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## **FORM 10-K**

**CADIZ INC - CDZI**

**Filed: March 28, 2002 (period: December 31, 2001)**

Annual report with a comprehensive overview of the company



Certain portions of Registrant's proxy statement for the annual meeting to be held on May 6, 2002, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the Registrant's fiscal year, are incorporated by reference under Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Information presented in this Form 10-K that discusses financial projections, proposed transactions such as those with the Metropolitan Water District of Southern California and Kingdom Agricultural Development Company, information or expectations about our business strategies, results of operations, products or markets, or otherwise makes statements about future events, are forward-looking statements. Forward-looking statements can be identified by the use of words such as "intends", "anticipates", "believes", "estimates", "projects", "forecasts", "expects", "plans" and "proposes". Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a

number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. These include, among others, the cautionary statements under the caption "Certain Trends and Uncertainties", as well as other cautionary language contained in this Form 10-K. These cautionary statements identify important factors that could cause actual results to differ materially from those described in the forward-looking statements. When considering forward-looking statements in this Form 10-K, you should keep in mind the cautionary statements described above.

## OVERVIEW

The combination of considerable population increases and limited supplies are placing great demands on water resources both in California and worldwide. Compounding the issue, many population centers are not located where significant precipitation occurs. We therefore believe that a competitive advantage exists for those companies that possess or can provide high quality, reliable and affordable water supply in locations worldwide including California and its multi-billion dollar agricultural industry, one of the largest users of water in the state. Accordingly, Cadiz Inc., which is sometimes referred to as "Cadiz", "we" or "us", has created an integrated and complementary portfolio of assets encompassing landholdings with high-quality groundwater resources and/or storage potential, as well as agricultural properties located throughout central and southern California with valuable water rights, and other contractual water rights. We believe that our access to water will provide us with a competitive edge both as a major agricultural concern and as a supplier of water, leading to continued appreciation in the value of our portfolio.

Additionally, product innovation from our fruit breeding programs, international licensing programs, global marketing reach, and highly regarded Sun World brand name, provides our agricultural operations a strong position in the ongoing consolidation in the global retail grocery industry. Our agricultural operations are provided through our wholly-owned subsidiary, Sun World International, Inc. and its subsidiaries, all of which together we sometimes refer to as "Sun World". Sun World is one of the largest developers, growers, producers and marketers of proprietary fruits and vegetables in California, specializing in high-value permanent crops. Currently, Sun World owns more than 19,000 acres of land primarily located in two major growing areas of California: the San Joaquin Valley and the Coachella Valley.

In addition to our Sun World properties, we hold approximately 45,300 acres of land in eastern San Bernardino County that are substantially underlain by high-quality groundwater resources with demonstrated potential for various applications, including water storage and

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supply programs, and agricultural, municipal, recreational and industrial development. Substantially all of our properties are located in close proximity to California's major aqueduct systems. We expect to use our resources to participate in a broad variety of water storage and supply, transfer, exchange and conservation programs with public agencies and other parties.

In December 1997, we commenced discussions with the Metropolitan Water District of Southern California in order to develop principles and terms for a long-term agreement related to our Cadiz, California property. In July 1998, Cadiz and Metropolitan approved the Principles and Terms for Agreement for the Cadiz Groundwater Storage and Dry-Year Supply Program, which we sometimes refer to as the "Cadiz Program", authorized preparation of a final agreement based on these principles and initiated the environmental review process for the Cadiz Program. Following extensive negotiations with Cadiz to further refine and finalize these basic principles, Metropolitan's Board of Directors approved definitive economic terms and responsibilities

at their April 2001 board meeting. The Cadiz Program definitive terms will serve as the basis for a final agreement to be executed between Metropolitan and Cadiz. Execution of this final agreement will be subject to completion of the ongoing environmental review process.

Based upon our expertise in water and agricultural resources, in June 1999, Sun World was appointed by Kingdom Agricultural Development Company (KADCO), a company currently 100% controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud, to develop and manage up to 100,000 acres of agricultural land in southern Egypt, called the Tushka Project.

On January 16, 2002, we announced an agreement in principle with KADCO to combine the businesses of Sun World and KADCO. Following the proposed combination, KADCO's shareholders will have a 49.75% interest in the combined business, and Cadiz will retain an ownership interest of 50.25%. Prior to the proposed combination, KADCO expects to have cash resources in excess of \$80 million.

On March 11, 2002, we announced our intent to create a new subsidiary company that will provide an array of innovative business solutions to the significant water problems facing the Middle East. Through the new subsidiary, we intend to build a diversified water business with both direct investment and the provision of economic, technical and management services. Mr. Bruce Babbitt, former U.S. Secretary of the Interior and Governor of Arizona, has joined us to lead this new subsidiary as its chairman and chief executive officer.

We continually seek to develop and manage our water and agricultural resources for their highest and best uses. We also continue to evaluate acquisition opportunities, which are complementary to our current portfolio of water and agricultural resources.

(a) General Development of Business  
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As part of our current business strategy, we conduct our land acquisition, water development activities, agricultural operations and search for international water and agricultural opportunities for the purpose of enhancing the long-term appreciation of our properties and future prospects. See "Narrative Description of Business" below.

As the most populous state in the nation, California's population is projected to swell to nearly 50 million people by the year 2020. This increasing population is placing great demands on California's infrastructure, particularly its limited water resources. According to the California Department of Water Resources, shortfalls of approximately seven million acre-feet are forecasted in a dry year by the year 2020. We therefore believe that, with both the increasing scarcity of water supplies in California and the increasing demand for water, our access to water will provide us with a competitive advantage both as a major agricultural concern and as a

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supplier of water which will lead to continued appreciation in the value of our portfolio.

The increasing scarcity of water supplies, coupled with increased demand from population growth, is not just a California issue but a worldwide issue. Our California experience in water resource management and development provides a strong foundation for pursuing water resource opportunities internationally, including opportunities in the Middle East.

Sun World, which we acquired in September 1996, owns approximately 19,000 acres of agricultural land primarily in the San Joaquin and Coachella Valleys, giving us total landholdings

of approximately 64,400 acres. See Item 2, "Properties".

(b) Financial Information about Industry Segments  
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During the year ended December 31, 2001, we operated our agricultural resources segment and continued to develop our water resource segment of the business. See Consolidated Financial Statements. Also, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(c) Narrative Description of Business  
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Pursuant to our business strategy, we continually seek to develop and manage our portfolio of water and agricultural resources for their highest and best uses. Our development and management activities are currently focused on agricultural operations (primarily through Sun World) and water resource development. We also continue to evaluate acquisition opportunities, which are complementary to our current portfolio of water and agricultural resources.

WATER RESOURCE DEVELOPMENT

Our portfolio of water resources, located in close proximity to the Colorado River or the major aqueduct systems of central and southern California, such as the State Water Project and the Colorado River Aqueduct, provides us with the opportunity to participate in a variety of water storage and supply programs, exchanges and transfers.

(a) Cadiz Groundwater Storage and Dry-Year Supply Program  
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27,300 acres of our property located in the Cadiz and Fenner Valleys of eastern California are underlain by a high-quality groundwater basin. Precipitation falls within a catchment area of nearly 1,300 square miles and provides annual recharge to the basin. The catchment area is the area contributing surface and groundwater recharge to the groundwater basin. See Item 2, "Properties - The Cadiz/Fenner Property".

In July 1998, Cadiz and Metropolitan entered into Principles and Terms for Agreement for the Cadiz Program. The principles provide that Metropolitan will, during wet years or periods of excess supply, store surplus water from its Colorado River Aqueduct in the groundwater basin underlying our property located in Cadiz, California. During dry years or times of reduced allocations from the Colorado River, the stored water will be withdrawn and returned via conveyance facilities to the aqueduct to meet Metropolitan's water supply needs. In addition, indigenous groundwater would also be transferred utilizing the same facilities. The Cadiz Program will have the capacity to convey, either for storage or transfer, up to 150,000 acre-feet in any given year during its 50-year term.

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Metropolitan's Board of Directors, following extensive negotiations with us to further refine and finalize these basic principles and terms, approved definitive economic terms and responsibilities for the Cadiz Program in April 2001.

Pursuant to the approved definitive terms, during storage operations, Metropolitan will pay a \$50 fee per acre-foot for put of Colorado River water into storage, and a \$40 fee per acre-foot for return of Colorado River water from storage, or a total of \$90 per acre-foot to cycle water into and out of the basin. On the transfer of indigenous water, Metropolitan will pay a base rate of \$230 per acre-foot, which will be adjusted according to a fair market value adjustment procedure. Metropolitan has committed to minimum levels of utilization of the Cadiz Program for both storage of Colorado River Aqueduct water (900,000 acre-feet) and transfer of indigenous groundwater (up to 1,500,000

acre-feet). In addition, the definitive terms for the Cadiz Program provide Cadiz the option to sell a portion of the indigenous groundwater (30,000 acre-feet per year for 25 years or a total of 750,000 acre-feet) to outside third parties within Metropolitan's service area at fair market value.

The Cadiz Program facilities will include, among other things:

- \* spreading basins, which are shallow ponds that percolate water from the ground surface to the water table;
- \* high yield extraction wells designed to extract stored Colorado River water and indigenous groundwater from beneath the Cadiz Program area;
- \* a 35-mile conveyance pipeline that will connect the spreading basins and wellfield to the Colorado River Aqueduct at Metropolitan's Iron Mountain pumping plant; and
- \* a pumping plant that will pump water through the conveyance pipeline from Metropolitan's Iron Mountain pumping plant to the spreading basins.

The facilities are estimated to cost approximately \$150 million, and both parties will jointly share these costs. A pilot spreading basin project was constructed to model and analyze the storage and extraction of water. All operational costs of the Cadiz Program, including annual operations, maintenance and energy costs, will be an obligation of Metropolitan. However, Cadiz will assume pro rata operational costs associated with the sale of indigenous groundwater to third parties.

The definitive terms for the Cadiz Program call for the establishment of a comprehensive groundwater monitoring and management plan to ensure long-term protection of the groundwater basin. The final agreement may reflect adjustments to the definitive terms in order to reflect information identified during the environmental review process and will be subject to approval by the respective boards of both parties.

In October 2001, the environmental report was issued by Metropolitan and the U.S. Bureau of Land Management, in collaboration with the U.S. Geological Survey and the National Park Service, and the related protest period has ended. Before construction and operation of the Cadiz Program can commence, the environmental review process must be completed including the issuance of final regulatory approvals by the U.S. Bureau of Land Management and Metropolitan. The process for obtaining these approvals is often difficult and time consuming as the process includes significant public review and comment and often draws opposition from third parties including litigation of the final regulatory approvals. We anticipate final actions related to the environmental review process to be completed by the end of the

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second quarter of 2002 after which construction of the Cadiz Program facilities may commence. Once construction is commenced, the Cadiz Program is anticipated to be operational within 18 to 24 months.

(b) Other Eastern Mojave Properties  
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Our water development activities at our 6,000 acre Piute property are located in eastern San Bernardino County approximately 15 miles from the resort community of Laughlin, Nevada and about 12 miles from the Colorado River town of Needles, California. Hydrological studies and testing of a full-scale production well have demonstrated that this landholding is

underlain by recharging groundwater of high quality and additional investigations are ongoing regarding the development of the property for a variety of uses.

Additionally, we own or control additional acreage located throughout other areas of the eastern Mojave Desert, such as the property we own near Danby Lake. This area is located approximately 30 miles southeast of our Cadiz/Fenner Valley property and is 10 miles north of the Colorado River Aqueduct. Our initial hydrological studies confirm that this property has excellent storage and supply capabilities.

(c) Sun World Water Resources  
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Sun World has valuable water rights in various parts of central and southern California. We believe that with increasing water shortages in California, land with water rights will increase in value.

Sun World's landholdings and associated water resources are located adjacent to the major aqueduct systems of central and southern California, or are in close proximity to the Colorado River. These holdings complement our other groundwater resources and will enhance our opportunities to participate in a broad variety of water storage, supply, exchange or banking programs. By way of example, we have identified more than 10,000 acre-feet of excess water that we plan to either transfer to our other properties or exchange or transfer to other water users without affecting current agricultural production on an annual basis.

(d) Proposed New Subsidiary  
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On March 11, 2002, we announced our intent to create a new subsidiary company that will provide an array of innovative business solutions to the significant water problems facing the Middle East. Through the new subsidiary, we intend to build a diversified water business with both direct investment and the provision of economic, technical and management services. Mr. Bruce Babbitt, former U.S. Secretary of the Interior and Governor of Arizona, has joined us to lead this new subsidiary as its chairman and chief executive officer.

The new subsidiary will target opportunities in the Middle East because of the region's growing need for managed water resources, sound environmental planning, effective conservation of water resources and the growing need for renewable water resources proportionate to the growing population and the burgeoning agricultural system. We believe that the Middle East has an arid environment similar to parts of California where our operations are conducted. Further, we believe that this project complements the work we are conducting at the Tushka Project site and our relationship with KADCO.

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AGRICULTURAL OPERATIONS

Through Sun World, we are one of California's largest vertically integrated agricultural companies due to our extensive research and development program, our year-round sourcing of fresh fruits and vegetables, our farming and packing activities and our strong marketing capabilities. For the 12 months ended December 31, 2001, Sun World recorded revenues of \$92.4 million.

(a) Product Line  
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Sun World ships over 80 different varieties of fresh fruits and vegetables throughout the United States and to more than 30 foreign countries. Sun World is a leading grower and marketer of table grapes, seedless watermelons, colored sweet peppers, citrus (oranges and lemons) and stonefruit (plums, peaches, nectarines and apricots). It is also one of California's largest

independent marketers of grapefruit, tangerines, mandarins, navel oranges and lemons.

The breadth and diversity of the product line helps to minimize the impact of individual crop earnings fluctuations. Further, the breadth and diversity of its product offering provides Sun World with greater presence and influence with its grocery and food service customers.

Although many fruits and vegetables are fungible commodities, Sun World has adopted a strategy of developing and acquiring specialty produce varieties with unique characteristics which differentiate them from commodity produce varieties. Most of these varieties are harvested during favorable marketing windows when available supply from competitors is limited. These specialty varieties typically command a price premium and are less subject to the same price volatility than the commodity varieties. They also provide Sun World with a dominant position in a number of product categories. Examples of the branded produce grown and marketed by Sun World include Superior Seedless(R) table grapes, Midnight Beauty(R) table grapes, Black Diamond(R) plums, Honeycot(R) apricots and Amber Crest(R) peaches. These products evolved through a combination of internal development and acquisition. Sun World's research and development center is dedicated to developing additional high value proprietary varieties. See "Proprietary Product Development" below.

(b) Farming Operations  
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Sun World's farming operations produced approximately seven million units of fruits and vegetables during the year ended December 31, 2001 from its approximately 13,400 planted acres of which approximately 12,200 acres are owned by Sun World and 1,200 acres are leased. Permanent crops are grown on approximately 11,000 of the owned acres of which 42% are proprietary varieties. Sun World's principal agricultural lands are located in the San Joaquin and Coachella Valleys of California. See Item 2, "Properties".

Sun World properties are primarily dedicated to producing permanent commercial crops and, to a lesser extent, annual (or row) crops. Over 1,500 acres are currently utilized for developing crops (e.g., new vines and trees that have not yet reached commercial maturity). Sun World has implemented a crop development plan with the intent of redeploying marginally productive acreage to produce varieties of crops that possess superior proprietary characteristics and/or are available for delivery at peak pricing windows throughout the year. Additionally, during 2001, Sun World completed the three-year transition of approximately 400 acres of table grapes that are certified organic for the 2001 growing season.

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(c) Packing and Marketing Operations  
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In addition to merchandising its own products, Sun World provides marketing and packing services to third party growers. For third party growers, Sun World provides three key benefits:

- \* Sun World's brand name, proprietary products and reputation with wholesalers;
- \* a full complement of handling services that include harvest, cooling, packing and shipping; and
- \* an internal sales and marketing force servicing approximately 500 customers throughout the world.

Sun World's packing facilities handled over eight million units of produce during the year ended December 31, 2001. These facilities provide harvesting, packing, cooling and shipping

services for Sun World production, as well as for other commercial clients. Currently, Sun World owns three facilities, two of which are located in the Coachella Valley and one of which is located in the San Joaquin Valley. See Item 2, "Properties".

Sun World's vertically integrated operations enable it to offer the market a continuous stream of new specialty products, which receive a market premium. As a large grower, Sun World is able to manage the quality of its own product line, and as a significant packer and marketer, Sun World works with other growers to ensure product quality through packing and distribution. During fiscal 2001, we sold over 10 million units with wholesale value of approximately \$94.5 million. This amount includes the wholesale value for units sold on behalf of third party growers for which only the sales commission and packing revenues received by Sun World are included in Sun World's reported revenues.

Sun World's sourcing, both external and internal, is diversified geographically throughout California. Sun World's owned and leased farming operations are located throughout the major growing regions in California from the Coachella Valley in the south to central California's San Joaquin Valley, as well as operations near the coast. Sun World sources externally produced product from throughout California, from other areas of the United States, and from international sources. This geographic diversification not only reduces the impact that unfavorable weather conditions and infestations could have on Sun World's operations, but also provides Sun World with longer selling seasons for many crops since harvests occur at different times. In addition, geographic diversification also allows Sun World the ability to provide the quality and breadth of product throughout the year demanded by retailers.

Sun World's customer base consists of approximately 500 accounts including supermarket retailers, food service entities, warehouse clubs, and international trading companies located in approximately 30 countries. Domestic customers include national retailers such as Safeway Stores and Albertson's; club stores, including Costco and Sam's; and food service distributors, including Sysco and Alliant. During 2001, approximately 12% of Sun World's products were marketed internationally including in Canada, Europe, Australia, Japan, Hong Kong, Singapore, Malaysia, Taiwan, the Middle East and South Africa. Only one national retailer, Safeway Stores, (representing approximately 11%) accounted for more than 10% of Sun World's revenues in 2001. As is consistent with industry practice, Sun World does not maintain written agreements with Safeway Stores or its other significant customers.

(d) Proprietary Product Development  
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Sun World has a long history of product innovation, and its research and development center maintains a fruit breeding program that has introduced dozens of proprietary fruit varieties in the last six years. Recent product successes include the Midnight Beauty(R) seedless black table grape, the Black Diamond(R) plum, the Amber Crest(R) peach and the Honeycot(R) apricot. During 2001, Sun World filed for 12 new plant patents in the United States, including six new varieties of table grapes, three new varieties of plums and three new varieties of peaches. We believe that these products and several other promising grape and stonefruit varieties will be planted commercially in the near future, both domestically and internationally. Sun World also continually assesses the strategic value of filing patents on its proprietary fruit varieties internationally and files for patents in countries where it deems strategic value will be obtained. During 2001, Sun World filed for 12 new plant patents internationally in Argentina, Australia, Brazil, Chile, Egypt, European Union, Mexico, Peru and South Africa. The European Union countries include Austria, Belgium, Denmark, Finland, France, Germany,

Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

Sun World devotes approximately 200 acres to its research and development center and crop experimentation. The research and development center facility houses tissue culture rooms, growth rooms, four greenhouses and experimental growing crops. The amounts expended by Sun World on its research and development activities totaled \$2,023,000 for the year ended December 31, 2001, \$1,636,000 for the year ended December 31, 2000, and \$1,450,000 for the year ended December 31, 1999.

As a result of over 20 years of research and development, Sun World holds rights to 320 patents and trademarks around the world and has 86 pending applications for additional patents and trademarks domestically and internationally. The patent registrations exist in most major fruit producing countries and the trademarks are held in both fruit producing and consuming regions. Sun World's patents have varying expiration dates occurring within the next several years through 2024; however, the expiration of any individual patent will not have a material effect upon Sun World's operations.

Enhancing the value of the proprietary product portfolio through licensing is an integral part of Sun World's growth strategy. Sun World continues to seek licensing opportunities with key strategic partners to introduce, trial and produce Sun World's proprietary products in major production areas that have appropriate plant protection rights and do not compete with Sun World's own domestic production. These licensing agreements will provide Sun World with a long-term annual revenue stream based upon a royalty fee for each box of proprietary fruit sold over the lives of the licensed trees or vines approximating 25 to 40 years. Currently, Sun World has licensing agreements in place in Australia, Chile, Israel, Italy, Morocco, Namibia, New Zealand, South Africa, Spain and the United States and expects to continue to expand its licensing portfolio. An example of Sun World's licensing success is the definitive agreement entered into with the South African fruit industry granting long-term license agreements to South African fruit companies seeking to produce and export Sun World's proprietary Sugraone grape variety (more commonly known as Sun World's Superior Seedless(R) grape). This agreement also provided Sun World compensation for past Sugraone grapevine plantings and fruit sales and granted Sun World exclusive North American marketing rights for the Sugraone grape variety. We believe these licensing agreements have established a precedent that will change the way new and improved varieties of produce will be brought to market in the future.

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TUSHKA PROJECT WITH KADCO

The combination of our innovative proprietary products and expertise in desert farming and water resources management led to Sun World's appointment by KADCO, a company currently 100% controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud, to develop and manage up to 100,000 acres of agricultural land in southern Egypt, called the Tushka Project. The Tushka Project is the cornerstone in the Egyptian government's multi-billion dollar South Valley Project, an immense infrastructure plan designed to irrigate more than 500,000 acres of desert land to foster urban and agricultural development. The South Valley Project involves the construction of one of the world's largest pumping stations and a 43-mile canal that diverts water from Egypt's Lake Nasser, the reservoir formed on the Nile River by the Aswan High Dam, to four separate parcels of land - the first being the Tushka Project site. Construction is well underway, with the main canal, pumping station and branch canals slated to be complete and operational by the end of 2002. The initial commercial plantings of permanent crops for the Tushka Project will follow in early 2003. Concurrent to the development of necessary infrastructure, a research site and nursery, including 300 acres of test plots irrigated with local groundwater, have been established.

As compensation for project development and management of the Tushka Project, Sun World earns a quarterly equity interest in KADCO based upon meeting certain developmental milestones and has been granted an option to purchase additional shares. The combined equity interest is expected to equate to approximately 10% ownership of KADCO upon completion of the development. In addition, Sun World will receive annual marketing and licensing fees equal to the greater of 1.5% of gross revenues or 5% of earnings before interest, taxes, depreciation and amortization (EBITDA) from the project. No capital investment is required by Sun World, and KADCO reimburses Sun World for all expenses incurred. The management agreement, signed in October 1999, has a four-year term with an option to extend for multiple further terms.

#### PROPOSED BUSINESS COMBINATION OF SUN WORLD WITH KADCO

On January 16, 2002, we announced an agreement in principle with KADCO, to combine the businesses of Sun World and KADCO. Following the proposed combination, KADCO's shareholders will have a 49.75% interest in the combined business, and Cadiz will retain an ownership interest of 50.25%. Prior to the proposed combination, KADCO expects to have cash resources in excess of \$80 million.

We intend to utilize the cash resources of the combined business both to recapitalize Sun World and to provide for future business expansion. The agreement in principle contemplates that, in the future, KADCO shareholders will have an opportunity to make an additional equity investment in the combined business. Should KADCO shareholders make this additional investment, we may choose to maintain a majority percentage ownership in the combined business through a proportionate matching investment.

The management of Sun World will continue to manage the combined business with Keith Brackpool as chairman and Timothy Shaheen as chief executive officer. The board of the combined business will consist of seven board members. As Cadiz will initially hold a majority ownership in the combined business, Cadiz will initially nominate four board members and KADCO shareholders will initially nominate the remaining three board members. Should KADCO ever obtain a majority percentage ownership of the combined business, the shareholders of KADCO will then have the right to nominate a majority of board members.

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The proposed combination is subject to the negotiation and execution of definitive agreements and a number of other important conditions, including, among others, procurement of governmental, third-party and lender approvals or consents as necessary, completion of confirmatory due diligence by both parties and KADCO's completion of additional equity financing.

We anticipate that the combination will be consummated during the second quarter of 2002. However, management cannot assure that a definitive agreement with KADCO will be reached or that the combination will be consummated. See the discussion under the caption "Certain Trends and Uncertainties" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

#### SEASONALITY

In connection with our water resource development activities, we do not expect revenues to be seasonal in nature.

Sun World's agricultural operations, however, are impacted by the general seasonal trends that are characteristic of the agricultural industry. Sun World has historically received the majority of its operating profit during the months of June to October following the harvest and sale of its table grape and stonefruit crops. Due to this concentrated activity, we have, therefore, historically incurred an operating loss with respect

to our agricultural operations in the other months during the year.

#### COMPETITION

We face competition for the acquisition, development and sale of our properties from a number of competitors, some of which have greater resources than us. We may also face competition in the development of water resources associated with our properties. Since California has scarce water resources and an increasing demand for available water, we believe that location, price and reliability of delivery are the principal competitive factors affecting transfers of water in California.

The agricultural business is highly competitive. Sun World's competitors include a limited number of large international food companies, as well as a large number of smaller independent growers and grower cooperatives. No single competitor has a dominant market share in this industry due to the regionalized nature of these businesses. In addition to drawing from its proprietary base of products, Sun World utilizes brand recognition, product quality, harvesting in favorable production windows, effective customer service and consumer marketing programs to enhance its position within the highly competitive fresh food industry. Consumer and institutional recognition of the Sun World trademark and related brands and the association of these brands with high quality food products contribute to Sun World's ability to compete in the market for fresh fruit and vegetables.

#### EMPLOYEES

As of December 31, 2001, we employed approximately 550 full-time employees (including all those individuals who work more than 1,000 hours per year). Sun World, throughout the year, engages various part-time and seasonal employees, with a seasonal high of approximately 1,200 part-time employees. Additionally, Sun World contracts with outside labor contractors for personnel used in the farming operations with a seasonal high of approximately 4,800 people. Approximately 190 of our employees are represented by a labor

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union pursuant to contracts renewed in 1999 that expire in 2002. Generally, we believe that our employee relations are good.

#### REGULATION

Certain areas of our operations are subject to varying degrees of federal, state and local laws and regulations. Our agricultural operations are subject to a broad range of evolving environmental laws and regulations. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act and the Comprehensive Environmental Response, Compensation and Liability Act. Compliance with these and other foreign and domestic laws and related regulations is an ongoing process, which is not currently expected to have a material effect on our capital expenditures, earnings or competitive position. Environmental concerns are, however, inherent in most major agricultural operations, including those conducted by us, and there can be no assurance that the cost of compliance with environmental laws and regulations in the future will not be material.

Our food operations are also subject to regulations enforced by, among others, the U.S. Food and Drug Administration and state, local and foreign equivalents and to inspection by the U.S. Department of Agriculture and other federal, state, local and foreign environmental and health authorities. Among other things, the U.S. Food and Drug Administration enforces statutory standards regarding the safety of food products, establishes ingredients and manufacturing procedures for certain foods, establishes standards of identity for foods and determines the

safety of food substances in the United States. Similar functions are performed by state, local and foreign governmental entities with respect to food products produced or distributed in their respective jurisdictions. Existing environmental regulations have not, in the past, had a materially adverse effect upon our operations, and we believe that existing environmental regulations will not, in the future, have a materially adverse effect upon our operations. There can be no assurances, however, as to the effect of any environmental regulations, which may be adopted in the future.

As we proceed with the development of our properties, including the Cadiz Program, we will be required to satisfy various regulatory authorities that we are in compliance with the laws, regulations and policies enforced by such authorities. Groundwater development, and the export of surplus groundwater for sale to single entities such as public water agencies, is not subject to regulation by existing statutes other than general environmental statutes applicable to all development projects. Additionally, we must obtain a variety of approvals and permits from state and federal governments with respect to issues that may include environmental issues, issues related to special status species, issues related to the public trust, and others. Because of the discretionary nature of these approvals and concerns which may be raised by various governmental officials, public interest groups and other interested parties during both the approval and development process, our ability to develop properties and realize income from our projects, including the Cadiz Program, could be delayed, reduced or eliminated.

## ITEM 2. PROPERTIES

We currently lease our executive offices in Santa Monica, California which consist of approximately 10,400 square feet, pursuant to a lease that expires in July 2004. Current base rent under the lease is approximately \$38,000 per month. We have one five-year option to renew at fair market rate. We also maintain a development office in San Bernardino, California. Sun World owns its main packing facility (including sales and administrative offices) in Bakersfield, California and owns two packing facilities (including sales offices) in Coachella,

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California. We believe that our property and equipment is generally well maintained, in good operating condition and adequate for their present needs.

The following is a description of our significant properties.

### THE CADIZ/FENNER PROPERTY

In 1984, we conducted an investigation of the feasibility of the agricultural development of land located in the Mojave Desert near Cadiz, California, and confirmed the availability of high-quality water in commercial quantities appropriate for agricultural development. Since 1985, we have acquired approximately 34,500 acres in the Cadiz and Fenner Valleys of eastern San Bernardino County approximately 30 miles north of the Colorado River Aqueduct, including approximately 7,000 acres obtained as part of a litigation settlement with Waste Management in April 2001.

Additional numerous independent geotechnical and engineering studies conducted since 1985 have confirmed that the Cadiz/Fenner property overlies a natural groundwater basin which is ideally suited for underground water storage and dry year transfers as contemplated in the Cadiz Program. See Item 1, "Business - Narrative Description of Business - Water Resource Development".

In November 1993, the San Bernardino County Board of Supervisors unanimously approved a General Plan Amendment establishing an agricultural land use designation for 9,600 acres

at Cadiz for which 1,600 acres have been developed and are leased to Sun World. This action also approved permits to construct infrastructure and facilities to house as many as 1,150 seasonal workers and 170 permanent residents (employees and their families) and allows for the withdrawal of more than 1,000,000 acre-feet of groundwater from the groundwater basin underlying our property.

We hold substantially all Cadiz/Fenner acreage in fee directly.

#### THE SUN WORLD PROPERTIES

##### (a) Farm Properties

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Sun World owns approximately 19,000 acres and leases approximately 2,800 acres of improved land in central and southern California. Concurrently with our acquisition of Sun World in 1996, Sun World entered into a lease for approximately 1,600 acres of Cadiz/Fenner agricultural real property from Cadiz. The lease, as amended, has a 10-year term expiring in September 2006 with annual rental of \$250 per acre. Sun World is responsible for all costs associated with growing crops on the leased property. The majority of this land is used for the cultivation of permanent and annual crops and support activities, including packing facilities.

Sun World-owned farming property is divided between six distinct geographic regions: Madera, Bakersfield, Tulare and Arvin (located within the San Joaquin Valley), Coachella (located in the state's southeastern corner near Palm Springs) and Blythe (located approximately 100 miles east of the Coachella Valley adjoining the Colorado River).

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##### (b) Packing and Handling Facilities

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Sun World owns three packing and handling facilities: one facility located in the San Joaquin Valley at Kimberlina near Bakersfield, a facility in the Coachella Valley and a third facility also in the Coachella Valley that is leased to a third party.

The Kimberlina facility, located on an 83 acre parcel owned by Sun World, consists of two highly automated production lines for packing stonefruit and citrus, cold storage areas, and office space.

Sun World's Coachella Valley facilities consists of three independent buildings located on 26 acres of land in Coachella, California. One building is used primarily for packing citrus, receiving table grapes, cold storage and office space. A second building is used primarily for receiving, cooling and storing table grapes and row crops. The third building was used primarily for packing lemons and for storage.

#### OTHER EASTERN MOJAVE PROPERTIES

We also own approximately 10,900 additional acres in the eastern Mojave Desert, including the Piute and Danby Lake properties.

The Piute property consists of approximately 6,000 acres and is located approximately 60 miles northeast of Cadiz and approximately 15 miles west of the Colorado River and Laughlin, Nevada, a small, fast growing town with hotels, casinos and water recreation facilities. We identified the Piute property for acquisition by a combination of satellite imaging and geological techniques which we used to identify water at Cadiz.

The Piute acreage adjoins Highway 95, approximately 60 miles south of Las Vegas. The Santa Fe Railroad passes through the

land and Interstate 40 is approximately 12 miles to the south.

#### DEBT SECURED BY PROPERTIES

Of our outstanding debt at December 31, 2001, \$117.5 million represents loans secured by Sun World's properties and \$25.1 million represents loans secured by the majority of our non-Sun World properties. Information regarding interest rates and principal maturities is provided in Note 9 to the consolidated financial statements.

#### ITEM 3. LEGAL PROCEEDINGS

We are involved in legal and administrative proceedings and claims and we actively pursue the protection of our intellectual and proprietary property in the ordinary course of business. In the opinion of management, the ultimate outcome of each proceeding or all such proceedings combined will not have a material adverse impact on our financial position.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the fourth quarter of 2001. The results of our Annual Meeting of Stockholders held May 14, 2001 were reported in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001.

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#### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq National Stock Market under the symbol "CLCI". The following table reflects actual sales transactions. The high and low range of the sales price of the common stock for the dates indicated have been provided by Nasdaq.

Quarter Ended	High Sales Price	Low Sales Price
-----	-----	-----
2000:		
March 31	\$ 12.500	\$ 7.313
June 30	\$ 8.875	\$ 5.563
September 30	\$ 10.125	\$ 7.750
December 31	\$ 10.750	\$ 6.938
2001:		
March 31	\$ 10.500	\$ 8.031
June 30	\$ 10.180	\$ 8.250
September 30	\$ 10.000	\$ 7.150
December 31	\$ 8.980	\$ 7.250

On March 26, 2002, the high, low and last sales prices for the shares, as reported by Nasdaq, were \$8.840, \$8.570 and \$8.780, respectively.

Options in our stock trade under the symbol "QAZ".

We also have an authorized class of 100,000 shares of preferred stock. To date, there are four series of preferred stock designated for issuance including:

- \* 40,259 shares of Series A Junior Participating Preferred Stock pursuant to a Stockholders' Rights Plan, of which none are issued and outstanding;
- \* 5,000 shares of Series D Convertible Preferred Stock of

which 5,000 shares are issued and outstanding;

- \* 3,750 shares of Series E-1 Convertible Preferred Stock of which 3,750 shares are issued and outstanding; and
- \* 3,750 shares of Series E-2 Convertible Preferred Stock of which 3,750 shares are issued and outstanding.

The Board of Directors has no present plans or arrangements for the issuance of additional shares of preferred stock.

On May 10, 1999 we adopted a Stockholders' Rights Plan. In connection with the Rights Plan, and as further described in the Rights Plan, we declared a dividend of one preferred share purchase right for each outstanding share of our common stock outstanding at the close of business on June 1, 1999.

As of March 26, 2002, the number of stockholders of record of our common stock was 161 and the estimated number of beneficial owners was approximately 2,604.

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To date, we have not paid a cash dividend on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Our ability to pay such dividends is subject to covenants pursuant to agreements with our lenders that do not allow for the payment of dividends other than out of our cumulative net income.

During the quarter ended December 31, 2001, we issued 40,000 shares of common stock and warrants to purchase 215,000 shares of our common stock at an exercise price of \$7.50 per share. These shares and warrants were issued in connection with our issuance of an aggregate of \$7.5 million of Series E-1 and E-2 preferred stock. The issuance of the warrants, common stock, and the Series E-1 and E-2 preferred stock were not registered under the Securities Act of 1933, as amended. We believe that the transactions described are exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act as the transactions did not involve public offerings. All other securities sold by us during the year ended December 31, 2001 which were not registered under the Securities Act have previously been reported in our Quarterly Reports on Form 10-Q. In February 2002, we registered for resale the warrants and shares issued in connection with the above transactions by filing a Registration Statement on Form S-3.

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#### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data insofar as it relates to the years ended December 31, 2001, 2000, 1999, 1998 and 1997 has been derived from financial statements audited by PricewaterhouseCoopers LLP, independent accountants. The information that follows should be read in conjunction with the audited consolidated financial statements and notes thereto for each of the three years in the period ended December 31, 2001 included in Part IV of this Form 10-K. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(\$ in thousands, except for per share data)

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Statement of Operations Data:					
Total revenues	\$ 92,402	\$ 107,745	\$ 115,229	\$ 106,544	\$ 100,157
Net loss	(25,722)	(22,458)	(8,594)	(7,470)	(8,538)

Less:					
Preferred stock dividends	591	-	-	-	(1,213)
Imputed dividend on preferred stock	441	-	-	-	-
	-----	-----	-----	-----	-----
Net loss applicable to common stock	\$ (26,754)	\$ (22,458)	\$ (8,594)	\$ (7,470)	\$ (9,751)
	=====	=====	=====	=====	=====

Per share:

Net loss (basic and diluted)	\$ (.75)	\$ (.64)	\$ (.25)	\$ (.23)	\$ (.33)
	=====	=====	=====	=====	=====

Weighted-average common shares outstanding	35,854	35,344	34,678	33,173	29,485
	=====	=====	=====	=====	=====

December 31,

	-----	-----	-----	-----	-----
	2001	2000	1999	1998	1997
	----	----	----	----	----

Balance Sheet Data:

Total assets	\$ 198,275	\$ 203,617	\$ 214,102	\$ 214,359	\$ 203,049
Long-term debt	\$ 141,429	\$ 145,610	\$ 142,089	\$ 142,317	\$ 131,689
Redeemable preferred stock	\$ 9,958	\$ 3,950	\$ -	\$ -	\$ -
Common stock and additional paid-in capital	\$ 152,765	\$ 143,063	\$ 136,552	\$ 127,998	\$ 121,199
Accumulated deficit	\$ (135,062)	\$ (109,340)	\$ (86,882)	\$ (78,288)	\$ (70,818)
Stockholders' equity	\$ 17,703	\$ 33,723	\$ 49,670	\$ 49,710	\$ 50,381

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### RESULTS OF OPERATIONS

The consolidated financial statements set forth herein for each of the three years in the period ended December 31, 2001, reflect the results of our operations and the operations of our wholly-owned subsidiaries including Sun World.

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A summary of the Sun World elements which our management believes is essential to an analysis of the results of operations for such periods is presented below. For purposes of this summary, the term Sun World will be used, when the context so requires, with respect to the operations and activities of our Sun World subsidiary, and the term Cadiz will be used, when the context so requires, with respect to our operations and activities that do not involve Sun World.

Our net income or loss in future fiscal periods will be largely reflective of (a) the operations of our water development activities including the Cadiz Groundwater Storage and Dry-Year Supply Program and (b) the operations of Sun World including its international expansion. Sun World conducts its operations through four operating divisions: farming, packing, marketing and proprietary product development. Net income from farming operations varies from year to year primarily due to yield and

pricing fluctuations which can be significantly influenced by weather conditions, and are, therefore, generally subject to greater annual variation than Sun World's other divisions. However, the geographic distribution of Sun World's farming operations within California and the diversity of its crop mix makes it unlikely that adverse weather conditions would affect all of Sun World's properties or all of its crops in any single year. Nevertheless, net profit from Sun World's packing, marketing and proprietary product development operations tends to be more consistent from year to year than net profit from Sun World's farming operations. Packing and marketing revenues from third party growers currently represent less than 10% of our total revenues. Sun World has entered into agreements domestically and internationally to license selected proprietary fruit varieties and continues to pursue additional domestic and international licensing opportunities. License revenues currently represent less than 10% of our total revenues.

(a) YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000  
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Our agricultural operations are impacted by the general seasonal trends that are characteristic of the agricultural industry. Sun World has historically received the majority of its net income during the months of June to October following the harvest and sale of its table grape and stonefruit crops. Due to this concentrated activity, Sun World has, therefore, historically incurred a loss with respect to its agricultural operations in the other months during the year.

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The table below sets forth, for the periods indicated, the results of operations for Sun World's four main divisions (before elimination of any interdivisional charges), as well as the categories of costs and expenses we incurred which are not included within the divisional results (in thousands):

	Year Ended December 31,	
	2001	2000
	----	----
Divisional net income (loss) :		
Farming	\$ (3,243)	\$ 2,791
Packing	8,320	7,193
Marketing	3,303	3,868
Proprietary product development	2,891	4,331
	-----	-----
	11,271	18,183
General and administrative	10,890	10,939
Special litigation	(7,929)	424
Removal of underperforming crops	736	1,549
Non-recurring compensation expense	5,537	-
Depreciation and amortization	8,151	8,381
Interest expense, net	19,551	19,188
Income tax expense	57	160
	-----	-----
Net loss	\$ (25,722)	\$ (22,458)
	=====	=====

FARMING OPERATIONS. Net loss from farming operations totaled \$3.2 million for 2001 compared to a net profit of \$2.8 million in 2000. Farming revenues were \$71.7 million and farming expenses were \$74.9 million for 2001. For 2000, Sun World had farming revenues of \$86.4 million and farming expenses of \$83.6 million. Farming results were negatively impacted by a two-week weather related delay in the table grape harvest in Coachella and Mexico, which created an overlap with the early table grape harvests in the San Joaquin Valley. This overlap created downward pressure on F.O.B. prices for table grapes that

continued through the entire San Joaquin Valley harvest. Year-to-date F.O.B. prices for table grapes were 3% below 2000 farming results. Additionally, Sun World experienced lower table grape yields as it sold 3.5 million boxes during 2001 compared to 3.9 million boxes during 2000.

Results were also negatively impacted in 2001 compared to 2000 due to decreased prices for wine grapes, peppers and plums. Average F.O.B. prices for wine grapes and peppers were down due to oversupply in the industry by 45% and 29%, respectively, compared to 2000. Profits for plums were down due to lower yields coupled with smaller sized fruit resulting from adverse weather. Sun World sold 0.8 million boxes of plums in 2001 compared to 1.0 million boxes in 2000. F.O.B. prices for plums were 25% below 2000 prices. 2001 citrus results were \$1.1 million higher than 2000 due to an 18% increase in production yields coupled with a 9% increase in F.O.B. prices. The decrease in farming expenses is primarily due to the removal of certain underperforming stonefruit and wine grape acreage at the conclusion of the 2000 growing season and the reduction and elimination of certain row crop acreage in 2001 for crops that had become unprofitable. Sun World's proprietary table grape and stonefruit products have allowed Sun World to continue to command price premiums to the overall market.

