

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (the “**Escrow Agreement**”) is entered into as of January 25, 2012 (the “**Effective Time**”), by and among CADIZ, INC., a Delaware corporation (“**CADIZ**”), SANTA MARGARITA WATER DISTRICT (“**SMWD**”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association (the “**Escrow Agent**”).

WITNESSETH:

WHEREAS, CADIZ and SMWD have entered into an Option Agreement (the “**Option Agreement**”) and Environmental Processing and Cost Sharing Agreement (the “**ECSA**”) (collectively, the “**Agreements**”). Capitalized terms not otherwise defined herein shall have the same meanings as set forth in the Agreements; and

WHEREAS, the Escrow Agent (i) has not received a copy of, (ii) has not reviewed, (iii) is not a party to, and (iv) will not be held responsible under the terms of the Agreements; and

WHEREAS, pursuant to the Agreements, CADIZ and SMWD agreed to terms related to each party’s responsibility for Eligible Environmental Costs; and

WHEREAS, pursuant to the ECSA, including but not limited to Section 3.2(b) thereof, SMWD is obligated to pay its share of the Eligible Environmental Costs (if actually incurred and not otherwise reimbursed to SMWD, such payments in the aggregate referenced herein as “**SMWD ECSA Payments**”); and

WHEREAS, SMWD desires for CADIZ to place the SMWD ECSA Payments in a separate account to cover the provisions set forth in Section 3.4 of the ECSA; and

WHEREAS, the parties desire to appoint the Escrow Agent as escrow agent, and the Escrow Agent is willing to serve as the escrow agent in accordance with the terms and conditions of this Escrow Agreement;

NOW, THEREFORE, in accordance with the mutual covenants hereinafter contained, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Designation of Escrow Agent.** CADIZ and SMWD hereby designate and appoint the Escrow Agent as escrow agent in accordance with the provisions of this Escrow Agreement. The Escrow Agent hereby accepts its appointment as escrow agent, and agrees to serve in such capacity in accordance with the provisions of this Escrow Agreement.

2. **Establishment of Escrow Account.** CADIZ shall deposit or cause to be deposited into an account maintained by the Escrow Agent the initial sum of \$228,451.47 in immediately available funds, together with any additional funds deposited by CADIZ from time to time as SMWD ECSA Payments (the “**Escrow Amount**”). Upon receipt of such funds, the Escrow Agent will acknowledge receipt of such funds to CADIZ and SMWD. The Escrow Agent is hereby authorized and directed by each of CADIZ and SMWD, as their escrow agent,

to hold, safeguard, and disburse the Escrow Account only in accordance with the terms and conditions of this Escrow Agreement.

3. **Disbursement of Funds in Accordance with Section 3.4 of the ECSA.** It is the intent of SMWD and CADIZ that the funds held within the Escrow Account be disbursed only in accordance with the terms and conditions (including Section 3.4 of the ECSA) previously agreed to by such parties under the Agreements. For purposes of this Escrow Agreement, subject to an amendment to this Section 3 executed by CADIZ and SMWD and delivered to the Escrow Agent, disbursement of the Escrow Amount shall be as follows, and shall be as early as possible on the second Business Day, hereinafter defined, following the Escrow Agent's receipt of a letter (the "**Instructions**") signed by each of CADIZ and SMWD, identifying which of the following conditions have occurred:

(a) SMWD has approved the Project and elects to proceed with the Project. The Escrow Agent is authorized and directed to disburse the Escrow Amount to CADIZ who agrees that such amount will be credited by CADIZ towards SMWD's subsequent purchase of water or storage pursuant to the Option Agreement.

(b) SMWD has approved the Project, but CADIZ elects not to proceed with the Project. The Escrow Agent is authorized and directed to disburse the Escrow Amount to SMWD.

(c) SMWD certified the EIR but does not approve the Project and therefore does not proceed with the Project. The Escrow Agent is authorized and directed to disburse the Escrow Amount to SMWD.

Nothing herein is intended to change the amount of the credit or reimbursement described in Section 3.4 of the ECSA (the "**Credit/Reimbursement Amount**"). Thus, if the Escrow Amount that is subject to this Escrow Agreement is less than the Credit/Reimbursement Amount, CADIZ and SMWD agree that the deficiency amount shall not be waived, but shall continue to be subject to Section 3.4 of the ECSA.

