenue</b> |
| Annual row crops fresh produce <sup>(1)</sup>   | 9,294  | 51.9%                 | \$ 2,637,753          | 71.7%                     | 5,259  | 73.2%                 | \$ 2,083,911          | 79.5%                     | \$ 11,484,656  | 72.6%                     |
| Annual row crops commodity crops <sup>(2)</sup> | 7,316  | 40.9%                 | 368,489               | 10.0%                     | 1,469  | 20.4%                 | 110,964               | 4.2%                      | 1,641,443  | 10.4%                     |



| <b>Subtotal</b>                     | <b>Total</b>  |               |                     |               |              |               |                     |               |                      |               |
|-------------------------------------|---------------|---------------|---------------------|---------------|--------------|---------------|---------------------|---------------|----------------------|---------------|
| <b>annual row</b>                   |               |               |                     |               |              |               |                     |               |                      |               |
| <b>crops</b>                        | 16,610        | 92.8%         | 3,006,242           | 81.7%         | 6,728        | 93.6%         | 2,194,875           | 83.7%         | 13,126,099           | 83.0%         |
| Permanent crops <sup>(3)</sup>      | 1,293         | 7.2%          | 350,694             | 9.5%          | 457          | 6.4%          | 138,092             | 5.3%          | 1,408,509            | 8.9%          |
| <b>Subtotal</b>                     | <b>17,903</b> | <b>100.0%</b> | <b>3,356,936</b>    | <b>91.2%</b>  | <b>7,185</b> | <b>100.0%</b> | <b>2,332,967</b>    | <b>89.0%</b>  | <b>14,534,608</b>    | <b>91.9%</b>  |
| Facilities and other <sup>(4)</sup> |               | 0.0%          | 322,538             | 8.8%          |              | 0.0%          | 289,360             | 11.0%         | 1,277,872            | 8.1%          |
| <b>Total</b>                        | <b>17,903</b> | <b>100.0%</b> | <b>\$ 3,679,474</b> | <b>100.0%</b> | <b>7,185</b> | <b>100.0%</b> | <b>\$ 2,622,327</b> | <b>100.0%</b> | <b>\$ 15,812,480</b> | <b>100.0%</b> |

- (1) Includes berries and other fruits, such as strawberries, raspberries and melons, and vegetables, such as cabbage, carrots, celery, cucumbers, green beans, lettuce, onions, peas, peppers, potatoes, radicchio, spinach and tomatoes.
- (2) Includes alfalfa, barley, corn, edible beans, grass, mint, popcorn, soybeans and wheat.
- (3) Includes almonds, avocados, blueberries, lemons and pistachios.
- (4) Consists primarily of rental revenue from: (i) farm-related facilities, such as coolers, packinghouses, distribution centers, residential houses for tenant farmers and other minor, farm-related buildings; (ii) a surface area lease with an oil company on a small parcel of one of our properties; and (iii) unimproved acreage on certain of our farms.

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Our acquisition of 35 farms since our IPO has also allowed us to further diversify our portfolio geographically. The following table summarizes the different geographic locations of our properties with leases in place as of and for the three months ended March 31, 2016 and 2015:

| State      | As of and For the Three Months Ended March 31, 2016 |                  |                     |                           | As of and For the Three Months Ended March 31, 2015 |                  |                     |                           | Annualized GAAP Rental Revenue as of March 31, 2016 <sup>(1)</sup> |                           |
|------------|---|------------------|---------------------|---------------------------|---|------------------|---------------------|---------------------------|--|---------------------------|
|            | Total Acres   | % of Total Acres | Rental Revenue      | % of Total Rental Revenue | Total Acres   | % of Total Acres | Rental Revenue      | % of Total Rental Revenue | Total Rental Revenue   | % of Total Rental Revenue |
| California | 3,576   | 15.6%            | \$ 2,140,166        | 58.2%                     | 2,722   | 31.0%            | \$ 1,839,707        | 70.2%                     | \$ 8,584,126   | 54.3%                     |
| Florida    | 5,094   | 22.1%            | 743,087             | 20.2%                     | 1,723   | 19.6%            | 349,488             | 13.3%                     | 2,975,115  | 18.8%                     |
| Oregon     | 2,313   | 10.1%            | 292,481             | 7.9%                      | 2,313   | 26.3%            | 291,537             | 11.1%                     | 1,169,925  | 7.4%                      |
| Arizona    | 3,000   | 13.0%            | 172,461             | 4.7%                      | 1,761   | 20.0%            | 79,916              | 3.0%                      | 663,583  | 4.2%                      |
| Nebraska   | 2,559   | 11.1%            | 144,907             | 3.9%                      |   |                  |                     |                           | 579,630  | 3.7%                      |
| Colorado   | 6,191   | 26.9%            | 124,000             | 3.4%                      |   |                  |                     |                           | 1,590,614  | 10.0%                     |
| Michigan   | 270   | 1.2%             | 62,372              | 1.7%                      | 270   | 3.1%             | 61,679              | 2.4%                      | 249,487  | 1.6%                      |
|            | <b>23,003</b>                                       | <b>100.0%</b>    | <b>\$ 3,679,474</b> | <b>100.0%</b>             | <b>8,789</b>  | <b>100.0%</b>    | <b>\$ 2,622,327</b> | <b>100.0%</b>             | <b>\$ 15,812,480</b>   | <b>100.0%</b>             |

(1) Annualized GAAP Rental Revenue is based on the minimum rental payments required per the leases in place as of March 31, 2016, and includes the amortization of any above-market lease values or accretion of any below-market lease values, deferred revenue and tenant improvements.

**Our Adviser and Administrator**

We are externally managed pursuant to a contractual investment advisory arrangement (the *Advisory Agreement*) with our Adviser, under which our Adviser directly employs certain of our personnel and pays their payroll, benefits and general expenses directly, and our Administrator provides administrative services to us pursuant to a separate administration agreement with our Administrator (the *Administration Agreement*). Both our Adviser and Administrator are affiliates of ours, as their parent company is owned and controlled by Mr. David Gladstone, our chairman and chief executive officer. In addition, two of our executive officers, Mr. Gladstone and Mr. Terry Brubaker (our vice chairman and chief operating officer), serve as directors and executive officers of each of our Adviser and Administrator. Mr. Michael LiCalsi, our general counsel and secretary, also serves as our Administrator's president. A summary of each of these agreements is provided in Note 4 to our consolidated financial statements in our 2015 Form 10-K. There were no material changes to either of these agreements during the three months ended March 31, 2016.

**Critical Accounting Policies**

The preparation of our financial statements in accordance with U.S. generally accepted accounting principles (GAAP) requires management to make judgments that are subjective in nature to make certain estimates and assumptions. Application of these accounting policies involves the exercise of judgment regarding the use of assumptions as to future uncertainties, and, as a result, actual results could materially differ from these estimates. A summary of our significant accounting policies is provided in Note 2 to our consolidated financial statements in our 2015 Form 10-K.

There were no material changes to our critical accounting policies during the three months ended March 31, 2016.

