FORM 10-Q

CADIZ INC - CDZI

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Quarterly report with a continuing view of a company's financial position

The primary factor driving the value of such projects is continuing pressure on water supplies throughout California, including environmental restrictions and regulatory shortages on each of the State's three main water sources: the State Water Project, the Colorado River and the Los Angeles Aqueduct. Southern California's water providers rely on these imported sources for a majority of their water supplies, but deliveries from all three systems have been below capacity over the last several years. Availability of supplies in California also differs greatly from year to year due to natural hydrological variability. **For example, State Water Project deliveries are presently limited to just 35% of capacity for 2013 due to ongoing environmental restrictions and below average precipitation. Southern California water providers are seeking new, reliable supply solutions to address anticipated limitations of traditional water supplies and to plan for long-term water needs but cost-effective alternatives and solutions are limited.**

(1) A Water Conveyance Pipeline Right-of-Way from the Water Project Area to a Delivery System

In September 2008, we secured a right-of-way for the Water Project's water conveyance pipeline by entering into a lease agreement with the Arizona& California Railroad Company ("ARZC"). The agreement allows for the use of a portion of the railroad's right-of-way to construct and operate a water conveyance pipeline for a period up to 99 years. The pipeline would be used to convey water between our Cadiz Valley property and the CRA in Rice, California. The ARZC is also a Project participant and would receive water from the Project to serve a variety of railroad purposes, including fire suppression and other safety and maintenance uses. Pursuant to the agreement, we made a payment in the amount of $3.3 million on March 6, 2013, to commence the construction and operation term of the agreement.

We are also exploring the potential to utilize an unused natural gas pipeline (as described in "Existing Pipeline Asset" below) that exists in the Project area, to which we hold an ownership right, as a means to access additional distribution systems. Initial feasibility studies indicate that this pipeline could be used as a component of the Project to distribute water to Project participants or import water for storage at the Project area in Phase II. The potential use of this pipeline by the Project was preliminarily analyzed as part of the Project's Environmental Impact Report ("EIR").

EXISTING PIPELINE ASSET

We currently hold ownership rights to a 96-mile existing idle natural gas pipeline from the Cadiz Valley to Barstow, California that would be converted for the transportation of water. In September 2011, we entered into two separate agreements with El Paso Natural Gas ("EPNG"), a subsidiary of Kinder Morgan Inc., and Questar Corporation ("Questar") providing us with options to purchase approximately 300-miles of idle, natural gas pipelines for $50 million. The Questar agreement granted us rights to purchase an 80-mile line in Riverside County for $10 million. Based on our evaluation of these lines we allowed the option

agreement with Questar to expire and we pursued plans for the EPNG line as described below. The option agreement with EPNG granted us rights to purchase a 220-mile pipeline between Bakersfield and Cadiz, California for $40 million. Initial feasibility studies indicated that upon conversion the 30-inch line could transport between 20,000 and 30,000 acre-feet of water per year between the Water Project area and various points along the Central and Northern California water transportation network. In February 2012, we made a $1 million payment to EPNG to extend our option to purchase the 220-mile line until April 2013. In December 2012, we entered into a new agreement with EPNG dividing the 220-mile pipeline in Barstow, California, with the Company gaining ownership rights to the 96-mile eastern segment between Barstow and the Cadiz Valley and returning to EPNG rights to the 124-mile western segment for its own use. The 96-mile eastern portion from the Cadiz Valley to Barstow was identified as the most critical segment of the line for accessing the state's water transportation infrastructure. The Barstow area serves as a hub for water delivered from northern and central California to communities in Southern California's High Desert.

In consideration of the new agreement, EPNG reduced the purchase price of the 96-mile eastern segment to a nominal amount of $1 (one dollar), plus previous option payments totaling $1.07 million already made by Cadiz. The remaining purchase price of $1 (one dollar) is payable before expiration of the option period in April 2014. In addition, if EPNG files for regulatory approval of any new use of the 124-mile western segment by December 2015, EPNG will make an additional payment to the Company of $10 million, payable on the date the application for regulatory approval is filed.

The 96-mile Cadiz-Barstow route creates significant opportunities for our water resource development efforts. Once converted to water use, the pipeline can be used to directly connect the Cadiz area to northern and central California water sources, serving a growing need for additional locations for storage of water south of the Bay Delta region. In addition, the 96-mile pipeline creates new opportunities to deliver water, either directly or via exchange, to potential customers in San Bernardino and Kern Counties, areas which do not currently have an interconnection point with the Project. When both the 96-mile line and the 43-mile pipeline to the CRA become operational, the Cadiz Project area would link the two major water delivery systems in California providing flexible opportunities for both supply and storage. The entire EPNG pipeline was evaluated in the Water Project's EIR during the CEQA process at a programmatic level. Any use of the line would be conducted in conformity with the Project's GMMMP and is subject to further CEQA evaluation (see "Water Resource Development" above).

On March 5, 2013, the Company completed arrangements with its senior lenders to refinance the Company's existing $66 million corporate term debt. The new arrangements established two separate debt instruments, a $30 million senior secured mortgage loan due in three years, and a new $53.5 million convertible bond due in five years, with no principal or interest payments due on either instrument until maturity. The new debt instruments replaced all existing term debt as of March 5, 2013, and provided $17.5 million in new working capital to fund the Company's current operations, including preconstruction activities related to the Project.

On January 9, 2013, Cadiz revised its existing agreement with the law firm of Brownstein Hyatt Farber Schreck LLP ("Brownstein"). Under this agreement, Brownstein provides certain legal and advisory services to the Company, including the services of Mr. Scott Slater, the Company's Chief Executive Officer. As previously disclosed, the Company had agreed to pay to Brownstein an amount of up to 1% of the net present value of the Water Project as incentive compensation in consideration of the services provided by Brownstein under the original agreement. The revised agreement replaces the net present-value-based incentive compensation provisions of the original agreement with an agreement to issue up to a total of 400,000 shares of the Company's common stock, with 100,000 shares earned upon the achievement of each of four enumerated milestones as follows:

i. 100,000 shares earned upon the execution of the revised agreement;

ii. 100,000 shares earned upon receipt by the Company of a final judicial order dismissing all legal challenges to the Final

Environmental Impact Report for the Project;

iii. 100,000 shares earned upon the signing of binding agreements for more than 51% of the Project's annual capacity; and

iv. 100,000 shares earned upon the commencement of construction of all of the major facilities contemplated in the Final

Environmental Impact Report necessary for the completion and delivery of the Project.

All shares earned upon achievement of any of the four milestones will be payable three years from the date earned. The agreement also provides for base cash compensation payments to Brownstein of $25,000 per month.

The Company recognized stock compensation in the amount of $373,000 for the first of the four milestones which was satisfied on January 9, 2013. Because the shares are payable three years from the date earned, the fair value of these shares was estimated by discounting the current market price of the Company's common stock by the fair value of a protective put using the Black-Scholes model.