PACKING OPERATIONS. Sun World's packing and handling facilities contributed \$8.3 million in profit during 2001 compared to \$7.2 million in 2000. The aggregate packing and handling revenue for these operations of \$21.4 million was offset by \$13.1 million of expenses for 2001. Revenues totaled \$21.9 million offset by expenses of \$14.7 million for 2000. Sun

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World packed 2.9 million units during 2001 and moved an additional 5.3 million units through the cold storage facilities for a total of 8.2 million units processed through the packing operations in 2001 compared to 8.6 million units in 2000. This decrease in units is due primarily to lower Sun World-grown table grape and plum yields as well as fewer units of third party citrus partially offset by increased units of third party table grapes. The increase in profits is due to increased profits per unit resulting from a price increase in storage and handling revenues for table grapes, stonefruit and peppers that was implemented in 2001 to offset increased energy and labor costs. Units packed and handled during 2001 consisted primarily of Sun World-grown table grapes, peppers and seedless watermelons in the Coachella Valley; table grapes and citrus products packed for third party growers; and Sun World-grown table grapes, stonefruit, citrus, and peppers from the San Joaquin Valley.

MARKETING OPERATIONS. During 2001, a total of 10.1 million units were sold consisting primarily of Sun World-grown table grapes, peppers and watermelons from the Coachella Valley; table grapes and citrus from domestic third party growers; and Sun World-grown table grapes, stonefruit, citrus, and peppers from the San Joaquin Valley. These unit sales resulted in marketing revenue of \$7.5 million. Marketing expenses totaled \$4.2 million for 2001 resulting in net income from marketing operations of \$3.3 million. During 2000, 11.5 million units were sold resulting in revenues of \$8.6 million offset by expenses of \$4.7 million for net income of \$3.9 million. The decrease in revenues, marketing profits and units sold is primarily due to lower F.O.B. prices for table grapes, plums and peppers, decreased units of Sun World-grown table grapes and plums, and the elimination of certain underperforming stonefruit and row crops from production in 2001.

PROPRIETARY PRODUCT DEVELOPMENT. Sun World has a long history of product innovation, and its research and development center maintains a fruit breeding program that has introduced dozens of proprietary fruit varieties. Additionally, Sun World continues to expand its licensing program with key strategic partners worldwide to introduce, trial and produce Sun World's proprietary varieties, which provides Sun World with a long-term

annual revenue stream based upon a royalty fee for each box of proprietary fruit sold during the life of the tree or vine. During 2001, net income from proprietary product development was \$2.9 million consisting of revenues of \$4.9 million offset by expenses of \$2.0 million. For 2000, net income was \$4.3 million consisting of revenues of \$6.0 million offset by expenses of \$1.7 million. The decrease in proprietary product development net income is primarily due to decreased intercompany royalties due to lighter yields, additional costs associated with the expansion of Sun World's licensing distribution structure, and a timing difference for international royalties due to harvest delays in South Africa. Revenues include \$1.3 million related to project development and management fees payable in equity of KADCO for both 2001 and 2000. During 2001, Sun World expanded its acreage under license with its strategic partners by 15% to over 7,000 acres.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses totaled \$10.9 million for 2001 and 2000.

SPECIAL LITIGATION. We were engaged in lawsuits against Waste Management seeking monetary damages arising from activities adverse to us in connection with a landfill, which until its defeat by the voters of San Bernardino County in 1996, was proposed to be located adjacent to our Cadiz/Fenner Valley properties. In March 2001, we executed a settlement agreement with Waste Management related to these lawsuits. Pursuant to the settlement agreement, Waste Management paid Cadiz \$6 million in cash and granted to Cadiz an exclusive option to receive, at no cost to Cadiz, up to approximately 7,000 acres of real property in eastern San Bernardino County primarily adjacent to the Cadiz Program property. In April 2001, we

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exercised the option and as a consequence acquired the subject property. The settlement resulted in net proceeds of \$7.9 million for 2001. During 2000, expenses including litigation costs and professional fees related to this matter totaled \$0.4 million.

NON-RECURRING COMPENSATION. In March 2001, we issued 564,163 deferred stock units to certain senior managers of Cadiz and Sun World. These deferred stock units were issued in exchange for the cancellation of 1,055,000 fully vested options to purchase our common stock held by the senior managers. The number of the deferred stock units issued was calculated based on the average closing price for the 10 business days following the filing of our Annual Report on Form 10-K for the year ended December 31, 2000 on March 29, 2001. We recorded a one-time charge of \$5,537,000 and no cash was expended in connection with the issuance of the deferred stock units.

REMOVAL OF UNDERPERFORMING CROPS. During 2001, management decided to remove approximately 40 acres of citrus at the Cadiz ranch and Sun World removed approximately 700 acres of wine grapes, citrus, and stonefruit. We recorded a charge of \$0.7 million in connection with the removal of these crops. In December 2000, we recorded a \$1.5 million charge to remove certain underperforming crops, primarily 600 acres of wine grapes and stonefruit.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expenses for the year ended December 31, 2001 totaled \$8.2 million compared to \$8.4 million for the year ended December 31, 2000. The decrease is primarily attributable to certain assets being sold or removed in 2001 and other assets becoming fully depreciated.

INTEREST EXPENSE. Net interest expense totaled \$19.6 million during the year ended December 31, 2001 compared to \$19.2 million during the year ended December 31, 2000. The following table summarizes the components of net interest expense for the two periods (in thousands):

Year Ended  
December 31,

	2001	2000
	----	----
Interest on outstanding debt - Sun World	\$ 14,574	\$ 14,546
Interest on outstanding debt - Cadiz	1,347	2,319
Amortization of financing costs	3,748	2,546
Interest income	(118)	(223)
	-----	-----
	\$ 19,551	\$ 19,188
	=====	=====

The increase in interest on outstanding debt during 2001 is primarily due to (a) increased average borrowings under Sun World's revolving credit facility; (b) increased interest and financing costs related to the debt added by Sun World in December 2000, and (c) amortization of warrants issued for the extension of Cadiz' revolving credit facility and term loan facility, which total increase is partially offset by the savings from lower prime and LIBOR interest rates on our variable rate debt. Financing costs, which include legal fees, loan fees and warrants, are amortized over the life of the debt agreement.

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(b) YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

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The table below sets forth, for the periods indicated, the results of operations for Sun World's four main divisions (before elimination of any interdivisional charges), as well as the categories of costs and expenses incurred which are not included within the divisional results (in thousands):

	Year Ended	
	December 31,	
	2000	1999
	----	----
Divisional net income		
Farming	\$ 2,791	\$ 14,542
Packing	7,193	7,656
Marketing	3,868	4,573
Proprietary product development	4,331	3,187
	-----	-----
	18,183	29,958
General and administrative	10,939	10,913
Special litigation	424	937
Removal of underperforming crops	1,549	-
Depreciation and amortization	8,381	8,891
Interest expense, net	19,188	17,811
Income tax expense	160	-
	-----	-----
Net loss	\$ (22,458)	\$ (8,594)
	=====	=====

FARMING OPERATIONS. Net income from farming operations totaled \$2.8 million for 2000 compared to \$14.5 million in 1999. Farming revenues were \$86.4 million and farming expenses were \$83.6 million for 2000. For 1999, we had farming revenues of \$94.9 million and farming expenses of \$80.4 million. The decrease in farming results in 2000 compared to 1999 were primarily due to decreased prices on table grapes, wine grapes, stonefruit and citrus due to an oversupply of products in the industry. Average F.O.B. prices for 2000 were down 13%. The increase in farming expenses is primarily due to costs to grow and harvest citrus in the San Joaquin Valley in 2000 that were not incurred in 1999 due to the December 1998 freeze. Sun World's proprietary table grape and stonefruit products have allowed Sun World to continue to command a price premium to the overall market that helped offset some of the losses incurred from its commodity products.

PACKING OPERATIONS. Sun World's packing and handling facilities contributed \$7.2 million in profit during 2000 compared to \$7.7 million in 1999. We packed 3.6 million units and moved an additional 5.0 million units through the cold storage facilities for a total of 8.6 million units processed through the packing operations in 2000 compared to the same total of 8.6 million units in 1999. Packing results were negatively impacted by a significant increase in corrugated box costs and temporary use of third party storage facilities during July 2000 due to capacity constraints. Units packed and handled during 2000 primarily consisted of Sun World-grown table grapes, stonefruit, citrus, peppers and seedless watermelons as well as table grapes, citrus and stonefruit products packed for third party growers. Packing and handling revenue for these operations of \$21.9 million was offset by \$14.7 million of expenses for 2000. Revenues totaled \$20.5 million offset by expenses of \$12.8 million for 1999.

MARKETING OPERATIONS. Sun World's marketing operations include selling, merchandising and promoting Sun World-grown products, as well as providing these services for third party growers. During 2000, a total of 11.5 million units were sold consisting primarily of Sun World-grown table grapes, stonefruit, citrus, peppers and watermelons as well as table

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grapes, watermelons, citrus and stonefruit from domestic third party growers. These unit sales resulted in marketing revenue of \$8.6 million. Marketing expenses totaled \$4.7 million for 2000 resulting in net income from marketing operations of \$3.9 million. During 1999, 11.1 million units were sold resulting in revenues of \$9.4 million offset by expenses of \$4.8 million for net income of \$4.6 million. The increase in units sold is primarily due to increased units of Sun World-grown plums and stonefruit marketed for third parties. Average commissions for 2000 were down 12% from average commissions in 1999 due to the lower F.O.B. prices noted above.

PROPRIETARY PRODUCT DEVELOPMENT. Sun World has a long history of product innovation, and its research and development center maintains a fruit breeding program that has introduced dozens of proprietary fruit varieties including twelve new varieties for which plant patents were applied for in 2000. During 2000, net income from proprietary product development totaled \$4.3 million consisting of revenues of \$6.0 million offset by expenses of \$1.7 million. For 1999, net income from proprietary product development was \$3.2 million consisting of revenues of \$4.6 million offset by expenses of \$1.4 million. The increase in revenues resulted from international royalties primarily related to our licensing agreements for Sugraone table grapes and consulting income from KADCO.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses totaled \$10.9 million for both 2000 and 1999.

SPECIAL LITIGATION. We were engaged in lawsuits seeking monetary damages in connection with the prevention of a landfill which was proposed to be located adjacent to our Cadiz/Fenner Valley properties. In March 2001, we entered into a settlement agreement with Waste Management related to these lawsuits. During the year ended December 31, 2000, expenses including litigation costs and professional fees totaled \$0.4 million as compared to \$0.9 million during the year ended December 31, 1999.

REMOVAL OF UNDERPERFORMING CROPS. In December 2000, we accrued costs to remove certain underperforming crops, primarily 600 acres of wine grapes and stonefruit. We recorded a charge of \$1.5 million in connection with these removals.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expenses for the year ended December 31, 2000 totaled \$8.4 million compared to \$8.9 million for the year ended December 31, 1999. The decrease is primarily attributable to

certain assets being sold or removed and other assets becoming fully depreciated.

INTEREST EXPENSE. Net interest expense totaled \$19.2 million during the year ended December 31, 2000 compared to \$17.8 million during the year ended December 31, 1999. The following table summarizes the components of net interest expense for the two periods (in thousands):

	Year Ended	
	December 31,	
	2000	1999
	----	----
Interest on outstanding debt - Sun World	\$14,546	\$14,204
Interest on outstanding debt - Cadiz	2,319	1,785
Amortization of financing costs	2,546	2,176
Interest income	(223)	(354)
	-----	-----
	\$19,188	\$17,811
	=====	=====

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The increase in interest on outstanding debt during 2000 is primarily due to (a) increased borrowings on Sun World's revolving credit facility to meet seasonal working capital needs and (b) amortization of warrants issued for the extension of Cadiz' revolving credit facility and term loan facility. Financing costs, which include legal fees, loan fees and warrants, are amortized over the life of the debt agreement.

#### LIQUIDITY AND CAPITAL RESOURCES

##### (a) Current Financing Arrangements

CADIZ OBLIGATIONS. As Cadiz has not received significant revenues from our water resource activity to date, Cadiz has been required to obtain financing to bridge the gap between the time water resource development expenses are incurred and the time that revenue will commence. Historically, Cadiz has addressed these needs primarily through secured debt financing arrangements with our lenders, private equity placements and the exercise of outstanding stock options.

As of December 31, 2001, we were obligated for approximately \$10.1 million under a senior term loan facility and \$15 million under a \$15 million revolving credit facility with the same lender. In the first quarter of 2002, we completed an extension of both facilities to a maturity date of January 31, 2003 and increased Cadiz' revolving credit facility to \$25 million. \$10 million of Cadiz' revolving credit facility is convertible into 1,250,000 shares of our stock any time prior to January 2003 at the election of the lender. Currently, the lender holds a senior deed of trust on substantially all of our non-Sun World assets under the term loan facility and a second lien on our non-Sun World assets under Cadiz' revolving credit facility. We have historically structured our financing arrangement with the lender with a view toward effective implementation of the Cadiz Program. While we currently anticipate repayment of these facilities with monies to be received under the Cadiz Program, we may, if we deem appropriate, replace or renegotiate the terms of these facilities to accommodate other developments such as delays in the timetable for regulatory approvals or litigation related to regulatory approvals of the Cadiz Program. We retain the right to maintain \$25.5 million of senior debt secured by the Cadiz Program area lands pursuant to the definitive economic terms for the Cadiz Program agreed with Metropolitan, as described under "Outlook" below.

In December 2000, we issued \$5 million of Series D Convertible Preferred Stock. The stock is convertible into 625,000 shares of our common stock any time prior to July 2004 at the election of the holder. We also have the right to convert the

preferred stock, but only when the closing price of our common stock has exceeded \$12 per share for 30 consecutive trading days. The preferred stock will be redeemed in July 2004 if it is still outstanding.

In October and November 2001, we issued an aggregate of \$7.5 million of Series E-1 and E-2 Convertible Preferred Stock in \$3.75 million issuances respectively. The Series E-1 and E-2 preferred stock is convertible into an aggregate of 1,000,000 shares of our common stock at any time prior to July 2004 at the election of the holder. We also have the right to convert the Series E-1 and E-2 preferred stock, but only when the closing price of our common stock has exceeded \$10.50 per share for 30 consecutive trading days. The preferred stock will be redeemed in July 2004 if still outstanding.

As we continue to actively pursue our business strategy, additional financing specifically in connection with our water programs will be required. Responsibility for funding the design, construction and program implementation costs of the capital facilities for the Cadiz Program will, under currently developed principles and terms, be shared equally by Cadiz and

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Metropolitan. We plan to use monies to be received from Metropolitan for its initial payment for 600,000 acre-feet of groundwater storage as well as long-term financing arrangements currently under negotiation, to fund Cadiz' share of the estimated \$150 million cost of the program capital facilities.

SUN WORLD OBLIGATIONS. Under Sun World's historical working capital cycle, working capital is required primarily to finance the costs of growing and harvesting crops, which generally occur from January through September with a peak need in June. Sun World harvests and sells the majority of its crops during the period from June through October, when it receives the majority of its revenues. In order to bridge the gap between incurrence of expenditures and receipt of revenues, large cash outlays are required each year which are financed through a \$30 million revolving credit agreement guaranteed by Cadiz.

In November 2001, Sun World renewed its revolving credit facility through the 2002 growing season with a maturity date of November 2002. Amounts eligible to be borrowed under the revolving credit facility are based upon a borrowing base of eligible accounts receivable and inventory balances. Maximum availability under the revolving credit facility varies throughout the year with a maximum of \$30 million available during the peak borrowing periods of April to July. The revolving credit facility is secured by accounts receivable, inventory, and the proceeds thereof, requires Sun World to meet certain financial covenants, and is guaranteed by Cadiz. Amounts borrowed under the facility will accrue interest at either prime plus 1.0% or LIBOR plus 2.50% at our election. No amounts were outstanding under the revolving credit facility at December 31, 2001.

In addition, Sun World has outstanding \$115 million of First Mortgage Notes which will mature on April 15, 2004 and are publicly traded and registered under the Securities Act of 1933. The Sun World notes became redeemable at the option of Sun World, in whole or in part, at any time on or after April 15, 2001. Interest accrues at the rate of 11-1/4% per annum and is payable semi-annually on April 15th and October 15th of each year. The Sun World notes are secured by a first lien (subject to certain permitted liens) on substantially all of the assets of Sun World and its subsidiaries, other than growing crops, crop inventories and accounts receivable and proceeds thereof, which secure Sun World's revolving credit facility, and certain real property pledged to third parties. The Sun World notes are also secured by the guarantee of Cadiz and the pledge by Cadiz of all of the stock of Sun World. The Sun World notes include covenants that do not allow for the payment of dividends by us or by Sun World other than out of cumulative net income.

CASH USED FOR OPERATING ACTIVITIES. Cash used for operating activities totaled \$4.3 million for the year ended December 31, 2001, as compared to cash used for operating activities of \$9.1 million for the year ended December 31, 2000. The decrease in cash used for operating activities is primarily due to the \$6 million of cash received as part of the special litigation recovery in 2001 coupled with higher accounts payable balances at December 31, 2001.

CASH USED FOR INVESTING ACTIVITIES. Cash used for investing activities totaled \$5.5 million for the year ended December 31, 2001, as compared to \$2.7 million for the same period in 2000. The increase in cash used was primarily due to reduced sales of property, plant and equipment, and the non reoccurrence of a \$1.6 million final partnership distribution in 2000, partially offset by decreased expenditures for developing crops.

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CASH PROVIDED BY FINANCING ACTIVITIES. Cash provided by financing activities totaled \$7.9 million for the year ended December 31, 2001 as compared to \$10.6 million for the same period in 2000. Cadiz issued \$7.5 million of preferred stock in 2001 compared to \$5.0 million in 2000. Net proceeds from stock options exercised totaled \$1.6 million in 2001 compared to \$1.0 million in 2000 and principal payments on long-term debt totaled \$1.6 million in 2001 compared to \$0.7 million in 2000. In addition, Sun World issued \$5.2 million of long-term debt in 2000.

(b) Outlook  
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We are actively pursuing the development of our water resources. Specifically, in April 2001, Cadiz and Metropolitan approved definitive economic terms and responsibilities for a 50-year agreement for the Cadiz Program. Under the Cadiz Program, Metropolitan will, during wet years or periods of excess supply, store surplus water from the Colorado River Aqueduct in the groundwater basin underlying our property. During dry years or times of reduced allocations from the Colorado River, the previously imported water, together with additional existing groundwater, will be extracted and delivered, via a conveyance pipeline, back to the aqueduct. The definitive terms will serve as the basis for a final agreement to be executed between Metropolitan and Cadiz. Execution of this final agreement will be subject to completion of the ongoing environmental review process for the Cadiz Program.

Key provisions of the approved definitive terms for the Cadiz Program are as follows:

- \* Over the 50-year term of the agreement, Metropolitan will store a minimum of 900,000 acre-feet of Colorado River Aqueduct water in our groundwater basin and purchase up to a minimum of 1,500,000 acre-feet of existing groundwater for transfer during dry years. The Cadiz Program will have the capacity to convey, either for storage or transfer, up to approximately 150,000 acre-feet in any given year.
- \* During storage operations, Metropolitan will pay \$50 per acre-foot for put of Colorado River water into storage and \$40 per acre-foot for return of Colorado River water from storage, or a total of \$90 per acre-foot to cycle water into and out of the basin. These fees will be adjusted by the Consumer Price Index (CPI).
- \* As outlined above, Metropolitan's total minimum commitment for storage is 900,000 acre-feet. Metropolitan will pay for the initial 600,000 acre-feet of put and take activity upon final contract execution and completion of the environmental review process (\$54 million before CPI adjustment). Metropolitan will pay

for an additional 300,000 acre-feet of put and take activity at the earlier of actual usage or 30,000 acre-foot annual increments during years 5-14 of Cadiz Program operations (\$2,700,000 per year before CPI adjustment).

- \* For transfer operations, Metropolitan shall purchase 30,000 acre-feet per year of indigenous groundwater for 25 years at a \$230 per acre-foot transfer fee, subject to a fair market value adjustment as described below. In addition, Cadiz may elect to either sell up to an additional 30,000 acre-feet per year of indigenous groundwater to third parties in Metropolitan's service area at fair market value, or require Metropolitan to purchase that amount of water at a fixed transfer fee of \$230 per acre-foot. Accordingly, Metropolitan's total potential minimum commitment for the life of the Cadiz Program will be 1,500,000 acre-feet of indigenous groundwater. All transfers of indigenous groundwater, whether to Metropolitan or third parties, will be made in accordance with the terms and conditions of a Groundwater Monitoring and Management Plan.

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- \* The transfer fee will reflect a "fair market value" adjustment, which shall be determined up to once a year. The transfer fee will be adjusted by one-half of any increase or decrease in the fair market value, above or below the transfer fee currently in place (\$230 per acre-foot initially). Each increase or decrease in the transfer fee paid by Metropolitan may not exceed 15%. For example, if the fair market value at the first redetermination is \$350 per acre-foot, then the adjusted transfer fee shall be \$264 [the lesser of (a)  $\$230 + 50\% * (\$350 - \$230) = \$290$  per acre-foot or (b)  $\$230 * 15\% = \$264.50$  per acre-foot].
- \* Our right to sell to third parties within Metropolitan's service area includes scheduled access to Metropolitan's system at the rate charged by Metropolitan for conveying water through its aqueduct and pipeline system (the wheeling rate) charged for "as available capacity", plus power costs and any standard water stewardship fee that is uniformly charged to Metropolitan member agencies or third parties. Depending on availability of system capacity, Metropolitan may elect to exchange other water for delivery to our customers and "bank" the water we have sold.
- \* If indigenous water supplies are determined to exceed 1,700,000 acre-feet, Metropolitan shall have the first right of refusal to purchase one-half of that excess yield.
- \* Cadiz groundwater meets all existing federal and state water quality standards. Metropolitan's Colorado River Aqueduct water meets all existing federal and state water quality standards. Metropolitan shall be responsible to ensure, at its expense, that Colorado River Aqueduct water introduced into our groundwater basin shall, at a minimum, meet all existing and potential future federal and state water quality standards applicable to the Colorado River Aqueduct. We shall be responsible to ensure, at our expense, that indigenous groundwater introduced into the Metropolitan delivery system shall at a minimum, meet all existing and potential future federal and state water quality standards. If both indigenous groundwater and stored Colorado River water exceed any future federal or state water quality standard, then the parties will share compliance with the new standard based pro rata on the contribution to exceeding the standard.
- \* The Cadiz Program facilities, including spreading basins, extraction wells, conveyance pipeline and a pumping plant are estimated to cost approximately \$150 million, and

both parties will equally share these costs. Each party will be responsible for financing its portion of the capital costs.

- \* Metropolitan will be responsible for operational costs of the Cadiz Program. However, we will assume pro rata operational costs associated with the sale of indigenous groundwater to third parties.
- \* We and Metropolitan shall share equally the capital costs required for mitigation at the outset of the Cadiz Program. We shall assume the ongoing annual costs of operating the Groundwater Monitoring and Management Plan and of maintaining the right to withdraw water from the basin underlying the Cadiz Program area.

Metropolitan and the U.S. Bureau of Land Management, in cooperation with the U.S. Geological Survey and the National Park Service, issued the Final Environmental Impact Report/Environmental Impact Statement for the Cadiz Program in October 2001. Issuance of

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the environmental report is a significant milestone in the environmental review process as it represents the last step prior to final actions from the U.S. Bureau of Land Management and Metropolitan. We anticipate final actions related to the environmental review process to be completed by the end of the second quarter of 2002 after which construction of the Cadiz Program facilities may commence.

In addition to the development of our water resources, we are actively involved in further agricultural development and reinvestment in our landholdings. Such development will be systematic and in furtherance of our business strategy to provide for maximization of the value of our assets. We also continually evaluate acquisition opportunities that are complimentary to our current portfolio of water and agricultural resources.

In January 2002, we announced an agreement in principle with KADCO to combine the businesses of Sun World and KADCO. Following the proposed combination, KADCO's shareholders will have a 49.75% interest in the combined business, and Cadiz will retain an ownership interest of 50.25%. Prior to the proposed combination, KADCO expects to have cash resources in excess of \$80 million.

We intend to use the cash resources of the combined business both to recapitalize Sun World and to provide for future business expansion. The agreement in principle contemplates that, in the future, KADCO shareholders will have an opportunity to make an additional equity investment in the combined business. Should KADCO shareholders make this additional investment, we may choose to maintain a majority percentage ownership in the combined business through a proportionate matching investment. We believe that additional investment will help position the combined business for its planned future transformation into a publicly-traded company. The proposed combination is subject to the negotiations of definitive agreements and a number of other important conditions. See "Certain Trends and Uncertainties - Proposed Combination of Sun World with KADCO" below.

Historically, Sun World has serviced its indebtedness and met its seasonal working capital needs using available internal cash, its revolving credit facility and through an intercompany revolver with Cadiz. Cadiz has met its ordinary working capital needs through a combination of available internal cash, quarterly management fee payments from Sun World, payments from Sun World under an agricultural lease whereby Sun World now operates Cadiz' 1,600 acres of developed agricultural property at Cadiz, California, Cadiz' revolving credit facility, the exercise of outstanding stock options, and equity placements. Except for the foregoing, additional intercompany cash payments between Sun World and Cadiz are subject to certain restrictions under their

current lending arrangements.

We may require additional cash beyond the amounts described in this section although we are not looking to raise additional working capital at this time. We may meet any such future requirements through a variety of means to be determined at the appropriate time. Such means may include equity or debt placements, or the sale or other disposition of assets. Equity placements would be undertaken only to the extent necessary so as to minimize the dilutive effect of any such placements upon our existing stockholders.

(c) Certain Trends and Uncertainties  
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In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are filing cautionary statements identifying important risk factors that could cause our actual results to differ materially from those projected in our forward-looking statements made by or on our behalf.

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We wish to caution readers that these factors, among others, could cause our actual results to differ materially from those expressed in any projected, estimated or forward-looking statements relating to us. The following factors should be considered in conjunction with any discussion of operations or results by us or our representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors, or other communications by us.

In making these statements, we are not undertaking to address or update each factor in future filings or communications regarding our business or results, and are not undertaking to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, certain of these matters may have affected our past results and may affect future results.

**RISKS INHERENT IN AGRICULTURAL OPERATIONS.** We are subject to risks associated with our agricultural operations. Numerous factors can affect the price, yield and marketability of the crops grown on our properties. Crop prices may vary greatly from year to year as a result of the relationship between production and market demand. For example, the production of a particular crop in excess of demand in any particular year will depress market prices, and inflationary factors and other unforeseeable economic changes may also, at the same time, increase operating costs with respect to such crops. In addition, the agricultural industry in the United States is highly competitive, and domestic growers and produce marketers are facing increased competition from abroad, particularly from Mexico. There are also a number of factors outside of our control that could, alone or in combination, materially adversely affect our agricultural operations, such as adverse weather conditions, insects, blight or other diseases, labor problems such as boycotts or strikes and shortages of competent laborers. Our operations may also be adversely affected by changes in governmental policies including food safety and environmental regulations, social and economic conditions, and industry production levels.

**PROPOSED COMBINATION OF SUN WORLD WITH KADCO.** The proposed combination of Sun World with KADCO may not occur in the second quarter of 2002, or at all, if various conditions are not met. These conditions include final negotiation and execution of definitive agreements and a number of other conditions such as obtaining consents of governmental authorities and third parties with whom we have contracts, including lenders, completing a "due diligence" review of the other's operations, and KADCO obtaining additional equity financing in order to complete the transaction.

**RISKS OF WATER DEVELOPMENT PROJECTS.** We anticipate that we

will continue to incur operating losses from our non-Sun World operations until such time as we are able to receive significant revenues from the development of our water development projects, including the Cadiz Program. In addition to the risks associated with receiving all necessary regulatory approvals and permits with respect to our water development projects, including litigation by environmental or other groups which may delay or even prevent implementation of the Cadiz Program, we may also encounter unforeseen technical difficulties, which could result in construction delays, and cost increases or determination that a project is not feasible. We are continuing to negotiate the terms and conditions of water storage and supply programs with various California water agencies (including Metropolitan with respect to preparing the final agreement for the Cadiz Program). However, the outcome of these negotiations cannot be predicted with any degree of certainty. The circumstances under which transfers or storage of water can be made and the profitability of any transfers or storage are subject to significant uncertainties, including hydrologic risks of variable water supplies, risks presented by allocations of water under existing and prospective priorities, and risks of adverse changes to or

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interpretations of U.S. federal, state and local laws, regulations and policies.

RISKS OF NOT BEING ABLE TO PAY DIVIDENDS. We are restricted by contract from paying dividends and we do not intend to pay dividends in the foreseeable future. As a result, any return on investment on our common stock will depend primarily upon appreciation in the price of the common stock. To date, we have never paid a cash dividend on our common stock. The ability to receive distributions from Sun World's cash flow and to pay dividends in turn to stockholders is restricted by a series of covenants in the indenture governing the Sun World notes. These covenants do not allow for the payment of dividends by us or by Sun World other than out of cumulative net income. Similar restrictions are contained in the loan documents governing Sun World's secured \$30 million revolving credit facility, Sun World's \$5 million unsecured term loan and Cadiz' \$25 million revolving credit facility. As we have a history of operating losses, we have been unable to date to pay dividends.

Other important risk factors that could cause our actual results to differ materially from those expressed or implied by or on our behalf are discussed elsewhere within this Form 10-K in the sections entitled: "Outlook", "Seasonality", "Regulation", "Competition" and "Liquidity and Capital Resources".

(d) Critical Accounting Policies

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As discussed in Note 2 to the Consolidated Financial Statements of Cadiz, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements based on all relevant information available at the time and giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Management has concluded that the following critical accounting policies described below affect the most significant judgments and estimates used in the preparation of the consolidated financial statements.

REVENUE RECOGNITION. To date we have not had significant

revenue earned from our water development programs. As such, virtually all of our revenue has come from Sun World's agricultural operations. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition" provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. Sun World's revenues consist primarily of sales of fresh fruits and vegetables to large domestic national and regional supermarket chain stores and produce brokers, sales of juice to wineries and juice cooperatives, sales of raisins to processors, packing and marketing for third party growers, international licensing, project development and management services, and other miscellaneous receivables. Revenue is recognized when product has been shipped and risk of loss has been transferred to the customer and collection of the resulting receivable is reasonably assured. Packing revenues and marketing commissions from third party growers are recognized when the related services are provided. For licensing, revenue is recognized when the licensee's product has been sold. Project development and management fees are recorded when earned under the terms of the related agreement. At the time revenue is recognized, we provide for costs associated with any estimated returns or allowances which occur in the produce industry given the perishable nature of Sun World's products. We have

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concluded that our revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and SAB No. 101.

INVENTORIES AND RELATED ALLOWANCE FOR OBSOLETE AND EXCESS INVENTORY. Inventories are valued at the lower of cost or market. Management estimates what market conditions will be for produce based on the age, size, quality and overall market for fresh product held in inventory at the end of each reporting period. When future market conditions indicate that the cost of the inventory plus any additional selling expenses exceed the expected net revenues to be received, we provide a reserve for the amount of estimated costs in excess of estimated net revenues. Management also regularly conducts a review of non-product inventory that consists primarily of corrugated boxes, chemicals and seed. Appropriate allowances are made based on management's review for all excess and obsolete inventory compared to estimated future usage and sales.

GOODWILL, INTANGIBLE AND OTHER LONG-LIVED ASSETS. Property, plant and equipment, goodwill, intangible and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. At Sun World, management regularly reviews crop portfolios in an attempt to identify crops that are underperforming generally at the conclusion of each growing season. As a result of these reviews, management determines which crops will be removed immediately or at the conclusion of the next growing season. As such, appropriate writedowns and accruals for estimated removal costs are made and where appropriate, remaining useful lives are shortened to correspond to the estimated period that the assets will be expected to generate future revenues.

DEFERRED TAX ASSETS AND VALUATION ALLOWANCES. To date, we have had a history of net operating losses as we have not generated significant revenue from our water development programs and Sun World has experienced losses from its agricultural operations. As such, we have generated significant deferred tax assets, including large net operating loss carry forwards for federal and state income taxes for which we have a full valuation allowance. Management is currently working on initiatives at Cadiz and Sun World that are designed to generate future taxable income, although there can be no guarantee that this will occur. As taxable income is generated, some portion or all of the valuation allowance will be reversed and an increase in net

income would consequently be reported in future years.

(e) New Accounting Pronouncements

See Footnote 2, Summary of Significant Accounting Policies, to Cadiz Inc. Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates on long-term debt obligations that impact the fair value of these obligations. Our policy is to manage interest rates through the use of a combination of fixed and variable rate debt. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. Other instruments, such as interest rate swaps, options, floors, caps or collars may also be used depending upon market conditions. No such instruments were used in 2001.

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The table below presents the principal amounts, weighted-average interests rates, and fair values by year of scheduled maturities to evaluate the expected cash flows and sensitivity to interest rate changes (in thousands of dollars). Circumstances could arise which may cause interest rates and the timing and amount of actual cash flows to differ materially from the schedule below:

Long-Term Debt				
Expected Maturity	Fixed Rate Maturities	Average Interest Rate	Variable Rate Maturities	Average Interest Rate
2002	\$ 476	7.7%	\$ 5,286	4.9%
2003	394	7.8%	25,951	4.0%
2004	115,419	11.2%	-	-
2005	23	8.8%	-	-
2006	5	10.2%	-	-
Total	\$ 116,317	11.2%	\$ 31,237	4.1%
	=====	=====	=====	=====
Fair Value at 12/31/01	\$ 107,417		\$ 31,237	
	=====		=====	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is submitted in response to Part IV below. See the Index to Consolidated Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by this item is incorporated herein by reference to the definitive proxy statement involving the election of directors which we intend to file with the SEC pursuant to Regulation 14A under the Securities and Exchange Act

of 1934 not later than 120 days after December 31, 2001.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the definitive proxy statement involving the election of directors which we intend to file with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934 not later than 120 days after December 31, 2001.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by this item is incorporated herein by reference to the definitive proxy statement involving the election of directors which we intend to file with the SEC pursuant to Regulation 14A under the Securities and Exchange Act of 1934 not later than 120 days after December 31, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item is incorporated herein by reference to the definitive proxy statement involving the election of directors which we intend to file with the Commission pursuant to Regulation 14A under the Securities and Exchange Act of 1934 not later than 120 days after December 31, 2001.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. Financial Statements. See Index to Consolidated Financial Statements.
2. Financial Statement Schedules. See Index to Consolidated Financial Statements.
3. Exhibits.

The following exhibits are filed or incorporated by reference as part of this Form 10-K.

- 3.1 Cadiz Certificate of Incorporation, as amended(1)
- 3.2 Amendment to Cadiz Certificate of Incorporation dated November 12, 1996(2)
- 3.3 Amendment to Cadiz Certificate of Incorporation dated September 1, 1998(3)
- 3.4 Cadiz Bylaws, as amended(4)
- 3.5 Cadiz Certificate of Designations of Series A Junior Participating Preferred Stock(5)
- 3.6 Cadiz Certificate of Designations of Series D Convertible Preferred Stock dated December 28, 2000(6)
- 3.7 Cadiz Certificate of Correction Filed to Correct the Certificate of Designations of Series D Preferred Stock of Cadiz Inc. dated December 28, 2000(6)
- 3.8 Cadiz Certificate of Designations of Series E-1 Convertible Preferred Stock dated October 22, 2001(7)
- 3.9 Cadiz Certificate of Designations of Series E-2 Convertible Preferred Stock dated November 28, 2001(8)

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- 4.1 Specimen Form of Stock Certificate for Cadiz registered stock(3)
- 4.2 Indenture, dated as of April 16, 1997 among Sun World as issuer, Sun World and certain subsidiaries of Sun World as guarantors, and IBJ Whitehall Bank & Trust Company as trustee, for the benefit of holders of 11-1/4%First Mortgage Notes due 2004 (including as Exhibit A to the Indenture, the form of the Global Note and the form of each Guarantee) (9)
- 4.3 Amendment to Indenture dated as of October 9, 1997(10)
- 4.4 Amendment to Indenture dated as of January 23, 1998(11)
- 10.1 Cadiz' 1996 Stock Option Plan(4)
- 10.2 Amendment to Cadiz' 1996 Stock Option Plan
- 10.3 Cadiz' Amended and Restated 1998 Non-Qualified Stock Option Plan
- 10.4 Cadiz 2000 Stock Award Plan(12)
- 10.5 Employment Agreement between Cadiz and Keith Brackpool dated February 1, 1998(11)
- 10.6 Employment Agreement dated September 13, 1996 between Sun World, Cadiz and Timothy J. Shaheen(13)
- 10.7 Employment Agreement dated September 13, 1996 between Sun World, Cadiz and Stanley E. Speer(13)
- 10.8 Form of Sun World Executive Officer Employment Agreement(14)
- 10.9 Fifth Amended and Restated Credit Agreement, dated as of March 7, 2002, by and between Cadiz and ING Baring (U.S.) Capital LLC
- 10.10 Revolving Credit Note, dated as of November 25, 1997, by and between Cadiz and ING Baring (U.S.) Capital Corporation (11)
- 10.11 The Cadiz Groundwater Storage and Dry-Year Supply Program Definitive Economic Terms and Responsibilities between Metropolitan Water District of Southern California and Cadiz dated March 6, 2001
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of Independent Accountants

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(1) Previously filed as an Exhibit to our Registration Statement of Form S-1 (Registration No. 33-75642) declared effective May 16, 1994 filed on February 23, 1994

(2) Previously filed as an Exhibit to our Report on Form 10-Q for the quarter ended September 30, 1996 filed on November 13, 1996

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(3) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 filed on November 13, 1998

(4) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999 filed on August 13, 1999

(5) Previously filed as an Exhibit to our Report on Form 8-K dated May 10, 1999 filed on May 18, 1999

- (6) Previously filed as an Exhibit to our Report on Form 8-K dated December 29, 2000 filed on January 3, 2001
- (7) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed on November 14, 2001
- (8) Previously filed as an Exhibit to our Registration Statement on Form S-3 (Registration Statement No. 333-75006 filed on December 13, 2001
- (9) Previously filed as an Exhibit to Amendment No. 1 to our Form S-1 Registration Statement No. 333-19109 filed on April 29, 1997
- (10) Previously filed as an Exhibit to Amendment No. 2 to Sun World's Form S-4 Registration Statement No. 333-31103 filed on October 10, 1997
- (11) Previously filed as an Exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 1997 filed on March 26, 1998
- (12) Previously filed as Appendix A to our Proxy Statement dated April 5, 2000, filed on March 29, 2000
- (13) Previously filed as an Exhibit to our Transition Report on Form 10-K for the nine months ended December 31, 1996 filed on April 14, 1997
- (14) Previously filed as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 filed on May 14, 1997

(b) Reports on Form 8-K

- 1. Report on Form 8-K filed October 26, 2001 describing our issuance of an aggregate of \$7,500,000 in newly authorized Series E-1 and E-2 Convertible Preferred Stock.
- 2. Report on Form 8-K filed January 18, 2002 reporting that Cadiz had reached an agreement in principle with Kingdom Agricultural Development Company (KADCO), to combine the businesses of Sun World International, Inc. and KADCO.
- 3. Report on Form 8-K filed March 13, 2002 reporting that Cadiz and ING Baring (U.S.) Capital LLC had amended the terms of their revolving credit and senior term facilities to extend the maturity dates to January 31, 2003 and to increase the revolving credit facility from \$15 million to \$25 million.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

CADIZ INC.

By: /s/ Keith Brackpool

By: /s/ Stanley E. Speer

-----  
Keith Brackpool,  
Chairman and Chief Executive Officer

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Stanley E. Speer,  
Chief Financial Officer

Date: March 27, 2002

Date: March 27, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Name and Position -----	Date -----
/s/ Keith Brackpool ----- Keith Brackpool, Chairman and Chief Executive Officer (Principal Executive Officer)	March 27, 2002
/s/ Anthony L. Coelho ----- Anthony L. Coelho, Director	March 27, 2002
/s/ Murray H. Hutchison ----- Murray H. Hutchison, Director	March 27, 2002
/s/ Dwight W. Makins ----- Dwight Makins, Director	March 27, 2002
/s/ Timothy J. Shaheen ----- Timothy J. Shaheen, Director	March 27, 2002
/s/ Stanley E. Speer ----- Stanley E. Speer, Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 2002

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(Schedules other than those listed above have been omitted since they are either not required, inapplicable, or the required information is included on the financial statements or notes thereto.)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Cadiz Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Cadiz Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
-----  
PricewaterhouseCoopers LLP

Los Angeles, California  
February 21, 2002, except as to  
Note 9, which is as of March 8, 2002

CADIZ INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2001	2000	1999
(In thousands, except per share data)			
Revenues	\$ 92,402	\$ 107,745	\$ 115,229
Special litigation recovery	7,929	-	-
Total revenues and special litigation recovery	100,331	107,745	115,229
Costs and expenses:			
Cost of sales	79,108	87,925	83,821
General and administrative	12,913	12,576	12,363
Non-recurring compensation expense	5,537	-	-
Special litigation	-	424	937
Removal of underperforming crops	736	1,549	-
Depreciation and amortization	8,151	8,381	8,891
Total costs and expenses	106,445	110,855	106,012
Operating profit (loss)	(6,114)	(3,110)	9,217
Interest expense, net	19,551	19,188	17,811
Net loss before income taxes	(25,665)	(22,298)	(8,594)
Income tax expense	57	160	-
Net loss	(25,722)	(22,458)	(8,594)
Less: Preferred stock dividends	591	-	-
Imputed dividend on preferred stock	441	-	-
Net loss applicable to common stock	\$ (26,754)	\$ (22,458)	\$ (8,594)
Basic and diluted net loss per share	\$ (.75)	\$ (.64)	\$ (.25)
Weighted-average shares outstanding	35,854	35,344	34,678

See accompanying notes to the consolidated financial statements.

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CADIZ INC.