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A comparison of our operating results for the three months ended March 31, 2016 and 2015 is below:

|   | <b>For the Three Months Ended March 31,</b> |              |                  |                 |
|---|---|--------------|------------------|-----------------|
|   | <b>2016</b>                                 | <b>2015</b>  | <b>\$ Change</b> | <b>% Change</b> |
| <b>Operating revenues:</b>                                |   |              |                  |                 |
| Rental revenues   | \$ 3,679,474                                | \$ 2,622,327 | \$ 1,057,147     | 40.3%           |
| Tenant recovery revenue                                   | 3,203                                       | 3,397        | (194)            | -5.7%           |
| Total operating revenues                                  | 3,682,677                                   | 2,625,724    | 1,056,953        | 40.3%           |
| <b>Operating expenses:</b>                                |   |              |                  |                 |
| Depreciation and amortization                             | 976,710                                     | 791,632      | 185,078          | 23.4%           |
| Property operating expenses                               | 180,203                                     | 205,766      | (25,563)         | -12.4%          |
| Acquisition-related expenses                              | 95,224                                      | 170,680      | (75,456)         | -44.2%          |
| Management fee, net of fee credits                        | 387,154                                     | (25,157)     | 412,311          | 1639.0%         |
| Administration fee  | 211,860                                     | 130,936      | 80,924           | 61.8%           |
| General and administrative                                | 431,326                                     | 397,354      | 33,972           | 8.5%            |
| Total operating expenses                                  | 2,282,477                                   | 1,671,211    | 611,266          | 36.6%           |
| Operating income  | 1,400,200                                   | 954,513      | 445,687          | 46.7%           |
| <b>Other income (expense)</b>                             |   |              |                  |                 |
| Other income  | 94,641                                      | 19,430       | 75,211           | 387.1%          |
| Interest expense  | (1,254,849)                                 | (949,369)    | (305,480)        | -32.2%          |
| Total other expense                                       | (1,160,208)                                 | (929,939)    | (230,269)        | -24.8%          |
| Net income  | 239,992                                     | 24,574       | 215,418          | 876.6%          |
| Less net income attributable to non-controlling interests | (5,576)                                     |              | (5,576)          | N/A             |
| Net income attributable to the Company                    | \$ 234,416                                  | \$ 24,574    | \$ 209,842       | 853.9%          |

N/A = Not Applicable

**Operating Revenues**

Rental revenues increased for the three months ended March 31, 2016, as compared to the prior-year period, primarily as a result of acquiring new farms, as well as our ability to renew existing leases at higher rental rates and earning additional revenue on capital improvements made to certain properties. For the three months ended March 31, 2016, we recorded approximately \$861,000 of rental revenue attributable to 12 new farms that we acquired since March 31, 2015. In addition, during the three months ended March 31, 2016, we recorded additional rental revenue of

approximately \$58,000 over that of the prior-year period attributable to the farms we acquired during the three months ended March 31, 2015, primarily due to owning these farms for the full period. On a same-property basis, which only includes properties owned for the entirety of both periods presented, rental revenues increased by approximately \$138,000, or 5.7%, for the three months ended March 31, 2016, primarily due to our ability to renew existing leases at higher rates and earning additional revenue on capital improvements constructed on certain properties.

Tenant recovery revenue, which represents real estate taxes and insurance premiums paid on certain of our properties that, per the leases, are required to be reimbursed by the tenant, remained relatively flat for the three months ended March 31, 2016, as compared to the prior-year period. A corresponding amount was also recorded as property operating expenses during the respective periods.

### ***Operating Expenses***

Depreciation and amortization expenses increased for the three months ended March 31, 2016, as compared to the prior-year period, as a result of the additional farms we acquired, as mentioned above, and additional site improvements constructed on

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existing properties since March 31, 2015. For the three months ended March 31, 2016, we recorded additional depreciation and amortization expense of approximately \$279,000 as a result of the 12 farms we acquired since March 31, 2015. In addition, during the three months ended March 31, 2016, we recorded additional depreciation and amortization expense of approximately \$44,000 over that of the prior-year period attributable to the farms we acquired during the three months ended March 31, 2015, primarily due to owning these farms for the full period. On a same-property portfolio basis, depreciation and amortization expense decreased by approximately \$138,000, or 19.7%, for the three months ended March 31, 2016, primarily as a result of certain lease intangible amortization periods expiring.

Property operating expenses consist primarily of real estate taxes, insurance expense and other overhead expenses paid for certain of our properties. Property operating expenses decreased for the three months ended March 31, 2016, as compared to the prior-year period, primarily as a result of lower repairs and maintenance expenses incurred on certain of our properties, as well as a decrease in aggregate property tax expense on our overall portfolio. During the three months ended December 31, 2015, two of our partial-net leases converted to pure, triple-net leases, and, beginning in 2016, certain of our properties were entered into land conservation contracts under the California Land Conservation Act, restricting the land to agricultural use and reducing the property tax assessments on those properties. For the three months ended March 31, 2016, we accrued approximately \$144,000 of real estate taxes related to certain of our farms, which included the recognition of certain prior-period supplemental taxes as a result of stepped-up tax assessments of those properties after our acquisitions of them, as compared to approximately \$152,000 during the prior-year period.

Acquisition-related expenses generally consist of legal fees and fees incurred for third-party reports prepared in connection with potential acquisitions and the related due diligence analyses. Acquisition-related expenses decreased for the three months ended March 31, 2016, as compared to the prior-year period, primarily due to closing on more separate acquisitions in the prior-year period. In connection with the three farms acquired during the three months ended March 31, 2016, we incurred \$88,889 of aggregate acquisition-related costs. Of this amount, during the three months ended March 31, 2016, \$84,219 was expensed as incurred, while \$4,670 was capitalized and allocated among the assets acquired. For the two farms acquired during the three months ended March 31, 2015, we incurred \$193,495 of aggregate acquisition-related costs. Of this amount, during the three months ended March 31, 2015, \$175,528 was expensed as incurred, while \$2,625 was capitalized and allocated among the assets acquired. In addition, in connection with the farms we acquired during the three months ended March 31, 2015, \$7,642 of the acquisition-related costs incurred was expensed during prior periods, and \$7,700 was expensed during subsequent periods.

The net management fee paid to our Adviser increased for the three months ended March 31, 2016, as compared to the prior-year period, primarily as a result of a \$320,905 finder's fee earned by our Adviser from a third party in connection with one of our acquisitions during the three months ended March 31, 2015, which the Adviser applied as a credit to the base management fee we owed to our Adviser for the three months ended March 31, 2015. In addition, we have raised approximately \$21.5 million of net proceeds from follow-on common stock offerings completed since March 31, 2015, increasing the base (the cost basis of our stockholders' equity) on which the management fee is calculated.

The administration fee paid to our Administrator increased for the three months ended March 31, 2016, as compared to the prior-year period, primarily due to us using a higher share of our Administrator's resources in relation to those used by other funds engaged by our Administrator during the three months ended March 31, 2016.

General and administrative expenses increased for the three months ended March 31, 2016, as compared to the prior-year period, primarily as a result of increased state filing fees and additional costs associated with updating the valuations of certain of our farms, partially offset by lower overhead insurance expense.

***Other Income (Expense)***

Other income, which consists primarily of interest earned on short-term investments and interest patronage received from Farm Credit CFL, increased for the three months ended March 31, 2016, as compared to the prior-year period, primarily due to additional interest patronage received from Farm Credit CFL. During the three months ended March 31, 2016, we received \$93,760 from Farm Credit CFL of interest patronage related to interest accrued during 2015, compared to \$14,856 of interest patronage received during the prior-year period. The receipt of this interest patronage resulted in a 16.1% decrease in our effective interest rate on our aggregate borrowings from Farm Credit CFL during the year ended December 31, 2015.