4. **Investment of Funds.** The Escrow Agent shall not be responsible or liable for the sufficiency or accuracy of the form, execution, validity or genuineness of documents, instruments or securities now or hereafter deposited in the escrow account, or of any endorsement (or for any lack of endorsement) thereon. Registered ownership of or other legal title to the assets held in the escrow account shall be maintained in the name of the Escrow Agent, or its nominee, only if expressly provided in **Annex 1** attached hereto. In the absence of duly authorized and complete directions (see **Annex 1**) regarding investment of cash held in the escrow account, the Escrow Agent shall automatically invest and reinvest the same in a U.S. Bank Money Market Deposit Account identified in **Annex 1**. Any interest or earnings generated by the Escrow Account ("**Escrow Earnings**") shall be added to the Escrow Amount and disbursed in accordance with Section 3 of this Escrow Agreement.

5. **Exculpation of Escrow Agent; Legal Counsel.** The Escrow Agent shall have no duties or responsibilities except for those set forth herein (and required by applicable law), which the parties agree are ministerial in nature. The Escrow Agent shall not be subject to, or

obliged to recognize, any of the Agreements even though referenced herein. If the Escrow Agent believes it to be reasonably necessary to consult with legal counsel concerning any of its duties and responsibilities hereunder, or in case the Escrow Agent becomes involved in litigation on account of being the escrow agent hereunder or on account of having received the Escrow Amount, then its costs, expenses and reasonable attorneys' fees shall be paid in equal parts by CADIZ and SMWD. Except for the Escrow Agent's own willful misconduct or gross negligence: (a) the Escrow Agent shall have no liability of any kind whatsoever for the performance of any duties imposed upon the Escrow Agent under this Escrow Agreement or for any action or failure to act by the Escrow Agent hereunder; (b) the Escrow Agent shall not be responsible for the acts or omissions of any other parties hereto; (c) the Escrow Agent shall not be liable to anyone for damages, losses or expenses arising out of this Escrow Agreement. Provided that the funds are invested as directed, the Escrow Agent shall have no responsibility for the rate or amount of interest, if any, earned on the Escrow Account or for the preservation of the principal of the Escrow Account. The Escrow Agent may rely and/or act upon any instrument or document believed by the Escrow Agent in good faith to be genuine and to be executed and delivered by the proper person or party, and may assume in good faith the authenticity, validity and effectiveness thereof and shall not be obligated to make any investigation or determination as to the truth and accuracy of any information contained therein. In the event of any dispute between CADIZ and SMWD, CADIZ and SMWD shall pay, on demand, the reasonable attorneys' fees and other reasonable costs and expenses incurred by the Escrow Agent in respect thereof; CADIZ and SMWD shall be jointly and severally liable for such fees, costs and expenses but, as between themselves, such fees, costs and expenses shall be paid one-half (1/2) by CADIZ and one-half (1/2) by SMWD. Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

6. **Indemnification of Escrow Agent.** In consideration of its acceptance of the appointment as the Escrow Agent, the other parties hereto jointly and severally agree to indemnify and hold the Escrow Agent and its directors, officers, agents and employees (the "**indemnitees**") harmless as to any claim, loss, liability or expense (including the fees and expenses of in-house or outside counsel and experts and their staffs and all expense of document location, duplication and shipment) arising out of or in connection with (i) the Escrow Agent's execution and performance of this Escrow Agreement, except to the extent that such loss, liability or expense is due to the gross negligence or willful misconduct of any indemnitee, or (ii) its following any instructions or other directions from CADIZ or SMWD, except to the extent that its following any such instruction or direction is expressly forbidden by the terms hereof; CADIZ and SMWD shall jointly and severally indemnify the indemnities but, as between themselves, such fees, costs and expenses shall be paid one-half (1/2) by CADIZ and one-half (1/2) by SMWD. This indemnity shall survive the termination of this Escrow Agreement and the resignation or removal of the Escrow Agent.

7. **Books and Records.** The Escrow Agent shall maintain books and records regarding its administration of the escrow account, and the deposit, investment, collections and disbursement or transfer of the Escrow Amount, shall retain copies of all written notices and directions sent or received by it in the performance of the duties hereunder, and shall afford

each of CADIZ and SMWD reasonable access, during regular business hours, to review and make photocopies (at such party's cost) of the same.

8. **Modification.** No modification of this Escrow Agreement shall be valid unless the same is in writing and is signed by all of the parties hereto. The Escrow Agent shall not be bound by any notice of a claim for payment against the Escrow Amount, or demand with respect thereto, or any waiver, modification, amendment, termination or rescission of this Escrow Agreement, unless received by it in writing and signed by all parties hereto.