CONSOLIDATED BALANCE SHEET

(\$ in thousands)	December 31,	
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,458	\$ 3,291
Accounts receivable, net	6,327	7,884

Inventories	13,027	15,203
Prepaid expenses and other	788	631
	-----	-----
Total current assets	21,600	27,009
Property, plant, equipment and water programs, net	165,297	164,824
Other assets	11,378	11,784
	-----	-----
	\$ 198,275	\$ 203,617
	=====	=====
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,758	\$ 7,900
Accrued liabilities	5,680	5,815
Bank overdraft	410	-
Long-term debt, current portion	4,960	859
	-----	-----
Total current liabilities	22,808	14,574
Long-term debt	141,429	145,610
Deferred income taxes	5,447	5,447
Other liabilities	930	313
Contingencies		
Series D redeemable convertible preferred stock - \$0.01 par value: 5,000 shares authorized; shares issued and outstanding - 5,000 at December 31, 2001 and December 31, 2000		
	4,243	3,950
Series E-1 and E-2 redeemable convertible preferred stock - \$0.01 par value: 7,500 shares authorized; shares issued and outstanding - 7,500 at December 31, 2001 and none at December 31, 2000		
	5,715	-
Stockholders' equity:		
Common stock - \$0.01 par value; 70,000,000 shares authorized; shares issued and outstanding 36,070,834 at December 31, 2001 and 35,674,674 at December 31, 2000		
	361	357
Additional paid-in capital	152,404	142,706
Accumulated deficit	(135,062)	(109,340)
	-----	-----
Total stockholders' equity	17,703	33,723
	-----	-----
	\$ 198,275	\$ 203,617
	=====	=====

See accompanying notes to the consolidated financial statements.

(\$ in thousands)	Year Ended December 31,		
	2001	2000	1999
Cash flows from			
operating activities:			
Net loss	\$ (25,722)	\$ (22,458)	\$ (8,594)
Adjustments to reconcile			
net loss to net cash			
used for operating activities:			
Depreciation and amortization	11,664	10,926	11,060
Issuance of stock for services	-	-	28
Gain on disposal of assets	(421)	(96)	(104)
Removal of underperforming crops	736	1,549	-
Land received in			
litigation recovery	(2,000)	-	-
Shares of KADCO stock earned			
for services	(1,250)	(1,250)	(313)
Share of partnership operations	-	(71)	(328)
Compensation charge for deferred			
stock units	566	237	-
Non-recurring compensation expense	5,537	-	-
Changes in operating assets			
and liabilities:			
Decrease (increase) in			
accounts receivable	1,557	552	(2,141)
Decrease (increase) in			
inventories	1,830	2,740	(3,318)
(Increase) decrease in prepaid			
expenses and other	(157)	286	75
Increase (decrease) in			
accounts payable	3,858	(133)	(720)
(Decrease) increase in			
accrued liabilities	(551)	(1,039)	1,668
Increase (decrease) increase			
in other liabilities	51	(297)	(298)
	-----	-----	-----
Net cash used for			
operating activities	(4,302)	(9,054)	(2,985)
	-----	-----	-----
Cash flows from investing activities:			
Additions to property,			
plant and equipment	(1,583)	(1,252)	(4,835)
Additions to water programs	(1,359)	(1,595)	(3,177)
Additions to developing crops	(3,124)	(3,844)	(3,531)
Proceeds from disposal of property,			
plant and equipment	452	2,956	233
Partnership distributions	-	1,568	-
Decrease (increase) in other assets	154	(525)	(998)
	-----	-----	-----
Net cash used for			
investing activities	(5,460)	(2,692)	(12,308)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from issuance of stock	1,583	1,032	6,803
Proceeds from issuance of			
preferred stock	7,500	5,000	-
Proceeds from issuance of			
long-term debt	-	5,231	-
Principal payments on			
long-term debt	(1,564)	(686)	(685)
Bank overdraft	410	-	-
	-----	-----	-----
Net cash provided by			
financing activities	7,929	10,577	6,118
	-----	-----	-----

Net decrease in cash and

cash equivalents	(1,833)	(1,169)	(9,175)
Cash and cash equivalents, beginning of period	3,291	4,460	13,635
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 1,458	\$ 3,291	\$ 4,460
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2001, 2000 and 1999  
(\$ in thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stock- holders' Equity
	-----	-----	-----	-----	-----
Balance as of December 31, 1998	33,592,261	\$ 336	\$ 127,662	\$ (78,288)	\$ 49,710
Exercise of stock options	1,513,150	15	6,788	-	6,803
Issuance of warrants to a lender	-	-	1,335	-	1,335
Stock issued for services	61,250	1	415	-	416
Net loss	-	-	-	(8,594)	(8,594)
	-----	-----	-----	-----	-----
Balance as of December 31, 1999	35,166,661	352	136,200	(86,882)	49,670
Exercise of stock options and warrants	246,149	2	1,030	-	1,032
Issuance of warrants to lenders	-	-	2,126	-	2,126
Interest paid with stock	111,864	1	831	-	832
Stock issued for services	150,000	2	1,469	-	1,471
Issuance of warrants and beneficial conversion feature for Series D convertible preferred stock	-	-	1,050	-	1,050
Net loss	-	-	-	(22,458)	(22,458)
	-----	-----	-----	-----	-----
Balance as of December 31, 2000	35,674,674	357	142,706	(109,340)	33,723
Exercise of stock options and stock awards	331,176	3	1,580	-	1,583
Issuance of warrants to lenders	-	-	1,435	-	1,435
Payment of preferred stock dividends with common stock	24,984	-	245	-	245
Preferred stock dividend	-	-	(591)	-	(591)
Non-recurring compensation	-	-	5,537	-	5,537
Stock issued in connection					

with Series E-1 and E-2 convertible preferred stock	40,000	1	319	-	320
Issuance of warrants and beneficial conversion feature for Series E-1 and E-2 convertible preferred stock	-	-	1,614	-	1,614
Imputed dividend from warrants and deferred beneficial conversion feature	-	-	(441)	-	(441)
Net loss	-	-	-	(25,722)	(25,722)
	-----	-----	-----	-----	-----
Balance as of December 31, 2001	36,070,834	\$ 361	\$ 152,404	\$ (135,062)	\$ 17,703
	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements

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CADIZ INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

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The Company currently has agricultural operations through its wholly-owned subsidiary, Sun World International, Inc. and its subsidiaries, collectively referred to as "Sun World," and is developing the water resource segment of its business, which is not yet significant to the operations or the balance sheet of the Company. The primary business of the Company is to acquire and develop water and agricultural resources. The Company has created a complementary portfolio of assets encompassing undeveloped land with high-quality groundwater resources and/or storage potential, agricultural properties located throughout central and southern California with valuable water rights, and other contractual water rights. Management believes that, with both the increasing scarcity of water supplies in California and an increasing population, the Company's access to water will provide it with a competitive advantage both as a major agricultural concern and as a supplier of water.

Sun World is a large vertically integrated agricultural company that owns more than 19,000 acres of land, primarily located in two major growing areas of California: the San Joaquin Valley and the Coachella Valley. Fresh produce, including table grapes, stonefruit, citrus, peppers and watermelons, is marketed and shipped to food wholesalers and retailers throughout the United States and to more than 30 foreign countries. Sun World owns three cold storage and/or packing facilities in California, of which two are operated and one is leased to a third party.

Sun World provides the Company with additional water rights throughout central and southern California. The Company's landholdings, which total approximately 64,400 acres, are located adjacent to the Colorado River and the major aqueduct systems of central and southern California. The Company expects to utilize its resources to participate in a broad variety of water storage and supply, transfer, exchange, and conservation programs with public agencies and other parties.

In 2001, the Company and the Metropolitan Water District of Southern California ("Metropolitan") approved definitive economic terms and responsibilities for a water storage and supply program at its Cadiz, California property. The Cadiz Groundwater Storage and Dry-Year Supply Program (the "Cadiz Program") will enhance southern

California water supply reliability in two ways, providing a new dry-year water supply and much-needed storage. During wet years or periods of excess supply, Metropolitan will store surplus Colorado River water in the aquifer system underlying the Company's Cadiz property. During dry years, the previously imported water, together with additional existing groundwater, will be extracted and delivered, via a 35-mile conveyance pipeline, to Metropolitan's service area. Implementation of the Cadiz Program is subject to completion and approval of a final agreement and an environmental review process which currently is in its final stages and is expected to be completed during 2002.

In January 2002, the Company announced an agreement in principle with KADCO to combine the businesses of Sun World and KADCO. Following the proposed combination, KADCO's shareholders will have a 49.75% interest in the combined business, and Cadiz will retain an ownership interest of 50.25%. Prior to the proposed combination, KADCO expects to have cash resources in excess of \$80 million which will be used to recapitalize Sun World and

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provide for future business expansion.

Although the development and management activities of the Company are currently focused on agricultural operations (primarily through its wholly-owned subsidiary, Sun World) and water resource development, the Company will continue to develop and manage its land, water and agricultural resources for their highest and best uses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and Sun World. All material intercompany balances and activity have been eliminated from the consolidated financial statements.

RECLASSIFICATIONS

These financial statements reflect certain reclassifications made to the prior period balances to conform to the current year presentation.

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made estimates with regard to revenue recognition and the valuation of inventory, goodwill and other long-lived assets, and deferred tax assets. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes crop sale revenue upon shipment and transfer of title to customers. Packing revenues and marketing commissions from third party growers are recognized when the related services are provided. Proprietary product development revenues are recognized based upon product sales by licensees. Project development and management fees are recorded when earned under the terms of the related agreement.

Revenues attributable to one national retailer totaled \$10.5 million in 2001, \$12.8 million in 2000 and \$14.4 million in 1999. Export sales accounted for approximately 8.4%, 9.9% and 10.3% of the Company's revenues for the years ended December 31, 2001, 2000 and 1999, respectively.

## RESEARCH AND DEVELOPMENT

Sun World incurs costs to research and develop new varieties of proprietary products. Research and development costs are expensed as incurred. Such costs were approximately \$2,023,000 for the year ended December 31, 2001, \$1,636,000 for the year ended December 31, 2000, and \$1,450,000 for the year ended December 31, 1999.

## NET LOSS PER COMMON SHARE

Basic Earnings Per Share (EPS) is computed by dividing the net loss, after deduction for preferred dividends either accrued or imputed, if any, by the weighted-average common shares outstanding. Options, deferred stock units, warrants and preferred stock convertible into or exercisable for certain shares of the Company's common stock, were not considered in the computation of diluted EPS because their inclusion would have been antidilutive. Had these instruments been included, the fully diluted weighted average shares outstanding would have increased by approximately 2.3 million shares, 1.5 million shares, and 1.2 million shares for the years ended December 31, 2001, 2000 and 1999, respectively.

## CASH AND CASH EQUIVALENTS

The Company considers all short-term deposits with an original maturity of three months or less to be cash equivalents. The Company invests its excess cash in deposits with major international banks and short-term commercial paper and, therefore, bears minimal risk. Such investments are stated at cost, which approximates fair value, and are considered cash equivalents for purposes of reporting cash flows. At December 31, 2001, the Company had a bank overdraft totaling \$410,000 which is disclosed separately within current liabilities.

## INVENTORIES

Growing crops, pepper seed, and materials and supplies are stated at the lower of cost or market, on a first-in, first-out (FIFO) basis. Growing crop inventory includes direct costs and an allocation of indirect costs.

## INVESTMENT IN PARTNERSHIP

Sun World, through a wholly-owned subsidiary, owned a 50% interest in ASC/SWB Partnership, formerly named American SunMelon (the "Partnership"). In October 1998, the Partnership sold substantially all of its assets. In November 2000, Sun World received a final distribution of \$1.6 million in connection with the liquidation of the Partnership. Sun World had accounted for its investment in the Partnership using the equity method.

## PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

Property, plant, equipment and water programs are stated at cost.

The Company capitalizes direct and certain indirect costs of planting and developing orchards and vineyards during the development period, which varies by crop and generally ranges from three to seven years. Depreciation commences in the year commercial production is achieved.

Permanent land development costs, such as acquisition costs, clearing, initial leveling and other costs required to bring the land into a suitable condition for general agricultural use, are capitalized and not depreciated since these costs have an indefinite useful life.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ten to forty-five

years for land improvements and buildings, three to twenty-five years for machinery and equipment, and five to thirty years for permanent crops.

Water rights and water storage and supply programs are stated at cost. All costs directly attributable to the development of such programs are being capitalized by the Company. These costs, which are expected to be recovered through future revenues, consist of direct labor, drilling costs, consulting fees for various engineering, hydrological, environmental and feasibility studies, and other professional and legal fees.

#### IMPAIRMENT OF LONG-LIVED ASSETS

The Company annually evaluates its long-lived assets, including intangibles, for potential impairment. When circumstances indicate that the carrying amount of the asset may not be recoverable, as demonstrated by estimated future cash flows, an impairment loss would be recorded based on estimated fair value.

During the year ended December 31, 2001 and 2000, the Company incurred costs to remove certain underperforming crops, primarily stonefruit, citrus, and wine grapes. The Company recorded a charge of \$736,000 and \$1,549,000 in 2001 and 2000, respectively, in connection with the removal of these crops which is shown under the heading "Removal of underperforming crops" on the Consolidated Statement of Operations.

#### OTHER ASSETS

As a result of a merger in May 1988 between two companies, which eventually became known as Cadiz Inc., goodwill in the amount of \$7,006,000 was recorded. This amount is being amortized on a straight-line basis over thirty years. Accumulated amortization was \$3,193,000 and \$2,960,000 at December 31, 2001 and December 31, 2000, respectively.

Capitalized loan fees represent costs incurred to obtain debt financing. Such costs are amortized over the life of the related loan. At December 31, 2001, the majority of capitalized loan fees relate to the issuance of the First Mortgage Notes described in Note 9.

Trademark development costs represent legal costs incurred to obtain and defend patents and trademarks related to the Company's proprietary products throughout the world. Such costs are capitalized and amortized over their estimated useful life, which range from 10 to 20 years.

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#### INCOME TAXES

Income taxes are provided for using an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is uncertain that some portion or all of the deferred tax assets will be realized.

#### SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest during the years ended December 31, 2001, 2000 and 1999 was \$16,020,000, \$16,328,000, and \$15,988,000, respectively.

#### NEW ACCOUNTING PRONOUNCEMENTS

SFAS 141 and 142  
-----

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Accounting for Business Combinations" and No. 142 ("SFAS

142"), "Goodwill and Other Intangibles", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their estimated useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning January 1, 2002. Application of the non-amortization provisions of SFAS 142 is expected to result in a decrease in amortization expense of approximately \$233,000 due to goodwill no longer being amortized. The Company's current policy for measuring goodwill impairment is based upon an analysis of future undiscounted cash flows, which does not result in an indicated impairment as of December 31, 2001. Under SFAS 142, goodwill must be assigned to reporting units and measured for impairment based upon fair value of the reporting units. The goodwill carried on the Company's books at December 31, 2001 relates to the Cadiz water resource development segment of the business and the Cadiz Program. Management does not anticipate that the adoption of these standards will have a material adverse effect on the Company's financial position or results of operations.

SFAS 144  
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In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. The adoption of SFAS 144 is not anticipated to have a material adverse effect on the Company's financial position or results of operations.

NOTE 3 - ACCOUNTS RECEIVABLE  
-----

Accounts receivable consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Trade receivables	\$4,294	\$ 4,190
Due from unaffiliated growers	448	541
Other	2,091	3,675
	-----	-----
	6,833	8,406
Less allowance for doubtful accounts	(506)	(522)
	-----	-----
	\$6,327	\$ 7,884
	=====	=====

Substantially all trade receivables are from large domestic national and regional supermarket chain stores and produce brokers and are unsecured. Amounts due from unaffiliated growers represent receivables for harvest advances and for services (harvest, haul and pack) provided on behalf of growers under agreement with Sun World and are recovered from proceeds of product sales. Other receivables primarily include wine grape and raisin sales, proceeds due from third party marketers, receivables for international licensing, and other miscellaneous receivables.

NOTE 4 - INVENTORIES  
-----

Inventories consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Growing crops	\$10,174	\$11,538
Materials and supplies	2,621	2,880
Harvested product	218	528
Pepper seed	14	257
	-----	-----
	\$13,027	\$15,203
	=====	=====

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NOTE 5 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

Property, plant, equipment and water programs consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Land	\$69,068	\$67,034
Permanent crops	66,300	67,278
Developing crops	12,997	9,779
Water programs	16,181	14,433
Buildings	22,544	22,113
Machinery and equipment	20,588	20,042
	-----	-----
	207,678	200,679
Less accumulated depreciation	(42,381)	(35,855)
	-----	-----
	\$165,297	\$164,824
	=====	=====

Depreciation expense during the years ended December 31, 2001, 2000 and 1999 was \$7,699,000, \$7,971,000, and \$8,460,000, respectively.

NOTE 6 - OTHER ASSETS

Other assets consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Goodwill, net	\$3,813	\$ 4,046
Deferred loan costs, net	2,400	2,662
Long-term receivables	342	1,799
Capitalized trademark development, net	2,000	1,713
Receivable from KADCO to be paid in common shares	2,813	1,563
Other	10	1
	-----	-----
	\$11,378	\$11,784
	=====	=====

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities consist of the following (dollars in thousands):

	December 31,	
	2001	2000

	----	----
Interest	\$2,736	\$ 2,835
Payroll and benefits	1,907	1,754
Preferred stock dividends	345	-
Other	692	1,226
	-----	-----
	\$5,680	\$ 5,815
	=====	=====

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NOTE 8 - REVOLVING CREDIT FACILITY

-----

In November 2001, Sun World renewed its Revolving Credit Facility through the 2002 growing season with a maturity date of November 2002. Amounts eligible to be borrowed under the Revolving Credit Facility are based upon a borrowing base of eligible accounts receivable and inventory balances. Maximum availability under the Revolving Credit Facility varies throughout the year with a maximum of \$30 million available during the peak borrowing periods of April to July. The Revolving Credit Facility is secured by accounts receivable, inventory, and the proceeds thereof, requires Sun World to meet certain financial covenants, and is guaranteed by the Company. Amounts borrowed under the facility will accrue interest at either prime plus 1.0% or LIBOR plus 2.50% at the Company's election. No amounts were outstanding under the Revolving Credit Facility at December 31, 2001 and 2000.

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NOTE 9 - LONG-TERM DEBT

-----

Management estimates that the fair value of the Company's long-term debt approximates the carrying value for all debt instruments except for the Series B First Mortgage Notes ("First Mortgage Notes"). The fair value of the First Mortgage Notes is estimated to be approximately \$106.1 million based on quoted market prices as of December 31, 2001. At December 31, 2001 and December 31, 2000, the carrying amount of the Company's outstanding debt is summarized as follows (dollars in thousands):

	December 31, 2001	2000
	----	----
Cadiz obligations:		
Senior term bank loan, interest payable quarterly, variable interest rate based upon LIBOR plus 2% (4.6% at December 31, 2001 and 8.5% at December 31, 2000), due January 31, 2003	\$ 10,095	\$ 10,345
\$15 million revolving line of credit, interest payable quarterly, variable interest rate based upon LIBOR plus 2% (4.6% at December 31, 2001 and 8.5% at December 31, 2000), due January 31, 2003	15,000	15,000
Debt discount	(363)	(1,433)
	-----	-----
	24,732	23,912
	-----	-----

Sun World obligations:

Series B First		
Mortgage Notes, interest payable semi-annually with principal due in April 2004, interest at 11.25%	115,000	115,000
Senior unsecured term loan, interest payable quarterly, due December 31, 2002, interest at LIBOR plus 3% (5.60% at December 31, 2001 and 9.40% at December 31, 2000)	5,000	5,000
Note payable to bank, quarterly principal installments of \$72 plus interest payable monthly, due December 31, 2003, interest at prime (4.75% at December 31, 2001 and 9.50% at December 31, 2000)	1,142	1,500
Note payable to insurance company, quarterly installments of \$120 (including interest), due January 1, 2005, interest at 7.75%	945	1,639
Note payable to finance company, monthly installments of \$18 (including interest), due July 1, 2002, interest at 7.50%	103	305
Other	269	255
Debt discount	(802)	(1,142)
	-----	-----
	121,657	122,557
	-----	-----
	146,389	146,469
Less current portion	(4,960)	(859)
	-----	-----
	\$141,429	\$145,610
	=====	=====

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Annual maturities of long-term debt outstanding (in thousands), excluding \$1,165 representing the unamortized portion of warrants, on December 31, 2001 are as follows: 2002 - \$5,762; 2003 - \$26,345; 2004 - \$115,419; 2005 - \$23; and 2006 - \$5.

#### CADIZ OBLIGATIONS

The senior term bank loan is secured by substantially all of the Company's non-Sun World related property. During 2001, pursuant to the loan agreement, the Company repriced certain warrants previously issued. In February 2002, the Company completed an amendment to the loan that extended the maturity date of the obligation to January 31, 2003. The interest rate is LIBOR plus 300 basis points, payable quarterly.

The \$15 million revolving credit facility was fully drawn at December 31, 2001 and 2000, and is secured by a second lien on substantially all of the non-Sun World assets of the Company. During 2001, pursuant to the loan agreement, the Company repriced certain warrants previously issued. In February 2002, the Company completed an amendment to the facility that extended the maturity date of the obligation to January 31, 2003. The interest rate can either be LIBOR plus 300 basis points if paid in cash or LIBOR plus 700 basis points if paid in common stock. In March 2002, the revolving credit

facility was increased to \$25 million, with \$10 million of the \$25 million revolver convertible into 1,250,000 of the Company's common stock any time prior to January 2003 at the election of the lender. In connection with obtaining the extension of the term loan and revolver and the increase in the revolver, the Company repriced certain warrants previously issued and issued certain additional warrants to purchase shares of the Company's common stock. The estimated fair value of the warrants issued and repriced was calculated using the Black Scholes option pricing model and was recorded as a debt discount and is being amortized over the remaining term of the loan.

SUN WORLD OBLIGATIONS

In April 1997, Sun World issued \$115 million of Series A First Mortgage Notes through a private placement. The notes have subsequently been exchanged for Series B First Mortgage Notes, which are registered under the Securities Act of 1933 and are publicly traded. The First Mortgage Notes are secured by a first lien (subject to certain permitted liens) on substantially all of the assets of Sun World and its subsidiaries other than growing crops, crop inventories and accounts receivable and proceeds thereof, which secure the Revolving Credit Facility. The First Mortgage Notes mature April 15, 2004, but became redeemable at the option of Sun World, in whole or in part, at any time on or after April 15, 2001. The First Mortgage Notes include covenants that do not allow for the payment of dividends by the Company or by Sun World other than out of cumulative net income.

The First Mortgage Notes are also secured by the guarantees of Coachella Growers, Inc., Sun Desert, Inc., Sun World/Rayo, and Sun World International de Mexico S.A. de C.V. (collectively, the "Sun World Subsidiary Guarantors") and by the Company. The Company also pledged all of the stock of Sun World as collateral for its guarantee. Sun World and the Sun World Subsidiary Guarantors are all direct and indirect wholly-owned subsidiaries of the Company. The guarantees by the Sun World Subsidiary Guarantors are full, unconditional, and joint and several. Sun World and the Sun World Subsidiary Guarantors comprise all of the

direct and indirect subsidiaries of the Company other than inconsequential subsidiaries. Additionally, management believes that the direct and indirect non-guarantor subsidiaries of Cadiz are inconsequential, both individually and in the aggregate, to the financial statements of the Company for all periods presented.

In December 2000, Sun World entered into a two-year \$5 million senior unsecured term loan. In connection with obtaining the loan, the Company issued 50,000 shares of the Company's common stock as well as certain warrants to purchase shares of the Company's common stock. The fair values of the stock and the warrants were recorded as a debt discount and are being amortized over the life of the loan.

CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Condensed consolidating financial information as of December 31, 2001 and 2000 and for the three years ended December 31, 2001 for the Company is as follows (in thousands):

Consolidating Statement of Operations Information Year Ended December 31, 2001	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----
Revenues	\$ 1,903	\$ 92,399	\$ (1,900)	\$ 92,402
Special litigation recovery	7,929	-	-	7,929
	-----	-----	-----	-----

Total revenues and

special litigation recovery	9,832	92,399	(1,900)	100,331
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	118	79,390	(400)	79,108
General and administrative	5,433	8,980	(1,500)	12,913
Non-recurring compensation	2,584	2,953	-	5,537
Removal of underperforming crops	222	514	-	736
Depreciation and amortization	1,137	7,014	-	8,151
	-----	-----	-----	-----
Total costs and expenses	9,494	98,851	(1,900)	106,445
	-----	-----	-----	-----
Operating profit (loss)	338	(6,452)	-	(6,114)
Interest expense, net	3,718	15,598	235	19,551
	-----	-----	-----	-----
Loss before income taxes	(3,380)	(22,050)	(235)	(25,665)
Income tax expense	-	57	-	57
	-----	-----	-----	-----
Net loss	(3,380)	(22,107)	(235)	(25,722)
Less:				
Preferred stock dividends	591	-	-	591
Imputed dividend on preferred stock	441	-	-	441
	-----	-----	-----	-----
Net loss applicable to common stock	\$ (4,412)	\$ (22,107)	\$ (235)	\$ (26,754)
	=====	=====	=====	=====

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Consolidating  
Balance Sheet Information  
December 31, 2001

	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 400	\$ 1,058	\$ -	\$ 1,458
Accounts receivable, net	1	6,326	-	6,327
Due from affiliate	11,254	-	(11,254)	-
Inventories	-	13,229	(202)	13,027
Prepaid expenses and other	210	578	-	788
	-----	-----	-----	-----
Total current assets	11,865	21,191	(11,456)	21,600
Property, plant, equipment and water programs, net	41,266	124,031	-	165,297
Other assets	4,432	6,946	-	11,378
	-----	-----	-----	-----
	\$ 57,563	\$152,168	\$ (11,456)	\$198,275
	=====	=====	=====	=====

LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Current liabilities:				
Accounts payable	\$ 1,330	\$ 10,428	\$ -	\$ 11,758
Accrued liabilities	791	4,889	-	5,680
Due to affiliate	-	11,254	(11,254)	-
Bank overdraft	410	-	-	410
Long-term debt, current portion	-	4,960	-	4,960
	-----	-----	-----	-----
Total current liabilities	2,531	31,531	(11,254)	22,808
Long-term debt	24,732	116,697	-	141,429
Deferred income taxes	-	5,447	-	5,447
Other liabilities	371	559	-	930
Losses in excess of investment in affiliate	2,066	-	(2,066)	-
Series D redeemable preferred stock	4,243	-	-	4,243
Series E-1 and E-2 redeemable preferred stock	5,715	-	-	5,715
Stockholders' equity:				
Common stock	361	-	-	361
Additional paid-in capital	152,404	38,273	(38,273)	152,404
Accumulated deficit	(134,860)	(40,339)	40,137	(135,062)
	-----	-----	-----	-----
Total stockholders' equity	17,905	(2,066)	1,864	17,703
	-----	-----	-----	-----
	\$ 57,563	\$152,168	\$ (11,456)	\$198,275
	=====	=====	=====	=====

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Consolidating  
Statement of  
Cash Flow Information  
Year Ended  
December 31, 2001

	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----
Net cash provided by (used for) operating activities	\$ 1,442	\$ (5,509)	\$ (235)	\$ (4,302)
	-----	-----	-----	-----
Cash flows from investing activities:				
Additions to property, plant and equipment	(88)	(1,495)	-	(1,583)
Additions to water programs	(1,359)	-	-	(1,359)
Additions to developing crops	(109)	(3,015)	-	(3,124)
Proceeds from disposal of property, plant and equipment	2	450	-	452
(Increase) decrease in other assets	(575)	494	235	154
	-----	-----	-----	-----
Net cash (used for) provided by investing activities	(2,129)	(3,566)	235	(5,460)
	-----	-----	-----	-----
Cash flows from financing activities:				
Net proceeds from issuance of stock	1,583	-	-	1,583
Proceeds from issuance				

of preferred stock	7,500	-	-	7,500
Borrowings from intercompany revolver	(11,254)	11,254	-	-
Principal payments on long-term debt	(251)	(1,313)	-	(1,564)
Bank overdraft	410	-	-	410
	-----	-----	-----	-----
Net cash (used for) provided by financing activities	(2,012)	9,941	-	7,929
	-----	-----	-----	-----
Net (decrease) increase in cash and cash equivalents	(2,699)	866	-	(1,833)
Cash and cash equivalents, beginning of period	3,099	192	-	3,291
	-----	-----	-----	-----
Cash and cash equivalents, end of period	\$ 400	\$1,058	\$ -	\$ 1,458
	=====	=====	=====	=====

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Consolidating Statement of Operations Information Year Ended December 31, 2000	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----
Revenues	\$ 1,920	\$ 107,727	\$ (1,902)	\$ 107,745
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	124	88,203	(402)	87,925
General and administrative	4,355	9,721	(1,500)	12,576
Special litigation	424	-	-	424
Removal of underperforming crops	-	1,549	-	1,549
Depreciation and amortization	1,174	7,207	-	8,381
	-----	-----	-----	-----
Total costs and expenses	6,077	106,680	(1,902)	110,855
	-----	-----	-----	-----
Operating profit (loss)	(4,157)	1,047	-	(3,110)
Interest expense, net	4,085	15,103	-	19,188
	-----	-----	-----	-----
Loss before income taxes	(8,242)	(14,056)	-	(22,298)
Income tax expense	-	160	-	160
	-----	-----	-----	-----
Net loss	\$ (8,242)	\$ (14,216)	\$ -	\$ (22,458)
	=====	=====	=====	=====

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Consolidating Balance Sheet Information December 31, 2000	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----

ASSETS

Current assets:				
Cash and cash equivalents	\$ 3,099	\$ 192	\$ -	\$ 3,291
Accounts receivable, net	7	7,879	(2)	7,884
Inventories	-	15,405	(202)	15,203
Prepaid expenses and other	212	419	-	631
	-----	-----	-----	-----
Total current assets	3,318	23,895	(204)	27,009
Investment in subsidiary	17,093	-	(17,093)	-
Property, plant, equipment and water programs, net	38,842	125,982	-	164,824
Other assets	4,199	7,585	-	11,784
	-----	-----	-----	-----
	\$ 63,452	\$157,462	\$ (17,297)	\$ 203,617
	=====	=====	=====	=====

LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Current liabilities:				
Accounts payable	\$ 1,209	\$ 6,693	\$ (2)	\$ 7,900
Accrued liabilities	349	5,466	-	5,815
Due to affiliate	202	-	(202)	-
Long-term debt, current portion	-	859	-	859
	-----	-----	-----	-----
Total current liabilities	1,760	13,018	(204)	14,574
Long-term debt	23,912	121,698	-	145,610
Deferred income taxes	-	5,447	-	5,447
Other liabilities	107	206	-	313
Series D redeemable preferred stock	3,950	-	-	3,950
Stockholders' equity:				
Common stock	357	-	-	357
Additional paid-in capital	142,706	35,325	(35,325)	142,706
Accumulated deficit	(109,340)	(18,232)	18,232	(109,340)
	-----	-----	-----	-----
Total stockholders' equity	33,723	17,093	(17,093)	33,723
	-----	-----	-----	-----
	\$ 63,452	\$157,462	\$ (17,297)	\$ 203,617
	=====	=====	=====	=====

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Consolidating Statement of Cash Flow Information Year Ended December 31, 2000	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----

Net cash used for operating activities	\$ (4,849)	\$ (4,205)	\$ -	\$ (9,054)
	-----	-----	-----	-----

Cash flows from investing activities:

Additions to property, plant and equipment	(293)	(959)	-	(1,252)
Additions to water programs	(1,595)	-	-	(1,595)
Additions to developing crops	(159)	(3,685)	-	(3,844)
Proceeds from disposal of property, plant and equipment	1	2,955	-	2,956
Partnership distributions	-	1,568	-	1,568
Increase in other assets	(162)	(363)	-	(525)
	-----	-----	-----	-----
Net cash used for investing activities	(2,208)	(484)	-	(2,692)
	-----	-----	-----	-----
Cash flows from financing activities:				
Net proceeds from issuance of stock	1,032	-	-	1,032
Proceeds from issuance of preferred stock	5,000	-	-	5,000
Proceeds from issuance of long-term debt	-	5,231	-	5,231
Principal payments on long-term debt	(21)	(665)	-	(686)
	-----	-----	-----	-----
Net cash provided by financing activities	6,011	4,566	-	10,577
	-----	-----	-----	-----
Net decrease in cash and cash equivalents	(1,046)	(123)	-	(1,169)
Cash and cash equivalents, beginning of period	4,145	315	-	4,460
	-----	-----	-----	-----
Cash and cash equivalents, end of period	\$ 3,099	\$ 192	\$ -	\$ 3,291
	=====	=====	=====	=====
Consolidating Statement of Operations Information Year Ended December 31, 1999	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----
Revenues	\$ 1,829	\$ 115,218	\$ (1,818)	\$ 115,229
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	132	84,140	(451)	83,821
General and administrative	4,672	9,058	(1,367)	12,363
Special litigation	937	-	-	937
Depreciation and amortization	1,179	7,712	-	8,891
	-----	-----	-----	-----
Total costs and expenses	6,920	100,910	(1,818)	106,012
	-----	-----	-----	-----
Operating profit (loss)	(5,091)	14,308	-	9,217
Interest expense, net	2,932	14,879	-	17,811
	-----	-----	-----	-----

Net loss	\$ (8,023)	\$ (571)	\$ -	\$ (8,594)
	=====	=====	=====	=====

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Consolidating  
Statement of  
Cash Flow  
Information  
Year Ended

December 31, 1999	Cadiz	Sun World	Eliminations	Consolidated
	-----	-----	-----	-----
Net cash (used for) provided by operating activities	\$ (4,746)	\$ 1,761	\$ -	\$ (2,985)
	-----	-----	-----	-----
Cash flows from investing activities:				
Additions to property, plant and equipment	(3,645)	(2,680)	1,490	(4,835)
Additions to water programs	(3,177)	-	-	(3,177)
Additions to developing crops	-	(3,531)	-	(3,531)
Proceeds from disposal of property, plant and equipment	1,490	233	(1,490)	233
Increase in other assets	(64)	(934)	-	(998)
	-----	-----	-----	-----
Net cash used for investing activities	(5,396)	(6,912)	-	(12,308)
	-----	-----	-----	-----
Cash flows from financing activities:				
Net proceeds from issuance of stock	6,803	-	-	6,803
Principal payments on long-term debt	(9)	(676)	-	(685)
	-----	-----	-----	-----
Net cash provided by (used for) financing activities	6,794	(676)	-	6,118
	-----	-----	-----	-----
Net decrease in cash and cash equivalents	(3,348)	(5,827)	-	(9,175)
Cash and cash equivalents, beginning of period	7,493	6,142	-	13,635
	-----	-----	-----	-----
Cash and cash equivalents, end of period	\$ 4,145	\$ 315	\$ -	\$ 4,460
	=====	=====	=====	=====

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NOTE 10 - INCOME TAXES

Deferred taxes are recorded based upon differences between the financial statement and tax bases of assets and liabilities and available carryforwards. Temporary differences and carryforwards which gave rise to a significant portion of deferred tax assets and liabilities as of December 31, 2001 and 2000 are as follows (in thousands):

	December 31,
	2001            2000

	----	----
Deferred tax liabilities:		
Fixed asset basis difference	\$7,987	\$ 7,550
Other	48	48
	-----	-----
Total deferred tax liabilities	8,035	7,598
	-----	-----
Deferred tax assets:		
Net operating losses	49,437	38,560
Reserve for notes receivable	-	1,178
Fixed asset basis difference	6,300	6,300
State taxes	1,855	1,855
Reserves and accruals	3,466	1,372
Other	935	535
	-----	-----
Total deferred tax assets	61,993	49,800
Valuation allowance for deferred tax assets	(59,405)	(47,649)
	-----	-----
Net deferred tax liability	\$ 5,447	\$ 5,447
	=====	=====

As of December 31, 2001, the Company had net operating loss (NOL) carryforwards of approximately \$136.3 million for federal income tax purposes. Such carryforwards expire in varying amounts through the year 2021. At December 31, 2001, the Company has state NOL carryforwards of \$35.1 million. These NOL carryforwards expire in varying amounts through the year 2011.

A reconciliation of the income tax benefit to the statutory federal income tax rate is as follows (dollars in thousands):

	Year Ended December 31,		
	2001	2000	1999
	----	----	----
Expected federal income tax benefit at 34%	\$ (8,726)	\$ (7,581)	\$ (2,922)
Loss with no tax benefit provided	8,541	7,380	2,718
State income tax	6	147	-
Foreign withholding taxes	51	79	-
Amortization	79	79	79
Other non-deductible expenses	106	56	125
	-----	-----	-----
Income tax expense	\$ 57	\$ 160	\$ -
	=====	=====	=====

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NOTE 11 - EMPLOYEE BENEFIT PLANS

The Company has a 401(k) Plan for its salaried employees. Employees must work 1,000 hours and have completed one year of service to be eligible to participate in this plan. The Company matches 75% of the first four percent deferred by an employee up to \$1,600 per year. In addition, Sun World maintains a defined contribution pension plan covering its employees who (i) are not covered by a collective bargaining agreement, (ii) have at least one year of service and (iii) have worked at least 1,000 hours per year. Contributions are 2% of each covered employee's salary. For those hourly employees covered under a collective bargaining agreement, contributions are made to a multi-employer pension plan in accordance with negotiated labor contracts and are generally based on the number of hours worked.

NOTE 12 - PREFERRED AND COMMON STOCK

SERIES D CONVERTIBLE PREFERRED STOCK

The Company has an authorized class of 100,000 shares of preferred stock. On December 29, 2000, the Company issued 5,000 shares of Series D Convertible Preferred Stock ("Series D Preferred Stock") for \$5,000,000. The holders of the Preferred Stock are entitled to receive dividends, payable semi-annually, at a rate of 7% if paid in cash or 9% if paid in the Company's common stock. The Series D Preferred Stock is convertible into 625,000 shares of the Company's common stock any time prior to July 2004 at the election of the holder. The Company also has the right to convert the Series D Preferred Stock, but only when the closing price of the Company's common stock has exceeded \$12 per share for 30 consecutive trading days. Holders are entitled to a liquidation preference equal to the initial purchase of \$1,000 per share plus any accrued and unpaid dividends. The Series D Preferred Stock will be redeemable in July 2004 if still outstanding.

The Company issued certain warrants to purchase shares of the Company's common stock in connection with the issuance of the Series D Preferred Stock. The fair market value of the Company's common stock at the time of issuance was above the accounting conversion price resulting in an imputed dividend (beneficial conversion feature). The estimated fair value of the warrants issued (calculated using the Black Scholes option pricing model) and the imputed dividend totaled \$1,050,000 which was recorded as a discount to the Series D Preferred Stock. The discount is being amortized through the redemption date of the stock and treated as a reduction to earnings for earnings per share calculations although no assets of the Company will ever be expended.

SERIES E-1 AND E-2 CONVERTIBLE PREFERRED STOCK

During the fourth quarter of 2001, the Company issued 7,500 shares of Series E-1 and E-2 Convertible Preferred Stock (the "Series E Preferred Stock") for an aggregate of \$7,500,000. The holders of the Preferred Stock are entitled to receive dividends, payable semi-annually, at a rate of 7% if paid in cash or 9% if paid in the Company's common stock. The Series E Preferred Stock is convertible into 1,000,000 shares of the Company's common stock any time prior to July 2004 at the election of the holder. The Company also has the right to

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convert the Series E Preferred Stock, but only when the closing price of the Company's common stock has exceeded \$10.50 per share for 30 consecutive trading days. Holders are entitled to a liquidation preference equal to the initial purchase of \$1,000 per share plus any accrued and unpaid dividends. The Series E Preferred Stock will be redeemable in July 2004 if still outstanding.

The Company issued 40,000 shares of the Company's common stock and certain warrants to purchase shares of the Company's common stock in connection with the issuance of the Series E Preferred Stock. The fair market value of the Company's common stock at the time of issuance was above the accounting conversion price resulting in an imputed dividend (beneficial conversion feature). The estimated fair value of the warrants issued (calculated using the Black Scholes option pricing model) and the imputed dividend totaled \$1,614,000 which was recorded as a discount to the Series E Preferred Stock. The discount is being amortized through the redemption date of the stock and treated as a reduction to earnings for earnings per share calculations although no assets of the Company will ever be expended.

COMMON STOCK

In March 2000, the Company issued 100,000 shares of common stock to a hydrological research company upon the deemed satisfaction of certain contingencies with respect to the issuance of such shares established in connection with the Company's 1998 acquisition of all

of such company's assets.

NOTE 13 - STOCK-BASED COMPENSATION PLANS AND WARRANTS

STOCK OPTIONS AND WARRANTS

The Company issues options pursuant to its 1996 Stock Option Plan (the "1996 Plan") and the 1998 Non-Qualified Stock Option Plan (the "1998 Plan") approved by the Board of Directors in February 1998. The Company also grants stock awards pursuant to its 2000 Stock Award Plan described below. Collectively, the plans provide for the granting of up to 4,000,000 shares. At December 31, 2001, the Company has approximately 524,000 shares remaining that can be granted under the plans. All options are granted at a price approximating fair market value at the date of grant, have vesting periods ranging from issuance date to five years, have maximum terms ranging from five to seven years and are issued to directors, officers, consultants and employees of the Company.

Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Had compensation cost for these plans been determined using fair value, as explained below, the Company's net loss and net loss per common share would have increased to the following pro forma amounts (dollars in thousands):

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	Year Ended December 31,		
	2001	2000	1999
Net loss applicable			
to common stock: As reported	\$ (26,754)	\$ (22,458)	\$ (8,594)
Pro forma	\$ (27,670)	\$ (23,450)	\$ (12,134)
Net loss per common share:			
As reported	\$ (.75)	\$ (.64)	\$ (.25)
Pro forma	\$ (.77)	\$ (.66)	\$ (.35)

The fair value of each option granted during the periods reported was estimated on the date of grant using the Black Scholes option pricing model based on the weighted-average assumptions of: risk-free interest rate of 4.54% for 2001, 4.94% for 2000, and 6.67% for 1999; expected volatility of 40.0% for 2001, 66.7% for 2000, and 46.9% for 1999; expected life of three years for 2001 and 2000 and five years for 1999; and an expected dividend yield of zero for all three years.

The following table summarizes stock option activity for the periods noted. All options listed below were issued to officers, directors, employees and consultants.