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Interest expense increased for the three months ended March 31, 2016, as compared to the prior-year period, primarily due to increased overall borrowings. The weighted-average balance of our aggregate borrowings for the three months ended March 31, 2016, was approximately \$148.5 million, as compared to \$104.5 million for the prior-year period. Including patronage received on our Farm Credit CFL borrowings, the overall effective interest rate charged on our aggregate borrowings, excluding the impact of deferred financing costs, was 3.04% for the three months ended March 31, 2016, as compared to 3.50% for the prior-year period.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Since our IPO in January 2013, we have invested approximately \$224.7 million into 35 new farms, and we have expended or accrued an additional \$10.9 million for capital improvements on existing properties. Our current short- and long-term sources of funds include cash and cash equivalents, cash flows from operations, borrowings, including the undrawn commitments available under the MetLife Facility and the Farmer Mac Facility, and issuances of additional equity securities. Our current available liquidity is approximately \$11.9 million, consisting of \$2.4 million in cash and, based on the current level of collateral pledged, \$9.5 million of availability under the MetLife Facility, subject to compliance with covenants.

As of March 31, 2016, our total-debt-to-total-capitalization ratio, at book value, was 65.8%, which is up from 64.7% as of December 31, 2015. However, on a fair value basis, our total-debt-to-total capitalization ratio as of March 31, 2016, was 51.9%, which is up from 50.2% as of December 31, 2015 (see Non-GAAP Financial Information Net Asset Value below for an explanation of our fair value process). We are currently exploring additional options for further access to capital, including negotiations with several lenders.

### **Future Capital Needs**

Our short- and long-term liquidity requirements consist primarily of making distributions to stockholders to maintain our qualification as a REIT, funding our general operating costs, making principal and interest payments on outstanding borrowings and funding new farmland acquisitions and other investments consistent with our investment strategy. We intend to use a significant portion of our available liquidity to purchase additional farms and farm-related properties. Based on our current liquidity and loan-to-value borrowing rates available to us, and considering certain operating obligations for which we are responsible, we estimate that our current maximum buying power for acquisitions not involving the issuance of additional OP Units is approximately \$25.1 million, and we are currently working towards solutions to increase this figure. We continue to actively seek and evaluate acquisitions of additional farms that satisfy our investment criteria, and our pipeline of potential acquisitions remains healthy. We currently have two farms under either a signed purchase and sale agreement or a signed, non-binding letter of intent for an aggregate proposed purchase price of approximately \$12.1 million, a portion of which may be paid in OP Units, and we have many other properties that are in various other stages of our due diligence process. However, all potential acquisitions will be subject to our due diligence investigation of such properties, and there can be no assurance that we will be successful in identifying or acquiring any properties in the future.

We believe that our current and short-term cash resources will be sufficient to fund our distributions to stockholders, service our debt and fund our current operating costs in the near term. We expect to meet our long-term liquidity requirements through various sources of capital, including future equity issuances (including OP Units through our Operating Partnership as consideration for future acquisitions), long-term mortgage indebtedness and bond issuances and other secured and unsecured borrowings.





**Table of Contents****Cash Flow Resources**

The following table summarizes total cash flows for operating, investing and financing activities for the three months ended March 31, 2016 and 2015:

|   | <b>For the Three Months Ended March 31,</b> |              |                     |                   |
|---|---|--------------|---------------------|-------------------|
|   | <b>2016</b>                                 | <b>2015</b>  | <b>Change (\$ )</b> | <b>Change (%)</b> |
| Net change in cash from:                |   |              |                     |                   |
| Operating activities                    | \$ 4,233,768                                | \$ 265,306   | \$ 3,968,462        | 1495.8%           |
| Investing activities                    | (21,149,732)                                | (20,034,728) | (1,115,004)         | -5.6%             |
| Financing activities                    | 16,576,802                                  | 19,330,420   | (2,753,618)         | -14.2%            |
| Net change in Cash and cash equivalents | \$ (339,162)                                | \$ (439,002) | \$ 99,840           | 22.7%             |

***Operating Activities***

The majority of cash from operating activities is generated from the rental payments we receive from our tenants, which is utilized to fund our property-level operating expenses, with any excess cash being primarily used for principal and interest payments on our borrowings, management fees to our Adviser, administrative fees to our Administrator and other corporate-level expenses. The increase in cash provided by operating activities during the three months ended March 31, 2016, as compared to the prior-year period, was primarily due to additional rental payments received from farms we have acquired during the past 12 months, particularly prepaid rent received on the three farms acquired during the three months ended March 31, 2016. This increase was partially offset by increases in certain operating expenses as a result of increased acquisition activity, as well as an increase in cash paid for interest due to increased borrowings during the three months ended March 31, 2016.

***Investing Activities***

The increase in cash used in investing activities during the three months ended March 31, 2016, as compared to the prior-year period, was primarily due to additional capital improvements made on existing properties during the three months ended March 31, 2016, which exceeded that of the prior-year period by approximately \$1.5 million.

***Financing Activities***

The decrease in cash provided by financing activities during the three months ended March 31, 2016, as compared to the prior-year period, was primarily due to a decrease in our net borrowings during the three months ended March 31, 2016, which were approximately \$2.2 million less than that of the prior-year period, as well as increased overall distributions paid out on our common stock OP Units held outside of the Company.

**Debt Capital*****MetLife Facility***

Under our MetLife Facility, the MetLife Note Payable bears interest at a fixed rate of 3.35% per annum, plus an unused line fee of 0.20% on undrawn amounts, and interest rates for subsequent disbursements will be based on

prevailing market rates at the time of such disbursements. The interest rates on the current balance and any subsequent disbursements will be subject to adjustment in August 2020. If the full commitment amount of \$100.0 million is not drawn by December 31, 2017, MetLife has the option to be relieved of its obligation to disburse the additional funds under this loan. Advances under the MetLife Line of Credit bear interest at a variable rate equal to the three-month LIBOR plus a spread of 2.25%, with a minimum annualized rate of 2.50%, plus an unused fee of 0.20% on undrawn amounts. The interest rate spread on borrowings under the MetLife Line of Credit will be subject to adjustment on April 5, 2017.

Currently, there is approximately \$87.5 million outstanding under the MetLife Note Payable that bears interest at a fixed rate of 3.35% per annum and \$12.0 million outstanding under the MetLife Line of Credit that bears interest at a rate of 2.88% per annum. While approximately \$25.5 million of the full commitment amount remains undrawn, based on the current level of collateral pledged, we currently have approximately \$9.5 million of availability under the MetLife Facility.

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In addition, we have been in discussions with MetLife to expand the MetLife Facility and modify certain terms of the agreement that would result in additional borrowing availability based on the current collateral pool. However, there can be no assurance that we will be able to enter into any agreement with terms favorable to us, or at all.

### ***Farm Credit CFL Notes Payable***

Since September 19, 2014, we have closed on eight separate loans with Farm Credit CFL for an aggregate amount of approximately \$22.2 million (collectively, the Farm Credit CFL Notes Payable). We currently have \$21.3 million outstanding under the Farm Credit CFL Notes Payable that bear interest at an expected weighted-average effective rate (net of expected interest patronage) of 2.87% and have a weighted-average maturity date of April 2031. While we do not currently have any additional availability under our program with Farm Credit CFL based on the properties currently pledged as collateral, we expect to enter into additional borrowing agreements with Farm Credit CFL in connection with certain potential new acquisitions.

Additionally, we have been in discussions with and have received a non-binding term sheet from Farm Credit CFL for a new borrowing facility that would provide us with additional borrowing availability based on our existing collateral pledged under our existing borrowings with them. However, there can be no assurance that we will be able to enter into any agreements with terms favorable to us, or at all.