9. **Termination.** This Agreement shall terminate upon distribution of the entire amount in the Escrow Account pursuant to Section 3. Upon the termination of this Agreement and upon the delivery of all of the Escrow Fund by the Escrow Agent, in accordance with the terms hereof, the Escrow Agent shall be relieved of any and all further obligations hereunder.

10. **Resignation of Escrow Agent.** The Escrow Agent, and any successor Escrow Agent, may resign at any time as Escrow Agent hereunder by giving at least thirty (30) calendar days written notice to all of the other parties hereto. Upon such resignation and the appointment of a successor Escrow Agent, the resigning Escrow Agent shall be absolved from any and all liability in connection with the exercise of its powers and duties as Escrow Agent hereunder. Upon their receipt of notice of resignation from the Escrow Agent, CADIZ and SMWD shall use their best efforts jointly to designate a successor Escrow Agent. In the event CADIZ and SMWD do not appoint a successor Escrow Agent within thirty calendar days of receiving the Escrow Agent's notice of resignation, the Escrow Agent so resigning may petition any court of competent jurisdiction for the appointment of a successor Escrow Agent or other appropriate relief and any such resulting appointment shall be binding upon all parties hereto. Costs, expenses and reasonable attorney's fees incurred by the Escrow Agent in connection with such petition shall be paid in equal parts by CADIZ and SMWD. The Escrow Agent's sole responsibility after the expiration of the 30-day notice period shall be to hold the funds in the Escrow Account without any obligation to reinvest the same. By mutual agreement, CADIZ and SMWD shall have the right at any time upon not less than ten (10) Business Days written notice to terminate their appointment of the Escrow Agent, or successor Escrow Agent, as Escrow Agent. The Escrow Agent, or successor Escrow Agent shall continue to act as Escrow Agent until a successor is appointed, and shall be entitled to fees hereunder until a successor is appointed by the parties.

11. **Inconsistent Claims.** In the event that the Escrow Agent should at any time be confronted with inconsistent claims or demands by the other parties hereto, or is otherwise notified of any dispute, disagreement or legal action between CADIZ and SMWD, and/or any third parties, relating to or arising in connection with the escrow account, the Escrow Amount or the performance of the Escrow Agent's duties under this Escrow Agreement, the Escrow Agreement shall be authorized and entitled, subject to Section 17 of this Escrow Agreement, either (i) withhold delivery of the funds until the controversy is resolved, the conflicting demands are withdrawn or its doubt is resolved or (ii) institute a petition for interpleader in any court of competent jurisdiction to determine the rights of the parties hereto in accordance with this Escrow Agreement. CADIZ and SMWD agree to pursue any redress or recourse in connection with any dispute without making the Escrow Agent a party to the same.

12. **Fees of the Escrow Agent.** The Escrow Agent shall be entitled to compensation in accordance with the schedule set forth in **Annex 2** attached hereto, which shall be subject to increase upon notice sent to the parties, and reimbursed for its reasonable costs and expenses incurred. If the Escrow Agent's fees, reasonable costs and expenses, provided for herein, are not promptly paid, the Escrow Agent shall have the right to sell such portion of the Escrow Amount as necessary and reimburse itself therefore from the proceeds of such sale or from the cash held in the escrow account. Unless otherwise agreed to by CADIZ and SMWD in writing, CADIZ will pay the Escrow Agent's fees.

13. **Miscellaneous.** The Escrow Agent may execute any of its powers or responsibilities hereunder and exercise any rights hereunder either directly or by or through its agents or attorneys. Nothing in this Escrow Agreement shall be deemed to impose upon the Escrow Agent any duty to qualify to do business or to act as fiduciary or otherwise in any jurisdiction. The Escrow Agent shall not be responsible for and shall not be under a duty to examine or pass upon the validity, binding effect, execution or sufficiency of this Escrow Agreement or of any agreement amendatory or supplemental hereto. The Escrow Agent shall have no responsibility for the tax consequences of this Escrow Agreement. The Escrow Agent hereby advises each party to this escrow to consult with independent legal counsel and tax advisors concerning the tax ramifications of this Escrow Agreement.

14. **Counterparts.** This Escrow Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. All signatures of the parties to this Escrow Agreement may be transmitted by facsimile, and such facsimile will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces, and will be binding upon such party.