	Amount	Weighted-Average Exercise Price
Outstanding at December 31, 1998	3,891,900	\$ 5.26
Granted	800,000	\$ 7.58
Expired or canceled	(66,000)	\$ 7.20
Exercised	(1,513,150)	\$ 4.50
Outstanding at December 31, 1999	3,112,750	\$ 6.21
Granted	132,500	\$ 9.76
Expired or canceled	(19,500)	\$ 8.56
Exercised	(215,152)	\$ 4.80
Outstanding at December 31, 2000	3,010,598	\$ 6.45
Granted	266,250	\$ 9.62

Expired or canceled	(1,096,000)	\$ 4.76
Exercised	(330,098)	\$ 4.78
	-----	
Outstanding at December 31, 2001	1,850,750 (a)	\$ 8.05
	=====	
Options exercisable at December 31, 1999	2,306,500	\$ 5.64
	=====	
Options exercisable at December 31, 2000	2,549,098	\$ 5.98
	=====	
Options exercisable at December 31, 2001	1,446,750	\$ 7.86
	=====	
Weighted-average years of remaining contractual life of options outstanding at December 31, 2001	2.85	
	=====	

(a) Exercise prices vary from \$4.75 to \$11.75 and expiration dates vary from March 2002 to October 2008.

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The weighted-average fair value of options granted during the years 2001, 2000 and 1999 were \$3.44, 5.37, and \$3.71, respectively.

The Company accounts for equity securities issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force 96-18. During the years ended December 31, 2001, 2000 and 1999, the Company issued 215,000, 350,000, and 250,000 warrants with weighted-average exercise prices of \$7.59, \$6.46, and \$6.50, respectively. During the year ended December 31, 2000, 75,000 warrants with a weighted-average exercise price of \$5.03 were exercised in a cashless transaction resulting in the issuance of 30,997 shares of common stock. No warrants expired or were canceled during any of the three periods discussed. During 2001, in connection with the loan amendments for the Cadiz obligations described in Note 9, the Company repriced certain warrants previously issued resulting in a reduction in the weighted-average exercise price. At December 31, 2001, there were 1,240,000 warrants outstanding with a weighted-average exercise price of \$4.40 per share, which expire through 2005.

#### 2000 STOCK AWARD PLAN

The Cadiz Inc. 2000 Stock Award Plan ("Stock Award Plan") was approved by the Company's shareholders in May 2000. Under the Stock Award Plan, the Company may issue various forms of stock awards including restricted stock and deferred stock units to attract, retain and motivate key employees or other eligible persons. As of December 31, 2001, the Company had outstanding 817,325 deferred stock units granted under the Stock Award Plan of which 253,162 deferred stock units entitle the holder to receive one share of the Company's common stock for each deferred stock unit three years from the date of grant and 564,163 deferred stock units were granted pursuant to the exchange noted under Non-Recurring Compensation Expense below. During the year ended December 31, 2001, 1,078 stock units were exchanged for shares of the Company's common stock. The Company charged \$566,000 and \$237,000 to expense during the years ended December 31, 2001 and 2000, respectively, in connection with the Stock Award Plan.

#### NON-RECURRING COMPENSATION EXPENSE

In 2001, the Company issued 564,163 deferred stock units to certain senior managers of Cadiz and Sun World. These deferred stock units were issued in exchange for the cancellation of 1,055,000 fully vested options to purchase the Company's common stock held by senior managers. In accordance with the terms of Stock Option Exchange

Agreements, the number of the deferred stock units issued was calculated based on the average closing price for the 10 business days following the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2000 on March 29, 2001. Each deferred stock unit is exchangeable for one share of the Company's common stock at the end of the deferral period elected by the holder. The Company recorded a one-time charge of \$5,537,000 in 2001 and no cash was expended in connection with the issuance of the deferred stock units.

RESTRICTED STOCK AWARD

Following the acquisition of Sun World in 1996, the Company's Chief Executive Officer was awarded a stock bonus of 125,000 shares of restricted common stock at no cost. The Company issued the final 25,000 of these shares during the year ended December 31, 1999. Compensation expense was recognized as earned over the period of service.

NOTE 14 - CONTINGENCIES

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In December 1995, the Company filed an action relative to the proposed construction and operation of a landfill (the "Rail-Cycle Project") which was to be located adjacent to the Company's Cadiz property with the Superior Court in San Bernardino County, California. The action challenged the various decisions by the County of San Bernardino relative to the proposed Rail-Cycle Project and sought compensatory damages. In September 1998, the Court granted defendants' motion for summary judgment. The Company appealed this decision and in August 2000, the California Court of Appeals granted, in part, the Company's appeal. The Court's decision revoked all environmental and land-use approvals, and thus effectively terminated the Rail-Cycle Project, as proposed.

The Company filed other civil actions against Waste Management, Inc., which asserted claims arising from alleged criminal and fraudulent conduct against the Company engaged in by Waste Management in connection with the Rail-Cycle Project.

In March 2001, the Company and Waste Management executed a settlement agreement intended to fully and finally compromise and settle the claims asserted by the Company against Waste Management in all of the outstanding civil actions. Pursuant to the Settlement Agreement, Waste Management paid the Company \$6 million in cash and granted to the Company an exclusive option to receive, at no cost to the Company, up to approximately 7,000 acres of real property in eastern San Bernardino County primarily adjacent to the Cadiz Program property. In April 2001, the Company exercised the option and has acquired the subject property. Net proceeds from the settlement are included in the Company's statement of operations under the caption "Special Litigation Recovery".

In the normal course of its agricultural operations, the Company handles, stores, transports and dispenses products identified as hazardous materials. Regulatory agencies periodically conduct inspections and, currently, there are no pending claims with respect to hazardous materials.

The Company is involved in other legal and administrative proceedings and claims. In the opinion of management, the ultimate outcome of each proceeding or all such proceedings combined will not have a material adverse impact on the Company's financial statements.

NOTE 15 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

-----

(In thousands except per share data)

Quarter Ended			
-----			
March 31,	June 30,	September 30,	December 31,
2001	2001	2001	2001

	----	----	----	----
Revenues	\$ 7,371	\$ 20,371	\$ 48,683	\$ 15,977
Gross profit (loss)	(570)	4,927	7,611	1,326
Net loss applicable to common stock	(7,165)	(5,030)	(5,267)	(9,292)
Net loss per common share	\$ (.20)	\$ (.14)	\$ (.15)	\$ (.26)

Quarter Ended

	-----	-----	-----	-----
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
	----	----	----	----
Revenues	\$ 7,936	\$ 26,928	\$ 55,376	\$ 17,505
Gross profit (loss)	(530)	3,698	12,009	4,643
Net loss	(8,842)	(6,282)	(342)	(6,992)
Net loss per common share	\$ (.25)	\$ (.18)	\$ (.01)	\$ (.20)

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CADIZ INC.

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET (\$ in thousands):	December 31,	
	2001	2000
	----	----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 400	\$ 3,099
Accounts receivable, net	1	7
Due from subsidiary	11,254	-
Prepaid expenses and other	210	212
	-----	-----
Total current assets	11,865	3,318
Investment in subsidiary	-	17,093
Property, plant, equipment and water programs, net	41,266	38,842
Other assets	4,432	4,199
	-----	-----
	\$ 57,563	\$ 63,452
	=====	=====

LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 1,330	\$ 1,209
Accrued liabilities	791	349
Due to subsidiary	-	202
Bank overdraft	410	-
	-----	-----
Total current liabilities	2,531	1,760
Long-term debt	24,732	23,912
Other liabilities	371	107
Losses in excess of investment in subsidiary	2,066	-

Contingencies

Series D redeemable convertible  
preferred stock - \$0.01 par value:  
5,000 shares authorized; shares  
issued and outstanding -  
5,000 at December 31, 2001

and December 31, 2000	4,243	3,950
Series E-1 and E-2 redeemable convertible preferred stock - \$0.01 par value: 7,500 shares authorized; shares issued and outstanding - 7,500 at December 31, 2001 and none at December 31, 2000	5,715	-
Stockholders' equity: Common stock - \$0.01 par value; 70,000,000 shares authorized; shares issued and outstanding 36,070,834 at December 31, 2001 and 35,674,674 at December 31, 2000	361	357
Additional paid-in capital	152,404	142,706
Accumulated deficit	(134,860)	(109,340)
	-----	-----
Total stockholders' equity	17,905	33,723
	-----	-----
	\$ 57,563	\$ 63,452
	=====	=====

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CADIZ INC.

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF OPERATIONS (\$ in thousands)	Year Ended December 31,		
	2001	2000	1999
	----	----	----
Revenues	\$ 1,903	\$ 1,920	\$ 1,829
Special litigation recovery	7,929	-	-
	-----	-----	-----
Total revenues and special litigation recovery	9,832	1,920	1,829
	-----	-----	-----
Costs and expenses:			
Cost of sales	118	124	132
General and administrative	5,433	4,355	4,672
Special litigation	-	424	937
Non-recurring compensation expense	2,584	-	-
Removal of underperforming crops	222	-	-
Depreciation and amortization	1,137	1,174	1,179
	-----	-----	-----
Total costs and expenses	9,494	6,077	6,920
	-----	-----	-----
Operating profit (loss)	338	(4,157)	(5,091)
Loss from subsidiaries	(22,107)	(14,216)	(571)
Interest expense, net	3,718	4,085	2,932
	-----	-----	-----
Net loss	(25,487)	(22,458)	(8,594)
Less: Preferred stock dividends	591	-	-
Imputed dividend on preferred stock	441	-	-
	-----	-----	-----
Net loss applicable to common stock	\$ (26,519)	\$ (22,458)	\$ (8,594)
	=====	=====	=====

## CADIZ INC.

## SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS	Year Ended December 31,		
	2001	2000	1999
	----	----	----
(\$ in thousands)			
Cash flows from operating activities:			
Net loss	\$ (25,487)	\$ (22,458)	\$ (8,594)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization	3,521	2,956	2,498
Issuance of stock for services	-	-	28
Loss from subsidiaries	22,107	14,216	571
(Gain) loss on disposal of assets	5	(1)	6
Removal of underperforming crops	222	-	-
Land received from litigation settlement	(2,000)	-	-
Compensation charge for deferred stock units	271	100	-
Non-recurring compensation expense	2,584	-	-
Changes in operating assets and liabilities:			
Decrease in accounts receivable	6	9	61
Increase in due to subsidiary	-	-	274
Decrease (increase) in prepaid expenses and other	2	174	(133)
Increase in accounts payable	121	504	4
Increase (decrease) in accrued liabilities	97	(356)	539
(Decrease) increase in other liabilities	(7)	7	-
	-----	-----	-----
Net cash provided by (used for) operating activities	1,442	(4,849)	(4,746)
	-----	-----	-----
Cash flows from investing activities:			
Additions to property, plant and equipment	(88)	(293)	(3,645)
Additions to developing crops	(109)	(159)	-
Additions to water programs	(1,359)	(1,595)	(3,177)
Proceeds from disposal of property, plant and equipment	2	1	1,490
Increase in other assets	(575)	(162)	(64)
	-----	-----	-----
Net cash used for investing activities	(2,129)	(2,208)	(5,396)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from issuance of stock	1,583	1,032	6,803
Proceeds from issuance of preferred stock	7,500	5,000	-
Intercompany revolver with subsidiary	(11,254)	-	-
Principal payments on long-term debt	(251)	(21)	(9)
Bank overdraft	410	-	-
	-----	-----	-----
Net cash (used for) provided by financing activities	(2,012)	6,011	6,794
	-----	-----	-----
Net decrease in cash and cash equivalents	(2,699)	(1,046)	(3,348)

Cash and cash equivalents, beginning of period	3,099	4,145	7,493
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 400	\$ 3,099	\$ 4,145
	=====	=====	=====

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CADIZ INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2001, 2000 and 1999

(\$ in thousands)

Year ended December 31, 2001 -----	Balance at Beginning of Period -----	Additions Charged to Costs and Other Expenses Accounts -----		Balance at End of Deductions Period -----
Allowance for doubtful accounts	\$ 522	\$ -	\$ -	\$ 16
	=====	=====	=====	=====
Tax valuation allowance	\$ 47,649	\$ -	\$ 11,756	\$ -
	=====	=====	=====	=====
Year ended December 31, 2000 -----				
Allowance for doubtful accounts	\$ 224	\$ 308	\$ -	\$ 10
	=====	=====	=====	=====
Tax valuation allowance	\$ 39,665	\$ -	\$ 7,984	\$ -
	=====	=====	=====	=====
Year ended December 31, 1999 -----				
Allowance for doubtful accounts	\$ 285	\$ -	\$ -	\$ 61
	=====	=====	=====	=====
Tax valuation allowance	\$ 35,319	\$ -	\$ 4,346	\$ -
	=====	=====	=====	=====

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholder of  
Sun World International, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, cash flows and stockholder's equity present fairly, in all material respects, the financial position of Sun World International, Inc., a wholly-owned subsidiary of Cadiz Inc., and its subsidiaries at December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with

auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
 -----  
 PricewaterhouseCoopers LLP

Los Angeles, California  
 February 21, 2002

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SUN WORLD INTERNATIONAL, INC.  
 (A WHOLLY-OWNED SUBSIDIARY OF CADIZ INC.)

CONSOLIDATED STATEMENT OF OPERATIONS

(\$ in thousands)	Year Ended December 31,		
	2001	2000	1999
	----	----	----
Revenues	\$ 92,399	\$ 107,727	\$ 115,218
	-----	-----	-----
Costs and expenses:			
Cost of sales	79,390	88,203	84,140
General and administrative	8,980	9,721	9,058
Non-recurring compensation expense	2,953	-	-
Removal of underperforming crops	514	1,549	-
Depreciation and amortization	7,014	7,207	7,712
	-----	-----	-----
	98,851	106,680	100,910
	-----	-----	-----
Operating income (loss)	(6,452)	1,047	14,308
Interest expense, net	15,598	15,103	14,879
Net loss before income taxes	(22,050)	(14,056)	(571)
Income tax expense	57	160	-
	-----	-----	-----
Net loss	\$ (22,107)	\$ (14,216)	\$ (571)
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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SUN WORLD INTERNATIONAL, INC.  
 (A WHOLLY-OWNED SUBSIDIARY OF CADIZ INC.)

CONSOLIDATED BALANCE SHEET

(\$ in thousands)	December 31,	
	2001	2000
	----	----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,058	\$ 192
Accounts receivable, net	6,326	7,879
Inventories	13,229	15,405

Prepaid expenses and other	578	419
	-----	-----
Total current assets	21,191	23,895
Property, plant, equipment, and water programs, net	124,031	125,982
Other assets	6,946	7,585
	-----	-----
Total assets	\$ 152,168	\$157,462
	=====	=====

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:		
Accounts payable	\$ 10,428	\$ 6,693
Accrued liabilities	4,889	5,466
Due to parent company	11,254	-
Long-term debt, current portion	4,960	859
	-----	-----
Total current liabilities	31,531	13,018
Long-term debt	116,697	121,698
Deferred income taxes	5,447	5,447
Other liabilities	559	206
Contingencies		
Stockholder's equity:		
Common stock, \$0.01 par value, 300,000 shares authorized; 42,000 shares issued and outstanding	-	-
Additional paid-in capital	38,273	35,325
Accumulated deficit	(40,339)	(18,232)
	-----	-----
Total stockholder's equity	(2,066)	17,093
	-----	-----
Total liabilities and stockholder's equity	\$ 152,168	\$ 157,462
	=====	=====

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See accompanying notes to the consolidated financial statements.

SUN WORLD INTERNATIONAL, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF CADIZ INC.)

CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ in thousands)	Year Ended December 31,		
	2001	2000	1999
	----	----	----
Cash flows from			
operating activities:			
Net loss	\$ (22,107)	\$ (14,216)	\$ (571)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:			
Depreciation and amortization	8,143	7,970	8,570
Gain on disposal of assets	(426)	(95)	(110)
Removal of underperforming crops	514	1,549	-
Shares of KADCO stock			

earned for services	(1,250)	(1,250)	(313)
Share of partnership operations	-	(71)	(328)
Compensation charge for deferred stock units	296	137	-
Non-recurring compensation expense	2,953	-	-
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	1,553	552	(2,213)
Decrease (increase) in inventories	1,830	2,740	(3,405)
(Increase) decrease in prepaid expenses and other	(160)	112	207
Increase (decrease) in accounts payable	3,734	(645)	(714)
(Decrease) increase in accrued liabilities	(647)	(683)	1,129
Decrease in due to parent	-	-	(193)
Increase (decrease) in other liabilities	58	(305)	(298)
	-----	-----	-----
Net cash (used for) provided by operating activities	(5,509)	(4,205)	1,761
	-----	-----	-----
Cash flows from investing activities:			
Additions to property, plant, equipment, and water programs	(1,495)	(959)	(2,680)
Additions to developing crops	(3,015)	(3,685)	(3,531)
Proceeds from disposal of property, plant and equipment	450	2,955	233
Partnership distributions	-	1,568	-
Decrease (increase) in other assets	494	(363)	(934)
	-----	-----	-----
Net cash used for investing activities	(3,566)	(484)	(6,912)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	-	5,231	-
Principal payments on long-term debt	(1,313)	(665)	(676)
Intercompany revolver with parent	11,254	-	-
	-----	-----	-----
Net cash provided by (used for) financing activities	9,941	4,566	(676)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	866	(123)	(5,827)
Cash and cash equivalents at beginning of period	192	315	6,142
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 1,058	\$ 192	\$ 315
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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SUN WORLD INTERNATIONAL, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF CADIZ INC.)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(\$ in thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	-----	-----	-----	-----	-----
Balance as of					
December 31, 1998	42,000	\$ -	\$ 34,183	\$ (3,445)	\$ 30,738
Net loss	-	-	-	(571)	(571)
	-----	-----	-----	-----	-----
Balance as of					
December 31, 1999	42,000	-	34,183	(4,016)	30,167
Capital contribution from parent for the value of shares and warrants issued in connection with obtaining the senior unsecured term loan financing	-	-	1,142	-	1,142
Net loss	-	-	-	(14,216)	(14,216)
	-----	-----	-----	-----	-----
Balance as of					
December 31, 2000	42,000	-	35,325	(18,232)	17,093
Capital contribution from parent for the value of the non-recurring compensation	-	-	2,953	-	2,953
Revaluation of derivative for warrants issued by parent	-	-	(235)	-	(235)
Capital contribution from parent for warrants issued relating to senior unsecured term loan	-	-	230	-	230
Net loss	-	-	-	(22,107)	(22,107)
	-----	-----	-----	-----	-----
Balance as of					
December 31, 2001	42,000	\$ -	\$ 38,273	\$ (40,339)	\$ (2,066)
	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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SUN WORLD INTERNATIONAL, INC.  
(A WHOLLY-OWNED SUBSIDIARY OF CADIZ INC.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

-----

Founded in 1975, Sun World International, Inc. ("SWII") and its subsidiaries (collectively, the "Company") operate as the agricultural segment of Cadiz Inc. ("Cadiz"). The Company is an integrated agricultural operation that owns more than 19,000 acres of land, primarily located in two major growing areas of California: the San Joaquin Valley and the Coachella Valley. Fresh produce, including table grapes, stonefruit, citrus, peppers and watermelons is marketed, packed and shipped to food wholesalers and retailers located throughout the United States

and to more than 30 foreign countries. The Company owns and operates three cold storage and/or packing facilities located in California, of which two are operated and one is leased to a third party.

In January 2002, Cadiz announced an agreement in principle with KADCO to combine the businesses of Sun World and KADCO. Following the proposed combination, KADCO's shareholders will have a 49.75% interest in the combined business, and Cadiz will retain an ownership interest of 50.25%. Prior to the proposed combination, KADCO expects to have cash resources in excess of \$80 million which will be used to recapitalize Sun World and provide for future business expansion.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

-----

##### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of SWII and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions have been eliminated.

##### RECLASSIFICATIONS

These financial statements reflect certain reclassifications made to the prior period balances to conform to the current year presentation.

##### USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made estimates with regard to revenue recognition and valuation of inventory, long-lived assets, and deferred tax assets. Actual results could differ from those estimates.

##### REVENUE RECOGNITION

The Company recognizes crop sale revenue upon shipment and transfer of title to customers. Packing revenues and marketing commissions from third party growers are recognized when the related services are provided. Proprietary product development revenues are recognized based upon product sales by licensees. Project development and management

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fees are recorded when earned under the terms of the related agreement.

Revenues attributable to one national retailer totaled \$10.5 million in 2001, \$12.8 million in 2000 and \$14.4 million in 1999. Export sales accounted for approximately 8.4%, 9.9% and 10.3%, of the Company's revenues for the years ended December 31, 2001, 2000 and 1999, respectively.

##### RESEARCH AND DEVELOPMENT

The Company incurs costs to research and develop new varieties of proprietary products. Research and development costs are expensed as incurred. Such costs were approximately \$2,023,000 for the year ended December 31, 2001, \$1,636,000 for the year ended December 31, 2000 and \$1,450,000 for the year ended December 31, 1999.

##### CASH AND CASH EQUIVALENTS

The Company considers all short-term deposits with an

original maturity of three months or less to be cash equivalents. The Company invests its excess cash in deposits with major international banks and short-term commercial paper and, therefore, bears minimal risk. Such investments are stated at cost, which approximates fair value, and are considered cash equivalents for purposes of reporting cash flows.

#### INVENTORIES

Growing crops, pepper seed, and materials and supplies are stated at the lower of cost or market, on a first-in, first-out (FIFO) basis. Growing crops inventory includes direct costs and an allocation of indirect costs.

#### INVESTMENT IN PARTNERSHIPS

The Company, through a wholly-owned subsidiary, owned a 50% interest in ASC/SWB Partnership, formerly named American SunMelon (the "Partnership"). In October 1998, the Partnership sold substantially all of its assets. In November 2000, the Company received a final distribution of \$1.6 million in connection with the liquidation of the Partnership. The Company had accounted for its investment in the Partnership using the equity method.

#### PROPERTY, PLANT, EQUIPMENT, AND WATER PROGRAMS

Property, plant, equipment, and water programs are stated at cost.

The Company capitalizes direct and certain indirect costs of planting and developing orchards and vineyards during the development period, which varies by crop and usually ranges from three to seven years. Depreciation commences in the year commercial production is achieved.

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Permanent land development costs, such as acquisition costs, clearing, initial leveling and other costs required to bring the land into a suitable condition for general agricultural use, are capitalized and not depreciated since these costs have an indefinite useful life.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally ten to forty-five years for land improvements and buildings, three to twenty-five years for machinery and equipment, and five to thirty years for permanent crops.

Water programs are stated at cost. All costs directly attributable to the development of such programs are being capitalized by the Company.

#### IMPAIRMENT OF LONG-LIVED ASSETS

The Company annually evaluates its long-lived assets, including intangibles, for potential impairment. When circumstances indicate that the carrying amount of the asset may not be recoverable, as demonstrated by estimated future cash flows, an impairment loss would be recorded based on fair value.

During the year ended December 2001 and 2000, the Company incurred costs to remove certain underperforming crops, primarily stonefruit, citrus, and wine grapes. The Company recorded charges of \$514,000 and \$1,549,000 in 2001 and 2000, respectively, in connection with the removal of these crops which is shown under the heading "Removal of underperforming crops" on the Consolidated Statement of Operations.

#### OTHER ASSETS

Capitalized loan fees represent costs incurred to obtain debt financing. Such costs are amortized over the life of the related loan. At December 31, 2001, the majority of capitalized loan fees relate to the issuance of the First Mortgage Notes described

in Note 9.

Trademark development costs represent legal costs incurred to obtain and defend patents and trademarks related to the Company's proprietary products throughout the world. Such costs are capitalized and amortized over their estimated useful life, which range from 10 to 20 years.

#### INCOME TAXES

The Company is included in the consolidated federal and combined state tax returns of Cadiz. The Company and Cadiz have a tax sharing agreement which provides that the Company's current tax liability is determined as though the Company filed its own returns. Income taxes are provided for using an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is uncertain that some portion or all of the deferred tax assets will be realized.

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#### SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest for the years ended December 31, 2001, 2000 and 1999 were \$14,660,000, \$14,497,000 and \$14,204,000, respectively.

#### NEW ACCOUNTING PRONOUNCEMENTS

##### SFAS 141 and 142

-----

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Accounting for Business Combinations" and No. 142 ("SFAS 142"), "Goodwill and Other Intangibles", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their estimated useful lives. The Company will apply the new rules on accounting for other intangible assets beginning January 1, 2002. Management does not anticipate that the adoption of these standards will have a material adverse effect on the Company's financial position or results of operations.

##### SFAS 144

-----

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. The adoption of SFAS 144 is not anticipated to have a material adverse effect on the Company's financial position or results of operations.

#### NOTE 3 - ACCOUNTS RECEIVABLE

-----

Accounts receivable consist of the following (dollars in thousands):

	December 31,	
	2001	2000

	----	----
Trade receivables	\$ 4,294	\$ 4,190
Due from unaffiliated growers	448	541
Other	2,090	3,670
	-----	-----
	6,832	8,401
Less allowance for doubtful accounts	(506)	(522)
	-----	-----
	\$ 6,326	\$ 7,879
	=====	=====

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Substantially all trade receivables are from large domestic national and regional supermarket chain stores and produce brokers and are unsecured. Amounts due from unaffiliated growers represent receivables for harvest advances and for services (harvest, haul and pack) provided on behalf of growers under agreement with the Company and are recovered from proceeds of product sales. Other receivables primarily include wine grape and raisin sales, proceeds due from third party marketers, receivables for international licensing, and other miscellaneous receivables.

NOTE 4 - INVENTORIES

-----

Inventories consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Growing crops	\$ 10,376	\$ 11,740
Materials and supplies	2,621	2,880
Harvested product	218	528
Pepper seed	14	257
	-----	-----
	\$ 13,229	\$ 15,405
	=====	=====

NOTE 5 - PROPERTY, PLANT, EQUIPMENT AND WATER PROGRAMS

-----

Property, plant, equipment and water programs consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Land	\$ 49,178	\$ 49,196
Permanent crops	58,489	58,860
Developing crops	12,486	9,546
Buildings	21,182	20,496
Machinery and equipment	14,760	14,025
Water programs	2,525	2,135
	-----	-----
	158,620	154,258
Less accumulated depreciation	(34,589)	(28,276)
	-----	-----
	\$124,031	\$125,982
	=====	=====

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NOTE 6 - OTHER ASSETS

Other assets consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Deferred loan costs, net	\$ 1,781	\$ 2,510
Long-term receivables	342	1,799
Capitalized trademark development, net	2,000	1,713
Receivable from KADCO to be paid in common shares	2,813	1,563
Other	10	-
	-----	-----
	\$ 6,946	\$ 7,585
	=====	=====

NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities consist of the following (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Interest	\$ 2,695	\$ 2,780
Payroll and benefits	1,743	1,609
Other	451	1,077
	-----	-----
	\$ 4,889	\$ 5,466
	=====	=====

NOTE 8 - REVOLVING CREDIT FACILITIES

In November 2001, Sun World renewed its Revolving Credit Facility through the 2002 growing season with a maturity date of November 2002. Amounts eligible to be borrowed under the Revolving Credit Facility are based upon a borrowing base of eligible accounts receivable and inventory balances. Maximum availability under the Revolving Credit Facility varies throughout the year with a maximum of \$30 million available during the peak borrowing periods of April to July. The Revolving Credit Facility is secured by accounts receivable, inventory, and the proceeds thereof, requires Sun World to meet certain financial covenants, and is guaranteed by the Company. Amounts borrowed under the facility accrue interest at either prime plus 1.0% or LIBOR plus 2.50% at the Company's election. No amounts were outstanding under the Revolving Credit Facility at December 31, 2001 and 2000.

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NOTE 9 - LONG-TERM DEBT

Management estimates that the fair value of the Company's long-term debt approximates the carrying value for all debt instruments except the Series B First Mortgage Notes ("First Mortgage Notes"). The fair value of the First Mortgage Notes is estimated to be approximately \$106.1 million based on quoted market prices as of December 31, 2001. At December 31, 2001 and December 31, 2000, the carrying amount of the Company's outstanding debt is summarized as follows (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Series B First Mortgage Notes, interest payable semi-annually, with principal due in April 2004, interest at 11.25%	\$ 115,000	\$ 115,000
Senior unsecured term loan, interest payable quarterly, due December 31, 2002, interest at LIBOR plus 3% (5.60% at December 31, 2001 and 9.40% at December 31, 2000)	5,000	5,000
Note payable to bank, quarterly principal installments of \$72 plus interest payable monthly, due December 31, 2003, interest at prime (4.75% at December 31, 2001 and 9.50% at December 31, 2000)	1,142	1,500
Note payable to insurance company, Quarterly installments of \$120 (including interest), due January 1, 2005, interest at 7.75%	945	1,639
Note payable to finance company, monthly installments of \$18 (including interest), due July 1, 2002, interest at 7.50%	103	305
Other	269	255
Debt discount	(802)	(1,142)
	-----	-----
	121,657	122,557
Less: current portion	(4,960)	(859)
	-----	-----
	\$ 116,697	\$ 121,698
	=====	=====

Annual maturities of long-term debt outstanding (in thousands), excluding \$802 representing the unamortized portion of warrants on December 31, 2001 are as follows: 2002 - \$5,762; 2003 - \$1,250; 2004 - \$115,419, 2005 - \$23, and 2006 - \$5.

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In April 1997, the Company issued \$115 million of Series A First Mortgage Notes through a private placement. The notes have subsequently been exchanged for Series B First Mortgage Notes, which are registered under the Securities Act of 1933 and are publicly traded. The First Mortgage Notes are secured by a first lien (subject to certain permitted liens) on substantially all of the assets of the Company and its subsidiaries other than growing crops, crop inventories and accounts receivable and proceeds thereof, which secure the Revolving Credit Facility. The First Mortgage Notes mature April 15, 2004, but are redeemable at the option of the Company, in whole or in part, at any time on or after April 15, 2001. The First Mortgage Notes include covenants that do not allow for the payment of dividends by the Company other than out of cumulative net income.

The First Mortgage Notes are also secured by the guarantees of Coachella Growers, Inc., Sun Desert, Inc., Sun World/Rayo, and Sun World International de Mexico S.A. de C.V. (collectively, the "Sun World Subsidiary Guarantors") and by the Company. Cadiz

also pledged all of the stock of Sun World as collateral for its guarantee.

In December 2000, Sun World entered into a two-year \$5 million senior unsecured term loan. In connection with obtaining the loan, the Company issued 50,000 shares of Cadiz' common stock as well as certain warrants to purchase shares of Cadiz' common stock. The fair value of the stock and the warrants were recorded as a debt discount and are being amortized over the life of the loan.

Pursuant to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", the warrants meet the definition of a derivative for the Company as the value of the warrants is tied to the market value of Cadiz stock. As such, the value of the warrants will be adjusted to fair value at each reporting date with the corresponding gain or loss being included in the Statement of Operations.

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NOTE 10 - INCOME TAXES  
-----

Significant components of the Company's deferred income tax assets and liabilities as of December 31, 2001 and 2000 are as follows (dollars in thousands):

	December 31,	
	2001	2000
	----	----
Deferred tax liabilities:		
Net fixed assets basis difference	\$ 8,490	\$ 8,077
Other	48	48
	-----	-----
 Total deferred tax liabilities	 8,538	 8,125
	-----	-----
Deferred tax assets:		
Net operating losses	19,280	9,811
Reserve for notes receivable	-	1,178
State taxes	1,854	1,854
Reserves and accruals	2,098	1,215
Other	894	513
 Total deferred tax assets	 24,126	 14,571
Valuation allowance for deferred tax assets	 (21,035)	 (11,893)
	-----	-----
 Net deferred tax liability	 \$ 5,447	 \$ 5,447
	=====	=====

As of December 31, 2001, the Company has net operating loss (NOL) carryforwards of approximately \$48.5 million for federal income tax purposes. Such carryforwards expire in varying amounts through the year 2021. As of December 31, 2001, the Company has state NOL carryforwards of approximately \$31.7 million. These NOL carryforwards expire in varying amounts through the year 2011.

A reconciliation of the income tax expense to the statutory federal income tax rate is as follows (dollars in thousands):

	Year Ended		
	December 31,		
	2001	2000	1999
	----	----	----

Expected federal income tax benefit at 34%	\$ (7,497)	\$ (4,779)	\$ (194)
Loss with no tax benefit provided	7,531	4,663	131
State income tax	6	147	8
Foreign withholding taxes	51	79	-
Other non-deductible expenses	(34)	50	55
	-----	-----	-----
Income tax expense	\$ 57	\$ 160	\$ -
	=====	=====	=====

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NOTE 11 - EMPLOYEE BENEFIT PLANS

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The Company participates in the Cadiz Inc. 401(k) Plan for its salaried employees. Employees must work 1,000 hours annually and have completed one year of service to be eligible to participate in this plan. The Company matches 75% of the first four percent deferred by an employee up to \$1,600 per year. In addition, the Company maintains a defined contribution pension plan covering its employees who (i) are not covered by a collective bargaining agreement, (ii) have at least one year of service and (iii) have worked at least 1,000 hours annually. Contributions are 2% of each covered employee's salary. For those hourly employees covered under a collective bargaining agreement, contributions are made to a multi-employer pension plan in accordance with negotiated labor contracts and are generally based on the number of hours worked.

NOTE 12 - RELATED PARTY TRANSACTIONS

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Cadiz owns approximately 1,600 acres of irrigated farmland in San Bernardino County consisting primarily of citrus and grapes. Pursuant to a 10-year lease entered into as of the acquisition date, the Company is responsible for the production, packing, handling, and marketing of the products on the Cadiz property. Pursuant to the lease as amended in April 1997, Cadiz is to receive annual land rent of \$250 per acre, or \$400,000. In addition, the Company entered into a service agreement with Cadiz in which Cadiz provides management and financial services to the Company. The term of the agreement is 10 years with an annual fee of \$1.5 million. The agreement provides for certain other reimbursement of expenses incurred on behalf of the Company. The Company made payments to Cadiz of \$2.4 million for 2001, \$2.3 million for 2000, and \$2.4 million for 1999 pursuant to the services agreement and the lease agreement mentioned above. In addition, the Company purchased a citrus ranch from Cadiz at book value of \$1.5 million in January 1999.

The Company has intercompany revolving credit agreements whereby the Company can loan or borrow from Cadiz as needed. Under the intercompany revolving credit agreement, \$11.3 million was outstanding as of December 31, 2001 and no amount was outstanding as of December 31, 2000.

NOTE 13 - NON-RECURRING COMPENSATION EXPENSE

-----

In 2001, Cadiz issued 300,860 deferred stock units to certain senior managers of Sun World. These deferred stock units were issued in exchange for the cancellation of 565,000 fully vested options to purchase the Cadiz common stock held by senior managers. In accordance with the terms of the Stock Option Exchange Agreements, the number of the deferred stock units issued was calculated based on the average closing price for the 10 business days following the filing of the Cadiz Annual Report on Form 10-K for the year ended December 31, 2000 on March 29, 2001. Each deferred stock unit is exchangeable for one share of Cadiz common stock at the end of the deferral period elected by

the holder. The Company recorded a one-time charge of \$2,953,000 in 2001 and no cash was expended in connection with the issuance of the deferred stock units.

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NOTE 14 - CONTINGENCIES  
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In the normal course of its agricultural operations, the Company handles, stores, transports and dispenses products identified as hazardous materials. Regulatory agencies periodically conduct inspections and, currently, there are no pending claims with respect to hazardous materials.

The Company is involved in other legal and administrative proceedings and claims. In the opinion of management, the ultimate outcome of each proceeding or all such proceedings combined will not have a material adverse impact on the Company's financial statements.

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AMENDMENT TO THE CADIZ INC.  
1996 STOCK OPTION PLAN

The Cadiz Inc. 1996 Stock Option Plan is hereby amended as follows:

1. Section 5.1.10 shall be amended by adding the following at the end of Section 5.1.10:

"Notwithstanding the foregoing, the Participant, upon written notice to the Committee, may elect irrevocably, prior to exercise thereof, to voluntarily disqualify any ISO held by the Participant and to treat such Option for all purposes as a NQSQ. The Company hereby consents to any such valid disqualification of an ISO by a Participant and agrees to characterize such Option as a NQSQ after receipt of a valid disqualification election."

2. Section 6.1 shall be amended by adding the following at the end of Section 6.1:

"Notwithstanding the foregoing, if the payment for Shares purchased pursuant to the Plan with respect to the exercise of any Options by a Participant who has a deferral election in effect under the Company's Deferred Compensation Plan (the "Deferral Plan") is paid solely by surrendering Common Stock (which meets the requirements set forth in the Deferral Plan), the Company shall deliver to the trustee of the trust, if any, established under the Deferral Plan, a certificate or certificates representing such number of shares of Common Stock determined by dividing (i) the excess of (A) the Fair Market Value of the shares of Common Stock purchased pursuant to such Option exercise, over (B) the aggregate exercise price of the shares of Common Stock purchased, by (ii) the Fair Market Value of one share of Common Stock. In addition, as soon as practicable after receipt of the shares of Common Stock representing the Option exercise price, the Company shall deliver to the Participant a certificate or certificates representing shares with a Fair Market Value equal to the aggregate option exercise price paid. For purposes of the foregoing, the exercise of any Option will be deemed to have occurred at 5:00 p.m. Pacific Standard time on the immediately preceding business day and Fair Market Value shall be determined as of such time."

3. Section 7.1 shall be replaced in its entirety with the following:

"TAX WITHHOLDING. The Company may withhold, at the election of the Participant, from Common Stock to be issued or cash to be paid under the Plan, the number of shares of Common Stock having a Fair Market Value equal to, or cash in the amount of, or a combination of shares and cash equal to, the amount of tax required by any governmental authority to be withheld to cover any applicable withholding and employment taxes; provided, however, that in the event a deferral election is in effect with respect to the shares of Common Stock deliverable upon exercise of an Option, then the Participant may elect to have any such withholding made from the Common Stock tendered to exercise such Option. Alternatively, a

Participant may pay to the Company the amount of cash required to be withheld in lieu of any withholding of distribution under the Plan."

In accordance with authorizations and directions of the Board of Directors of Cadiz Inc., the foregoing amendment to the Cadiz Inc. 1996 Stock Option Plan is hereby adopted effective as of March 14, 2001, by the undersigned duly authorized officers.

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Title:

-----  
Title: Secretary

## CADIZ INC.

## AMENDED AND RESTATED

## 1998 NON-QUALIFIED STOCK OPTION PLAN

## 1. PURPOSE

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The purpose of the Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company and its Subsidiaries and Affiliates, by offering them an opportunity to participate in the Company's future performance through awards of Options.

It is intended that Options issued pursuant to this Plan shall constitute non-qualified stock options ("NQSOs") as described in Treasury Regulation Section 1.83-7 to which Section 421 does not apply.

Capitalized terms not defined in the text are defined in Section 20.

## 2. SHARES SUBJECT TO THE PLAN

-----

2.1 NUMBER OF SHARES AVAILABLE. Subject to Sections 2.2 and 14, the total number of Shares reserved and available for grant and issuance pursuant to the Plan shall be 792,500 Shares; provided, however, that the total number of options granted under the Plan, when combined with the total number of options granted (and not subsequently cancelled) by the Company under its 1996 Stock Option Plan, shall at no time exceed 4,000,000. Subject to Sections 2.2 and 14, Shares reserved for issuance pursuant to Options granted under this Plan shall again be available for grant and issuance, in connection with future Options under the Plan, that: (a) are subject to issuance upon exercise of an Option, but cease to be subject to such Option for any reason other than exercise of such Option, or (b) are subject to an Option that otherwise terminates without such Shares being issued and for which the participant did not receive any benefits of ownership.

2.2 ADJUSTMENT OF SHARES. In the event that the number of outstanding shares of the Company's Common Stock is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then: (a) the number of Shares reserved for issuance under the Plan, and (b) the Exercise Prices of and number of Shares subject to outstanding Options, shall be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share shall not be issued, but shall either be paid in cash at Fair Market Value or shall be rounded up to the nearest Share, as determined by the Committee; and provided, further, that the Exercise Price of any Option may not be decreased to below the par value of the Shares.

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## 3. ELIGIBILITY

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3.1 ELIGIBILITY OF EMPLOYEES, CONSULTANTS AND INDEPENDENT CONTRACTORS; NON-ELIGIBILITY OF INSIDERS. NQSOs may be granted to employees, consultants, independent contractors and advisers

of the Company or any Subsidiary or Affiliate of the Company (other than Insiders, who shall not be eligible to receive Options under the Plan); provided, however, that such consultants, contractors and advisers render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction.

#### 4. ADMINISTRATION.

-----

4.1 COMMITTEE AUTHORITY. The Plan shall be administered by the Committee or the Board acting as the Committee. Subject to the purposes, terms and conditions of the Plan, and to the direction of the Board, the Committee shall have full power to implement and carry out the Plan. The Committee shall have the authority to:

- (a) construe and interpret the Plan, any Option Agreement and any other agreement or document executed pursuant to the Plan;
- (b) prescribe, amend and rescind rules and regulations relating to the Plan;
- (c) select persons to receive Options;
- (d) determine the form and terms of Options;
- (e) determine the number of Shares or other consideration subject to Options;
- (f) determine whether Options will be granted singly, in combination or in tandem with, in replacement of, or as alternatives to, other Options under the Plan or any other incentive or compensation plan of the Company or any Subsidiary or Affiliate of the Company;
- (g) grant waivers of Plan or Option conditions;
- (h) determine the vesting, exercisability and payment of Options and to accelerate the vesting and/or exercisability of Options, as provided herein;
- (i) correct, any defect, supply any omission, or reconcile any inconsistency in the Plan, any Option or any Option Agreement;
- (j) determine whether an Option has been earned; and
- (k) make all other determinations necessary or advisable for the administration of the Plan.

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4.2 COMMITTEE DISCRETION. Any determination permitted to be made by the Committee under the Plan with respect to any Option shall be made in its sole discretion at the time of grant of the Option or, unless in contravention of any express term of the Plan or Option, at any later time, and such determination shall be final and binding on the Company and all persons having an interest in any Option under the Plan.

4.3 COMPOSITION OF COMMITTEE. The Committee shall be comprised of either (i) at least two members of the Board; or (ii) the Board acting as the Committee.