### ***Farm Credit West Note Payable***

On April 4, 2016, we closed on a loan from Farm Credit West for approximately \$9.3 million that bears interest at an expected effective interest rate (net of expected interest patronage) of 2.79% and has a maturity date of November 1, 2040. While we do not currently have any additional availability under our program with Farm Credit West based on the property currently pledged as collateral, we expect to enter into additional borrowing agreements with Farm Credit West in connection with certain potential new acquisitions.

### ***Farmer Mac Facility***

On December 5, 2014, we entered into an agreement with Farmer Mac that provides for bond issuances up to an aggregate amount of \$75.0 million. To date, we have issued aggregate bonds of approximately \$49.2 million under the facility, and we currently have \$49.1 million outstanding that bear interest at a weighted-average interest rate of 2.93% and have a weighted-average maturity date of September 2020. While approximately \$25.8 million of the full commitment balance remains undrawn, based on the current level of collateral pledged, we currently have no availability under the Farmer Mac Facility. However, we expect to pledge certain potential new property acquisitions as collateral under the Farmer Mac Facility to utilize some or all of this remaining commitment balance. If we have not issued bonds such that the aggregate bond issuances total \$75.0 million by December 11, 2016, Farmer Mac has the option to be relieved of its obligation to purchase additional bonds under this facility.

In addition, we are currently in discussions with Farmer Mac regarding the expansion of the Farmer Mac Facility; however, there can be no assurance that we will be able to expand this facility on terms favorable to us, or at all.

## **Equity Capital**

Including approximately \$29.7 million reserved for issuance under our ATM Program, we currently have the ability to raise up to \$276.7 million of additional equity capital through the sale and issuance of securities that are registered under our registration statement on Form S-3 (File No. 333-194539) in one or more future offerings. However, in the future, we may be limited in the amount of securities we may sell on Form S-3 should the market value of our

common stock held by non-affiliates decrease below \$75.0 million, as has been the case at certain times during the past 12 months. As we are currently above the \$75.0 million threshold, this limitation will not impact us until the next measurement period, which will be when we file our 2016 Form 10-K. However, there can be no assurance that we will be above the \$75.0 million threshold at that time.

In addition, we have the ability, and may do so in the future, to issue additional OP Units to third parties as consideration in future property acquisitions.

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### **Off-Balance Sheet Arrangements**

As of March 31, 2016, we did not have any off-balance sheet arrangements.

### **NON-GAAP FINANCIAL INFORMATION**

#### **Funds from Operations, Core Funds from Operations and Adjusted Funds from Operations**

The National Association of Real Estate Investment Trusts ( NAREIT ) developed funds from operations ( FFO ) as a relative non-GAAP supplemental measure of operating performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the same basis determined under GAAP. FFO, as defined by NAREIT, is net income (computed in accordance with GAAP), excluding gains or losses from sales of property and impairment losses on property, plus depreciation and amortization of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. We further present core FFO ( CFFO ) and adjusted FFO ( AFFO ) as additional non-GAAP financial measures, as we believe both CFFO and AFFO improve comparability on a period-over-period basis and are more useful supplemental metrics for investors to use in assessing our operational performance on a more sustainable basis than FFO.

We calculate CFFO by adjusting FFO for the following items:

*Acquisition-related expenses.* Acquisition-related expenses (i.e., due diligence costs) are incurred for investment purposes and do not correlate with the ongoing operations of our existing portfolio. Further, due to the inconsistency in which these costs are incurred and how they are treated for accounting purposes, we believe the exclusion of these expenses improves comparability of our results on a period-to-period basis.

*Acquisition-related accounting fees.* Certain auditing and accounting fees we incur are directly related to acquisitions and vary depending on the number and complexity of acquisitions completed during a period. Due to the inconsistency in which these costs are incurred, we believe the exclusion of these expenses improves comparability of our results on a period-to-period basis.

*Other adjustments.* We will adjust for certain non-recurring charges and receipts and will explain such adjustments accordingly.

Further, we calculate AFFO by adjusting CFFO for the following items:

*Cash rent adjustment.* This adjustment removes the effects of straight-lining rental income, as well as the amortization related to above-market lease values and accretion related to below-market lease values, deferred revenue and tenant improvements, resulting in rental income reflected on a modified accrual cash basis. In addition to these adjustments, beginning with the three months ended June 30, 2015, we modified our calculation in our definition of AFFO to provide greater consistency and comparability due to the period-to-period volatility in which cash rents are received. To coincide with our tenants' harvest seasons, our leases typically provide for cash rents to be paid at various points throughout the lease year, usually annually or semi-annually. As a result, cash rents received during a particular period may not necessarily be

comparable to other periods and do not represent the cash rents indicative of a given lease year. Therefore, we have adjusted AFFO to normalize the cash rent received pertaining to a lease year over that respective lease year on a straight-line basis. We will apply the same modified definition of AFFO for all prior-year periods presented to provide consistency and better comparability.

*Amortization of deferred financing costs.* The amortization of costs incurred to obtain financing is excluded from AFFO, as it is a non-cash expense item.

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The following table provides a reconciliation of our FFO, CFFO and AFFO for the three months ended March 31, 2016 and 2015 to the most directly-comparable GAAP measure, net income, and a computation of diluted FFO, CFFO and AFFO per share, computed using the weighted-average number of total shares (including shares of our common stock and OP Units held by non-controlling limited partners) outstanding during the respective periods.

|   | <b>For the Three Months Ended March 31,</b> |                   |
|---|---|-------------------|
|   | <b>2016</b>                                 | <b>2015</b>       |
| <b>Net income</b>   | <b>\$ 239,992</b>                           | <b>\$ 24,574</b>  |
| Plus: Real estate and intangible depreciation and amortization      | 976,710                                     | 791,632           |
| <b>FFO available to common stockholders and OP Unit holders</b>     | <b>1,216,702</b>                            | <b>816,206</b>    |
| Plus: Acquisition-related expenses                                  | 95,224                                      | 170,680           |
| Plus: Acquisition-related accounting fees                           | 14,500                                      | 35,000            |
| (Minus) plus: Other one-time (receipts) charges, net <sup>(1)</sup> |   | (310,939)         |
| <b>CFFO available to common stockholders and OP Unit holders</b>    | <b>1,326,426</b>                            | <b>710,947</b>    |
| Net adjustment for cash rents                                       | (102,757)                                   | (96,596)          |
| Plus: Amortization of deferred financing costs                      | 34,354                                      | 21,026            |
| <b>AFFO available to common stockholders and OP Unit holders</b>    | <b>\$ 1,258,023</b>                         | <b>\$ 635,377</b> |
| Weighted-average common shares outstanding basic and diluted        | 9,992,941                                   | 7,753,717         |
| Weighted-average OP Units outstanding <sup>(2)</sup>                | 237,698                                     | 0                 |
| Weighted-average total shares outstanding                           | 10,230,639                                  | 7,753,717         |
| Diluted FFO per weighted-average total share                        | \$ 0.12                                     | \$ 0.11           |
| Diluted CFFO per weighted-average total share                       | \$ 0.13                                     | \$ 0.09           |
| Diluted AFFO per weighted-average total share                       | \$ 0.12                                     | \$ 0.08           |

(1) 2015 adjustments consist of the removal of (i) a credit we received from our Advisor related to a new property acquisition and (ii) repairs incurred as a result of the fire that were expensed during the year.

(2) Includes only OP Units held by third parties. As of March 31, 2016, there were 745,879 OP Units held by non-controlling limited partners, representing 6.9% of all OP Units issued and outstanding. There were no OP



Units held by anyone other than the Company during 2015.

FFO, CFFO and AFFO do not represent cash flows from operating activities in accordance with GAAP, which, unlike FFO, CFFO and AFFO, generally reflects all cash effects of transactions and other events in the determination of net income, and should not be considered an alternative to net income as an indication of our performance or to cash flows from operations as a measure of liquidity or ability to make distributions. Comparisons of FFO, CFFO and AFFO, using the NAREIT definition for FFO and the definitions above for CFFO and AFFO, to similarly-titled measures for other REITs may not necessarily be meaningful due to possible differences in the definitions used by such REITs.

We believe that net income is the most directly-comparable GAAP measure to each FFO, CFFO and AFFO. Diluted funds from operations ( Diluted FFO ), diluted core funds from operations ( Diluted CFFO ) and diluted adjusted funds from operations ( Diluted AFFO ) per share are FFO, CFFO and AFFO, respectively, divided by the weighted-average number of total shares (including shares of our common stock and OP Units held by non-controlling limited partners) outstanding on a fully-diluted basis during a period. We believe that net income is the most directly-comparable GAAP measure to each FFO, CFFO and AFFO, and diluted earnings per share is the most directly-comparable GAAP measure to each Diluted FFO, CFFO and AFFO per share.

We believe that FFO, CFFO and AFFO and Diluted FFO, CFFO and AFFO per share are useful to investors because they provide investors with a further context for evaluating our FFO, CFFO and AFFO results in the same manner that investors use net income and EPS in evaluating net income. In addition, because many REITs provide FFO, CFFO and AFFO and Diluted FFO, CFFO and AFFO per share information to the investment community, we believe these are useful supplemental measures when comparing us to other REITs.

**Table of Contents****Net Asset Value**

The following table provides certain summary information about our 46 farm properties held as of March 31, 2016.

| <b>Property Name</b> | <b>Location</b> | <b>Date Acquired</b> | <b>No. of Farms</b> | <b>Total Acres</b> | <b>Farm Acres</b> | <b>Net Cost Basis<sup>(1)</sup></b> | <b>Prior Fair Value<sup>(2)</sup></b> | <b>Current Fair Value</b>    |
|----------------------|-----------------|----------------------|---------------------|--------------------|-------------------|-------------------------------------|---------------------------------------|------------------------------|
| San Andreas          | Watsonville, CA | 6/16/1997            | 1                   | 307                | 238               | \$ 4,776,750                        | \$ 13,600,000                         | \$ 13,600,000 <sup>(5)</sup> |
| West Gonzales        | Oxnard, CA      | 9/15/1998            | 1                   | 653                | 502               | 12,142,787                          | 53,000,000                            | 53,000,000 <sup>(5)</sup>    |
| West Beach           | Watsonville, CA | 1/3/2011             | 3                   | 196                | 195               | 9,292,113                           | 11,860,000                            | 11,860,000 <sup>(5)</sup>    |
| Dalton Lane          | Watsonville, CA | 7/7/2011             | 1                   | 72                 | 70                | 2,681,288                           | 3,172,000                             | 3,172,000 <sup>(4)</sup>     |
| Keysville Road       | Plant City, FL  | 10/26/2011           | 2                   | 61                 | 56                | 1,240,187                           | 1,548,000                             | 1,582,000 <sup>(4)</sup>     |
| Colding Loop         | Wimauma, FL     | 8/9/2012             | 1                   | 219                | 181               | 3,929,122                           | 4,400,000                             | 4,457,000 <sup>(4)</sup>     |
| Trapnell Road        | Plant City, FL  | 9/12/2012            | 3                   | 124                | 110               | 3,903,277                           | 4,856,000                             | 4,856,000 <sup>(4)</sup>     |
| 38th Avenue          | Covert, MI      | 4/5/2013             | 1                   | 119                | 89                | 1,265,366                           | 1,476,000                             | 1,476,000 <sup>(4)</sup>     |
| Sequoia Street       | Brooks, OR      | 5/31/2013            | 1                   | 218                | 206               | 3,100,817                           | 3,352,000                             | 3,352,000 <sup>(4)</sup>     |
| Natividad Road       | Salinas, CA     | 10/21/2013           | 1                   | 166                | 166               | 8,846,432                           | 8,500,000                             | 8,500,000 <sup>(5)</sup>     |
| 20th Avenue          | South Haven, MI | 11/5/2013            | 3                   | 151                | 94                | 1,871,211                           | 2,195,000                             | 2,195,000 <sup>(4)</sup>     |
| Broadway Road        | Moorpark, CA    | 12/16/2013           | 1                   | 60                 | 46                | 2,878,356                           | 3,524,000                             | 3,524,000 <sup>(4)</sup>     |
| Oregon Trail         | Echo, OR        | 12/27/2013           | 1                   | 1,895              | 1,640             | 13,898,699                          | 14,740,000                            | 14,740,000 <sup>(4)</sup>    |
| East Shelton         | Willcox, AZ     | 12/27/2013           | 1                   | 1,761              | 1,320             | 7,827,371                           | 8,330,000                             | 8,330,000 <sup>(5)</sup>     |
| Collins Road         | Clatskanie, OR  | 5/30/2014            | 2                   | 200                | 157               | 2,396,272                           | 2,729,000                             | 2,901,000 <sup>(4)</sup>     |
| Spring Valley        | Watsonville, CA | 6/13/2014            | 1                   | 145                | 110               | 5,761,971                           | 6,925,000                             | 6,925,000 <sup>(5)</sup>     |
| McIntosh Road        | Dover, FL       | 6/20/2014            | 2                   | 94                 | 78                | 2,464,544                           | 2,722,000                             | 2,722,000 <sup>(4)</sup>     |
| Naumann Road         | Oxnard, CA      | 7/23/2014            | 1                   | 68                 | 66                | 6,799,261                           | 7,048,000                             | 7,048,000 <sup>(4)</sup>     |
| Sycamore Road        | Arvin, CA       | 7/25/2014            | 1                   | 326                | 322               | 6,868,186                           | 7,733,000                             | 7,733,000 <sup>(5)</sup>     |
| Wauchula Road        | Duette, FL      | 9/29/2014            | 1                   | 808                | 590               | 13,713,300                          | 14,562,000                            | 16,800,000 <sup>(5)</sup>    |
| Santa Clara Avenue   | Oxnard, CA      | 10/29/2014           | 2                   | 333                | 331               | 24,206,436                          | 26,694,000                            | 26,694,000 <sup>(4)</sup>    |
| Dufau Road           | Oxnard, CA      | 11/4/2014            | 1                   | 65                 | 64                | 6,046,279                           | 6,383,000                             | 6,383,000 <sup>(4)</sup>     |
| Espinosa Road        | Salinas, CA     | 1/5/2015             | 1                   | 331                | 329               | 16,450,268                          | 16,905,500                            | 18,212,000 <sup>(4)</sup>    |
| Parrish Road         | Duette, FL      | 3/10/2015            | 1                   | 419                | 412               | 4,235,980                           | 3,913,280                             | 7,000,000 <sup>(5)</sup>     |
| Immokalee Exchange   | Immokalee, FL   | 6/25/2015            | 2                   | 2,678              | 1,644             | 15,585,280                          | 15,757,700                            | 15,757,700 <sup>(3)</sup>    |
| Holt County          | Stuart, NE      | 8/20/2015            | 1                   | 1,276              | 1,052             | 5,460,180                           | 5,504,000                             | 5,504,000 <sup>(3)</sup>     |
| Rock County          | Bassett, NE     | 8/20/2015            | 1                   | 1,283              | 1,049             | 5,450,906                           | 5,504,000                             | 5,504,000 <sup>(3)</sup>     |
| Bear Mountain        | Arvin, CA       | 9/3/2015             | 3                   | 854                | 841               | 22,656,128                          | 18,922,500                            | 18,922,500 <sup>(3)(7)</sup> |