#### 5. GRANT AND EXERCISE OF OPTIONS

-----

5.1 GRANT OF OPTIONS. Except as otherwise limited herein, the Committee may grant Options to eligible persons pursuant to this Section 5.1 and shall determine the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may be exercised, and all other terms and

conditions of the Option, subject to the following:

5.1.1 FORM OF OPTION GRANT. Each Option granted shall be evidenced by an Option Agreement, which shall expressly identify the Option as an NQSO ("Stock Option Agreement"), and be in such form and contain such provisions (which need not be the same for each Participant receiving an Option) as the Committee shall from time to time approve, and which shall comply with and be subject to the terms and conditions of the Plan. The Committee may in its discretion include in any NQSO granted under the Plan a condition that the Participant shall agree to remain in the employ of, and to render services to, the Company or any of its Subsidiaries for a period of time (specified in the agreement) following the date the NQSO is granted.

5.1.2 DATE OF GRANT. The date of grant of an Option shall be the date on which the Committee makes the determination to grant such Option. The Stock Option Agreement and a copy of the Plan will be delivered to the Participant within a reasonable time after the granting of such Option.

5.1.3 EXERCISE PERIOD. Options shall be exercisable within the times or upon the events determined by the Committee as set forth in the Stock Option Agreement; provided, however that no Option shall be exercisable after the expiration of ten (10) years from the date the Option is granted.

5.1.4 EXERCISE PRICE. The Exercise Price shall be determined by the Committee when an Option is granted and may be not less than the greater of (i) 100% of the Fair Market Value of the Shares on the date of grant, or (ii) the par value of the Shares. Payment for the Shares purchased may be made in accordance with Section 6 of the Plan.

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5.1.5 METHOD OF EXERCISE. Options may be exercised only by delivery to the Company of a written stock option exercise agreement (the "Exercise Agreement") in a form approved by the Committee (which need not be the same for each Participant receiving an Option pursuant to the Plan), stating the number of Shares being purchased, the restrictions imposed on the Shares, if any, and such representations and agreements regarding Participant's investment intent, access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws, together with payment in full of the Exercise Price for the number of Shares being purchased.

5.1.6 TERMINATION. Notwithstanding the exercise periods set forth in the Stock Option Agreement, exercise of an Option shall always be subject to the following:

(a) If the Participant is Terminated for any reason except death or Disability, then the Participant may exercise such Participant's Options, only to the extent that such Options would have been exercisable upon the Termination Date, no later than ninety (90) days after the Termination Date, but in any event, no later than the expiration date of the Options.

(b) If the Participant is terminated because of death or Disability, then the Participant's Options may be exercised, only to the extent that such Options would have been exercisable by Participant on the Termination Date (whether through prior vesting or accelerated vesting pursuant to Section 5.2.3 of the Plan), and must be exercised by Participant (or Participant's legal representative or authorized assignee) no later than one hundred eighty (180) days after the Termination Date, but in any event no later than the expiration date of the Options.

5.1.7 LIMITATIONS ON EXERCISE. The Committee may specify a reasonable minimum number of Shares that may be

purchased on any exercise of an Option, provided that such minimum number will not prevent Participant from exercising the Option for the full number of Shares for which it is then exercisable.

5.1.8 MODIFICATION, EXTENSION OR RENEWAL. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefor, provided that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted.

## 5.2 ACCELERATED VESTING.

5.2.1 The Committee shall have the authority to accelerate the exercisability of Options granted pursuant to the terms of this Plan.

5.2.2 Notwithstanding anything herein to the contrary, if a Change in Control of the Company occurs or if the Committee determines in its sole discretion that an Acceleration Event has occurred, then all Options shall become fully exercisable as of the date such Change in Control occurred or the Committee determines that an Acceleration Event has occurred.

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5.2.3 Notwithstanding anything herein to the contrary, any Options granted under the Plan, the vesting of which are conditioned solely upon the passage of time and continued employment of the Option holder, shall be accelerated and shall be immediately exercisable upon the death or disability of such Option holder (subject only to the limitations on exercise set forth in Section 5.1.6 of the Plan).

## 6. PAYMENT FOR SHARE PURCHASES

-----

6.1 PAYMENT. Payment for Shares purchased pursuant to the Plan may be made in cash (by check or equivalent) or, where expressly approved by the Committee and permitted by law by:

(a) by cancellation of indebtedness of the Company to the Participant;

(b) by surrender of shares of the Company's Common Stock that either: (1) have been owned by Participant for more than six (6) months and have been paid for within the meaning of Rule 144 of the Securities Act; or were obtained by Participant in the public market; and, (2) are clear of all liens, claims, encumbrances or security interests;

(c) by waiver of compensation due or accrued to Participant for services rendered;

(d) provided that a public market for the Company's stock exists and subject to the ability of the Participant to sell Shares in compliance with applicable securities laws:

(i) through a "same day sale" commitment from the Participant and a broker-dealer that is a member of the National Association of Securities Dealers (an "NASD Dealer") whereby the Participant irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased in order to pay the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(ii) through a "margin" commitment from the Participant and an NASD Dealer whereby Participant irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin

account as security for a loan from the NASD Dealer in the amount of the Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the Exercise Price directly to the Company; or

(e) by any combination of the foregoing.

Notwithstanding the foregoing, if the payment for Shares purchased pursuant to the Plan with respect to the exercise of any Options by a Participant who has a deferral election in effect under the Company's Deferred Compensation Plan (the "Deferral Plan") is paid solely by surrendering Common Stock (which meets the requirements set forth in the Deferral Plan), the Company shall deliver to the trustee of the trust, if any, established under the Deferral Plan, a certificate or certificates representing such number of shares of

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Common Stock determined by dividing (i) the excess of (A) the Fair Market Value of the shares of Common Stock purchased pursuant to such Option exercise, over (B) the aggregate exercise price of the shares of Common Stock purchased, by (ii) the Fair Market Value of one share of Common Stock. In addition, as soon as practicable after receipt of the shares of Common Stock representing the Option exercise price, the Company shall deliver to the Participant a certificate or certificates representing shares with a Fair Market Value equal to the aggregate option exercise price paid. For purposes of the foregoing, the exercise of any Option will be deemed to have occurred at 5:00 p.m. Pacific Standard time on the immediately preceding business day and Fair Market Value shall be determined as of such time.

#### 7. WITHHOLDING TAXES

7.1 TAX WITHHOLDING. The Company may withhold, at the election of the Participant, from Common Stock to be issued or cash to be paid under the Plan, the number of shares of Common Stock having a Fair Market Value equal to, or cash in the amount of, or a combination of shares and cash equal to, the amount of tax required by any governmental authority to be withheld to cover any applicable withholding and employment taxes; provided, however, that in the event a deferral election is in effect with respect to the shares of Common Stock deliverable upon exercise of an Option, then the Participant may elect to have any such withholding made from the Common Stock tendered to exercise such Option. Alternatively, a Participant may pay to the Company the amount of cash required to be withheld in lieu of any withholding of distribution under the Plan.

#### 8. PRIVILEGES OF STOCK OWNERSHIP

8.1 VOTING AND DIVIDENDS. No Participant shall have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant. After Shares are issued to the Participant, the Participant shall be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares.

8.2 FINANCIAL STATEMENTS. The Company shall provide financial statements to each Participant annually during the period such Participant has Options outstanding, provided, however, that the Company shall not be required to provide such financial statements to Participants whose services in connection with the Company assure them access to equivalent information.

#### 9. TRANSFERABILITY

Options granted under the Plan, and any interest therein, shall not be transferable or assignable by Participant, and may not be made subject to execution, attachment or similar process,

otherwise than by will or by the laws of descent and distribution or as consistent with the specific Plan and Option Agreement provisions relating thereto. During the lifetime of the Participant, an Option shall be exercisable only by the Participant, and any elections with respect to an Option, may be made only by the Participant.

10. CERTIFICATES

-----

All certificates for Shares or other securities delivered under the Plan shall be subject to such stock transfer orders, legends and other restrictions as the Committee may deem

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necessary or advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed.

11. EXCHANGE AND BUYOUT OF OPTIONS

-----

The Committee may, at any time or from time to time, authorize the Company, with the consent of the respective Participants, to issue new Options in exchange for the surrender and cancellation of any or all outstanding Options. The Committee may at any time buy from a Participant an Option previously granted with payment in cash, Shares or other consideration, based on such terms and conditions as the Committee and the Participant shall agree.

12. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE

-----

An Option shall not be effective unless such Option is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed, as they are in effect on the date of grant of the Option and also on the date of exercise or other issuance. Notwithstanding any other provision in the Plan, the Company shall have no obligation to issue or deliver certificates for Shares under the Plan prior to: (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable, and/or (b) completion of any registration or other qualification of such Shares under any state or federal law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company shall be under no obligation to register the Shares with the SEC or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company shall have no liability for any inability or failure to do so.

13. NO OBLIGATION TO EMPLOY

-----

Nothing in the Plan or any Option granted under the Plan shall confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company, or any Subsidiary or Affiliate of the Company or limit in any way the right of the Company or any Subsidiary or Affiliate of the Company to terminate Participant's employment or other relationship at any time, with or without cause.

14. CHANGES IN THE COMPANY'S CAPITAL STRUCTURE

-----

The existence of outstanding Options shall not affect in any way the right or power of the Company or its stockholders to make

or authorize all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any other corporate act or proceeding, whether of a similar character or otherwise.

If the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of its Common Stock outstanding, without receiving compensation therefor in money, services or property, then (i) the number, class, and per share price of Shares subject to outstanding Options hereunder shall be appropriately adjusted in such a manner as to entitle a

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Participant to receive upon exercise thereof (and, if relevant, for the same aggregate cash consideration), the same total number and class of shares as such Participant would have received had such Participant exercised such Option in full immediately prior to such event; and (ii) the number and class of shares with respect to which Options may be granted under the Plan shall be adjusted by substituting for the total number of shares of Common Stock then reserved that number and class of shares of stock that would have been received by the owner of an equal number of outstanding shares of Common Stock as the result of the event requiring the adjustment.

After a merger of one or more corporations into the Company, or after a consolidation of the Company and one or more corporations in which the Company shall be the surviving corporation, each holder of an outstanding Option shall, at no additional cost, be entitled to receive upon exercise of such Option (subject to any required action by stockholders of the Company) in, lieu of the number of Shares as to which such Option shall then be so exercisable, the number and class of shares of stock or other securities to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of a number of shares of Common Stock equal to the number of shares as to which such Option shall be so exercised.

If the Company is merged into or consolidated with another corporation under circumstances where the Company is not the surviving corporation, or if the Company is liquidated, or sells or otherwise disposes of substantially all its assets to another corporation while unexercised Options remain outstanding under the Plan, (i) subject to the provisions of clause (ii) below, after the effective date of such merger, consolidation or sale, as the case may be, each holder of an outstanding Option shall be entitled to receive upon exercise of such Option in lieu of shares of Common Stock, shares of such stock or other securities, cash or property as the holders of shares of Common Stock received pursuant to the terms of the merger, consolidation or sale; or (ii) all outstanding Options may be canceled by the Board as of the effective date of any such merger, consolidation, liquidation or sale provided that: (x) notice of such cancellation shall be given to each holder of an Option, and (y) each holder of an Option shall have the right to exercise such Option to the extent that the same is then exercisable or, if the Board shall have accelerated the time for exercise of all unexercised and unexpired Options, in full during the 30-day period preceding the effective date of such merger, consolidation, liquidation or sale.

Except as expressly provided above, the issue by the Company of shares of stock of any class, securities convertible into shares of stock of any class, for cash, property or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or

obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares then subject to outstanding Options.

15. ADOPTION  
-----

The Plan shall become effective on the date that it is adopted by the Board (the "Effective Date").

16. TERM OF PLAN  
-----

The Plan will terminate ten (10) years from the Effective Date.

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17. AMENDMENT OR TERMINATION OF PLAN  
-----

The Board may at any time terminate or amend the Plan in any respect, including without limitation amendment of any form of Option Agreement or instrument to be executed pursuant to the Plan; provided, however, that no termination or amendment to this Plan may, without the consent of the holder of an outstanding Option, terminate such Option or materially adversely affect the rights of the holder under such Option.

18. NONEXCLUSIVITY OF THE PLAN  
-----

Neither the adoption of the Plan by the Board nor any provision of the Plan shall be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock options and bonuses otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

19. GOVERNING LAW  
-----

The Plan and all agreements, documents and instruments entered into pursuant to the Plan shall be governed by and construed in accordance with the internal laws of the State of California, excluding that body of law pertaining to conflict of laws.

20. DEFINITIONS  
-----

As used in the Plan, the following terms shall have the following meanings:

"ACCELERATION EVENT" means but is not limited to, any Change of Control of the Company or other event determined in the discretion of the Committee.

"AFFILIATE" means any corporation that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another corporation, where "control" (including the terms "controlled by" and "under common control with" means the possession, direct or indirect, of the power to cause the direction of the management and policies of the corporation, whether through the ownership of voting securities, by contract or otherwise.

"BOARD" means the Board of Directors of the Company.

"CHANGE IN CONTROL" means the occurrence of any of the following events:

(a) when the Company acquires actual knowledge that any person (as such term is used in Sections 13(d) and 14(d) of the

Exchange Act) is or becomes the beneficial owner (as defined in Rule 13d-3 of the Exchange Act) directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then-outstanding securities;

(b) upon the first purchase of Common Stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by the Company);

(c) upon the approval by the Company's shareholders of: (i) a merger or consolidation of the Company with or into another corporation, which does not result in any capital reorganization or reclassification or other change in the Company's then-outstanding shares of

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Common Stock), (ii) a sale or disposition of all or substantially all of the Company's assets, or (iii) a plan of liquidation or dissolution of the Company;

(d) if during any period of two consecutive years, the individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's shareholders, of each new director is approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(e) if the Board of Directors or any designated committee determines, in its sole discretion, that any person (such as that term is used in Sections 13(d) and 14(d) of the Exchange Act) directly or indirectly exercises a controlling influence over the management or policies of the Company.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMMITTEE" means the committee appointed by the Board to administer the Plan, or if no committee is appointed, the Board.

"COMPANY" means Cadiz Inc., a corporation organized under the laws of the State of Delaware, or any successor corporation.

"DISABILITY" means a disability, whether temporary or permanent, partial or total, within the meaning of Section 22(e)(3) of the Code, as determined by the Committee.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXERCISE PRICE" means the price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option, but in no event shall such price be less than the par value of the Common Stock.

"FAIR MARKET VALUE" means, as of any date, the value of a share of the Company's Common Stock determined as follows:

(a) if such Common Stock is then quoted on the Nasdaq National Market System, its last reported sale price on the Nasdaq National Market or, if no such reported sale takes place on such date, the average of the closing bid and asked prices;

(b) if such Common Stock is publicly traded and is then listed on a national securities exchange, the last reported sale price or, if no such reported sale takes place on such date, the average of the closing bid and asked prices on the principal national securities exchange on which the Common Stock is listed or admitted to trading;

(c) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the

closing bid and asked prices on such date, as reported by the Wall Street Journal, for the over-the-counter market; or

(d) if none of the foregoing is applicable, by the Board of Directors of the Company in good faith.

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"INSIDER" means an officer or director of the Company or other person whose transactions in the Company's Common Stock are subject to Section 16 of the Exchange Act.

"OPTION" means an option to purchase Shares of Common Stock of the Company pursuant to Section 5.

"OPTION AGREEMENT" means, with respect to each Option, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Option.

"PARTICIPANT" means a person who receives an Option under the Plan.

"PLAN" means this Cadiz Inc., 1998 Non-Qualified Stock Option Plan, as amended from time to time.

"SECURITIES ACT" means the Securities Act of 1933, as amended.

"SHARES" means shares of the Company's Common Stock, \$0.01 par value, reserved for issuance under the Plan, as adjusted pursuant to Sections 2 and 14, and any security issued in respect thereto or in replacement thereof.

"SUBSIDIARY" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"TERMINATION" or "TERMINATED" means, for purposes of the Plan with respect to a Participant, that the Participant has ceased to provide services as an employee, director, consultant, independent contractor or adviser, to the Company or a Subsidiary or Affiliate of the Company, except in the case of sick leave, military leave, or any other leave of absence approved by the Committee, provided, that such leave is for a period of not more than ninety (90) days, or reinstatement upon the expiration of such leave is guaranteed by contract or statute. The Committee shall have sole discretion to determine whether a Participant has ceased to provide services and the effective date on which the Participant ceased to provide services (the "Termination Date").

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FIFTH AMENDED AND RESTATED CREDIT AGREEMENT

dated as of

March 7, 2002

for Credit Agreement originally executed as of

November 25, 1997

among

CADIZ INC.,

The Lenders Party Hereto

and

ING BARING (U.S.) CAPITAL LLC,

as Administrative Agent

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- Exhibit A - Additional Stock Letter Agreement
- Exhibit B - Form of Assignment and Acceptance
- Exhibit C - Cadiz Reaffirmation Agreement
- Exhibit D - Fee Warrant Certificate
- Exhibit E - Tranche A Note, with Amendments thereto (previously executed)
- Exhibit F - Tranche B Note
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- Exhibit H - Registration Rights Addendum
- Exhibit I - Fourth Amendment to Revolving Credit Note
- Exhibit J - Fourth Modification of Pledge and Security Agreement
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- Exhibit N - Form of Opinion of Borrower's Counsel

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FIFTH AMENDED AND RESTATED CREDIT AGREEMENT dated as of March 7, 2002, among CADIZ INC. (f/k/a Cadiz Land Company, Inc.), the LENDERS party hereto, and ING BARING (U.S.) CAPITAL LLC. (f/k/a ING Baring (U.S.) Capital Corporation), as Administrative Agent.

W I T N E S S E T H:

WHEREAS, pursuant to that certain Revolving Credit Agreement, dated as of November 25, 1997 (the "1997 Revolving Credit Agreement"), among Borrower, the Lenders party thereto and the Administrative Agent, as agent for such Lenders, such Lenders agreed to provide a revolving credit facility to Borrower;

WHEREAS, pursuant to that certain First Amendment to Credit Agreement, dated as of September 28, 1999, by and between Borrower, Lenders and the Administrative Agent (the "First Amendment Agreement"), the parties agreed to amend certain terms of the 1997 Revolving Credit Agreement;

WHEREAS, pursuant to that certain Second Amendment to Credit Agreement, dated as of December 22, 1999, by and between Borrower, Lenders and the Administrative Agent (the "Second Amendment Agreement"), and the other Second Amendment Documents, as defined in the Second Amendment Agreement (collectively, the "Second Amendment Documents"), the parties agreed to amend certain terms of the 1997 Revolving Credit Agreement, as amended and in effect at that time;

WHEREAS, pursuant to that certain Third Amendment to Credit Agreement, dated as of December 22, 2000, by and between Borrower, Lenders and the Administrative Agent (the "Third Amendment Agreement"), as amended by that certain First Amendment to Third Amendment to Credit Agreement dated as of October 22, 2001 between Borrower, Lenders and the Administrative Agent, and the other Third Amendment Documents, as defined in the Third Amendment Agreement (collectively, the "Third Amendment Documents"), the parties agreed to amend certain terms of the 1997 Revolving Credit Agreement, as amended and in effect at that time;

WHEREAS, pursuant to that certain Fourth Amendment to Credit Agreement, dated as of January 31, 2002, by and between Borrower, Lenders and the Administrative Agent (the "Fourth Amendment Agreement"), and the other Fourth Amendment Documents, as defined in the Fourth Amendment Agreement (collectively, the "Fourth Amendment Documents"), the parties agreed to amend certain terms of the 1997 Revolving Credit Agreement, as amended and in effect at that time;

WHEREAS, the Borrower has requested that the 1997 Revolving Credit Agreement, as amended and in effect at this time, be amended and restated in its entirety and that

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an additional new \$10 million convertible revolving facility be added to the existing credit facility;

WHEREAS, the Lenders and the Administrative Agent are willing to amend and restate the 1997 Revolving Credit Agreement, as amended and in effect at this time, in its entirety on the terms and subject to the conditions and requirements set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the parties to this Agreement hereby agree to amend and restate the 1997 Revolving Credit Agreement, as amended and in effect at this time, in its entirety as follows:

## ARTICLE I

### DEFINITIONS -----

SECTION 1.01. DEFINED TERMS. As used in this Agreement, the following terms have the meanings specified below:

"ADDITIONAL STOCK LETTER AGREEMENT" means that certain letter agreement between Borrower and Administrative Agent in the form as attached hereto in Exhibit A that provides that Borrower shall issue 25,000 shares of Borrower's common stock to the Administrative Agent if at least the principal amount of \$10,000,000 of Term Loan Obligations and/or Tranche A Loans are not prepaid (and, to the extent that Tranche A Loans are prepaid, with the termination and permanent reduction of Tranche A Commitments in such amount) between the Effective Date and on or prior to July 31, 2002.

"ADMINISTRATIVE AGENT" means ING Baring (U.S.) Capital LLC, in its capacity as administrative agent for the Lenders hereunder.

"ADMINISTRATIVE QUESTIONNAIRE" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"AFFILIATE" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"AGREEMENT" means this Fifth Amended and Restated Credit Agreement, dated as of the date set forth above, among Borrower, the Lenders party hereto, and the Administrative Agent.

"APPLICABLE INTEREST RATE" means, with respect to any Borrowing for any Interest Period, either (a) if the Borrower does not elect the Stock Payment Election, the Cash Payment Rate, or (b) if the Borrower elects the Stock Payment Election, the Stock Payment Rate.

"APPLICABLE PERCENTAGE" means, with respect to any Lender, the percentage of the total Commitments represented by such Lender's Commitment. If the Commitments have

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terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"ASSIGNMENT AND ACCEPTANCE" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit B or any other form approved by the Administrative Agent.

"AVAILABILITY PERIOD" means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

"BOARD" means the Board of Governors of the Federal Reserve System of the United States of America.

"BORROWER" means Cadiz Inc., a Delaware corporation.

"BORROWING" means Loans of a Lender made, converted or continued on the same date.

"BORROWING REQUEST" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"BUSINESS DAY" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed.

"CADIZ REAFFIRMATION AGREEMENT" means the agreement evidencing Borrower's assumption and reaffirmation of all liabilities and obligations of Cadiz Valley Development Corporation in the form as attached hereto in Exhibit C.

"CADIZ/SUN WORLD LEASE" means that certain Agricultural Lease by and between Southwest Fruit Growers, L.P. and the Borrower (both in its own capacity and as successor by merger to Cadiz Valley Development Corporation), the lessors, and Sun World, as lessee, dated as of September 13, 1996, as amended by that certain Amendment to Lease with Lender Cure Rights between Southwest Fruit Growers, L.P., Cadiz, Sun World and Credit Agricole, dated as of September 13, 1996, as further amended by that certain Amendment to Agricultural Lease, dated as of April 16, 1997, as further amended from time to time.

"CADIZ/SUN WORLD SERVICES AGREEMENT" means that certain Services Agreement between Borrower and Sun World, dated September 13, 1996, as amended by that certain Amendment dated as of April 16, 1997, as further amended from time to time.

"CAPITAL LEASE OBLIGATIONS" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

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"CASH EQUIVALENT" has the meaning assigned to such term in the Sun World Indenture.

"CASH PAYMENT RATE" means the sum of (a) the LIBO Rate, computed in accordance with Section 2.13, plus (b) 3.0%.

"CHANGE IN CONTROL" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Commission thereunder as in effect on the date hereof), of shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; or (c) the acquisition of direct or indirect Control of the Borrower by any Person or group.

"CHANGE IN LAW" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's holding company, if any) with any request,

guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"CHARGES" has the meaning ascribed to such term in Section 9.16 hereof.

"CLOSING PRICE" means the last sale price per share of Common Stock regular way or, in the case no such reported sale takes place on such day, the average of the last reported bid and asked prices regular way, in either case on the principal national securities exchange on which the Common Stock is admitted to trading on such exchange, the average of the last reported bid and asked prices as reported by Nasdaq, or other similar organization if Nasdaq is no longer reporting such information, or if not so available, the fair market price, as determined in good faith by the Administrative Agent.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"COMMISSION" means the Securities and Exchange Commission.

"COMMITMENT" means, with respect to each Lender, the sum of such Lenders' Tranche A Commitments and Tranche B Commitments, as such commitments may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The aggregate amount of all of the Lenders' Commitments on the Effective Date will be \$25,000,000.

"COMMON STOCK" means authorized common stock, \$0.01 par value, of the Borrower.

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"CONTROL" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "CONTROLLING" and "CONTROLLED" have meanings correlative thereto.

"CONVERSION LOAN AMOUNT" shall have the meaning ascribed to such term in Section 2.07(a) hereof.

"CONVERSION PRICE" shall have the meaning ascribed to such term in Section 2.07(a) hereof.

"CONVERSION SHARES" shall have the meaning ascribed to such term in Section 2.07(b) hereof.

"DEFAULT" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"DISCLOSED MATTERS" means the actions, suits and proceedings and the environmental matters disclosed in any periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Commission that are publicly available.

"Dollars" or "\$" refers to lawful money of the United States of America.

"EFFECTIVE DATE" means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

"EIGHTH WARRANT CERTIFICATE" means the Eight Warrant Certificate issued in connection with the Fourth Amendment Agreement.

"ELEVENTH WARRANT CERTIFICATE" means the Eleventh

Warrant Certificate issued in connection with the Fourth Amendment Agreement.

"ENVIRONMENTAL LAWS" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"ENVIRONMENTAL LIABILITY" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

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"EQUITY ACQUISITION ASSET" has the meaning set forth in Section 5.10(c) hereof.

"EQUITY ACQUISITION THRESHOLD" has the meaning set forth in Section 5.10(c) hereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA EVENT" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"EVENT OF DEFAULT" has the meaning assigned to such term in Article VII.

"EXCHANGE ACT" has the meaning set forth in Section 9.17 hereof.

"EXCLUDED ITEM" has the meaning set forth in Section 5.10(b) hereof.

"EXCLUDED ITEMS/ROLLING STOCK THRESHOLD" has the meaning set forth in Section 5.10(b) hereof.

"EXCLUDED TAXES" means, with respect to the Administrative Agent, any Lender, any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that is imposed on amounts payable to

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such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.17(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a).

"FEDERAL FUNDS EFFECTIVE RATE" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"FEE WARRANT CERTIFICATE" means the three-year warrants that will vest and become exercisable commencing on August 1, 2002 if at least the principal amount of \$10,000,000 of Term Loan Obligations and/or Tranche A Loans are not prepaid (and, to the extent that Tranche A Loans are prepaid, with the termination and permanent reduction of Tranche A Commitments in such amount) between the Effective Date and on or prior to July 31, 2002, for the purchase up to 100,000 shares of Cadiz's common stock with an exercise price equal to the average closing price for all trading days in July 2002, that entitles the holder thereof to purchase up to 100,000 shares based upon the terms and conditions set forth therein, in the form as attached hereto in Exhibit D.

"FINANCIAL OFFICER" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"FIRST AMENDMENT AGREEMENT" has the meaning ascribed to such term in the recitals hereto.

"FIXED RATE" means, with respect to any Borrowing for any Interest Period, either (a) if the Borrower does not elect the Stock Payment Election, the Cash Payment Rate or (b) if the Borrower elects the Stock Payment Election, the Stock Payment Rate.

"FOREIGN LENDER" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"FOURTH AMENDMENT AGREEMENT" has the meaning ascribed

to such term in the recitals hereto.

"FOURTH AMENDMENT DOCUMENTS" has the meaning ascribed to such term in the recitals hereto.

"GAAP" means generally accepted accounting principles in the United States of America.

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"GOVERNMENTAL AUTHORITY" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"GUARANTEE" of or by any Person (the "GUARANTOR") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"HAZARDOUS MATERIALS" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"HEDGING AGREEMENT" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"INACTIVE SUBSIDIARIES" means all Subsidiaries of the Borrower, excluding Sun World Entities, that (a) do not conduct any business activities and (b) hold no assets or properties (either tangible or intangible).

"INDEBTEDNESS" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or

otherwise, of such Person as an

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account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"INDEMNIFIED TAXES" means Taxes other than Excluded Taxes.

"INDEMNITEE" has the meaning ascribed to such term in Section 9.03(b) hereof.

"ING" means ING Baring (U.S.) Capital LLC, a Delaware company.

"ING COLLATERAL" means the collateral security granted, pledged or hypothecated to the Administrative Agent or the Lenders under the Security Documents to secure the payment and satisfaction of the obligations hereunder and under the other Loan Documents, including the Revolving Loan Obligations.

"INTEREST PAYMENT DATE" means the last day of the Interest Period applicable to the Borrowing of which such Loan is a part.

"INTEREST PERIOD" means each period commencing on the date of such Borrowing or the last day of the next preceding Interest Period for such Borrowing and ending thereafter on the first to occur of March 15, June 15, September 15 and December 15 in each year, provided, that (i) except as provided in clauses (ii) and (iii) below, if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day, (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period, and (iii) if any Interest Period would end after the Maturity Date, such Interest Period shall end on the Maturity Date. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made.

"LENDERS" means the Person or Persons, as the case may be, listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance.

"LIBO RATE" means, with respect to any Borrowing for any Interest Period, the rate per annum at which the Administrative Agent is offered dollar deposits in the London interbank market at approximately 11:30 a.m. (London time) of the first day of the relevant Interest Period, for the number of months comprised therein and in an amount equal to the amount of the indebtedness to be outstanding hereunder for such Borrowing during such Interest Period.

"LIEN" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title

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retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to

such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"LOAN DOCUMENTS" means this Agreement, each Security Document, each Note, the First Amendment Agreement, the Second Amendment Documents, the Third Amendment Documents, the Fourth Amendment Documents, and any other document, instrument or agreement delivered, executed or to be executed under or in connection with any of the foregoing.

"LOAN OBLIGATIONS" means collectively, the Revolving Loan Obligations and the Term Loan Obligations.

"LOANS" OR "REVOLVING LOANS" means, collectively, the Tranche A Loans and the Tranche B Loans, each as made pursuant to Section 2.03 or 2.04 hereof.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on (a) the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and the Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its obligations under this Agreement or any other Loan Document, (c) the rights of or benefits available to the Lenders under this Agreement or any other Loan Document, or (d) the Transactions.

"MATERIAL INDEBTEDNESS" means Indebtedness (other than the Loans), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries, but excluding SWFG and PSWRI, in an aggregate principal amount exceeding \$500,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"MATURITY DATE" means January 31, 2003.

"MAXIMUM RATE" has the meaning ascribed to such term in Section 9.16 hereof.

"MOODY'S" means Moody's Investors Service, Inc.

"MORTGAGES" means, collectively, (a) any mortgage agreement or deed of trust dated as of the Effective Date for the benefit of Mortgagee pursuant to Section 2.08 and (b) each other mortgage granted to Mortgagee pursuant to Sections 2.08, 5.10 and 5.11, each substantially in the form as annexed to the 1997 Revolving Credit Agreement.

"MORTGAGEE" means, with respect to any Mortgage, the Administrative Agent as mortgagee or beneficiary thereof, for itself and on behalf of the Lenders, under such Mortgage.

"MULTIEMPLOYER PLAN" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

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"1997 REVOLVING CREDIT AGREEMENT" has the meaning ascribed to such term in the recitals hereto.

"NINTH WARRANT CERTIFICATE" means the Ninth Warrant Certificate issued in connection with the Fourth Amendment Agreement.

"NON-ADVERSE AMENDMENT" has the meaning set forth in Section 9.19 hereof.

"NOTES" means, collectively, the Tranche A Notes and the Tranche B Notes.

"OBLIGORS" has the meaning assigned to such term in the Pledge and Security Agreement.

"OTHER TAXES" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

"PARTICIPANTS" has the meaning ascribed to such term in Section 9.04(e) hereof.

"PARTICIPATING SUBSIDIARIES" means the Subsidiaries excluding (a) the Inactive Subsidiaries, (b) the Sun World Entities, and (c) SWFG.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"PERMITTED ENCUMBRANCES" means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the

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affected property or interfere with the ordinary conduct of business of the Borrower or any Participating Subsidiary;

(f) Liens arising out of any judgment awarded against the Borrower which have been discharged, vacated, reversed or execution thereof stayed pending appeal;

(g) any other Lien with respect to which the Borrower or related lessee shall have provided a bond or other security in an amount and under terms reasonably satisfactory to the Required Lenders and which does not involve any material risk of the sale, forfeiture or loss of any interest in Borrower's real or personal property; and

(h) the Liens of the Security Documents;

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness.

"PERMITTED INVESTMENTS" means:

(a) Cash Equivalents; and

(b) transactions permitted pursuant to the provisions of Sections 5.10 and 5.11 hereof.

"PERSON" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"PLAN" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PLEDGE AND SECURITY AGREEMENTS" means, collectively, (a) any security agreement dated as of the Effective Date for the benefit of the Administrative Agent, for itself and on behalf of the Lenders, pursuant to Section 2.08, (b) any stock pledge agreement pursuant to which the shares of capital stock of each Participating Subsidiary are pledged to the Administrative Agent, and (c) each other security agreement executed pursuant to Sections 2.08, 5.10 and 5.11, each substantially (to the extent applicable) in the form as annexed to the 1997 Revolving Credit Agreement, as amended from time to time thereafter.

"PREPAYMENT DATE" has the meaning set forth in Section 2.11 hereof.

"PSWRI" means P.S.W.R.I. Limited, a Guernsey corporation.

"PURCHASER CERTIFICATE" means the Purchaser Certificate in the form as attached hereto in Exhibit G.

"REGISTER" has the meaning set forth in Section 9.04.

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"REGISTRABLE COMMON STOCK" means (a) Stock Payment Common Stock and (b) any additional shares of Common Stock issued or distributed by way of dividend, stock split or other distribution in respect of the Stock Payment Common Stock, or acquired by way of any rights offering or similar offering made in respect of the Stock Payment Common Stock or any of the foregoing.

REGISTRATION RIGHTS ADDENDUM means the Registration Rights Addendum agreed to by Borrower in favor of ING in the form attached hereto as Exhibit H.

"RELATED PARTIES" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"RELEASED PARTIES" has the meaning ascribed to such term in Section 9.19 hereof.

"REQUIRED LENDERS" means, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing at least 66 2/3% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

"RESTRICTED PAYMENT" means any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of capital stock of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of the Borrower or any option, warrant or other right to acquire any such shares of capital stock of the Borrower.

"REVISED AND RESTATED ADDITIONAL DRAW WARRANT CERTIFICATE" means the Revised and Restated Additional Draw Certificate issued in connection with the Fourth Amendment

Agreement.

"REVISED AND RESTATED INITIAL DRAW CERTIFICATE" means the Revised and Restated Initial Draw Certificate issued in connection with the Fourth Amendment Agreement.

"REVOLVER DEED OF TRUST" means that certain Deed of Trust, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing, dated November 25, 1997, as amended from time to time, executed by Borrower in favor of the Administrative Agent for the benefit of itself and the Lenders, which was recorded on November 26, 1997, as Instrument No. 19970434910 in the Official Records of San Bernardino County California.

"REVOLVER (PIUTE) DEED OF TRUST" means that certain Deed of Trust, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing, dated as of July 1, 1999, as amended from time to time, executed by Borrower in favor of the Administrative Agent for the benefit of itself and the Lenders, which was recorded on December 23, 1999, as Instrument No. 524213 in the Official Records of San Bernardino County California.

"REVOLVER (SWFG) DEED OF TRUST" means that certain Deed of Trust, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing, dated October 30, 1998,

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as amended from time to time, executed by Borrower in favor of the Administrative Agent for the benefit of itself and the Lenders, which was recorded on November 4, 1998, as Instrument No. 19980473321 in the Official Records of San Bernardino County California.

"REVOLVER DEEDS OF TRUST" means, collectively, the Revolver Deed of Trust, the Revolver (Piute) Deed of Trust, the Revolver (SWFG) Deed of Trust and any and all mortgages and deeds of trust delivered pursuant to Sections 5.10 and 5.11 hereof.

"REVOLVING CREDIT EXPOSURE" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Tranche A Loans and Tranche B Loans.

"REVOLVING CREDIT AGREEMENT WARRANTS" collectively, the Revised and Restated Initial Draw Warrant Certificate, the Revised and Restated Additional Draw Warrant Certificate, the Eighth Warrant Certificate, the Ninth Warrant Certificate, the Tenth Warrant Certificate, the Eleventh Warrant Certificate and the Fee Warrant Certificate, each as revised, restated and in effect from time to time.

"REVOLVING LOAN OBLIGATIONS" means the obligations of Borrower to the Administrative Agent and/or the Lenders under the Loan Documents, as amended and in effect from time to time.

"ROLLING STOCK": has the meaning assigned to such term in the Pledge and Security Agreement.

"S&P" means Standard & Poor's.

"SECOND AMENDMENT AGREEMENT" has the meaning ascribed to such term in the recitals hereto.

"SECOND AMENDMENT DOCUMENTS" has the meaning ascribed to such term in the recitals hereto.

"SECURITIES ACT" has the meaning set forth in Section 9.17 hereof.

"SECURITY DOCUMENTS" means, collectively, the Mortgages and the Pledge and Security Agreement.

"STOCK PAYMENT" has the meaning set forth in Section 2.14 hereof.

"STOCK PAYMENT COMMON STOCK" has the meaning set forth in Section 5.13 hereof.

"STOCK PAYMENT ELECTION" has the meaning set forth in Section 2.14 hereof.

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"STOCK PAYMENT ELECTION DEADLINE" has the meaning set forth in Section 2.14 hereof.

"STOCK PAYMENT ELECTION REQUEST" means a request by Borrower to make a payment of accrued interest for a Borrowing through the remittance of the Stock Payment in accordance with Section 2.14.

"STOCK PAYMENT RATE" means the sum of (a) the LIBO Rate, computed in accordance with Section 2.13, plus (b) 7.0%.

"SUBSIDIARY" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"SUBSIDIARY" means any subsidiary of the Borrower.

"SUN WORLD" means Sun World International, Inc., a Subsidiary of the Borrower.

"SUN WORLD DOCUMENTS" has the meaning assigned to such term in the Term Fifth Global Amendment Agreement.

"SUN WORLD ENTITIES" means Sun World and its subsidiaries.

"SUN WORLD INDENTURE" means that certain Indenture, dated as of April 16, 1997, among Sun World, Borrower, the Subsidiary Guarantors thereto, and the Sun World Trustee, as amended by that certain Amendment to Indenture, dated as of October 9, 1997, as further amended by any Non-Adverse Amendments.

"SUN WORLD NOTES" means the \$115,000,000 of 11 1/4% First Mortgage Notes due April 15, 2004 issued pursuant to the Sun World Indenture.

"SUN WORLD TRUSTEE" means IBJ Schroder Bank & Trust Company in its capacity as the trustee under the Sun World Indenture.

"SWFG" means Southwest Fruit Growers, L.P., a Delaware limited partnership.

"TAXES" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"TENTH WARRANT CERTIFICATE" means the Tenth Warrant Certificate issued in connection with the Fourth Amendment Agreement.

"TERM LOAN OBLIGATIONS" means the obligations of Borrower to ING under the Term Loan Documents.

"TERM LOAN DOCUMENTS" means collectively, the Credit Documents (as defined in the Term Fifth Global Amendment Agreement), each as amended and modified from time to time.

"TERM FIFTH GLOBAL AMENDMENT AGREEMENT" means that certain Fifth Global Amendment Agreement, dated as of January 31, 2002, between Cadiz, as borrower, and ING, as lender, as amended and modified from time to time.

"THRESHOLD" has the meaning assigned to such term in Section 2.11(c).

"THIRD AMENDMENT AGREEMENT" has the meaning ascribed to such term in the recitals hereto.

"THIRD AMENDMENT DOCUMENTS" has the meaning ascribed to such term in the recitals hereto.

"TITLE POLICIES" has the meaning ascribed to such term in Section 4.01(r) hereof.

"TRANCHE A COMMITMENT" means, with respect to each Lender, the commitment of such Lender to make Tranche A Loans, expressed as an amount representing the maximum aggregate amount of such Lender's Tranche A Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Tranche A Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche A Commitment, as applicable. The aggregate amount of the Tranche A Commitments on the Effective Date will be \$15,000,000, which amount has been fully drawn and is outstanding.

"TRANCHE A LENDERS" means the Lenders listed on Schedule 2.01 who have a Tranche A Commitment greater than zero set forth under their names, subject to the provisions of Section 9.04 hereof pertaining to Persons becoming or ceasing to be Lenders; "Tranche A Lender" shall mean any one of them.

"TRANCHE A LOANS" shall have the meaning ascribed to such term in Section 2.01(a) hereof.

"TRANCHE A NOTES" means the Notes issued by Borrower and payable to the order of the Lenders, as evidence of the Tranche A Loans, each in the form of Exhibit E hereto, and any extensions, renewals, modifications or replacements thereof or therefor.

"TRANCHE A REVOLVING CREDIT EXPOSURE" means, with respect to any Tranche A Lender at any time, the sum of the outstanding principal amount of such Lender's Tranche A Loans.

"TRANCHE B COMMITMENT" means, with respect to each Lender, the commitment of such Lender to make Tranche B Loans, expressed as an amount representing the maximum aggregate amount of such Lender's Tranche B Revolving Credit Exposure hereunder, as such

commitment may be (a) reduced from time to time pursuant to Section 2.09 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Tranche B Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche B Commitment, as applicable. The aggregate amount of the Tranche B Commitments on the Effective Date will be \$10,000,000.

"TRANCHE B LENDERS" means the Lenders listed on Schedule 2.01 who have a Tranche B Commitment greater than zero set forth opposite their names, subject to the provisions of Section 9.04 hereof pertaining to Persons becoming or ceasing to be Lenders; "Tranche B Lender" shall mean any one of them.

"TRANCHE B LOANS" shall have the meaning ascribed to such term in Section 2.01(b) hereof.

"TRANCHE B NOTES" means the Notes issued by Borrower and payable to the order of the Lenders, as evidence of the Tranche B Loans, each in the form of Exhibit F hereto, and any extensions, renewals, modifications or replacements thereof or therefor.