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|                |               |            |   |       |       |            |           |                           |
|----------------|---------------|------------|---|-------|-------|------------|-----------|---------------------------|
| Corbitt Road   | Immokalee, FL | 11/2/2015  | 1 | 691   | 390   | 3,800,181  | 3,760,000 | 3,760,000 <sup>(3)</sup>  |
| Reagan Road    | Willcox, AZ   | 12/22/2015 | 1 | 1,239 | 875   | 5,708,898  | 5,700,000 | 5,700,000 <sup>(3)</sup>  |
| Gunbarrel Road | Alamosa, CO   | 3/3/2016   | 3 | 6,191 | 4,730 | 25,637,561 |           | 25,884,991 <sup>(6)</sup> |

**46 23,003 17,953 \$ 250,895,407 \$ 285,315,980 \$ 318,095,191**

- (1) Consists of the initial acquisition price (including the costs allocated to both tangible and intangible assets acquired and liabilities assumed), plus subsequent improvements and other capitalized costs associated with the properties, and adjusted for accumulated depreciation and amortization. Includes Investments in real estate, net and Lease intangibles, net; plus net above-market lease values included in Other assets; and less net below-market lease values, deferred revenue and unamortized tenant improvements included in Other liabilities, each as shown on the accompanying *Condensed Consolidated Balance Sheet*.
- (2) As reported in our Annual Report on Form 10-K for the year ended December 31, 2015.
- (3) Valued at the purchase price paid.
- (4) Represents values as determined by our internal valuation process, as described below.
- (5) Represents values as determined by third-party appraisals performed between April 2015 and April 2016.
- (6) Valued at the agreed-upon purchase price, as reported in the related Agreements of Purchase and Sale and Contribution Agreements for the property.
- (7) Value excludes approximately \$3.7 million of capitalized costs incurred related to the development of an almond orchard on the property. The property will be re-appraised upon completion of the project, which is expected to be by June 30, 2016.

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Real estate companies are required to record real estate using the historical cost basis of the real estate, adjusted for accumulated depreciation and amortization, and, as a result, the carrying value of the real estate does not typically change as the fair value of the assets change. Thus, a difficulty in owning shares of an asset-based company is determining the fair value of the assets so that stockholders can see the value of the assets increase or decrease over time. For this reason, we believe determining the fair value of our real estate assets is useful to our investors.

### ***Determination of Fair Value***

Our Board of Directors reviews and approves the valuations of our properties pursuant to a valuation policy approved by our Board of Directors (the "Valuation Policy"). Such review and approval occurs in three phases: (i) prior to its quarterly meetings, the Board of Directors receives written valuation recommendations and supporting materials that are provided by professionals of the Adviser and Administrator, with oversight and direction from the chief valuation officer, who is also employed by the Administrator (collectively, the "Valuation Team"); (ii) the valuation committee of the Board of Directors (the "Valuation Committee"), which is comprised entirely of independent directors, meets to review the valuation recommendations and supporting materials; and (iii) after the Valuation Committee concludes its meeting, it and the chief valuation officer present the Valuation Committee's findings to the entire Board of Directors so that the full Board of Directors may review and approve the fair values of our properties in accordance with the Valuation Policy. Further, on a quarterly basis, the Board of Directors reviews the Valuation Policy to determine if changes thereto are advisable and also reviews whether the Valuation Team has applied the Valuation Policy consistently.

For properties acquired within 12 months prior to the date of valuation, the purchase price of the property generally is used as the current fair value. For real estate we acquired more than one year prior to the date of valuation, we have determined the fair value either by relying on estimates provided by independent, third-party appraisers or through an internal valuation process. In addition, if significant capital improvements take place on a property, we will generally have those properties reappraised upon completion of the project by an independent, third-party appraiser. In any case, we intend to have each property valued by an independent, third-party appraiser at least once every three years, with interim values generally being determined by our internal valuation process.

Various methodologies were used, both by the appraisers and in our internal valuations, to determine the fair value of our real estate on an "As Is" basis, including the sales comparison, income capitalization (or a discounted cash flow analysis) and cost approaches of valuation. In performing their analyses, the appraisers (i) performed site visits to the properties, (ii) discussed each property with our Adviser and reviewed property-level information, including, but not limited to, property operating data, prior appraisals (as available), existing lease agreements, farm acreage, location, access to water and water rights, potential for future development and other property-level information, and (iii) reviewed information from a variety of sources about regional market conditions applicable to each of our properties, including, but not limited to, recent sale prices of comparable farmland, market rents for similar farmland, estimated marketing and exposure time, market capitalization rates and the current economic environment, among others. In performing our internal valuations, we will consider the most recent appraisal available and use similar methodologies in determining an updated fair value. We will also obtain updated market data related to the property, such as updated sales and market rent comparisons and market capitalization rates, and perform an updated assessment of the tenants' credit risk profiles, among others. Sources of this data may come from market inputs from recent acquisitions of our own portfolio of real estate, recent appraisals of properties we own that are similar in nature and in the same region (as applicable) as the property being valued, market conditions and trends we observe in our due diligence process and conversations with appraisers, brokers and farmers.



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A breakdown of the methodologies used to value our properties and the aggregate value as of March 31, 2016, determined by each method is shown in the table below:

| <b>Valuation Method</b> | <b>No. of Farms</b> | <b>Total Portfolio Fair Value</b> | <b>% of Total Fair Value</b> |
|-------------------------|---------------------|-----------------------------------|------------------------------|
| Purchase Price          | 12                  | \$ 81,033,191                     | 25.5%                        |
| Internal Valuation      | 23                  | 103,314,000 <sup>(1)</sup>        | 32.5%                        |
| Third-party Appraisal   | 11                  | 133,748,000                       | 42.0%                        |
| <b>Total</b>            | <b>46</b>           | <b>\$ 318,095,191</b>             | <b>100.0%</b>                |

- (1) 94.7% of this valuation, or approximately \$97.8 million, is supported by values as determined by third-party appraisals performed between January 2013 and April 2015. The difference of \$5.5 million represents the net appreciation of those properties since the time of such appraisals, as determined according to our Valuation Policy .

Some of the significant assumptions used by appraisers and the Valuation Team in valuing our portfolio as of March 31, 2016, include land values per farmable acre, market rental rates per farmable acre and capitalization rates, among others. These assumptions were applied on a farm-by-farm basis and were selected based on several factors, including comparable land sales, surveys of both existing and current market rates, discussions with other brokers and farmers, soil quality, size, location and other factors deemed appropriate. A summary of these significant assumptions is provided in the following table:

|  | <b>Appraisal Assumptions</b>  |                             | <b>Internal Valuation Assumptions</b> |                             |
|--|-------------------------------|-----------------------------|---------------------------------------|-----------------------------|
|  | <b>Range<br/>(Low - High)</b> | <b>Weighted<br/>Average</b> | <b>Range<br/>(Low - High)</b>         | <b>Weighted<br/>Average</b> |
| <b>Land Value (per farmable acre)</b>  | \$4,630 - \$105,000           | \$ 64,994                   | \$8,854 - \$100,705                   | \$ 53,678                   |
| <b>Market Rent (per farmable acre)</b> | \$260 - \$3,700               | \$ 2,555                    | \$452 - \$5,019                       | \$ 2,545                    |
| <b>Market Capitalization Rate</b>      | 3.12% - 5.00%                 | 3.91%                       | 3.37% - 6.50%                         | 4.39%                       |

The table above applies only to the farmland portion of our portfolio and exclude assumptions made relating to farm-related property, such as cooling facilities and box barns, and other structures on our properties, including residential housing and horticulture, as their aggregate value was deemed to be immaterial in relation to that of the farmland.