"TRANCHE B REVOLVING CREDIT EXPOSURE" means, with respect to any Tranche B Lender at any time, the sum of the outstanding principal amount of such Lender's Tranche B Loans.

"TRANSACTIONS" means the execution, delivery and performance by the Borrower of this Agreement, the other Loan Documents, the transactions contemplated herein and therein, the borrowing of Loans, and the use of the proceeds thereof.

"WITHDRAWAL LIABILITY" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"WHOLLY OWNED SUBSIDIARY" means, with respect to any Person, any corporation, partnership, or other entity of which all of the equity securities or other ownership interests (other than, in the case of a corporation, directors' qualifying shares) are directly or indirectly owned or controlled by such Person or one or more Wholly Owned Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

SECTION 1.02 [Intentionally Omitted]

SECTION 1.03 TERMS GENERALLY. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or

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modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04 ACCOUNTING TERMS; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative

Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

## ARTICLE II

### THE CREDITS

#### SECTION 2.01 COMMITMENTS.

(a) TRANCHE A LOANS. Subject to the terms and conditions set forth herein, each Lender severally agrees, upon Borrower's request, to make loans (the "Tranche A Loans") to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in such Lender's Tranche A Revolving Credit Exposure exceeding such Lender's Tranche A Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, and only if the full \$10,000,000 in principal amount of the Tranche B Loans is outstanding and/or has been converted into Conversion Shares in accordance with Section 2.07 hereof, the Borrower may borrow, prepay and reborrow Tranche A Loans.

(b) TRANCHE B LOANS. Subject to the terms and conditions set forth herein, each Lender severally agrees, upon Borrower's request, to make loans (the "Tranche B Loans") to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in such Lender's Tranche B Revolving Credit Exposure exceeding such Lender's Tranche B Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Tranche B Loans.

#### SECTION 2.02 LOANS AND BORROWINGS.

(a) Each Tranche A Loan shall be made as part of a Borrowing consisting of Tranche A Loans made by the Lenders ratably in accordance with their respective Tranche A

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Commitments. The failure of any Lender to make any Tranche A Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Tranche A Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Tranche A Loans as required.

(b) Each Tranche B Loan shall be made as part of a Borrowing consisting of Tranche B Loans made by the Lenders ratably in accordance with their respective Tranche B Commitments. The failure of any Lender to make any Tranche B Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Tranche B Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Tranche B Loans as required.

(c) Each Borrowing shall be comprised entirely of Applicable Interest Rate Loans as the Borrower may request in accordance herewith. Each Borrowing shall be in an aggregate amount equal to \$2,500,000 or a larger multiple of \$100,000 (provided that a Borrowing may be in an aggregate

amount that is equal to the entire unused balance of the total Commitments).

(d) The Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03 REQUESTS FOR BORROWINGS. Except for the Tranche B Loan Borrowing described in Section 2.04, the Borrower shall notify the Administrative Agent of such request by telephone not later than 1 p.m., New York City time, three Business Days before the date of the proposed Borrowing. Any such notices received after 1 p.m., New York time, shall be deemed received on the next Business Day, Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is a Tranche A Loan or a Tranche B Loan; and
- (iv) the location and number of the Borrower's account to which funds are to be disbursed.

Promptly following receipt of a Borrowing Request in accordance with this Section 2.03, the Administrative Agent shall (a) advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing and (b) as applicable, advise the Borrower of the number of shares of the Borrower's Common Stock that may be purchased as a result of the requested Borrowing through the exercise of the Revolving Credit Agreement Warrants.

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SECTION 2.04 BORROWING. As of the Effective Date, the Borrower shall be deemed to have requested a Tranche B Loan Borrowing in the aggregate amount of \$10,000,000, with the Effective Date being the date of such Borrowing. The location and number of the Borrower's account to which these funds are to be disbursed are set forth in Schedule 2.04 hereto.

SECTION 2.05 [INTENTIONALLY OMITTED]

SECTION 2.06 FUNDING OF BORROWINGS.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account maintained and designated by the Borrower in the applicable Borrowing Request (or in the case of the Borrowing on the Effective Date, as set forth in Schedule 2.04 hereof).

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in

accordance with paragraph (a) of this Section 2.06 and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender hereby agrees to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at the interest rate applicable to that Loan. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.07 CONVERSION RIGHTS FOR HOLDERS OF TRANCHE B LOANS.

(a) CONVERSION RIGHTS. Each Tranche B Lender shall at any time have the right (at its sole option) to convert the unpaid principal and interest thereof, up to a maximum of (x) such Tranche B Lender's pro rata share of the Tranche B Loans plus (y) all accrued and unpaid interest thereon that is in arrears and delinquent at the time of such conversion (collectively, such amount a Tranche B Lender's "Conversion Loan Amount"), into the common stock of Borrower pursuant to the terms hereof. The number of shares of Common Stock to be issued to such Tranche B Lender upon such conversion shall equal (x) such Tranche B Lender's Conversion Loan Amount as of such conversion date, divided by (y) a price per share initially equal to \$8.00 (the "Conversion Price"). The Conversion Price is subject to certain anti-dilution adjustments provided for below. Within seven (7) Business Days of its receipt of a written notice from a Tranche B Lender that sets forth the Conversion Loan Amount that the Tranche B Loans is electing to be converted in accordance with the terms of this Section 2.07, Borrower shall issue the Conversion Shares relating to such election to such Tranche B Lender, provided

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that Borrower shall make good faith efforts to issue and deliver such certificate prior to the expiration of such seven Business Day Period.

(b) ANTI-DILUTION PROVISIONS. The Conversion Price and the number and kind of securities purchasable upon the exercise of the conversion rights set forth above (the "Conversion Shares") shall be subject to adjustment from time to time upon the happening of certain events as hereinafter provided in this Section 2.07. The Conversion Price in effect at any time and the Conversion Shares shall be subject to adjustment as follows:

(1) In case the Borrower shall (i) pay a dividend or make a distribution on its shares of Common Stock in shares of Common Stock, (ii) subdivide or reclassify its outstanding Common Stock in shares of Common Stock into a greater number of shares, or (iii) combine or reclassify its outstanding Common Stock into a smaller number of shares, then the Conversion Price in effect at the time of the record date (and thereafter) for such dividend or distribution or of the effective date of such subdivision, combination or reclassification shall be adjusted so that such Conversion Price shall equal the price determined by multiplying the Conversion Price in effect immediately prior to such record date or effective date by a fraction, the numerator of which is the number of shares of Common Stock outstanding on such record date or effective date, and the denominator of which is the number of shares of Common stock outstanding immediately after such dividend, distribution, subdivision, combination or reclassification. For example, if the Borrower declares a 2 for 1 stock dividend or stock split and the Conversion Price immediately prior to such

event was \$8.00 per share, the adjusted Conversion Price immediately after such event would be \$4.00 per share.

Such adjustment shall be made successively whenever any event listed in this Subsection (1) shall occur.

(2) In case the Borrower shall hereafter issue rights or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price (or having a conversion price or exercise price per share) less than the current market price of the Common Stock (as defined below) on the record date mentioned below, then the Conversion Price shall be adjusted so that the Conversion Price shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the record date mentioned below by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding on the record date mentioned below and the number of additional shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion or exercise price of the securities so offered) would purchase at such current market price per share of the Common Stock, and the denominator of which shall be the sum of the number of shares of Common Stock outstanding on such record date and the number of additional shares of Common Stock offered for subscription or purchase (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever such rights or warrants are issued and shall become effective immediately after the record date for the determination of shareholders entitled to receive such rights or warrants; and to the extent that shares of Common Stock are not delivered

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(or securities convertible or exercisable into Common Stock are not delivered) after the expiration of such rights or warrants the Conversion Price shall be readjusted to the Conversion Price which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock (or securities convertible into or exercisable for Common Stock) actually delivered.

(3) In case the Borrower shall hereafter distribute to all holders of its Common Stock evidences of its indebtedness or assets (excluding regular cash dividends or distributions and dividends or distributions referred to in Subsection (1) above) or subscription rights or warrants (excluding those referred to in Subsection (2) above), then in each such case the Conversion Price in effect thereafter shall be determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the total number of shares of Common Stock outstanding multiplied by the current market price per share of Common Stock (as defined in Subsection (8) below), less the aggregate fair market value (as determined in good faith by the Borrower's Board of Directors and reasonably acceptable to the Administrative Agent on behalf of the Tranche B Lenders) of said assets or evidences of indebtedness so distributed or of such rights or warrants, and the denominator of which shall be the total number of shares of Common Stock outstanding multiplied by such current market price per share of Common Stock.

Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution.

(4) In case the Borrower shall issue shares of its Common Stock (excluding shares issued (a) in any of the transactions described in Subsection (1) above, (b) upon

exercise of options granted to the Borrower's employees under a plan or plans adopted by the Borrower's Board of Directors and approved by its shareholders, if such shares would otherwise be included in this Subsection (4), (but only to the extent that the aggregate number of shares excluded hereby and issued after the date hereof, shall not exceed 5% of the Borrower's Common Stock outstanding at the time of any issuance), (c) upon exercise of options and warrants outstanding at the date hereof, and conversion of the loan amounts provided for herein, (d) upon the exercise or conversion of any security as to which the Conversion Price has already been adjusted pursuant to Subsection (5) below, and (e) to shareholders of any corporation which merges into the Borrower in proportion to their stock holdings of such corporation immediately prior to such merger, upon such merger, or issued in a bona fide public offering pursuant to a firm commitment underwriting, but only if no adjustment is required pursuant to any other provision of this Section 2.07(b) (without regard to Subsection (9) below) with respect to the transaction giving rise to such rights) for a consideration per share less than the current market price per share defined in Subsection (8) below, then on the date the Borrower fixes the offering price of such additional shares, the Conversion Price shall be adjusted immediately thereafter so that it shall equal the price determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding

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immediately prior to the issuance of such additional shares and the number of shares of Common Stock which the aggregate consideration received (determined as provided in Subsection (7) below) for the issuance of such additional shares would purchase at such current market price per share of Common Stock, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after the issuance of such additional shares.

Such adjustment shall be made successively whenever such an issuance is made; provided, however, that no such adjustment shall be made unless, in such issuance, the Borrower issues shares of Common Stock in an amount which, when combined with all other issuances of Common Stock after the date hereof and all other issuances of securities convertible into or exchangeable for its Common Stock after the date hereof, which securities are excluded from Subsections (4) or (5) by operation of this proviso or the proviso in the last Section of Subsection (5), would exceed 20% of the Borrower's Common Stock outstanding immediately prior to the time of such issuance.

(5) In case the Borrower shall issue any securities convertible into or exercisable or exchangeable for its Common Stock (excluding securities issued in transactions described in Subsections (2) and (3) above) for a consideration per share of Common Stock initially deliverable upon conversion, exercise or exchange of such securities (determined as provided in Subsection (7) below) less than the current market price per share (as defined in Subsection (8) below) in effect immediately prior to the issuance of such securities, then the Conversion Price shall be adjusted immediately thereafter so that it shall equal the price determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to the issuance of such securities and the number of shares of Common Stock which the aggregate consideration received (determined as provided in Subsection (7) below) for such securities would purchase at such current market price per share of Common Stock, and the denominator of which shall be the sum of the number of shares of Common Stock outstanding

immediately prior to such issuance and the maximum number of shares of Common Stock of the Borrower deliverable upon conversion or exercise of, or in exchange for, such securities at the initial conversion or exchange price or rate.

Such adjustment shall be made successively whenever such an issuance is made; provided, however, that no such adjustment shall be made unless, in such issuance, the Borrower issues securities convertible into or exercisable or exchangeable for a number of shares of its Common Stock in an amount which, when combined with all other issuances of Common Stock after the date hereof and all other issuances of securities convertible into or exercisable or exchangeable for its Common Stock after the date hereof, which securities are excluded from Subsections (4) or (5) by operation of this proviso or the proviso in the last Section of Subsection (4), would exceed 20% of the Borrower's Common Stock outstanding immediately prior to the time of such issuance.

(6) Whenever the Conversion Price is adjusted pursuant to Subsections (1), (2), (3), (4) and (5) above, the number of Conversion Shares purchasable pursuant to the terms hereof shall simultaneously be adjusted by multiplying the number of

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Conversion Shares issuable upon conversion pursuant to the terms hereof immediately prior to such adjustment by the Conversion Price in effect immediately prior to such adjustment and dividing the product so obtained by the Conversion Price, as adjusted.

(7) For purposes of any computation respecting consideration received pursuant to Subsections (4) and (5) above, the following shall apply:

(A) in the case of the issuance of shares of Common Stock for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions, discounts or other expenses incurred by the Borrower for any underwriting of the issue or otherwise in connection therewith:

(B) in the case of the issuance of shares of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined in good faith by the Board of Directors of the Borrower (irrespective of the accounting treatment thereof) and reasonably acceptable to the Administrative Agent on behalf of the Tranche B Lenders; and

(C) in the case of the issuance of securities convertible into or exchangeable or exercisable for shares of Common Stock, the aggregate consideration received therefor shall be deemed to be the consideration received by the Borrower for the issuance of such securities plus the additional minimum consideration, if any, to be received by the Borrower upon the conversion, exercise or exchange thereof (the consideration in each case to be determined in the same manner as provided in clauses (A) and (B) of this Subsection (7)).

(8) For the purpose of any computation under Subsections (2), (3), (4) and (5) above, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing prices for 30 consecutive business days before such date. The closing price for each day shall be the last sale price regular way or, in case no such reported sale takes place on such day, the average of the last reported bid and asked prices regular way, in either case on the principal national securities exchange on which the Common Stock is

admitted to trading or listed, or if not listed or admitted to trading on such exchange, the average of the last reported bid and asked prices as reported by NASDAQ, or other similar organization if NASDAQ is no longer reporting such information, of if not so available, the fair market price as determined in good faith by the Board of Directors and reasonably acceptable to the Administrative Agent on behalf of the Tranche B Lenders.

(9) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least five cents (\$0.05) in such price; provided, however, that any adjustments which by reason of this Subsection (9) are not required to be made shall be carried forward and taken into account in any subsequent adjustment required to be made hereunder. All calculations pursuant to the terms hereof shall be made to the nearest cent or to the nearest one-

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hundredth of a share, as the case may be. Anything herein to the contrary notwithstanding, the Borrower shall be entitled, but shall not be required, to reduce the Conversion Price, in addition to those changes required by the terms and provisions hereof, as it, in its sole discretion, shall determine to be advisable in order that any dividend or distribution in shares of Common Stock, subdivision, reclassification or combination of Common Stock, issuance of warrants to purchase Common Stock or distribution or evidences of indebtedness or other assets (excluding cash dividends) referred to hereinabove in the terms and provisions hereof hereafter made by the Borrower to the holders of its Common Stock shall not result in any tax to such holders of its Common Stock or securities convertible into or exercisable or exchangeable Common Stock.

(10) In the event that at any time, as a result of an adjustment made pursuant to Subsection (1) above, a Tranche B Lender shall become entitled to receive any shares of the Borrower, other than Common Stock, thereafter the number of such other shares so receivable upon conversion pursuant to the terms hereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in Subsections (1) to (9), inclusive above. The Borrower may retain a firm of independent certified public accountants selected by the Board of Directors (who may be the regular accountants employed by the Borrower) to make any computation required pursuant to the terms hereof, and a certificate signed by such firm shall be conclusive evidence of the correctness of such adjustment absent manifest error or negligence.

(c) OFFICER'S CERTIFICATE. Whenever the Conversion Price or number of Conversion Shares shall be adjusted as required by the provisions of this Section 2.07, the Borrower shall forthwith file in the custody of its Secretary or an Assistant Secretary at its principal office and with its stock transfer agent, if any, an officer's certificate showing the adjusted Conversion Price or number of Conversion Shares determined as herein provided, setting forth in reasonable detail the facts requiring such adjustment, including a statement of the number of additional shares of Common Stock, if any, and such other facts as shall be necessary to show the reason for and the manner of computing such adjustment. Each such officer's certificate shall be made available at all reasonable times for inspection by any Tranche B Lender and the Borrower shall, forthwith after each such adjustment, mail a copy by certified mail of such certificate to such Tranche B Lender.

(d) NOTICES TO TRANCHE B LENDERS. So long any Tranche B Lender shall have the conversion rights set forth herein, (i) if the Borrower shall pay any dividend or make any distribution upon the Common Stock or (ii) if the Borrower shall offer to the holders of Common Stock for subscription or purchase by them any share of or class of its capital

stock or any other rights or (iii) if any capital reorganization of the Borrower, reclassification of the capital stock of the Borrower, consolidation or merger of the Borrower with or into another entity, sale, lease, or transfer of all or substantially all of the property and assets of the Borrower to another entity, or voluntary or involuntary dissolution, liquidation or winding up of the Borrower shall be effected, then in any such case, the Borrower shall cause to be mailed by certified mail to such Tranche B Lender, at least fifteen days prior the record date specified in (x) or (y) below, as the case may be, a notice containing a brief description of the proposed action and stating the date on which

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(x) a record is to be taken for the purpose of such dividend, distribution or offer of rights, or (y) such reclassification, reorganization, consolidation, merger, conveyance, lease, transfer, sale dissolution, liquidation or winding up is to take place and the date, if any is to be fixed, as of which the holders of Common Stock or other securities shall be entitled to receive cash or other property deliverable upon such reclassification, reorganization, consolidation, merger, conveyance, lease, transfer, sale, dissolution, liquidation or winding up.

(e) RECLASSIFICATION, REORGANIZATION OR MERGER. In case of any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the Borrower, or in case of any consolidation or merger of the Borrower with or into another entity (other than a merger with a subsidiary in which merger the Borrower is the continuing corporation and which does not result in any reclassification, capital reorganization or other change of outstanding shares of Common Stock of the class issuable upon conversion of Conversion Loan Amounts pursuant to the terms hereof) or in case of any sale, lease, or conveyance to another entity of all or substantially all of the property and assets of the Borrower, the Borrower shall, as a condition precedent to such transaction, cause effective provisions to be made so that each Tranche B Lender shall have the right thereafter by conversion of Conversion Loan Amounts pursuant to the terms hereof, to purchase the kind and amount of shares of stock and other securities and property receivable upon such reclassification, capital reorganization and other change, consolidation, merger, sale, lease or conveyance by a holder of the number of shares of Common Stock which might have been purchased upon conversion of Conversion Loan Amounts pursuant to the terms hereof immediately prior to such reclassification, change, consolidation, merger, sale, lease or conveyance. Any such provision shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for herein. The Borrower shall not effect any such reorganization, consolidation, merger, sale or conveyance unless prior to or simultaneously with the consummation thereof the survivor or successor corporation (if other than the Borrower) resulting from such reorganization, consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and sent to each Tranche B Lender of the obligation to deliver to such Tranche B Lender such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Tranche B Lender may be entitled to receive, and containing the express assumption by such successor corporation of the due and punctual performance and observance of every provision herein to be performed and observed by the Borrower and of all liabilities and obligations of the Borrower hereunder. The foregoing provisions of this Section 2.07(e) shall similarly apply to successive reclassifications, capital reorganizations, and changes of shares of Common Stock and to successive consolidations, mergers, sales, leases or conveyances. In the event that in connection with any such capital

reorganization or reclassification, consolidation, merger, sale, lease or conveyance, additional shares of Common Stock shall be issued in exchange, conversion, substitution, or payment, in whole or in part, for a security of the Borrower other than Common Stock, any such issue shall be treated as an issue of Common Stock covered by the provisions of Subsection 2.07(b) (1) hereof.

SECTION 2.08 SECURITY. The Borrower's obligations under this Agreement shall be secured in accordance with and/or have the benefit of the Pledge and Security Agreement, the Mortgages, any other Security Document, and each other mortgage, security interest, pledge agreement or other document granted pursuant to Sections 5.09, 5.10 and 5.11.

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SECTION 2.09 TERMINATION AND REDUCTION OF COMMITMENTS.

(a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Tranche A Commitments; provided that (i) each reduction of the Tranche A Commitments shall be in an amount that is an integral multiple of \$500,000 and not less than \$2,500,000 and (ii) the Borrower shall not terminate or reduce the Tranche A Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Tranche A Revolving Credit Exposures would exceed the total Tranche A Commitments.

(c) Subject to the Tranche B Lenders right to exercise its conversion rights under Section 2.07 hereof, the Borrower may at any time terminate, or from time to time reduce, the Tranche B Commitments; provided that (i) each reduction of the Tranche B Commitments shall be in an amount that is an integral multiple of \$500,000 and not less than \$2,500,000, (ii) the Borrower shall not terminate or reduce the Tranche B Commitments unless the Tranche A Commitments have been reduced to zero and all other Loan Obligations (excluding the principal of the Tranche B Loans) have been repaid in full, and (iii) the Borrower shall not terminate or reduce the Tranche B Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Tranche B Revolving Credit Exposures would exceed the total Tranche B Commitments.

(d) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Tranche A Commitments under paragraph (b) of this Section at least six (6) Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Tranche B Commitments under paragraph (c) of this Section at least ten (10) Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof, which termination or reduction shall be subject to the Tranche B Lenders rights to exercise the conversion rights under Section 2.07 hereof at any time prior to the expiration of such ten (10) Business Day period. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section 2.09 shall be irrevocable; provided that a notice of termination of the Tranche A Commitments or Tranche B Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective

date) if such condition is not satisfied. Any termination or reduction of the Tranche A Commitments or Tranche B Commitments shall be permanent. Each reduction of the Tranche A Commitments or Tranche B Commitments shall be made ratably among the Lenders in accordance with their respective Tranche A Commitments or Tranche B Commitments.

(e) If at any time the aggregate outstanding principal amount of all of the Loans made by any Lender shall exceed the amount of the Commitment of such Lender, the Borrower shall immediately upon receipt of notice thereof from the Administrative Agent or

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such Lender, or immediately upon the Borrower's acquiring actual knowledge thereof, prepay the Loans of such Lender to the extent necessary to eliminate such excess.

(f) Notwithstanding anything herein to the contrary, the sum of the aggregate outstanding principal balance of all Loans made by all Lenders at any one time shall not exceed the aggregate amount of all Commitments as then in effect. If at any time the aggregate outstanding principal balance of the Loans exceeds the applicable limit stated in the immediately preceding sentence, the Borrower shall immediately upon receipt of notice thereof from the Administrative Agent or such Lender, or immediately upon the Borrower's acquiring actual knowledge thereof, prepay the Loans to the extent necessary to eliminate such excess.

(g) Any reduction of the Commitments under this Section 2.09 shall apply as a proportional and permanent reduction of the Commitments of each of the Lenders. If the aggregate outstanding principal balance of the Loans exceeds any applicable limit specified hereunder after giving effect to any such reduction of the Commitments, Borrower shall immediately prepay such Loans to the extent necessary to eliminate such excess.

(h) In the event any reduction in the Commitments is made in accordance with this Section 2.09, the Administrative Agent will issue to the Borrower and each Lender a revised Schedule 2.01 to this Agreement reflecting such reduction, which revised Schedule 2.01 shall supersede and replace the prior version thereof and shall be substituted by each party in lieu thereof.

#### SECTION 2.10 REPAYMENT OF LOANS; EVIDENCE OF DEBT.

(a) The Borrower hereby unconditionally promises to pay to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan on the Maturity Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of

any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) To further evidence the existence and amounts of the Borrower's obligations to pay principal and interest on each Loan made by a Lender hereunder, (i) with

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respect to each Tranche A Loan, the Borrower shall execute and deliver to that Lender a Tranche A Note payable to the Lender, with all blanks therein appropriately filled, with the face amount equal to the principal amount of such Lender's Tranche A Commitment, and (ii) with respect to each Tranche B Loan, the Borrower shall execute and deliver to that Lender a Tranche B Note payable to the Lender, with all blanks therein appropriately filled, with the face amount equal to the principal amount of such Lender's Tranche B Commitment. The Borrower shall prepare, execute and deliver each such Note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns). Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more Notes payable to the order of the payee named therein (or, if such Note is a registered note, to such payee and its registered assigns).

#### SECTION 2.11 PREPAYMENT OF LOANS; REBORROWINGS.

(a) Subject to Section 2.11(d) hereof, the Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section; provided that unless all outstanding amounts are being repaid, each prepayment of Borrowing shall be in an amount that is an integral multiple of \$100,000 and not less than \$2,500,000.00.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder not later than 1 p.m., New York City time, (the following date, as applicable, the "Prepayment Date") (i) with respect to Tranche A Loans, six Business Days before the date of prepayment or (ii) with respect to Tranche B Loans, ten (10) Business Days before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09; provided further that any prepayment of Tranche B Loans shall be subject to the Tranche B Lenders rights to exercise the conversion rights under Section 2.07 hereof at any time prior to the expiration of the ten (10) Business Day notice period. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing as provided in Section 2.02. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13 and Section 2.14. At its discretion, Borrower may elect to make such payment of accrued interest on the date of a prepayment through a Stock Payment in accordance with Section 2.14 hereof.

(c) The Borrower may reborrow any principal amount repaid under this Section 2.11 in accordance with the

provisions of this Article II, provided that the Borrower can satisfy the requirements for obtaining a Loan set forth in Section 4.02 hereof, and provided further that with respect to Tranche A Loans, Borrower may not reborrow any amounts repaid unless the full \$10,000,000 in principal amount of the Tranche B Loans is outstanding and/or has

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been converted into Conversion Shares in accordance with Section 2.07 hereof. Each such reborrowing shall be treated as a Borrowing for all purposes hereunder.

(d) Notwithstanding any other provision of this Agreement, any provision in any other Loan Documents or any provision of the Term Loan Documents, no prepayment or repayments of the Tranche B Loans may be made until all other Loan Obligations (excluding the outstanding principal of the Tranche B Loans) have been paid in full to the Lenders and the Administrative Agent. Mandatory or optional prepayments by Borrower shall first apply to currently outstanding Tranche A Loans or the Term Loan Obligations (excluding the principal of the Tranche B Loans) (as allocated between such Loan Obligations within the sole discretion of the Administrative Agent). Further, the Administrative Agent and the Lenders shall have right to exercise their conversion rights prior to any prepayment of the Tranche B Loans in accordance with Sections 2.07 and 2.11(b) hereof.

#### SECTION 2.12 FEES.

(a) As a fee for this amended and restated facility and the Loans to Borrower hereunder, on the Effective Date, the Borrower shall execute and deliver to the Administrative Agent for the account of each Lender (i) the Fee Warrant Certificate, (ii) the Purchaser Certificate, and (iii) the Additional Stock Letter Agreement, each in form and substance satisfactory to the Administrative Agent (in Administrative Agent's absolute discretion).

(b) All fees payable hereunder shall be paid on the date due to the Administrative Agent for distribution to the Lenders. Fees paid shall not be refundable under any circumstances.

#### SECTION 2.13 INTEREST.

(a) The Loans comprising each Borrowing shall bear interest at a rate per annum equal to the Applicable Interest Rate for the Interest Period in effect for such Borrowing.

(b) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraph of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to Loans as provided in paragraph (a) of this Section.

(c) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (b) of this Section shall be payable on demand and (ii) in the event of any repayment or prepayment of any Loan, accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment.

(d) All interest hereunder shall be computed on the

basis of a year of 360 days, and shall be payable for the actual number of days elapsed (including the first day but

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excluding the last day). The LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

#### SECTION 2.14 STOCK PAYMENT ELECTION.

(a) In its sole discretion, as provided in this section, Borrower may elect to pay accrued interest on a Borrowing on an Interest Payment Date (or, in the case of a prepayment under Section 2.11, on the Prepayment Date) for such Borrowing through the remittance of the Stock Payment (instead of immediately available funds) (such election a "Stock Payment Election").

(b) To make a Stock Payment Election pursuant to this Section 2.14 with respect to any Borrowing for any Interest Period (or in the case of a prepayment under Section 2.11, the portion of an Interest Period ending on the Prepayment Date), the Borrower shall notify the Administrative Agent of such election by telephone not later than 1:00 p.m., New York time, six (6) Business Days before the Interest Payment Date (or, in the case of a prepayment under Section 2.11, six (6) Business Days before the Prepayment Date) for the current Interest Period for such Borrowing (the "Stock Payment Election Deadline"). Each telephone Stock Payment Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Stock Payment Election Request in a form approved by the Administrative Agent and signed by the Borrower. Promptly upon receipt of the written Stock Payment Election Request, the Administrative Agent shall give notice of such Stock Payment Election Request to the Lenders.

(c) Each telegraphic and written Stock Payment Election Request shall specify the Borrowing to which such Stock Payment Election Request applies;

(d) Following receipt of a Stock Payment Election Request, the Administrative Agent shall advise each Lender and the Borrower by 11 a.m., New York time, on the Interest Payment Date (or, in the case of a prepayment under Section 2.11, on the Prepayment Date) relating to such Stock Payment Election Request of the details thereof, including the Administrative Agent's determination of the Stock Payment (including its calculation thereof) as determined pursuant to Subsection (g) hereof.

(e) If the Borrower fails to deliver a timely Stock Payment Election Request with respect to any Borrowing prior to the Stock Payment Election Deadline applicable thereto and in accordance with requirements of this section, then (a) the Borrower shall be deemed to have decided not to elect the Stock Payment Election for that Borrowing for that Interest Period and (b) the Applicable Interest Rate for that Borrowing for that Interest Period shall be the Cash Payment Rate.

(f) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to make the Stock Payment Election or notify the Administrative Agent of a Stock Payment Election Request if a Default or an Event of Default has occurred and is continuing (unless this requirement is waived by the Required Lenders).

(g) With respect to any Borrowing for which a Stock Payment Election has been made in accordance with this Section 2.14, the Stock Payment shall mean the quantity of

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shares of the Borrower's Common Stock (with any fractional amount rounded to the next highest integer) that has a value at least equal to the amount of accrued interest at the Stock Payment Rate for that Borrowing for the Interest Period (or, in the case of a prepayment under Section 2.11, the portion of an Interest Period ending on the Prepayment Date) for which the Stock Payment Election has been made (the "Stock Payment"). For purposes of this Section 2.14, the value of each share of Common Stock shall equal the average daily Closing Price of the Common Stock over the five (5) Business Days immediately prior to the Interest Payment Date (or, in the case of a prepayment under Section 2.11, over the five (5) Business Days immediately prior to the Prepayment Date) for the Borrowing for which the Stock Payment Election has been made.

SECTION 2.15 INCREASED COSTS.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender; or

(ii) impose on any Lender any other condition affecting this Agreement or Applicable Interest Rate Loans made by such Lender or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Applicable Interest Rate Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section 2.15 shall not constitute a waiver of such Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender pursuant

to this Section 2.15 for any increased costs or reductions incurred more than 270 days prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is

retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16 INCREASED COSTS; PROBLEMS ASCERTAINING APPLICABLE INTEREST RATE. If prior to the commencement of the Interest Period for a Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the LIBO Rate for such Interest Period; or

(b) if Administrative Agent determines that the LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to the Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, any Borrowing Request that requests such Borrowing shall be ineffective.

SECTION 2.17 TAXES.

(a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent or Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent or such Lender, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of

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such payment or liability delivered to the Borrower by a Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.18 PAYMENTS GENERALLY; PRO RATA TREATMENT; SHARING OF SET-OFFS.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursements, or of amounts payable under Section 2.15, 2.17 or 2.20, or otherwise) prior to 2:00 p.m., New York City time, on the date when due, in immediately available funds (or (a) with respect to accrued interest for a Borrowing for which the Borrower has made the Stock Payment Election in accordance with Section 2.14, Common Stock, or (b) with respect to fees under Section 2.12, the Fee Warrant Certificate), without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at c/o ING Baring (U.S.) Capital LLC, 135 East 57th Street, New York, New York 10022 Attention: Joan Chiappe, Vice President, except that payments pursuant to Sections 2.15, 2.17, 2.20 and 9.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars (or, (a) in the case of a Stock Payment Election, Common Stock, or (b) in the case of the fees under Section 2.12, the Fee Warrant Certificate).

(b) If at any time insufficient funds or property are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds or property shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, (ii) second, towards payment of principal on the Tranche A Loans then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties, and (iii) third, towards payment of

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principal on the Tranche B Loans then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in

the Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it to the Administrative Agent pursuant to the terms of this Agreement, then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

#### SECTION 2.19 MITIGATION OBLIGATIONS; REPLACEMENT OF LENDERS.

(a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable

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efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses

incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.20 BREAK FUNDING PAYMENTS. In the event of (a) the payment of any principal of any Loan other than on the last day of an Interest Period therefor (including as a result of an Event of Default), or (b) the failure to borrow, continue or prepay any Loan on the date specified in any notice delivered pursuant hereto, then, in such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of any Loan, the loss to any Lender attributable to any such event shall be deemed to include an amount determined by such Lender to be equal to the excess, if any, of (i) the amount of interest that such Lender would pay for a deposit equal to the principal amount of such Loan for the period from the date of such payment to the last day of the then current Interest Period for such Loan if the interest rate payable on such deposit were equal to the Cash Payment Rate for such Interest Period, over (ii) the amount of interest that such Lender would earn on such principal amount for such period if such Lender were to invest such principal amount for such period at the interest rate that would be bid by such Lender (or an affiliate of such Lender) for deposits from other banks in the eurocurrency market at the commencement of such period. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

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SECTION 2.21 CERTAIN MANDATORY PREPAYMENTS. In addition to any other prepayments required under the Loan Documents, prepayments of the Loan Obligations shall be required as follows (any prepayment of the Revolver Loan Obligations set forth in (a) and (b) of this Subsection shall be effected in each case in the manner and to the extent specified in Subsection (c) of this Section 2.21).

(a) Certain Mandatory Prepayments for Equity

Contribution. To the extent, if any, that Borrower raises, collects, or receives, in any manner, a cumulative amount after September 30, 2001 equal to or greater than \$7,500,000 from the Net Available Proceeds from, relating to, or arising from any Equity Issuance, then the Borrower shall prepay the Loan Obligations an aggregate amount equal to 25% of such cumulative proceeds in excess of \$7,500,000 to prepay the Lender's outstanding loans (as allocated between the Revolving Loan Obligations and the Term Loan Obligations as determined by ING in its sole discretion).

(b) Payments from the Metropolitan Water District of Southern California. If the Borrower or its Subsidiaries receives any Metropolitan Water District Payments, then the Borrower shall prepay the Loan Obligations in an aggregate amount equal to 100% of the Net Available Proceeds thereof (as allocated between the Revolving Loan Obligations and the Term Loan Obligations as determined by the ING in its sole discretion).

(c) Application. Prepayments to the Revolving Loan Obligations described in the above subsections of Section 2.21 and allocated, in accordance with subsections 2.21(a) and (b) for the prepayment of Revolving Loan Obligations, shall be applied in the following order:

(i) then due and payable interest and fees under the Revolving Loan Documents; and

(ii) then the principal amounts outstanding under the Tranche A Loans, and

(iii) then the principal amounts outstanding under the Tranche B Loans, and

(iv) then all other Revolving Loan Obligations and other amounts due under the Revolving Loan Documents.

(d) For purposes of this Section 2.21, the following terms shall have the following meanings:

"EQUITY ISSUANCE" shall mean (a) any issuance or sale by the Borrower or any of its Subsidiaries after September 30, 2001 of (i) any capital stock, (ii) any warrants or options exercisable in respect of capital stock (other than any warrants or options issued to directors, officers or employees of the Borrower or any of its Subsidiaries pursuant to employee benefit plans established in the ordinary course of business and any capital stock of the Borrower issued upon the exercise of such warrants or options) or (iii) any other security or instrument representing an equity interest (or the right to obtain any equity interest), in the Borrower or any of its Subsidiaries, or (iv) to the extent not covered in subsections (a)(i) through (iii) above, the proceeds from convertible debt or debt with warrants attached thereto that

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provides the lender with an effective annual yield in excess of 18% (as reasonably determined by the Lender using Black-Scholl's pricing methodology), or (b) the receipt by the Borrower or any of its Subsidiaries after September 30, 2001 of any capital contribution (whether or not evidenced by any equity security issued by the recipient of such contribution); provided that Equity Issuance shall not include (x) any such issuance or sale by any Subsidiary of the Borrower to the Borrower or any Subsidiary of the Borrower, (y) any capital contribution by the Borrower or any Wholly Owned Subsidiary of the Borrower to any Subsidiary of the Borrower, or (z) the issuance or sale of any securities described in subsection (a) above of any of the Sun World Entities if, under the terms of the Sun

World Indenture (1) the Net Available Proceeds of such issuance or sale are required to be offered to the holders of pre-existing debt obligations of any of the Sun World Entities, or (2) any of the Sun World Entities are prohibited from distributing or otherwise transferring the Net Available Proceeds to Borrower or from directly applying the Net Available Proceeds to the payment of the obligations of the Borrower .

"METROPOLITAN WATER DISTRICT PAYMENTS" shall mean, any payments received by the Borrower or any of its Subsidiaries or Affiliates from or on account of the Metropolitan Water District of Southern California and/or the Cadiz Groundwater Storage and Dry-Year Supply Program.

"NET AVAILABLE PROCEEDS" shall mean, (1) in the case of any Equity Issuance, the aggregate amount of all cash received by the Borrower and its Subsidiaries in respect of such Equity Issuance net of reasonable expenses incurred by the Borrower and its Subsidiaries in connection therewith, and (2) in the case of any Metropolitan Water District Payments, the aggregate amount of all cash received by the Borrower and its Subsidiaries in respect of such Metropolitan Water District Payments, but excluding out-of-pocket expense reimbursements paid to the Borrower or its subsidiaries by the Metropolitan Water District of Southern California and/or the Cadiz Groundwater Storage and Dry-Year Supply Program in an aggregate amount not to exceed \$5,000,000.

SECTION 2.22 REGISTRATION RIGHTS. Borrower hereby agrees that all Common Stock of Borrower, each of the Revolving Credit Agreement Warrants and their respective underlying shares and/or issued at any time, whether before or after the date hereof, under any of the Loan Documents, including stock issued pursuant to a Stock Payment Election in accordance with Section 2.14 of this Agreement, shall be accorded registration rights by the Borrower as set forth in the Registration Rights Addendum.

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### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that the following representations and warranties are true and correct on the date hereof as if made on the date hereof (except, to the extent any such representations and warranties specifically refer to an earlier date, in which case, such representations or warranties are represented and warranted to be true and correct as of such earlier specified date):

SECTION 3.01 ORGANIZATION; POWERS. Each of the Borrower and its Participating Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02 AUTHORIZATION; ENFORCEABILITY. The Transactions are within the Borrower's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization,

moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03 GOVERNMENTAL APPROVALS; NO CONFLICTS.

The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries (except those imposed by the Loan Documents).

SECTION 3.04 FINANCIAL CONDITION; NO MATERIAL ADVERSE CHANGE.

(a) The Borrower has heretofore furnished to the Administrative Agent its consolidated balance sheet and statements of income, stockholders equity and cash flows (i) as of and for the fiscal year ended December 31, 2000, reported on by PricewaterhouseCoopers LLP, independent public accountants, and (ii) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2001, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

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(b) Since September 30, 2001, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Subsidiaries, taken as a whole.

SECTION 3.05 PROPERTIES.

(a) Each of the Borrower and its Participating Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, except for Permitted Encumbrances and minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of the Borrower and its Participating Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Participating Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.06 LITIGATION AND ENVIRONMENTAL MATTERS.

(a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an

adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve this Agreement or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

#### SECTION 3.07 COMPLIANCE WITH LAWS AND AGREEMENTS.

Each of the Borrower and the Participating Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

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#### SECTION 3.08 INVESTMENT AND HOLDING COMPANY STATUS.

Neither the Borrower nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09 TAXES. Each of the Borrower and its Participating Subsidiaries has timely filed or caused to be filed all tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Borrower or such Participating Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10 ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$500,000 the fair market value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$500,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11 DISCLOSURE. The Borrower has disclosed to the Administrative Agent all agreements, instruments and

corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12 SECURITY INTERESTS. Except for (a) the filing of UCC financing statements in respect of the collateral covered by the Security Documents in the States of Delaware and California and such other applicable jurisdictions in the United States of America and (b) filing and recording of Mortgages in respect of the real property collateral in the county in which the real property is located, which filings shall have been made and be in effect on (or simultaneously with) the Effective Date, the taking of possession by the Administrative Agent of the certificates representing the shares of capital stock of the Participating Subsidiaries and various instruments pledged to it pursuant to the Pledge and Security Agreement, and the delivery of notice of the security interests granted in the accounts covered by the Pledge and

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Security Agreement to the bank or banks whereat such accounts are maintained and receipt of acknowledgements of such notices by such banks (which actions shall be effected as of or promptly following the Effective Date), no further filing or recording of any document and no other action is necessary or advisable in the States of Delaware or California or any other applicable jurisdiction in the United States of America in order to establish and perfect, under the laws of Delaware or California or such other applicable jurisdiction in the United States of America, the Administrative Agent's security interest in such collateral, to the extent required by the applicable Security Documents, on behalf of the Lenders.

SECTION 3.13 PARTICIPATING SUBSIDIARIES. The Borrower has no Participating Subsidiaries except as set forth on Schedule 3.13 hereto.

SECTION 3.14 INACTIVE SUBSIDIARIES. The Borrower has no Inactive Subsidiaries except as set forth on Schedule 3.14 hereto. The Inactive Subsidiaries (a) do not conduct any business activities of any type or nature, and (b) do not own or have any interest in any assets or property of any type or nature.

SECTION 3.15 SOLVENCY. After giving effect to the Transactions, (i) the assets of the Borrower, at a fair valuation, will exceed its debts, (ii) the Borrower's capital will not be unreasonably small to conduct its business, (iii) the Borrower will not have incurred debts, or have intended to incur debts, beyond its ability to pay such debts as they mature, and (iv) the then-current fair salable value of the Borrower's assets will be greater than the amount that will be required to pay its probable liabilities (including debts) as they become absolute and matured. For purposes of this Section, "debt" means any liability on a claim, and "claim" means (x) the right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured

or unsecured, or (y) the right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured. For purposes of this Section, the Borrower may assume that the Loans will be refinanced on the Maturity Date.

SECTION 3.16 EXCLUDED ITEMS. The aggregate acquisition cost of (i) all Excluded Items plus (ii) all Rolling Stock (in existence as of the Effective Date or thereafter acquired) for which the Borrower or other Obligor, as the case may be, has not granted Liens in favor of the Administrative Agent, for itself and on behalf of the Lenders, is not more than \$2,000,000.

SECTION 3.17 EQUITY ACQUISITION ASSETS. The aggregate acquisition cost of all Equity Acquisition Assets for which the Borrower or other Obligor, as the case may be, has not granted Liens in favor of the Administrative Agent, for itself and on behalf of the Lenders, is not more than \$2,000,000.

SECTION 3.18 ROLLING STOCK. The aggregate acquisition cost of all Rolling Stock for which the Borrower, without the consent of the Administrative Agent, has not granted Liens in favor of the Administrative Agent, for itself and on behalf of the Lenders, is not more than \$2,000,000.

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SECTION 3.19 CERTAIN ACKNOWLEDGEMENTS. The Borrower hereby expressly acknowledges and agrees that as of the Effective Date (and prior to any draw on the Tranche B Loans), the outstanding principal under the Loan Documents is in the amount of \$15,000,000.00, representing the full Tranche A Commitments. The foregoing amount does not include accrued and unpaid interest from and after January 31, 2002. Further, the Borrower hereby confirms that (a) the following documents remain valid and binding agreements and/or instruments, and (b) the Borrower and, as applicable, its Participating Subsidiaries remain bound by the terms and provisions of the following documents:

(i) the Pledge and Security Agreement (together with the share certificates representing all of the issued and outstanding shares of the Participating Subsidiaries, endorsed in blank), and the Mortgages, and/or any amendments to any such existing Loan Documents;

(ii) the Revised and Restated Initial Draw Warrant Certificate;

(iii) the Revised and Restated Additional Draw Warrant Certificate;

(iv) the Eighth Warrant Certificate;

(v) the Ninth Warrant Certificate;

(vi) the Tenth Warrant Certificate;

(vii) the Eleventh Warrant Certificate;

(viii) the Cadiz Reaffirmation Agreement; and

(ix) the other Loan Documents, as amended from time to time.

SECTION 3.20 NO SATISFACTION. The Borrower hereby expressly represents, warrants, acknowledges and agrees that nothing in this Agreement or in any document or instrument executed in connection with or pursuant to this Agreement shall constitute a satisfaction of or a novation as to all

or any portion of Borrower's indebtedness under the Loan Documents. Borrower hereby unconditionally reaffirms, reconfirms and restates its obligation to pay in full the Revolving Loan Obligations arising under the Loan Documents and all other Loan Obligations to the Administrative Agent and/or the Lenders, as the case may be. Borrower hereby further acknowledges and agrees that it has no defenses to the enforcement of the Revolving Loan Obligations (or any portion thereof), or the other Loan Obligations, nor any counter-claims or claims of offset whatsoever and that neither this Agreement nor the consummation of the transactions contemplated herein will give rise to any such defenses, counter-claims or claims of offset.

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#### ARTICLE IV

#### CONDITIONS

SECTION 4.01 EFFECTIVE DATE. The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent shall have received the following documents, each in form and substance satisfactory to the Administrative Agent, duly executed and delivered by all the parties thereto:

(i) this Agreement;

(ii) the Borrower filed or registered certificate of incorporation, as amended, modified, restated or supplemented to the date hereof and certified as of the Effective Date as being a true and correct copy thereof by an officer of the Borrower;

(iii) a copy, certified as of the Effective Date of the resolutions of the board of directors of the Borrower duly authorizing the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents to which it is a party, and each other document required to be executed and delivered by the Borrower pursuant to this Agreement;

(iv) a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (o) and (q) of this Section 4.01;

(v) Fourth Amendment to the Revolving Credit Note, in the form as attached hereto in Exhibit I;

(vi) Fourth Modification of the Pledge and Security Agreement, in the form as attached hereto in Exhibit J;

(vii) Fourth Modification of the Revolver Deed of Trust, in the form as attached hereto in Exhibit K;

(viii) Fourth Modification of the Revolver SWFG Deed of Trust, in the form as attached hereto in Exhibit L;

(ix) Fourth Modification of the Revolver Piute Deed of Trust, in the form as attached hereto in Exhibit M;

(x) the Registration Rights Addendum, in the form as attached hereto in Exhibit H;

(xi) the Fee Warrant Certificate, in the form as attached hereto in Exhibit D;

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(xii) the Purchaser Certificate in the form as

attached hereto in Exhibit G;

(xiii) the Additional Stock Letter Agreement, in the form as attached hereto in Exhibit A.

(b) The Borrower shall have confirmed in writing that the following documents remain valid and binding agreements and/or instruments, which written confirmation is in form and substance satisfactory to the Administrative Agent, in its sole discretion, and that Borrower and, as applicable, its Participating Subsidiaries remain bound by the terms and provisions of the following documents:

(i) the Pledge and Security Agreement (together with the share certificates representing all of the issued and outstanding shares of the Participating Subsidiaries, endorsed in blank), and the Mortgages, and/or any amendments to any such existing Loan Documents;

(ii) the Revised and Restated Initial Draw Warrant Certificate;

(iii) the Revised and Restated Additional Draw Warrant Certificate;

(iv) the Eighth Warrant Certificate;

(v) the Ninth Warrant Certificate;

(vi) the Tenth Warrant Certificate;

(vii) the Eleventh Warrant Certificate;

(viii) the Cadiz Reaffirmation Agreement; and

(ix) the other Loan Documents, as amended from time to time.

(c) The Administrative Agent shall have received an opinion from the Borrower's counsel in form and substance satisfactory to the Administrative Agent (A) that Borrower is in good standing in the States of Delaware and California, (B) as to the due authorization, execution and delivery of this Agreement and the other Loan Documents, (C) that this Agreement and the other Loan Documents constitute valid, binding and enforceable obligations of Borrower, and (D) as to such other matters as the Administrative Agent shall reasonably request.

(d) The Administrative Agent shall have received certified copies of the resolutions (in form and content satisfactory to Administrative Agent) of the Board of Directors of Borrower approving and authorizing this Agreement and the other documents executed and/or delivered in connection herewith (including each of the exhibits hereto), and the effectuation of the transactions contemplated herein and/or therein, as the case may be, and any and all actions to be taken by Borrower in furtherance and in connection with this Agreement and/or the other documents executed and/or delivered in connection herewith.

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(e) The Administrative Agent shall have received from the Delaware Secretary of State a Certificate of Good Standing with respect to Borrower and a certificate evidencing that Borrower is qualified to do business in California, all of which certificates must be in form and content satisfactory to Administrative Agent.

(f) The Administrative Agent shall have received certificates (in form and content satisfactory to Administrative Agent) of the Secretary of Borrower, certifying as to the names and signatures of the officers authorized to sign this Agreement and the other documents to

be executed and delivered on its behalf pursuant to this Agreement.

(g) To the best of Borrower's knowledge, all real property taxes with respect to the property encumbered by any of the ING Collateral, as well as all real property taxes affecting the property encumbered by any and all deeds of trust pledged or assigned to Administrative Agent as security for the Revolving Loan Obligations (or any of them), shall have been paid prior to the date any fine, penalty, interest, late-charge or loss may be added to such taxes or charged against such real property or other ING Collateral for the non-payment or late-payment of such taxes.

(h) The Borrower shall have caused appropriate officers of Borrower to execute and deliver to Administrative Agent such additional certificates with respect to matters relating to the transactions contemplated herein as Administrative Agent may reasonably require.

(i) The Borrower shall have executed and delivered or caused the appropriate third parties to execute and/or deliver (in recordable form, where appropriate, and otherwise in form and content satisfactory to Administrative Agent) such other documents, instruments, agreements and writings as Administrative Agent may reasonably require in connection with the creation or continuation of any security interest(s) granted to Administrative Agent in furtherance of the transactions contemplated by this Agreement or as Administrative Agent may otherwise require in connection with the consummation of such transactions (including, without limitation, estoppel certificates, guaranty waivers, security agreements, pledges, assignments, subordination agreements, endorsements, certificates, certifications, reports, and studies).

(j) as of the date hereof, or as soon as practicable hereafter, but in no event later than ten (10) days hereafter, UCC financing statements covering all the security interests created by or pursuant to the Pledge and Security Agreements in the collateral pledged pursuant thereto, shall have been executed and delivered by the Borrower to the Administrative Agent and such financing statements, or other statements or documents to the same purposes, shall have been duly filed in all other applicable jurisdictions in the United States of America necessary or desirable to perfect said security interests and there shall have been taken all other action as the Administrative Agent or any Lender through the Administrative Agent may reasonably request or as shall be necessary to perfect such security interests to the extent required by the applicable Security Documents.

(k) [Intentionally omitted].

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(l) The representations and warranties of the Borrower set forth in this Agreement and each other Loan Document shall be true and correct on and as of the Effective Date of such Borrowing.

(m) No Default shall have occurred and be continuing.

(n) The Borrower shall have performed or observed and be continuing to perform each term, covenant or agreement contained in any Loan Document.

(o) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(p) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(q) All governmental and third party approvals necessary or, in the discretion of the Administrative Agent, advisable in connection with the Transaction, the financing contemplated hereby and the continuing operations of the Borrower shall have been obtained and be in full force and effect, and all applicable waiting periods shall have expired without any action being taken or threatened by any competent authority which would restrain, prevent or otherwise impose adverse conditions on the Transactions or the financing thereof.

(r) The Administrative Agent shall have received a "date down and modification" endorsement to each of the mortgagee title insurance policies (collectively, the "Title Policies") issued for the benefit of the Lender with respect to the Revolver Deeds of Trust, which endorsements shall (i) be issued by the Chicago Title Insurance Company for the benefit of the Lender and its successors and assigns, (ii) insure the amendments to the Revolver Deeds of Trust required to be delivered pursuant to this Section 4.01 of this Agreement and the continued priority of Revolver Deeds of Trust granted to the Lender, (iii) confirm that all real property taxes with respect to the property encumbered by the Revolver Deeds of Trust have been paid prior to the date any fine, penalty, interest, late charge or similar fine or penalty shall accrue with respect to the payment of such taxes, (iv) be otherwise in form and substance satisfactory to the Lender in its sole discretion.

(s) The Lender shall have received confirmation, in form and substance satisfactory to the Lender, that (i) Borrower has paid (a) all premiums for the endorsements to the Title Policies required pursuant to Section 4.01(r) hereof and (b) all recording and filing fees relating to the recording of the amendment to the Revolver Deeds of Trust required to be delivered pursuant to this Section 4.01 of this Agreement and (ii) all amendments to the Revolver Deeds of Trust required to be delivered pursuant to this Section 4.01 of this Agreement have been duly accepted for recording.

(t) The Administrative Agent shall have received such other documents as the Administrative Agent may reasonably request.

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The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 3:00 p.m., New York City time, on March 20, 2002 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02 EACH CREDIT EVENT. The obligation of each Lender to make a Loan on the occasion of any Borrowing is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in this Agreement shall be true and correct on and as of the date of such Borrowing.

(b) At the time of and immediately after giving effect to such Borrowing, no Default shall have occurred and be continuing.

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

## ARTICLE V

### AFFIRMATIVE COVENANTS

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full, the Borrower covenants and agrees with the Lenders that:

SECTION 5.01 FINANCIAL STATEMENTS AND OTHER INFORMATION. The Borrower will furnish to the Administrative Agent and each Lender:

(a) within 15 days following Borrower's filing each Annual Report on Form 10-K with the Commission, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 15 days following Borrower's filing each Quarterly Report on Form 10-Q with the Commission, its consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of

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the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under Subsection (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, and (ii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) [Intentionally omitted]

(e) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any Subsidiary with the Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally,

as the case may be; and

(f) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

SECTION 5.02 NOTICES OF MATERIAL EVENTS. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section 5.02 shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or

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development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03 EXISTENCE; CONDUCT OF BUSINESS. The Borrower will, and will cause each of its Subsidiaries (including Sun World, but excluding Borrower's Inactive Subsidiaries and the subsidiaries of Sun World) to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.04 PAYMENT OF OBLIGATIONS. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.05 MAINTENANCE OF PROPERTIES; INSURANCE. The Borrower will, and will cause each of its Participating Subsidiaries and SWFG to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations. Further, within ten (10) Business Days after the Effective Date, the Borrower shall provide evidence to the Administrative Agent of the insurance required to be carried pursuant to the foregoing sentence, which evidence shall be

in form and substance satisfactory to, in form and substance satisfactory the Administrative Agent.

SECTION 5.06 BOOKS AND RECORDS; INSPECTION RIGHTS.

The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries (excluding the Sun World Entities) to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 5.07 COMPLIANCE WITH LAWS. The Borrower

will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.08 USE OF PROCEEDS. Subject to the terms

and restrictions set forth herein, the proceeds of the Loans will be used solely for the purpose of (a) financing a

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Permitted Investment and (b) financing the working capital and general corporate needs of the Borrower. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations G, U and X. Notwithstanding the foregoing, to the extent that the Borrower transfers any proceeds of the Loans to any of its Affiliates, such transfer must be a loan evidenced by a note and as properly authorized by the Board of Directors of the Borrower and the board of directors for such Affiliate; which note shall be pledged to the Borrower and constitute ING Collateral.

SECTION 5.09 NEW SUBSIDIARIES. In the event that any

Person shall become a Participating Subsidiary of Borrower after the date hereof, Borrower shall execute (or cause such other Participating Subsidiary as may be the direct parent company of the new Participating Subsidiary to execute) a Pledge and Security Agreement, as the case may be, sufficient to subject all of the capital stock of such new or additional Participating Subsidiary to a Lien in favor of the Administrative Agent, on behalf of the Lenders, and any other documents as the Administrative Agent may reasonably request from time to time in order to perfect or maintain the perfection of the Administrative Agent's Liens thereunder, each in form and substance reasonably satisfactory to the Administrative Agent.

SECTION 5.10 ACQUISITIONS BY BORROWER.

(a) In the event that after the date of this Agreement the Borrower acquires ownership of any additional real or personal property of any type or nature (including, but not limited to, notes or other obligations from a Subsidiary or Affiliate to Borrower), the Borrower shall promptly give written notice of such acquisition to the Administrative Agent, and if requested by the Administrative Agent at the direction of the Required Lenders, Borrower shall execute and deliver any and all Security Documents or collateral assignments, security agreements, mortgages, deeds of trust, pledge agreements, financing statements, fixture filings, notice filings or other documents as the Administrative Agent may reasonably request from time to time in order for

the Administrative Agent to acquire a Lien on the property so acquired by Borrower as additional security for the obligations under this Agreement or to perfect or maintain the perfection of such Lien.

(b) Notwithstanding paragraph (a) of this Section 5.10, so long as no Event of Default is then in existence, Borrower shall not be required to deliver to the Administrative Agent any Security Documents or collateral assignments, security agreements, mortgages, deeds of trust, pledge agreements, financing statements, fixture filings, notice filings or other documents for any item of real or personal property acquired by Borrower on or after the Effective Date if both (i) the acquisition cost of each such item of real or personal property (including, but not limited to, Rolling Stock) is less than \$250,000 and (ii) the aggregate acquisition cost of (A) all such real or personal property (including, but not limited to, Rolling Stock) in which no Lien has been granted in favor of the Administrative Agent pursuant to this paragraph (b) of this Section (collectively, the "Excluded Items") plus (B) Rolling Stock in existence as of the Effective Date is not more than \$2,000,000. To the extent that the aggregate acquisition cost of (i) all Excluded Items plus (ii) Rolling Stock in existence as of the Effective Date is more than \$2,000,000 (the "Excluded Items/Rolling Stock Threshold"), Borrower will, and will cause its Subsidiaries to, grant (and such Liens shall be deemed immediately to have

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been granted) Liens on such assets to the extent in excess of the Excluded Items/Rolling Stock Threshold in favor of the Administrative Agent, for itself and on behalf of the Lenders.

(c) Notwithstanding paragraph (a) and (b) of this Section 5.10, so long as no Event of Default is then in existence, Borrower also shall not be required to deliver to the Administrative Agent any Security Documents or collateral assignments, security agreements, mortgages, deeds of trust, pledge agreements, financing statements, fixture filings, notice filings or other documents for any item of real or personal property acquired on or after the Effective Date if each of the following conditions are satisfied: (a) each such item of real or personal property is acquired or purchased on or after the Effective Date solely in exchange for the Common Stock or other equity interest in the Borrower (an "Equity Acquisition Asset"), (b) no Lien is created, imposed, or permitted to exist on any Equity Acquisition Asset, and (c) the aggregate acquisition value of all Equity Acquisition Assets does not exceed \$2,000,000. To the extent that the aggregate acquisition value of all Equity Acquisition Assets is more than \$2,000,000 ("Equity Acquisition Threshold"), Borrower will, and will cause its Subsidiaries to, grant Liens (and such Liens shall be deemed immediately to have been granted) on such assets to the extent in excess of the Equity Acquisition Threshold in favor of the Administrative Agent, for itself and on behalf of the Lenders.

SECTION 5.11 ACQUISITIONS WITH PROCEEDS OF LOANS. In the event that after the date of this Agreement, a Subsidiary or Borrower's Affiliate utilizes the proceeds of any Loans, which are either directly or indirectly transferred or otherwise forwarded to such Subsidiary or Borrower's Affiliate from Borrower, to acquire real or personal property of any type or nature, Borrower shall promptly give written notice of such acquisition to the Administrative Agent, and if requested by the Administrative Agent at the direction of the Required Lenders, Borrower shall cause such Subsidiary or Borrower's Affiliate to execute and deliver Security Documents or collateral assignments, security agreements, mortgages, deeds of trust, pledge agreements, financing statements, fixture filings,

notice filings or other documents the Administrative Agent may reasonably request from time to time in order for the Administrative Agent to acquire a Lien on the property so acquired by the Subsidiary or Borrower's Affiliate as the case may be, as additional security for the obligations under this Agreement or to perfect or maintain the perfection of such Lien.

SECTION 5.12 REVOLVING CREDIT AGREEMENT WARRANTS. On the date hereof, the Borrower shall issue the Fee Warrant Certificate and the Purchaser Certificate. The Fee Warrant Certificate shall be duly executed and registered in such name or names and in such denominations as each Lender shall have notified the Borrower and shall be deemed earned in accordance with Section 2.12 hereof and the terms and conditions of the Fee Warrant Certificate. The Borrower shall keep available for issuance upon exercise of the Fee Warrant Certificate and the other Revolving Credit Agreement Warrants a sufficient quantity of Common Stock to satisfy the exercise in full of the Revolving Credit Agreement Warrants from time to time outstanding. The Borrower will comply in all respects with its obligations under the Revolving Credit Agreement Warrants and shall take all steps as shall be necessary to insure that the Lenders and any subsequent holders of the Revolving Credit Agreement Warrants receive all of the benefits which they are intended to receive thereunder.

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SECTION 5.13 STOCK PAYMENT COMMON STOCK. On each Interest Payment Date that the Borrower has made a Stock Payment Election on account of a Borrowing, the Borrower shall issue Common Stock to the Lenders equal to the applicable Stock Payment ("Stock Payment Common Stock"). All shares of Common Stock issued pursuant to a Stock Payment shall be duly authorized, validly issued, fully paid, non-assessable, and free and clear of all Liens and other encumbrances.

SECTION 5.14 CONVERSION SHARES. The Borrower shall keep available for issuance a sufficient quantity of Common Stock to satisfy, at all times, the exercise by any Tranche B Lender of such Tranche B Lenders' conversion rights pursuant to Section 2.07 hereof. All shares of Common Stock issued pursuant to the exercise of conversion rights under Section 2.07 hereof shall be duly authorized, validly issued, fully paid, non-assessable, and free and clear of all Liens and other encumbrances.

## ARTICLE VI

### NEGATIVE COVENANTS

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full, the Borrower covenants and agrees with the Lenders that:

SECTION 6.01 INDEBTEDNESS. The Borrower will not, and will not permit any Participating Subsidiary or SWFG to, create, incur, assume or permit to exist any Indebtedness of Borrower, the Participating Subsidiaries or SWFG, except:

- (a) Indebtedness created hereunder;
- (b) Indebtedness existing on November 25, 1997 and set forth in Schedule 6.01 and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof;
- (c) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary;
- (d) Guarantees by the Borrower of Indebtedness of any

Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary;

(e) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any assets, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that (i) such Indebtedness is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this Subsection (e) shall not exceed \$135 million at any time outstanding;

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(f) Indebtedness of the Borrower or any Subsidiary as an account party in respect of trade letters of credit;

(g) "Parent Permitted Debt" (as defined in the Sun World Indenture), to the extent such debt may be incurred by Borrower pursuant to the terms of the Sun World Indenture without any action or authorization by the Sun World Trustee under the Sun World Indenture or by the holders of the Sun World Notes; provided, however, no "Parent Permitted Debt" (as defined in the Sun World Indenture) may be created, incurred, assumed or permitted to exist that would have a Material Adverse Effect upon Borrower's ability to satisfy the Borrower's obligations hereunder and under the other Loan Documents;

(h) intercompany loans payable to the Borrower that evidences the intercompany transfer of the proceeds of the Loans to affiliates of the Borrower, provided, however, that any such intercompany loan is evidenced by a note that is pledged by Borrower to and for the benefit of the Administrative Agent for account of the Lenders.

SECTION 6.02 LIENS. The Borrower will not, and will not permit any Subsidiary (excluding the Sun World Entities) to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien on any property or asset of the Borrower or any Subsidiary (excluding the Sun World Entities) existing on November 25, 1997 and set forth in Schedule 6.02; provided that (i) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (ii) such Lien shall secure only those obligations which it secured on November 25, 1997 and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (ii) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and (iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(d) Liens on assets acquired, constructed or improved by the Borrower or any Subsidiary; provided that (i) such security interests secure Indebtedness permitted by Subsection (e) of Section 6.01, (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 90 days after such acquisition or the completion of

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such construction or improvement, (iii) the Indebtedness secured thereby does not exceed 90% of the cost of acquiring, constructing or improving such assets and (iv) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary;

(e) Liens to the extent permitted pursuant to the terms of the Sun World Indenture without any action or authorization by the Sun World Trustee under the Sun World Indenture or by the holders of the Sun World Notes; provided that such Liens do not include any Liens on the ING Collateral; and

(f) Liens on the Excluded Items or any portion thereof; notwithstanding the foregoing, the Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any Equity Acquisition Asset now owned or hereafter acquired, or any proceeds thereof.

#### SECTION 6.03 FUNDAMENTAL CHANGES.

(a) The Borrower will not, and will not permit any Subsidiary, excluding the Sun World Entities, to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) any substantial part of its assets, or all or substantially all of the stock of any of its Subsidiaries (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Subsidiary/Person may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (ii) any Subsidiary/Person may merge into any Subsidiary in a transaction in which the surviving entity is a Subsidiary, (iii) any Subsidiary may sell, transfer, lease or otherwise dispose of its assets to the Borrower or to another Subsidiary and (iv) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(b) The Borrower will not, and will not permit any of its Subsidiaries (excluding the Sun World Entities) to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the date of execution of this Agreement and businesses reasonably related thereto.

(c) Notwithstanding the foregoing, the Borrower may sell assets to the extent such sale may be consummated pursuant to the terms of the Sun World Indenture without any action or authorization by the Sun World Trustee under the Sun World Indenture or the holders of the Sun World Notes; provided that such sales do not include or affect in any manner the ING Collateral.

(d) Unless an Inactive Subsidiary shall comply with

each and every obligation that Participating Subsidiaries (either directly or indirectly) have hereunder or under any of the Loan Documents, (a) the Borrower will not permit such Inactive Subsidiary to engage in any

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business of any type or nature, (b) the Borrower will not permit the Inactive Subsidiaries, and will cause the Inactive Subsidiaries to refrain from, obtaining any assets or properties of any type or nature, (c) the Borrower will not permit any Inactive Subsidiary to, create, incur, assume or permit to exist any Indebtedness, and (d) the Borrower will not permit any Inactive Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues.

SECTION 6.04 INVESTMENTS, LOANS, ADVANCES, GUARANTEES AND ACQUISITIONS. The Borrower will not, and will not permit any of its Subsidiaries (excluding the Sun World Entities) to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) investments by the Borrower existing on the date hereof in the capital stock, other securities or equity interests of its Subsidiaries;

(c) loans or advances made by the Borrower to any Subsidiary and made by any Subsidiary to the Borrower or any other Subsidiary;

(d) Guarantees constituting Indebtedness permitted by Section 6.01; and

(e) assets acquired by Borrower solely in exchange for the equity interests of the Borrower.

SECTION 6.05 HEDGING AGREEMENTS. The Borrower will not, and will not permit any of its Subsidiaries (excluding the Sun World Entities) to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

SECTION 6.06 RESTRICTED PAYMENTS. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment; except that the Borrower and its Affiliates may make "Restricted Payments" (as defined in the Sun World Indenture) to the extent such payments may be effected pursuant to the terms of the Sun World Indenture without any action or authorization by the Sun World Trustee under the Sun World Indenture or by the holders of the Sun World Notes, provided, however, that no such "Restricted Payments" (as defined in the Sun World Indenture) may be made that would have a Material Adverse Effect upon Borrower's ability to satisfy the Borrower's obligations hereunder and under the other Loan Documents.

SECTION 6.07 TRANSACTIONS WITH AFFILIATES. The Borrower will not, and will not permit any of its

Subsidiaries to, sell, lease or otherwise transfer any property or assets

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to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among the Borrower and its Subsidiaries not involving any other Affiliate, (c) any Restricted Payment permitted by Section 6.06, and (d) "Affiliate Transactions" (as defined in the Sun World Indenture), to the extent such transactions may be incurred by Borrower and its Subsidiaries pursuant to the terms of the Sun World Indenture without any action or authorization by the Sun World Trustee under the Sun World Indenture or by the holders of the Sun World Notes, provided, however, that no such "Affiliate Transactions" (as defined in the Sun World Indenture) may be undertaken that would have a Material Adverse Effect upon Borrower's ability to satisfy the Borrower's obligations hereunder and under the other Loan Documents.

SECTION 6.08 RESTRICTIVE AGREEMENTS. The Borrower will not, and will not permit any of its Subsidiaries (excluding the Sun World Entities) to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of the Borrower or any Subsidiary (excluding the Sun World Entities) to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary (excluding the Sun World Entities) to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement or any other Loan Document, (ii) the foregoing shall not apply to restrictions and conditions existing on November 25, 1997 identified on Schedule 6.08 (but shall apply to any amendment or modification expanding the scope of any such restriction or condition), (iii) except as may be required pursuant to Section 5.10 hereof, the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) except as may be required pursuant to Section 5.10 hereof, Subsection (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (v) except as may be required pursuant to Section 5.10 hereof, Subsection (a) of the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

SECTION 6.09 USE OF PROCEEDS. Borrower shall not use the proceeds of any of the Loans for any purpose other than as and to the extent permitted by Section 5.08 hereof.

SECTION 6.10 MANAGEMENT FEES FROM SUN WORLD. Borrower shall not, and will cause Sun World to refrain from taking any action to, either directly or indirectly, amend, modify, alter or voluntarily terminate or suspend the Borrower/Sun World Services Agreement in any manner that would restrict, limit, affect, modify, suspend or terminate Borrower's right to receive at least \$1,500,000.00 annually for management fees paid by Sun World to Cadiz under the

terms of the Cadiz/Sun World Services Agreement.

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## ARTICLE VII

### EVENTS OF DEFAULT

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of, or interest on, any Loan or any fee or any other amount payable under this Agreement or any other Loan Document when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) any representation or warranty made or deemed made by or on behalf of the Borrower or any Subsidiary in or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or waiver hereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or waiver hereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(c) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.03 (with respect to the Borrower's existence) or 5.08 or in Article VI;

(d) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clauses (a), (b) or (c) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(e) the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable; provided that this clause (e) shall not apply solely by reason of a failure to make a payment when and as the same shall become due and payable under the Sun World Indenture or other Sun World Documents unless (i) such failure would cause an Event of Default hereunder pursuant to a Section other than this Section (e), (ii) the Sun World Notes or any of the obligations under the Sun World Documents to the Sun World Trustee or the holders of the Sun World Notes have been accelerated pursuant to the provisions of the Sun World Indenture or otherwise, (iii) the Sun World Trustee and/or any of the holders of the Sun World Notes have instituted legal proceedings to enforce the Sun World Notes, the Sun World Indenture, or any obligations referred to in any of the Sun World Documents, (iv) the Sun World Trustee and/or any of the holders of the Sun World Notes have commenced foreclosure proceedings (judicial or nonjudicial) with respect to any collateral held as security for the obligations under the Sun World Documents, or (v) such failure to make payments has a Material Adverse Effect upon Borrower's ability to satisfy its obligations under this Agreement or any other Loan Document (as determined solely in the Administrative Agent's reasonable judgment); provided further

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that this clause (e) shall not apply solely by reason of a failure to make a payment when and as the same shall become due and payable under any other Sun World Indebtedness

unless (i) such failure would cause an Event of Default hereunder pursuant to a Section other than this Section (e), (ii) such Sun World Indebtedness have been accelerated pursuant to the terms thereof or otherwise, (iii) the holders of such Sun World Indebtedness or any agent therefor have instituted legal proceedings to enforce such Sun World Indebtedness, (iv) the holders of such Sun World Indebtedness or any agent therefor have commenced foreclosure proceedings (judicial or nonjudicial) with respect to any collateral held as security for such Indebtedness, or (v) such failure to make payments has a Material Adverse Effect upon Borrower's ability to satisfy its obligations under this Agreement or any other Loan Document (as determined solely in the Administrative Agent's reasonable judgment).

(f) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (f) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness; provided further that this clause (f) shall not apply solely by reason of an "Event of Default" under the Sun World Indenture or other Sun World Documents unless (i) such event would cause an Event of Default hereunder regardless of its classification as an "Event of Default" under the Sun World Indenture or other Sun World Documents, (ii) the Sun World Notes or any of the obligations under the Sun World Documents to the Sun World Trustee or the holders of the Sun World Notes have been accelerated pursuant to the provisions of the Sun World Indenture or otherwise, (iii) the Sun World Trustee and/or any of the holders of the Sun World Notes have instituted legal proceedings to enforce the Sun World Notes, the Sun World Indenture, or any obligations referred to in any of the Sun World Documents, (iv) the Sun World Trustee and/or any of the holders of the Sun World Notes have commenced foreclosure proceedings (judicial or nonjudicial) with respect to any collateral held as security for the obligations under the Sun World Documents, or (v) such event has a Material Adverse Effect upon Borrower's ability to satisfy its obligations under this Agreement or any other Loan Document (as determined solely in the Administrative Agent's reasonable judgment); provided further that this clause (f) shall not apply solely by reason of an "Event of Default" under any other Sun World Indebtedness unless (i) such event would cause an Event of Default hereunder regardless of its classification as an "Event of Default" for such other Sun World Indebtedness, (ii) such Sun World Indebtedness has been accelerated pursuant to the terms thereof or otherwise, (iii) the holders of such Sun World Indebtedness or any agent therefor have instituted legal proceedings to enforce the Sun World Indebtedness, (iv) the holders of such Sun World Indebtedness or any agent therefor have commenced foreclosure proceedings (judicial or nonjudicial) with respect to any collateral held as security for such Indebtedness, or (v) such event has a Material Adverse Effect upon Borrower's ability to satisfy its obligations under this Agreement or any other Loan Document (as determined solely in the Administrative Agent's reasonable judgment).

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(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy,

insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the Borrower or any Subsidiary shall

(i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (g) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(i) the Borrower or any Subsidiary (other than PSWRI and SWFG) shall become unable, admit in writing or fail generally to pay its debts as they become due;

(j) one or more judgments for the payment of money in excess of \$500,000 shall be rendered against the Borrower, any Participating Subsidiary, SWFG or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any Participating Subsidiary to enforce any such judgment;

(k) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(l) a Change in Control shall occur;

(m) any of the Security Documents shall for any reason cease to be a valid perfected security interest in favor of the Administrative Agent, for itself and on behalf of the Lenders, in the Borrower's right, title and interest in and to the collateral subject thereto (subject only to Permitted Encumbrances), to the extent required by such Security Document, and in the case of any Mortgage, such cessation continues unremedied for more than 10 days; or

(n) an "Event of Default" shall have occurred and be continuing under any other Loan Document;

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then, and in every such event (other than an event with respect to the Borrower described in clause (g) or (h) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times:

(i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other

obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (g) or (h) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower. In addition to any other remedies available to the Administrative Agent and the Lenders hereunder or at law or otherwise, if an Event of Default shall have occurred and so long as the same shall be continuing unremedied, then and in every such case, the Administrative Agent and the Required Lenders may exercise any or all of the rights and powers and pursue any and all of the remedies set forth in any Security Document in accordance with terms thereof.

#### ARTICLE VIII

##### THE ADMINISTRATIVE AGENT

###### SECTION 8.01 APPOINTMENT, POWERS AND IMMUNITIES.

Each of the Lenders hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof and by the other Loan Documents, together with such actions and powers as are reasonably incidental thereto.

###### SECTION 8.02 ADMINISTRATIVE AGENT IN ITS INDIVIDUAL

CAPACITY. The Lender serving as the Administrative Agent hereunder and under the other Loan Documents shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Lender and its Affiliates may lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder. In that regard, the terms "Lenders", "Required Lenders", or any similar terms used herein shall, unless the context clearly otherwise indicates, include the Administrative Agent in its individual capacity. The Administrative Agent may lend money to, and generally engage in any kind of financial, financial advisory or other business with the Borrower or any Affiliate of the Borrower as if it were not performing the duties specified herein, and may accept fees and other consideration from the Borrower for services in connection with this Agreement and otherwise without having to account for the same to the Lenders.

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###### SECTION 8.03 NATURE OF DUTIES OF ADMINISTRATIVE

AGENT. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth herein or in any other Loan Document, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the Lender serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any

action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement, (ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

#### SECTION 8.04 CERTAIN RIGHTS OF ADMINISTRATIVE AGENT.

If the Administrative Agent shall request instructions from the Required Lenders with respect to any act or action (including the failure to act) in connection with this Agreement or any other Credit Document, the Administrative Agent shall be entitled to refrain from such act or taking such action unless and until the Administrative Agent shall have received instructions from the Required Lenders; and the Administrative Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, but subject to the terms of Section 9.02 hereof, no Lender shall have any right of action whatsoever against the Administrative Agent as a result of the Administrative Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

SECTION 8.05 RELIANCE BY ADMINISTRATIVE AGENT. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not

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taken by it in accordance with the advice of any such counsel, accountants or experts. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof shall have been filed with the Administrative Agent pursuant to Section 9.04 below. Any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of such Note or any Note issued in exchange therefor.

SECTION 8.06 SUB-AGENTS. The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

#### SECTION 8.07 RESIGNATION BY ADMINISTRATIVE AGENT.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

SECTION 8.08 NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER LENDERS. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

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SECTION 8.09 SECURITY DOCUMENTS.

(a) Each Lender hereby authorizes the Administrative Agent to enter into each of the Security Documents and to take all actions contemplated thereby. All rights and remedies under the Security Documents may be exercised by the Administrative Agent for the benefit of the Lenders and the other beneficiaries thereof upon the terms thereof. With the consent of the Required Lenders, the Administrative Agent may assign its rights and obligations as Administrative Agent under any of the Security Documents to any Affiliate of the Administrative Agent, and such Affiliate thereafter shall be entitled to (i) all the rights of the Administrative Agent under the applicable Security Document and (ii) all rights hereunder of the Administrative Agent with respect to the applicable Security Document.

(b) In each circumstance where, under any provision of any Security Document, the Administrative Agent shall have the right to grant or withhold any consent, exercise any remedy, make any determination or direct any action by the Administrative Agent under such Security Document, the Administrative Agent shall act in respect of such consent, exercise of remedies, determination or action, as the case may be, with the consent of and at the direction of the Required Lenders; provided, however, that no such consent of the Required Lenders shall be required with respect to any consent, determination or other matter that is, in the Administrative Agent's judgment, ministerial or administrative in nature. In each circumstance where any consent of or direction from the Required Lenders is required, the Administrative Agent shall send to the Lenders a written notice setting forth a description in reasonable detail of the matter as to which consent or direction is

requested and the Administrative Agent's proposed course of action with respect thereto. In the event the Administrative Agent shall not have received a response from any Lender within five (5) Business Days after the giving of such notice, such Lender shall be deemed to have agreed to the course of action proposed by the Administrative Agent.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01 NOTICES. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower, to it at:

Cadiz Inc.  
Attn: Chief Financial Officer  
100 Wilshire Blvd.  
Sixteenth Floor  
Santa Monica, CA 90401-1111  
Telephone No.: 310-899-4700  
Facsimile No.: 310-899-4752

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with a copy to:

Howard Unterberger, Esq.  
Miller & Holguin

1801 Century Park East  
Seventh Floor  
Los Angeles, CA 90067  
Telephone No.: 310-556-1990  
Facsimile No.: 310-557-2205

(b) if to the Administrative Agent, to it at:

ING Baring (U.S.) Capital LLC  
135 E. 57th Street  
New York, NY 10022-2101  
Attention: Joan Chiappe, Vice President  
Reference: Cadiz  
Telephone No.: 212-409-1742  
Facsimile No.: 212-371-9295

with a copy to:

Cadwalader, Wickersham & Taft  
100 Maiden Lane  
New York, New York 10038  
Attention: Michael J. Edelman, Esq.  
Telephone No.: 212-504-6000  
Facsimile No.: 212-504-6666

(c) if to ING, as a Lender, to it at:

ING Baring (U.S.) Capital LLC  
135 E. 57th Street  
New York, NY 10022-2101  
Attention: Joan Chiappe, Vice President  
Reference: Cadiz  
Telephone No.: 212-409-1742  
Facsimile No.: 212-371-9295

with a copy to:

Cadwalader, Wickersham & Taft  
100 Maiden Lane  
New York, New York 10038

Attention: Michael J. Edelman, Esq.  
Telephone No.: 212-504-6000  
Facsimile No.: 212-504-6666

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(d) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

#### SECTION 9.02 WAIVERS; AMENDMENTS.

(a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) change any of the provisions of this Section 9.02 or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender, or (vi) release any security interest in any material collateral for the obligations evidenced by the Loan Documents (except in accordance with the Loan Documents) without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent.

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SECTION 9.03 EXPENSES; INDEMNITY; DAMAGE WAIVER.

(a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Administrative Agent or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement or any other Loan Document, including its rights under this Section 9.03, or in connection with the Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) The Borrower shall indemnify the Administrative Agent and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnatee") against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated therein, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnatee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or the use of the proceeds thereof.

(e) All amounts due under this Section 9.03 shall be payable promptly after written demand therefor.

#### SECTION 9.04 SUCCESSORS AND ASSIGNS.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it); provided that (i) except in the case of an assignment to a Lender or an Affiliate of a Lender, each of the Borrower and the Administrative Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$2,000,000 unless each of the Borrower and the Administrative Agent otherwise consents, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$1,000, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (h) or (i) of Article VII has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at its offices

in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other financial institutions (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section 9.04 shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05 SURVIVAL. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration of the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06 COUNTERPARTS; INTEGRATION; EFFECTIVENESS. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07 SEVERABILITY. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08 RIGHT OF SETOFF. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower

against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmaturred. The rights of each Lender under this Section 9.08 are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09 GOVERNING LAW; JURISDICTION; CONSENT TO SERVICE OF PROCESS.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of California.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of (i) the Supreme Court of the State of New York sitting in New York County, (ii) the United States District Court of the Southern District of New York, (iii) any United States federal court sitting in the Central District of California, or (iv) any other court of appropriate jurisdiction sitting in the County of Los Angeles, City of Los Angeles, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or California Court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD

NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER

PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.10.

SECTION 9.11 HEADINGS. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12 CONFIDENTIALITY. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Borrower; provided, however, that such information, to the Administrative Agent's or Lender's knowledge, without any duty of inquiry, has not been provided in violation of any obligation owed by the source thereof to the Borrower. For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13 FORECLOSURE OF CADIZ/SUN WORLD LEASE. If, in enforcing remedies hereunder, the Administrative Agent or a Lender forecloses on the property subject to that certain Cadiz/Sun World Lease, whether judicially or non-judicially, or obtains title to such property by deed in lieu of foreclosure, by purchase, or otherwise, then (a) so long as Sun World is not in default under the Cadiz/Sun World Lease: (i) Sun World and the Sun World Trustee under the Sun World Indenture shall be named or joined in any foreclosure, trustee's sale or other proceeding only if required by law; and (ii) the enforcement of any remedies hereunder that effects a transfer of title to the property subject to the Cadiz/Sun World Lease shall not terminate the Cadiz/Sun World Lease nor terminate nor affect in any manner the lien of the Sun World Trustee thereon, nor disturb Sun World in the possession and use of the property subject thereto.

Borrower hereby waives, as to this Agreement and any and all Loan Documents heretofore or hereafter executed in connection with the Transactions any defense, protection or right under:

- (a) California Code of Civil Procedure ("CCP") Section 580(d) concerning the bar against rendition of a deficiency judgment after foreclosure under a power of sale;
- (b) CCP Section 580(a) purporting to limit the amount of a deficiency judgment which may be obtained following exercise of a power of sale under a deed of trust; and
- (c) CCP Section 726 concerning exhaustion of collateral, the form of foreclosure proceedings with respect to real property security located in California and otherwise limiting the amount of a deficiency judgment which may be recovered following completion of judicial foreclosure by reference to the "fair value" of the foreclosed collateral.

SECTION 9.15 COSTS BORNE BY NON-PREVAILING PARTY. In the event of any dispute with respect to this Agreement or any other Loan Document, the prevailing party shall be entitled to recover from the non-prevailing party all costs and attorneys' fees.

SECTION 9.16 INTEREST RATE LIMITATION. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.17 STATUS OF ING. ING hereby represents to the Borrower that it is not a Foreign Lender.