Our Valuation Team reviews the appraisals, including the significant assumptions and inputs used in determining the appraised values, and considers any developments that may have occurred since the time the appraisals were performed. Developments considered that may have an impact on the fair value of our real estate include, but are not limited to, changes in tenant credit profiles; changes in lease terms, such as expirations and notices of non-renewals or to vacate; and potential asset sales, particularly those at prices different from the appraised values of our properties.

Management believes that the purchase prices of the farms acquired during the previous 12 months, the most recent appraisals available for the farms acquired prior to the previous 12 months that were not valued internally, which appraisals were performed between the periods of October 2015 and April 2016, and the farms that were valued internally during the previous 12 months, fairly represent the current market values of the properties as of March 31, 2016, and, accordingly, did not make any adjustment to these values.

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A quarterly roll-forward of the change in our portfolio value for the three months ended March 31, 2016, from the prior value basis as of December 31, 2015, is provided in the table below:

|  |                       |
|--|-----------------------|
| <b>Total portfolio fair value as of December 31, 2015</b>    | <b>\$ 285,315,980</b> |
| <i>Plus Acquisitions:</i>                                    |                       |
| Gunbarrel Road   | \$ 25,884,991         |
| Total acquisitions for the three months ended March 31, 2016 | 25,884,991            |
| <i>Plus Value Appreciation:</i>                              |                       |
| Keysville Road   | 34,000                |
| Colding Loop Road  | 57,000                |
| Collings Road  | 172,000               |
| Wauchula Road  | 2,238,000             |
| Espinosa Road  | 1,306,500             |
| Parrish Road   | 3,086,720             |
| Total appreciation for the three months ended March 31, 2016 | 6,894,220             |
| <b>Total portfolio fair value as of March 31, 2016</b>       | <b>\$ 318,095,191</b> |

In addition, using a discounted cash flow analysis, management determined that the fair value of all encumbrances on our properties as of March 31, 2016, was approximately \$162.5 million, as compared to a carrying value (excluding unamortized related debt issuance costs) of \$160.8 million.

***Calculation of Estimated Net Asset Value***

To provide our stockholders with an estimate of the fair value of our real estate assets, we intend to estimate the fair value of our farm properties, expressed in terms of net asset value ( NAV ) per share, and provide that to our stockholders on a quarterly basis. NAV is a non-GAAP, supplemental measure of financial position of an equity REIT. NAV is calculated as total stockholders equity, adjusted for the increase or decrease in fair value of our real estate assets and encumbrances relative to their respective costs bases ( Estimated Net Worth ). Estimated Net Worth is then divided by our total common shares outstanding to calculate the NAV per share.

*The fair values presented above and their usage in the calculation of net asset value per share presented below have been prepared by, and is the responsibility of, management. PricewaterhouseCoopers LLP has neither examined, compiled nor performed any procedures with respect to the fair values or the calculation of net asset value per share, which utilizes information that is not disclosed within the financial statements, and, accordingly, does not express an opinion or any other form of assurance with respect thereto.*



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As of March 31, 2016, we estimate our NAV per share to be \$13.87, as detailed below:

|   |                       |
|---|-----------------------|
| Total assets  | \$ 256,970,629        |
| Less: net cost basis of tangible real estate and intangible lease assets <sup>(1)</sup> | (252,219,687)         |
| Plus: estimated fair value of property portfolio <sup>(2)</sup>                         | 318,095,191           |
| Estimated fair value of total assets  | \$ 322,846,133        |
| Total liabilities   | 173,530,422           |
| Less: net cost basis of intangible lease liabilities <sup>(3)</sup>                     | (1,324,280)           |
| Less: book value of aggregate borrowings <sup>(4)</sup>                                 | (160,776,919)         |
| Plus: fair value of aggregate borrowings <sup>(5)</sup>                                 | 162,461,816           |
| Estimated fair value of total liabilities   | 173,891,039           |
| <b>Estimated Net Worth</b>  | <b>\$ 148,955,094</b> |
| Shares outstanding <sup>(6)</sup>   | 10,738,820            |
| <b>Estimated NAV per share</b>  | <b>\$ 13.87</b>       |

(1) Adjusted for \$10,361 of net above-market lease values, included in Other assets on the accompanying *Condensed Consolidated Balance Sheet*.

(2) Per current value basis presented in the table above.

(3) Adjusted for \$172,044 of net below-market lease values and deferred revenue and \$1,152,236 of unamortized tenant improvements, both included in Other liabilities on the accompanying *Condensed Consolidated Balance Sheet*.

(4) Excludes \$1,048,864 of deferred financing costs related to mortgage notes and bonds payable included in Mortgage notes and bonds payable, net on the accompanying *Condensed Consolidated Balance Sheet*.

(5) Valued using a discounted cash flow model.

(6) Includes 745,879 OP Units held by non-controlling limited partners, representing 6.9% of all OP Units issued and outstanding.

A quarterly roll-forward in the estimated NAV per share for the three months ended March 31, 2016, is provided below:

|  |                 |
|--|-----------------|
| <b>Estimated NAV per share as of December 31, 2015</b>                     | <b>\$ 14.20</b> |
| Plus net income  | 0.02            |
| <i>Plus change in valuations:</i>  |                 |
| Net change in unrealized appreciation of farmland portfolio <sup>(1)</sup> | \$ 0.38         |
| Net change in unrealized fair value of borrowings                          | (0.22)          |
| Net change in valuations   | 0.16            |

|   |                 |
|---|-----------------|
| Less distributions                                  | (0.12)          |
| Less dilutive effect of OP Unit issuances           | (0.39)          |
| <b>Estimated NAV per share as of March 31, 2016</b> | <b>\$ 13.87</b> |

- (1) The net change in unrealized appreciation of farmland portfolio consists of three components: (i) an increase of \$0.64 due to the appreciation in value of eight farms that were valued during the three months ended March 31, 2016, (ii) an increase of \$0.09 due to the aggregate depreciation and amortization expense recorded during the three months ended March 31, 2016, and (iii) a decrease of \$0.35 due to capital improvements made on certain properties that have not yet been included as a corresponding increase to the respective properties' estimated fair values.

Comparison of estimated NAV, using the above definition, to similarly-titled measures for other REITs, may not necessarily be meaningful, due to possible differences in the calculation or application of the definition of NAV used by such REITs. In

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addition, the trading price of our common shares may differ significantly from our most recent estimated NAV per share calculation. For example, while we estimated the NAV per share as of March 31, 2016, to be \$13.87 per the calculation above, the closing price of our common stock on March 31, 2016, was \$10.07, and it has subsequently traded, through April 29, 2016, between \$9.61 and \$10.61 per share.

While management believes the values presented reflect current market conditions, the ultimate amount realized on any asset will be based on the timing of such dispositions and the then-current market conditions. There can be no assurance that the ultimate realized value upon disposition of an asset will approximate the estimated fair value above.