SECTION 9.18 AMENDMENTS TO SUN WORLD INDENTURE. An amendment or modification of the Sun World Indenture will be a Non-Adverse Amendment only upon the satisfaction of each and every one of the following conditions (such amendment or modification that satisfies all of the following requirements, a "Non-Adverse Amendment"):

- (a) the Borrower, in accordance with Section 9.01 of this Credit Agreement, gives notice of, and delivers to, the Administrative Agent, a true and correct copy of such amendment or modification;

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- (b) as determined solely in the Administrative Agent's reasonable judgment, the terms of the amendment or modification of the Sun World Indenture do not, and will not, adversely affect either (i) the ability of the Borrower or the other Obligors to satisfy their respective obligations under this Credit Agreement and/or the other Loan Documents

or (ii) the rights of the Administrative Agent or Lenders hereunder or under the other Loan Documents; and

- (c) such amendment or modification of the Sun World Indenture is validly effected and becomes effective pursuant to the terms of the Sun World Indenture.

The failure of the Borrower to notify, and deliver to, the Administrative Agent any amendment or modification of the Sun World Indenture will preclude such amendment or modification from being a Non-Adverse Amendment until each of the requirements set forth in the previous sentence are satisfied. If, however,

- (x) the Borrower gives notice of, and delivers to, the Administrative Agent, a true and correct copy of an amendment or modification to the Sun World Indenture; and
- (y) the Administrative Agent does not notify the Borrower within five (5) Business Days after the Administrative Agent's receipt of the documents set forth in subclause (x) above that the amendment or modification (in the Administrative Agent's reasonable judgment) has or will have an adverse effect upon (i) the ability of the Borrower or the other Obligors to satisfy their respective obligations under this Credit Agreement and/or the other Loan Documents or (ii) the rights of the Administrative Agent or Lenders hereunder or under the other Loan Documents;

then such amendment or modification of the Sun World Indenture shall be deemed to be a Non-Adverse Amendment for all purposes hereunder. Notwithstanding the foregoing, and without requiring any action by the Borrower or the Administrative Agent, any amendments or modifications of the Sun World Indenture that may be validly effected pursuant to the terms of the Sun World Indenture without any action or authorization by the holders of the Sun World Notes (or any portion of such holders) shall also be deemed to be a Non-Adverse Amendment provided that such amendment or modification does not, and will not, in the Administrative Agent's reasonable judgment, adversely affect (i) Borrower's ability to satisfy the Borrower's obligations hereunder and under the other Loan Documents or (ii) the rights of the Administrative Agent or Lenders hereunder or under the other Loan Documents.

SECTION 9.19 GENERAL RELEASE. In consideration of the amendments, waivers, consents, and the other terms and provisions of this Agreement and the other Loan Documents, Borrower, on behalf of itself, its agents, successors, assigns, subsidiaries, partners and Affiliates hereby fully release and forever discharge the Administrative Agent, the Lenders and each of their agents, consultants, heirs, successors, assigns, Affiliates, directors, officers, employees, shareholders, executives, servants, attorneys, accountants, representatives and other

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related persons (collectively, the "Released Parties") from any and all rights, claims, demands, actions, causes of action, costs, losses, suits, liens, debts, damages, judgments, executions and demands of every nature, kind and description whatsoever, whether now known or unknown, either at law, in equity or otherwise, which Borrower or any of its agents, successors, assigns, subsidiaries, partners and/or Affiliates ever had or may have against the Administrative Agent, the Lenders or the other Released Parties, including, without limitation, all claims arising under or in connection with the Loan Documents, and/or in connection with the dealings between

the parties up to and including the closing of the transactions contemplated in this Agreement and all claims which have arisen or may arise in any other way whatsoever; provided that nothing herein shall be deemed to release the Administrative Agent, the Lenders or any other Released Party from any liability or obligations arising in connection with facts or circumstances which occur or arise for the first time after the Effective Date.

It is further understood and agreed that the foregoing general release extends to all claims of every kind and nature whatsoever, known, suspected or unsuspected, liquidated or contingent, foreseen or unforeseen, and Borrower and its agents, successors, assigns, subsidiaries, partners and Affiliates hereby waive all rights under Section 1542 of the California Civil Code. Section 1542 of the California Civil Code provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH DEBTOR."

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CADIZ INC.,  
the Borrower  
By: /s/ Stanley E. Speer

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Stanley E. Speer  
Chief Financial Officer

ING BARING (U.S.) CAPITAL LLC,  
Individually and as  
Administrative Agent

By: /s/ William Soto

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Name: William Soto  
Title: Vice PResident

THE CADIZ GROUNDWATER STORAGE AND DRY-YEAR SUPPLY PROGRAM  
DEFINITIVE ECONOMIC TERMS AND RESPONSIBILITIES BETWEEN  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA AND CADIZ INC.

March 6, 2001

1. General Provisions

- 1.1 The Cadiz Groundwater Storage and Dry-Year Supply Program (Program) shall have a life of 50 years.
- 1.2 Except where otherwise noted, Cadiz Inc. or its successors (Cadiz) and The Metropolitan Water District of Southern California (Metropolitan) may not contract with any third party for the use of the Capital Facilities or the Cadiz or Fenner groundwater basins for storage or exportation of water during the life of the Program.
- 1.3 Except as otherwise provided, Metropolitan has exclusive use of the Cadiz Program Capital Facilities.
- 1.4 Year one of the program shall begin the first day after completion of facilities necessary for the storage of Colorado River water in the Cadiz Basin and ending on December 31st of that year. Year two and all-subsequent years of the program shall begin on January 1st. Year fifty of the program shall extend beyond December 31st up to the fiftieth anniversary of the first day after completion of facilities necessary for the storage of Colorado River water in the Cadiz-Fenner Groundwater Basin (Basin).
- 1.5 Except as otherwise provided, all payments shall be made in quarterly installments and be due on the first day of each calendar year quarter (January 2nd, April 1st, July 1st, and October 1st). Except that the first payment, pursuant to Section 4.1, shall be due no earlier than 45 days from completion of facilities necessary for the storage of Colorado River water in the Cadiz Basin.

2. Capital Facilities

- 2.1 Metropolitan and Cadiz shall share equally the actual cost of Capital Facilities (mutually agreed estimates, at the time of execution of the contract, not to exceed \$150,000,000) including spreading and recovery facilities and a conveyance pipeline including pump

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facilities (all having a capacity to transport 150,000 AF per year to and from the Colorado River Aqueduct and the Basin) and including the costs of design, construction and Program implementation cost of the Capital Facilities (including estimated mitigation capital costs, provided that these costs do not cause the total capital cost to exceed \$150,000,000). If one party desires to modify the Capital Facilities, and that modification increases costs, the requesting party shall bear the increased costs. If, when Metropolitan's Board authorizes execution of the definitive contract, estimated Capital Facilities costs listed above exceed \$150,000,000, because the environmental documents and permits require mitigation measures that are

not anticipated as of the date of issuance of the Supplement to the Draft EIR/EIS, then Metropolitan's Board shall consider the impact of these costs in determining whether to proceed with the Program. Cadiz may assume such increased costs or the parties shall meet to renegotiate the agreement. If, after execution of the contract, actual Capital Facilities costs listed above exceed estimates due to construction costs overruns then these costs shall be shared equally.

- 2.2 Metropolitan shall finance its portion of the Capital Facilities, as Metropolitan deems appropriate.
- 2.3 Any operation of the Capital Facilities after the end of the 50 year Program term shall be negotiated at a future date and shall give fair compensation to Cadiz for any indigenous water or storage beyond the terms of this agreement or to Metropolitan for the use of the Capital Facilities by Cadiz.
- 2.4 Cadiz shall pay for its portion of the Capital Facilities. Prior to any payments by Metropolitan to Cadiz, Metropolitan shall have the right to review and reasonably approve the terms of Cadiz' financing for Cadiz' one-half share of the costs of the Capital Facilities. Any security interest in the Capital Facilities created by Cadiz financing shall not encumber Metropolitan's ownership interest in, or interfere with Metropolitan's right to operate, the Capital Facilities.

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- 2.5 The parties shall jointly own the Capital Facilities. Except as otherwise provided, the parties shall equally share the cost of replacing any portion of the Capital Facilities that requires replacement during the term of the contract unless the replacement is required due to normal wear and tear or as a result of improper maintenance, in which case these costs will be paid by Metropolitan. Metropolitan shall use due care in providing necessary maintenance of the Capital Facilities pursuant to Section 3.1. Each party shall insure its interest in the Capital Facilities with reasonably acceptable commercial insurance or, in the case of Metropolitan, self-insurance.

### 3. O&M and Energy Costs

- 3.1 Except as otherwise provided, Metropolitan shall be responsible for any and all O&M and energy costs during the term of the contract to operate the Capital Facilities. Metropolitan shall use ordinary care in the operation and maintenance of the Capital Facilities. Cadiz shall be responsible for any and all costs, including but not limited to O&M and energy, of the Groundwater Monitoring and Management Plan (GWMP) of the Program beyond the capital costs shared pursuant to Section 2.1.

### 4. Transfer Component Fees and Operations

- 4.1 In years 1-5 of the Program (a total of 20 calendar quarters), Metropolitan shall purchase a minimum of 30,000 acre-feet per year (7,500 AF per calendar quarter) of indigenous water for a minimum total of 150,000 acre-feet to be banked or withdrawn from the Cadiz basin at Metropolitan's

option. This purchased indigenous water shall be guaranteed to Metropolitan in accordance with the provisions of Sections 4.8, 8.6, and 8.14, including through reduction in Cadiz' agricultural water production. In years 6 through 25 of the Program (a total of 80 calendar quarters), Metropolitan shall purchase the balance of at least 750,000 AF of indigenous water not purchased by Metropolitan in years 1-5 of the Program, subject to adjustments as described in Sections 4.6 and 4.8 (all water purchased by Metropolitan pursuant to this Section 4.1 shall hereafter be referred to as Firm Transfer Water). Subject to Sections 4.6 and 4.8, Metropolitan shall build up a "water bank" by purchasing up to 30,000 AF per year (7,500 AF per quarter) of Firm

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Transfer Water. Metropolitan shall pay Cadiz a "Transfer Fee" for the purchase of the Firm Transfer Water.

- 4.2 The Transfer Fee shall initially be \$230 per AF ("Base Rate") in year 1 of the Program and be redetermined to an "Adjusted Rate", if applicable, in years 2-25 of the Program as follows:

4.2.1 Metropolitan and Cadiz shall determine a Fair Market Value through the process described in Attachment A, provided that the increase or decrease in the Fair Market Value shall not exceed 30% of the Fair Market Value in the immediately prior redetermination or 30% of the Base Rate in the initial redetermination;

4.2.2 The Adjusted Rate shall equal the Base Rate plus one-half of the difference between the Fair Market Value and the Base Rate. Example: If the Fair Market Value is \$350 per acre-foot, then the Transfer Fee would be  $\$230 + .5 * (\$350 - \$230) = \$290$  per acre-foot. If the Fair Market Value is \$130 per acre-foot, then the Transfer Fee would be  $\$230 + .5 * (\$130 - \$230) = \$180$  per acre-foot.

- 4.3 The applicable Base Rate or Adjusted Rate shall be paid upon the earlier of (a) delivery of the Firm Transfer Water to the Colorado River Aqueduct or (b) in accordance with the payment schedule set forth in Section 4.1 in the year of payment, whichever is earlier. Any indigenous water for which Metropolitan has made payment but has not taken delivery shall become part of a Metropolitan "water bank" in the Basin and may be withdrawn by Metropolitan at any time during the Program. Firm Transfer Water deliveries in excess of the above payment schedule shall be paid at the Base Rate or Adjusted Rate in effect in the year of delivery. Firm Transfer Water delivered and purchased ahead of the above payment schedule will directly offset subsequent scheduled purchases acre-foot for acre-foot with 50% applied to the next scheduled payment and 50% applied in inverse order from the last scheduled payment.
- 4.4 Any payment for indigenous water constitutes the complete payment for such water and establishes a forward contract obligating Cadiz to deliver indigenous water on demand to

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the Capital Facilities, subject to Section 4.8. Deliveries of water shall be metered at the Colorado River Aqueduct.

4.5 In each Program Year 1 through 25, Cadiz shall have the right to sell to third parties indigenous water (Third Party Indigenous Water) in an amount up to 30,000 AF per year (Potential Sale Option Amount) for sale and use in the Metropolitan service area, subject to Sections 4.6.1 and 8.11. Metropolitan shall deliver such water either through unused capacity in the Metropolitan conveyance system or through an Exchange (as described in Section 8.10) choosing the method of delivery at its sole discretion. Cadiz shall pay a pro-rata share of direct O&M (O&M without overhead or G&A expense) costs of the Capital Facilities in the year of delivery to the Cadiz customer based on Cadiz' pro-rata use of the Capital Facilities to transfer indigenous water to a third party or, in the case of an Exchange, the amount that would have been paid for a third party transfer.

4.5.1 In Program Years 1 through 25, Cadiz shall have the option (Put Option) to require Metropolitan to purchase in each year an amount of indigenous water (Put Transfer Water) that equals the difference between the Potential Sale Option Amount and the amount of Third Party Indigenous Water for such Program Year. If required under this section, Metropolitan shall buy Put Transfer Water at a fixed rate of \$230.00 per acre-foot. Cadiz must inform Metropolitan in writing of its exercise of the Put Option no later than March 1st of each year. In the event that Cadiz exercises the Put Option after January 1st, Metropolitan shall not be required to make payment for the portion of Put Transfer Water delivered during the first quarter of that year until April 1st

4.5.2 The annual Put Option shall expire if not exercised within the time allowed in this Section, and the Potential Sale Option Amount of water for sale shall not accumulate and carry-over from year to year.

4.6 In years 1-5 of the Program, Metropolitan and Cadiz shall operate the Program in a manner that will assist in the continuing assessment of recharge, safe yield, total volume of indigenous water available for transfer during the life of the Program, and the best mode of operations consistent with the Groundwater Monitoring and Management Plan.

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Prior to signing of an agreement, Cadiz and Metropolitan shall agree on this 5-year operating plan within the parameters of the GWMMP. During this five-year period, Cadiz shall not pump water from nor add water to the basin except in a manner consistent with its current agricultural activities. Based on the information gathered pursuant to the GWMMP and through the initial five years of operations, Cadiz and Metropolitan shall jointly determine the total expected yield of the Cadiz indigenous water over the life of the Program by consulting the GWMMP and ensuring compliance with applicable permit requirements. If the parties cannot agree upon the expected yield, the dispute will be referred to binding arbitration. Expected yield of indigenous water from the Program shall be reassessed on an ongoing basis every subsequent two years for the life of the Program. The expected yield of the Program shall be determined after excluding (a) Cadiz' projected use of indigenous water, unless Cadiz has agreed on terms reasonably acceptable to Metropolitan not to use such indigenous water, and (b) the amount of indigenous water that any third party has the

legal right to use and is reasonably expected to use.

4.6.1 If an adjustment is made under Section 4.6 decreasing the expected yield below 1,500,000 AF, then the Potential Sale Option Amount shall equal 30,000 AF per year up to the positive difference, if any, of the expected yield less 750,000 AF. If an adjustment is made under Section 4.6 decreasing the expected yield below 750,000 AF, Metropolitan shall continue to make scheduled water bank program purchases of Firm Transfer Water spread equally over the remaining years beginning with the Program year following the yield adjustment and continuing through year 25 of the Program.

4.7 Upon 12 months notice of Cadiz indigenous water supplies above 1.70 MAF based on the process in Section 4.6, Metropolitan has the option to purchase one-half of such supply of water in excess of 1.70 MAF starting in Program Year 26 at a rate of 30,000 AF per year at the Base Rate or Adjusted Rate in effect in the year of payment. If Metropolitan exercises such option, then Cadiz may market to third parties within Metropolitan's service area one-half of this supply in excess of 1.70 MAF at a rate of

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30,000 AF per year starting in Year 26 pursuant to Section 8.12. If Metropolitan does not exercise this option, then Cadiz may market to third parties within Metropolitan's service area the entire supply in excess of 1.70 MAF at a rate of 60,000 AF per year starting in Year 26 pursuant to Section 8.12. Cadiz shall be responsible for obtaining all required approvals for the transfer of such water to third parties under this Section 4.7. Metropolitan shall deliver such excess water through the Capital Facilities and Metropolitan conveyance system only if there is unused capacity.

4.8 Payments of Transfer Fees shall be suspended if the expected Program yield agreed upon between Metropolitan and Cadiz or determined by arbitration (pursuant to Section 4.6), is the same or less than the amount of indigenous water for which Metropolitan has paid Cadiz. Cadiz shall be obligated to repay Metropolitan for the difference, up to a maximum of 300,000 AF which shall be secured by Cadiz' obligations pursuant to Sections 8.6 and 8.14. This repayment obligation shall first offset any remaining payment obligations for Puts and Takes, pursuant to Section 5.3 with the remainder repaid to Metropolitan dollar for dollar, within twelve months of notice by Metropolitan. In the event that the amount of water that Metropolitan is entitled to be repaid for, or otherwise compensated for, exceeds Metropolitan's unpaid obligations for Puts and Takes and repayment for 300,000 AF, Metropolitan shall receive credits for additional storage of water pursuant to Section 5.5 at the storage rates in effect at the time the payments of the Transfer Fees were made.

## 5. Storage Component Fees and Operations

5.1 Metropolitan shall pay Cadiz \$90 per AF, adjusted by CPI commencing upon Metropolitan's Board of Directors approval of contract "as to form", of CRA water Metropolitan cycles through the Capital Facilities and storage. This amount consists of a

rate of \$50, adjusted by CPI commencing upon Metropolitan's Board of Directors approval of contract "as to form", to Put such water ("Put Fee") and \$40, adjusted by CPI commencing upon Metropolitan's Board of Directors approval of contract "as to form", to Take such water ("Take Fee").

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- 5.2 At contract execution and subject to provisions under Sections 2.4, 8.1 through 8.5 and 8.15, Metropolitan shall pay at the rate set forth in Section 5.1 for the operation of 600,000 AF of Put and Take activity entitling Metropolitan to 600,000 AF of movement in and 600,000 AF of movement out of the storage program.
  - 5.3 In addition to amounts set forth in Section 5.2, Metropolitan's minimum commitment for storage shall include an additional 300,000 AF of Put and Take activity for which Metropolitan must pay Cadiz at the earlier of (a) delivery or withdrawal; or (b) in accordance with the following schedule: In each of Program Years 5 through 14, Metropolitan shall pay for the operation of 30,000 AF of Put and Take activity entitling Metropolitan to 30,000 AF of movement in and 30,000 AF of movement out of the storage program for each year of payment.
  - 5.4 Metropolitan's minimum commitment for storage is 900,000 AF of Put and Take activity, provided that Metropolitan's storage obligations under the Program shall be in accordance with the GWMP.
  - 5.5 Additional operations of the Program above amounts set forth in Sections 5.2 and 5.3 shall be paid at rates listed in Section 5.1.
  - 5.6 Program storage capacity shall be a minimum of 1,000,000 AF at any one time.
  - 5.7 Evaporative and conveyance losses of stored water shall initially be set to 10% and shall be reset to actual losses through a biannual redetermination in accordance with the GWMP.
6. Water Quality Payment
- 6.1 The Principles of Agreement anticipated an avoided cost payment to Cadiz for any benefit in reducing salinity in the Metropolitan service area. In consideration of the other terms and conditions set forth herein, no water quality payment shall be made. Currently, all constituent levels of indigenous water in the Program area are below state and federal Maximum Contaminant Levels ("MCLs"). Except as provided below, Cadiz will pay the cost of treating all water introduced into the Metropolitan delivery system if necessary so that it meets all federal and state standards applicable to the Colorado River Aqueduct as

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established by the California Department of Health Services or other permitting authority. Due to consideration of water quality benefits and increases in supply reliability and subject to approval through a public process for the introduction of water into the Metropolitan System, indigenous water introduced by Cadiz into the Metropolitan delivery system shall not be required to meet ambient conditions. With respect to the Cadiz Program, this public process shall

take the form and run concurrently with the public review by Metropolitan's Board of the Cadiz Program. Action by the Metropolitan Board approving the water quality provision of the Cadiz Program shall be determinative and shall not be subject to subsequent Board action establishing any general policies. Further, Metropolitan shall not impose any future ambient quality standards if Cadiz continues to meet all federal and state water quality standards at Cadiz' expense. Cadiz may elect to have Metropolitan provide any treatment required to meet federal and state water quality standards and requirements provided that Cadiz shall pay all costs incurred by Metropolitan for providing such treatment. Metropolitan will ensure that water it delivers for storage in the Cadiz/Fenner groundwater basin shall, at a minimum, meet all federal and state standards applicable at the time of delivery to the Colorado River Aqueduct as established by the California Department of Health Services or other permitting authority. If these federal or state standards change as to any constituent in the water Metropolitan delivered for storage so that the stored water would not have met the changed standards when it was delivered for storage, then Metropolitan and Cadiz shall share the cost of treatment for water withdrawn by Metropolitan from the basin for that particular constituent based on the proportion of the levels of the regulated constituent above the changed regulatory standard in Metropolitan's storage water to the levels of the regulated constituent above the changed regulatory standard in the indigenous groundwater in the basin, if any.

7. Groundwater Management Plan

7.1 All withdrawals of water from the Basin shall be made in accordance with the GWMMP.

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8. Other Provisions

8.1 The legal structure of the agreement between Cadiz and Metropolitan shall have provisions to protect Metropolitan's interest in the program. These provisions shall include appropriate security interests described in the attachment hereto (Attachment B). Cadiz may propose alternative security interests or agreement structures that achieve the same results as those described in the attachment. If Metropolitan determines that the alternatives proposed by Cadiz do not provide the same level of security as those described in the attachment, Metropolitan, in its sole reasonable discretion, may reject the proposed alternatives and require the security interests in the form described in the attachment as a condition to proceeding with the program.

8.2 Any costs imposed by third parties for the use of the Cadiz or Fenner groundwater basins or exportation of transfer water shall be borne exclusively by Cadiz.

8.3 Metropolitan shall have no obligation to make any payments to Cadiz, acquire any project lands or rights-of-way or pay for or perform any construction work on the Capital Facilities until the California Department of Health Services approves the introduction of Program water into the Colorado River Aqueduct.

8.4 Metropolitan shall have no obligation to make any payments to Cadiz, pay for or perform any construction work on the Capital Facilities until all rights-of-way, use permits, or easements necessary for the construction and maintenance of the Capital Facilities have been obtained from the Bureau of Land Management.

8.5 Metropolitan shall not execute the contract for the Program prior to thirty (30) days after the filing of a Notice of Determination by Metropolitan as required by the California Environmental Quality Act or the issuance of a Record of Decision by the Bureau of Land Management as required by the National Environmental Policy Act, whichever is later. In the event any litigation is filed challenging any aspect of the Program's environmental compliance or the authority or right of any party to perform its obligations under the contract, then Metropolitan and Cadiz shall jointly defend such litigation. Counsel shall be selected by mutual agreement, and all costs of litigation shall be shared equally.

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8.5.1 If litigation challenging any aspect of the Program's environmental compliance or the authority or right of a party to perform its obligations under the contract has been commenced, and the issuance of any permits required for the Program or the performance of any obligation required under the contract is enjoined or withheld by a court or agency with authority to do so, the performance of all other obligations under the contract shall be suspended until such permits are issued or such injunction is permanently lifted. If such suspension is not lifted within five years the parties' shall meet to negotiate in good faith any future obligation under the contract.

8.5.2 If litigation challenging any aspect of the Program's environmental compliance or the authority or right of any party to perform its obligations under the contract has commenced, but the issuance of any permits required for the Program or the performance of any obligations required under the contract has not been enjoined or withheld by a court or agency with authority to do so, the parties shall confer to determine reasonably and in good faith whether there is merit to the legal challenges which requires further environmental review or other legal authority to proceed with the Program. Either party may elect, if it is reasonable to do so under all the circumstances, to suspend performance of the contract pending resolution of such legal challenge. If such suspension exceeds five years from the election to suspend performance, the parties' shall meet to negotiate in good faith any future obligations under the contract.

8.5.3 If, after the parties have commenced performance under the contract, the Program or any permit required for the Program is permanently suspended or terminated by the action of a court or agency with authority to do so, then Metropolitan shall not be required to proceed with further obligations without the prior approval of its Board of Directors. If the litigation or other legal challenge results in a final determination that precludes the operation of the Program, then:

8.5.3.1 Cadiz shall reimburse Metropolitan the amount paid by Metropolitan for the right to transfer indigenous water that Metropolitan has paid for or banked and cannot transfer up to

300,000 AF of water;

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8.5.3.2 Cadiz shall reimburse Metropolitan the amount paid by Metropolitan for the right to store water that Metropolitan cannot store or that Metropolitan has stored but cannot retrieve from the basin; and

8.5.3.3 Such reimbursement shall be paid by Cadiz to Metropolitan within twelve (12) months following the final determination.

8.6 If, for any reason, Cadiz is unable or unwilling to perform under the term of the agreement then Metropolitan shall have the right to operate the Program at its discretion without further payment to Cadiz. This right shall include the right to enter upon Cadiz land for operation and maintenance of Capital Facilities. If the lack of performance includes unrealizable water supplies or moneys due to Metropolitan, then Metropolitan shall have the right to take all or partial possession and ownership of Cadiz lands in the Cadiz and Fenner Valleys. Offsets as expressed in Section 4.8 shall also apply. Cadiz shall provide Metropolitan with a security interest in the Cadiz share of the Capital Facilities and its land, improvements and water rights related to the groundwater basin in a form reasonably acceptable to Metropolitan as a condition to Metropolitan's performance of its obligations; provided, however, that upon termination of the Program and satisfaction of any surviving Cadiz obligations such security interest shall be terminated. The security interest in the Cadiz share of the Capital Facilities shall be subordinate only to direct construction liens on the Capital Facilities and the security interest in the Cadiz lands, improvements and water rights shall be subordinate only to liens approved in accordance with Section 8.8 and in an amount that shall not exceed \$25,500,000 during the term of the Program.

8.7 If Metropolitan executes the contract for the Program:

8.7.1 Cadiz shall not increase its use of Colorado River water on lands that it owns or controls within the Palo Verde Mesa or Valley without the consent of Metropolitan.

8.7.2 Cadiz shall take no action, and shall use its reasonable good faith efforts to cause its subsidiaries, affiliates, successors, directors, officers, employees, shareholders and

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agents to refrain from taking any action, to interfere with any cooperative water supply program between Palo Verde Irrigation District and Metropolitan.

8.7.3 Cadiz shall take no action, and shall use its reasonable good faith efforts to cause its subsidiaries, affiliates, successors, directors, officers, employees, shareholders and agents to refrain from taking any action, to reduce or cause the reduction of Colorado River water available to Metropolitan or to increase the cost of Colorado River water to Metropolitan with respect to: (1) Priority 1, 2 and 3(b) (Palo Verde Mesa lands) lands; (2) Present Perfected Rights lands (miscellaneous rights holders or tribal lands); and (3) Surplus Criteria.

- 8.8 Cadiz shall not deed or encumber ownership of its properties in the Cadiz or Fenner Valleys, during the life of the Program, without the written permission of Metropolitan except as allowed under Section 8.6. Such permission shall not be unreasonably withheld.
- 8.9 Section 4.5 permits Metropolitan to perform an exchange in response to a Cadiz request for delivery of indigenous water to a third party. Metropolitan may instead deliver water other than indigenous water to such third party ("Exchange"). In such an event, an amount of indigenous water equal to the amount of water subject to the Exchange ("Exchange Water") shall be banked in the Cadiz basin for later extraction by Metropolitan without additional Transfer or Storage Fees. Cadiz shall be responsible to deliver Metropolitan banked Exchange Water upon demand. If Exchange Water is not available and it is concluded through subsequent determinations of the GWMP that the Exchange Water was not available for transfer, Cadiz shall have the obligation to repay Metropolitan for such Exchange Water. Notwithstanding the above, if the Exchange Water is not available due to a subsequent event, not the result of Cadiz' intentional or negligent act or omission, but in accordance with the GWMP was available for transfer at the time of Exchange, Cadiz shall not be obligated to repay Metropolitan for the Exchange Water. Cadiz shall provide Metropolitan with a property interest in a form reasonably acceptable to Metropolitan for the purpose of recovering any exchange water.

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- 8.10 The rate charged to Cadiz for the use of the Metropolitan conveyance system for the delivery at Cadiz' request of indigenous water pursuant to Section 4.5, either through conveyance or Exchange, shall be Metropolitan's posted wheeling rate for "as available" capacity. In addition, Cadiz shall pay power costs as charged to member agencies for wheeling or to third parties in long-term (greater than 12 months) wheeling agreements, and any water treatment costs for delivery of treated water (which shall be provided, if requested, at the water treatment rates as uniformly charged to all purchasers of water treated by Metropolitan's same treatment plant). Cadiz shall also pay any water stewardship fees that are uniformly charged on water delivered through the Metropolitan conveyance system by Metropolitan to all member agencies and third party wheelers, excluding agreements negotiated prior to the approval by Metropolitan's Board of this Proposal "as to form."
- 8.11 The rate charged to Cadiz for the use of the Metropolitan conveyance system for the delivery at Cadiz' request of indigenous water pursuant to Section 4.7, shall be Metropolitan's best available wheeling rate offered to third parties under equivalent terms and conditions. In addition, Cadiz shall pay power costs as charged to member agencies for wheeling or to third parties in long-term (greater than 12 months) wheeling agreements, and any water treatment costs for delivery of treated water (which shall be provided, if requested, at the water treatment rates as uniformly charged to purchasers of water treated by Metropolitan's same treatment plant). Cadiz shall also pay any water stewardship fees

that are uniformly charged on water delivered through the Metropolitan conveyance system by Metropolitan to all member agencies and third party wheelers excluding agreements negotiated prior to the approval by Metropolitan's Board of this Proposal "as to form."

- 8.12 Metropolitan shall take no action, and shall use its reasonable good faith efforts to cause its directors, officers, employees, agents and member agencies to refrain from taking action, to interfere with Cadiz' ability to market and deliver the newly developed water supply as described in Sections 4.5 and 4.7; provided that the discretion and authority of

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Metropolitan, its directors, officers, and employees to perform their duties and obligations authorized by law shall not be impaired in any way. Actions taken by Metropolitan within its authority, and actions taken by its directors, officers, and employees within the scope of their office or employment, shall not be considered as actions which interfere with Cadiz' ability to market and deliver the newly developed water supply. However, interference in breach of this provision shall include actions taken by Metropolitan's directors, officers, employees and agents acting independently of the policy or direction of Metropolitan's Board to prevent a purchaser from entering into a transaction to purchase Cadiz indigenous water.

- 8.13 At Metropolitan's option, and in accordance with the expected Program yield as determined under Section 4.6 and security interest under Section 4.8, Cadiz shall manage agricultural production in the Cadiz/Fenner Valleys to ensure the availability of at least the first 300,000 AF of transfer water (including by adjusting the amount of agricultural production). Cadiz shall not increase its use of water for agricultural production or other purposes in the Cadiz or Fenner Valleys without the consent of Metropolitan.
- 8.14 Cadiz shall grant to Metropolitan rights of easement necessary for the construction and maintenance of the Capital Facilities.
- 8.15 A final contract for the Project would be subject to approval of Metropolitan's Board of Directors and shall be in conformance with the terms and conditions of any mitigation plan adopted by Metropolitan's Board pursuant to CEQA.

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ATTACHMENT A

#### TRANSFER FEE REDETERMINATION PROCEDURE

##### 1. GENERAL

To ensure that payments for indigenous water made under the Cadiz Groundwater Storage and Dry-Year Supply Program ("Program") represent the fair market value for transfers, a Transfer Fee Redetermination provision is included as part of this Agreement. The purpose of this provision is to adjust on a periodic basis the Transfer Fee for Cadiz indigenous groundwater to ensure consistency with prevailing market values for water transfers with reasonably equivalent long term supply

reliability benefits to Metropolitan's Service Area.

## 2. TIMING AND FREQUENCY

In any year 2 through 25 of the Program in which Metropolitan purchases indigenous groundwater from Cadiz, either party may request a Transfer Fee Redetermination. Such request shall be made in writing ("Transfer Fee Redetermination Notice"). Within ninety (90) days following such request, the parties shall exchange any and all data relied upon by each party to calculate or support the fair market value of transfers. Within thirty (30) days following the exchange of data, the parties shall negotiate in good faith to establish the fair market value of Cadiz indigenous groundwater purchased under this Program ("FMV"). The increase or decrease in the FMV shall not exceed thirty-percent (30%) from the FMV in the immediately prior redetermination, or from the Base Rate in the initial redetermination. The Adjusted Rate, calculated in accordance with Section 4.2.2, shall become effective as of January 1 of the year in which the applicable Transfer Fee Redetermination Notice is delivered.

Both parties agree the following guidelines should be considered (including by any arbitration panel) in establishing the FMV.

## 3. ELIGIBILITY CRITERIA

- (a) **INFORMATION AVAILABILITY:** The data exchanged by each party must include a complete copy of any underlying contract, financial information, and similar documents reflecting the terms, conditions and costs, of water supplies upon which each party relied as a basis for the Transfer Fee Redetermination.
- (b) **VOLUNTARY NEGOTIATED TRANSFER:** Each transfer must be the result of a voluntary process between willing participants establishing the terms, conditions and costs of such transfer.
- (c) **AG-TO-AG WATER TRANSFERS:** Transactions between agricultural water users are eligible when either of the following two conditions are met: 1) the ag-to-ag transfer is the result of a general offer to sell and the seller's water district has made general offers to sell that resulted in a transaction between the seller and a municipal and industrial user or supplier in the past five years; or 2) the area of origin is outside of Metropolitan's Service Area and the transferred water will be applied to agricultural operations within the Service Area.
- (d) **GEOGRAPHY:** The source of water or water rights must be capable of being used for domestic, municipal and industrial, or agricultural use within Metropolitan's Service Area.
- (e) **WATER QUALITY:** The quality of the source of water, when subjected to ordinary and customary treatment in the Metropolitan Service Area, would fall within the controlling Federal and State maximum contaminant levels for potable water.
- (f) **WATER TRANSFERS:** Transactions must be water transfer agreements between arms-length participants executed within five years of the price redetermination, but not prior to the execution of this agreement. This specifically excludes, groundwater conjunctive use projects in

Metropolitan's service area, desalination projects, or water recycling projects.

- (g) SIZE AND DURATION: Eligible transactions must be sales of at least 20,000 acre-feet per transaction and last a minimum duration of 4 years.

#### 4. CALCULATION OF TRANSFER FEE

The initial FMV is a firm non-escalating \$230 per acre-foot until sufficient evidence is found to redetermine the FMV. Sufficient evidence is defined as at least five (5) transactions meeting the eligibility criteria in Section 3 in the five years immediately preceding redetermination. If sufficient information is found then the FMV shall be calculated as the five-year volume-weighted rolling average of eligible transactions. Once a FMV has been established, it shall persist for five years or until further information exists to redetermine the FMV. If, five years after a price redetermination has occurred, there is insufficient information to re-estimate a FMV then the parties shall negotiate to establish the FMV or submit to arbitration to determine the appropriate methodology for determining FMV.

A methodology for determining the delivered cost per acre-foot, including necessary adjustments to reflect differences in payment schedules, transport costs (1), and treatment costs shall be developed and mutually agreed to by both parties prior to the first price redetermination. This methodology shall be adhered to for all subsequent price redeterminations to ensure consistency over time in the estimates of the delivered cost per acre-foot of comparable transfers.

FN (1) For the purposes of the Cadiz transactions, transportation costs shall include, among other costs, 1/2 of the capital cost paid by Metropolitan for the development and construction of the Cadiz Program

#### 5. FMV DISPUTE RESOLUTION

In the event the parties are not able to agree upon the FMV within 90 days of entering into good faith negotiations as described in Section 2, then the FMV shall be resolved by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA").

Any such dispute will be referred to one (1) arbitrator agreed to by the parties within fifteen (15) days after submission of the dispute to arbitration; provided, however, that if the parties are unable to agree upon the selection of an arbitrator, such dispute will be referred to three (3) arbitrators. In such an event, each party shall select one of the three arbitrators. The third arbitrator will be selected by the two party-appointed arbitrators; provided, however, if the two party-appointed arbitrators are unable to agree upon the third arbitrator, then the third arbitrator shall be appointed by the AAA. Each arbitrator must have expertise in California water issues and natural resource valuation. Each arbitrator, including party-appointed arbitrators, is subject to disclosure and disqualification pursuant to Rule R-19 of the Commercial Arbitration Rules.

Based on a schedule to be set by the arbitrator(s), Cadiz and Metropolitan will each prepare a written claim specifying its proposal for the FMV (denominated in dollars per acre-foot of water) and written documentation supporting its proposal, not to exceed 100 pages. No party may submit data or documentation

for any transfer that was not exchanged during the negotiations between the parties. Metropolitan and Cadiz each may also file a rebuttal to the other party's submission, which shall not exceed 25 pages. Except for disputes arising out of Section 6 below, the only issue to be decided by the arbitrator(s) is which of the two proposed amounts for the FMV (i.e., the amount proposed by Metropolitan or the amount proposed by Cadiz) is closest to the actual FMV. The proposed amount chosen by the arbitration panel shall be the FMV for purposes of calculating the Adjusted Rate for the Transfer Fee as described in Sections 2 and 4.

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6. RE-FORMULATION OF THE TRANSFER FEE REDETERMINATION METHODOLOGY

If at any time during the course of this Agreement a regularly published water transfer market index accurately representing the relevant markets of transfers for Metropolitan becomes available, either party has the option to request the use of this index. If both parties agree to the use of the index, it shall replace the Transfer Fee Redetermination procedure set forth in this Attachment. Disputes arising over the substitution of an index meeting the above conditions shall be addressed under the dispute resolution provisions of this Agreement.

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ATTACHMENT B

ATTACHMENT RE FINANCING AND SECURITY ISSUES  
FOR A METROPOLITAN-CADIZ WATER STORAGE  
AND DRY-YEAR SUPPLY PROGRAM

1. Bankruptcy Remoteness. Cadiz shall establish a separate single-purpose, "bankruptcy remote" corporate entity for the purpose of owning its interest in the Capital Facilities and the Program Agreement, the property, water rights and other appurtenant rights related to the Program and securing its obligations under the Agreement. Cadiz would also guarantee performance and payment of such subsidiary's obligations under the Agreement. In connection with the above, Cadiz shall comply with "bankruptcy remote" structures by limiting the activities and liabilities of the subsidiary, appointing an independent director to the subsidiary's board of directors, and requiring unanimous director approval to borrow money, dissolve, sell all or substantially all of its assets, merge or reorganize, file bankruptcy, or amend the articles of incorporation.

- \* Single purpose subsidiary:
  - No other liabilities.
  - No other activities.
  - Independent director.
  - Unanimous vote for bankruptcy/winding-up/dissolution.
- \* Consent by senior Cadiz lender to assignment.
- \* Guarantee of performance by Cadiz:
  - limit on other indebtedness of Cadiz/Cadiz subsidiary.
  - Material Adverse Change standard.
  - Limitation on other transactions.
- \* Title insurance/project-easement absolute.

2. SECURITY FOR PERFORMANCE. As collateral security for Cadiz' performance of all contract provisions (to deliver water and storage), a deed of trust on its interests would be a condition of the Program. The deed of trust would address:

- \* A junior lien on Cadiz' share of improvements.
  - \* A junior lien on land.
  - \* The priority to be determined, depends on other lenders rights/agreements in the event of default and termination.
3. SEPARATE PROFITS AND EASEMENTS. The Program documents should be separated into discrete packages of rights and obligations for:
- \* Purchase of indigenous ground water.
  - \* Storage of Colorado River surplus water.
- This would keep the rights and conditions separate and clean in case for any reason the supply arrangement was terminated but the storage continued or was taken over by MWD.
4. CONDITIONS PRECEDENT - The Program shall be subject to the satisfaction of specific conditions precedent, including:
- \* Obtaining environmental clearance for the Program and all aspects of the removal and storage of water.
  - \* The negotiation, approval and concurrent effectiveness of all collateral security documents.
  - \* The satisfaction of all Cadiz senior lender issues:
    - The consent by Cadiz senior lender of the Program, including the single-purpose entity and the easement and profit.
    - Dollar limitation on the senior indebtedness.
    - Notice/cure rights granted in favor of MWD.
    - Off-set rights.
    - A purchase option granted in favor of MWD to acquire the senior loan at a predetermined price.
  - \* The availability and approval of Cadiz' project financing commitment.

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- \* The receipt of all permits and easements necessary or desirable for the project.
  - \* Joint approval of the Plan:
    - To build the project, the EPC contract, Plans for the project, the budget for the project.
    - To operate the storage and removal Program, the groundwater management plan
  - \* No Material Adverse Change.
  - \* The truthfulness of all representations, warranties and covenants regarding the Program.
5. CADIZ PROJECT FINANCING. MWD's right to review and approve the Cadiz financing shall include the right to review and approve the establishment and structure of the separate corporate entity and to obtain consent from Cadiz' project lender on terms approved by MWD. Any security interest in the Capital Facilities created by Cadiz financing shall not encumber MWD's ownership interest in, or interfere with MWD's right to operate, the Capital Facilities, and shall acknowledge MWD's

rights under and in this Agreement. Cadiz's project loan shall also:

- \* Be adequate to cover Cadiz's share of capital budget.
- \* Provide for an outside dollar limitation and set forth the requirements for any equity investment.
- \* Be secured by a lien on Cadiz contract payments and other Cadiz assets
- \* Be a firm commitment - ready to close.
- \* MWD protections to include:
  - Subordination/acknowledgment of MWD rights in contract and non-disturbance.
  - Provide for notice/cure rights in favor of MWD.
  - Provide for off-set rights.
  - Acknowledge MWD's right to take over facilities in certain circumstances, free of project lien.

EXHIBIT 21.1

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CADIZ INC.

SUBSIDIARIES OF THE COMPANY

Rancho Cadiz Mutual Water Company  
Sun World International, Inc.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-83360, 33-63065, 333-35491, 333-41367, 333-74699, 333-81805, and 333-63990) and on Form S-3 (Nos. 333-53069, 333-53768 and 333-75006) of Cadiz Inc. of our reports dated February 21, 2002, except as to Note 9 for Cadiz Inc., which is as of March 8, 2002, relating to the financial statements and financial statements schedules, which appear in this Form 10-K. We also consent to the reference to us under the heading "Selected Financial Data," which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California  
March 26, 2002