We intend to report any adjustments to the estimated NAV, as well as to the values of our properties, in this section on a quarterly basis, but in no case less than annually. However, the determination of estimated NAV is subjective and involves a number of assumptions, judgments and estimates, and minor inaccuracies in our assumptions may have a material impact on our overall portfolio valuation. In addition, many of the assumptions used are sensitive to market conditions and can change frequently. Changes in the market environment and other events that may occur during our ownership of these properties may cause the values reported above to vary from the actual fair value that may be obtained in the open market.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market-sensitive instruments. The primary market risk that we believe we are and will be exposed to is interest rate risk. Certain of our existing leases contain escalations based on market indices, and certain of our existing borrowings are subject to variable interest rates. Further, the interest rates on certain of our fixed-rate borrowings are either fixed for a finite period before converting to variable rate or are subject to periodic adjustments. Although we seek to mitigate this risk by structuring certain provisions into many of our leases, such as escalation clauses or adjusting the rent to prevailing market rents at two- to three-year intervals, these features do not eliminate this risk. To date, we have not entered into any derivative contracts to attempt to manage our exposure to interest rate fluctuations.

As of March 31, 2016, the fair value of our fixed-rate borrowings outstanding, which accounted for 97.0% of our total indebtedness, at cost, as of March 31, 2016, was approximately \$157.6 million. However, interest rate fluctuations may affect the fair value of our fixed-rate borrowings. If market interest rates had been one percentage point lower or higher than those rates in place as of March 31, 2016, the fair value of our fixed-rate borrowings would have increased or decreased by approximately \$5.2 million or \$4.9 million, respectively.

There have been no material changes in the quantitative and qualitative market risk disclosures for the three months ended March 31, 2016, from that disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the SEC on February 23, 2016.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of March 31, 2016, our management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2016, in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of necessarily achieving the desired control objectives, and management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not currently subject to any material legal proceedings, nor, to our knowledge, are any such material legal proceedings threatened against us.

**Item 1A. Risk Factors**

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. For a discussion of these risks, please refer to this section and the section captioned "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, filed by us with the U.S. Securities and Exchange Commission on February 23, 2016. The risks described below and in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially and adversely affect our business, financial condition and/or operating results in the future.

*We may enter into tax protection agreements in the future if we issue OP Units in connection with the acquisition of properties, which could limit our ability to sell or otherwise dispose of certain properties.*

Our Operating Partnership may enter into tax protection agreements in connection with issuing OP Units to acquire additional properties which could provide that if we dispose of any interest in the protected acquired property prior to a certain time, we will indemnify the other party for its tax liabilities attributable to the built-in gain that exists with respect to such property. Therefore, although it may be in our stockholders' best interests that we sell one of these properties, it may be economically prohibitive for us to do so if we are a party to such a tax protection agreement. While we do not currently have any of these tax protection agreements in place currently, we cannot guarantee that we will not enter into such agreements in the future.

*Our redemption of OP Units could result in the issuance of a large number of new shares of our common stock and/or force us to expend significant cash, which may limit our funds necessary to make distributions on our common stock.*

As of the date of this Quarterly Report, third parties owned approximately 6.9% of the outstanding OP Units. Following any contractual lock-up provisions, including the one-year mandatory holding period, a non-controlling limited partner of our Operating Partnership may require us to redeem the OP Units it holds for cash. At our election, we may satisfy the redemption through the issuance of shares of our common stock on a one-for-one basis. However, the limited partners' redemption right may not be exercised if and to the extent that the delivery of the shares upon such exercise would result in any person violating the ownership and transfer restrictions set forth in our charter. If a large number of OP Units were redeemed, it could result in the issuance of a large number of new shares of our common stock, which could dilute our existing stockholders' ownership. Alternatively, if we were to redeem a large number of OP Units for cash, we may be required to expend significant amounts to pay the redemption price, which may limit our funds necessary to make distributions on our common stock. Further, if we do not have sufficient cash on hand at the time the OP Units are tendered for redemption, we may be forced to sell additional shares of our common stock in order to raise cash, which could cause dilution to our existing stockholders and adversely affect the market price of our common stock.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*Sales of Unregistered Securities*

As partial consideration in connection with the acquisition of Gunbarrel Road, on March 3, 2016, the Operating Partnership issued 745,879 OP Units, constituting an aggregate fair value of approximately \$6.5 million as of the acquisition date, subject to adjustment pursuant to the related contribution agreements, to certain sellers upon consummation of the transactions. Following a one-year holding period, the OP Units will be redeemable for cash or, at the Company's discretion, exchangeable for shares of the Company's common stock, in accordance with the terms of the Operating Partnership's partnership agreement.

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The exchange of the OP Units pursuant to the related contribution agreements were consummated without registration under the Securities Act in reliance upon the exemption from registration in Section 4(a)(2) of the Securities Act as transactions not involving any public offering. No sales commission or other consideration was paid in connection with such sale.

*Issuer Purchases of Equity Securities*

None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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| <b>Exhibit</b> |  |
|----------------|--|
| <b>Number</b>  | <b>Exhibit Description</b>   |
| 3.1            | Articles of Incorporation of the Registrant, incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-11 (File No. 333-183965), filed November 2, 2012.   |
| 3.2            | Amended and Restated Bylaws of the Registrant, incorporated by reference to Exhibit 3.2 to Pre-Effective Amendment No. 3 to the Registration Statement on Form S-11 (File No. 333-183965), filed November 15, 2012.  |
| 4.1            | Form of Common Stock Certificate of the Registrant, incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 4 to the Registration Statement on Form S-11 (File No. 333-183965), filed December 27, 2012.   |
| 10.1           | Agreement of Purchase and Sale, dated February 11, 2016, between Gunbarrel Road Alamosa, LLC, and Ernest and Virginia Myers, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File No. 001-35795), filed March 9, 2016.  |
| 10.2           | Agreement of Purchase and Sale, dated February 17, 2016, between Gunbarrel Road Alamosa, LLC, and SAM Investments, Inc., incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K (File No. 001-35795), filed March 9, 2016.  |
| 10.3           | Contribution Agreement, dated February 17, 2016, by and among Gunbarrel Road Alamosa, LLC, Gladstone Land Corporation, Gladstone Land Partners, LLC Gladstone Land Limited Partnership and SAM Investments, Inc., incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K (File No. 001-35795), filed March 9, 2016.           |
| 10.4           | Contribution Agreement, dated February 17, 2016, by and among Gunbarrel Road Alamosa, LLC, Gladstone Land Corporation, Gladstone Land Partners, LLC Gladstone Land Limited Partnership and Mountain Valley Produce, L.L.C., incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K (File No. 001-35795), filed March 9, 2016. |
| 11             | Computation of Per Share Earnings from Operations (included in the notes to the unaudited financial statements contained in this Report).  |
| 31.1           | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 31.2           | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |
| 32.1           | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).   |
| 32.2           | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).   |
| 101.INS***     | XBRL Instance Document   |



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|            |  |
|------------|--|
| 101.SCH*** | XBRL Taxonomy Extension Schema Document                |
| 101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB*** | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF*** | XBRL Definition Linkbase                               |

\*\*\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of March 31, 2016, and December 31, 2015, (ii) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015, (iii) the Condensed Consolidated Statements of Stockholders Equity for the three months ended March 31, 2016, and the year ended December 31, 2015, (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 and (vi) the Notes to the Condensed Consolidated Financial Statements.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Gladstone Land Corporation**

Date: May 2, 2016

By: /s/ Lewis Parrish  
Lewis Parrish  
Chief Financial Officer and  
  
Assistant Treasurer

Date: May 2, 2016

By: /s/ David Gladstone  
David Gladstone  
Chief Executive Officer and  
  
Chairman of the Board of Directors