15. **Notices.** All notices and other communications hereunder shall be in writing and shall be deemed given (i) when delivered personally or upon confirmed transmittal if by facsimile; (ii) on the second succeeding Business Day after being mailed by registered or certified mail; or (iii) on the next succeeding Business Day after being sent by a nationally recognized overnight delivery service to the appropriate party at its address below (or at such other address for such party as shall be specified by written notice by such party):

If to CADIZ: Cadiz, Inc.
550 S. Hope Street, Suite 2850
Los Angeles, CA 90017
Fax: 213. 271.1614
Tel: 213.271.1600
Attn: Timothy Shaheen – tshaheen@cadizinc.com

If to SMWD: Santa Margarita Water District
26111 Antonio Parkway
Rancho Santa Margarita, CA 92688
Fax: 949.459.6463
Tel: 949.459.6601
Attn: John Schatz – jschatz13@cox.net

If to Escrow Agent: U.S. Bank National Association
633 W. 5th Street, 24th Floor
Los Angeles, CA 90071
Fax: (213) 612-6199
Tel: (213) 615-6051
Attn: Ilse Vlach, AVP – ilse.vlach@usbank.com

“**Business Day**” shall mean any day other than a Saturday, Sunday or any other day on which the Escrow Agent located at the notice address set forth above is authorized or required by law or executive order to remain closed.

16. **Binding Effect.** This Escrow Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and assigns. Any company into which the Escrow Agent may be merged or with which it may be consolidated, or any company to whom the Escrow Agent may transfer a substantial amount of its escrow business, shall be the successor to the Escrow Agent without the execution or filing of any paper or any further act on the part of any of the parties.

17. **Applicable Law.** This Escrow Agreement shall be construed in accordance with and governed by the laws of the State of California without regard to conflicts of laws. Each party hereto irrevocably waives any objection on the grounds of venue, forum non-conveniens or any similar grounds and irrevocably consents to service of process by mail or in any other manner permitted by applicable law and consents to the jurisdiction of the courts located in the State of California. The parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising or relating to this Escrow Agreement.

18. **Compliance with Court Orders.** In the event that any escrow property shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Escrow Agreement, the Escrow Agent is hereby expressly authorized, in its sole discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that the Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, firm or corporation, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

19. **Security Procedures.** In the event funds transfer instructions are given, whether in writing, by telecopier or otherwise, the Escrow Agent is authorized to seek confirmation of such instructions by telephone call-back to the person or persons designated in the notice provisions above, and the Escrow Agent may rely upon the confirmation of such persons. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by the Escrow Agent. If the Escrow Agent is unable to contact such persons, the Escrow Agent is hereby authorized to seek confirmation of such instructions by telephone call-back to any one or more of the executive officers of each party, (“**Executive**

Officers”), which shall include the titles of President, Chief Operating Officer or Chief Financial Officer, as the Escrow Agent may select. Such “Executive Officer” shall deliver to the Escrow Agent a fully executed Incumbency Certificate, and the Escrow Agent may rely upon the confirmation of anyone purporting to be any such officer. The Escrow Agent and the beneficiary’s bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by the party to identify (i) the beneficiary, (ii) the beneficiary’s bank, or (iii) an intermediary bank. The Escrow Agent may apply any of the escrowed funds for any payment order it executes using any such identifying number, even when its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary’s bank or an intermediary bank designated. The parties to this Escrow Agreement acknowledge that these security procedures are commercially reasonable.

20. **Patriot Act.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. For a non-individual person such as a business entity, a charity, a trust or other legal entity, the Escrow Agent will ask for documentation to verify its formation and existence as a legal entity. The Escrow Agent may also ask to see financial statements, licenses, identification and authorization documents from individuals claiming authority to represent the entity or other relevant documentation.

21. **Security Advice Waiver Language.** Buyer and Sellers acknowledge that, in accordance with regulations of the Comptroller of the Currency, they have the right to receive brokerage confirmations of security transactions as they occur. Buyer and Sellers specifically waive such notification to the extent permitted by law and acknowledge that Buyer and Sellers will receive periodic cash transaction statements, which will detail all investment transactions.

[SIGNATURES APPEAR ON NEXT PAGE]

IN WITNESS WHEREOF, the parties have executed and delivered this Escrow Agreement as of the date first written above.

CADIZ:

CADIZ, INC.

By: _____
Name: _____
Title: _____

SMWD:

SANTA MARGARITA WATER DISTRICT

By: _____
Name: _____
Title: _____

ESCROW AGENT:

U.S. BANK NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

ANNEX 1 TO ESCROW AGREEMENT

Investment Authorization and Direction Form

F-2004.1-1.

**U.S. BANK NATIONAL ASSOCIATION
MONEY MARKET ACCOUNT AUTHORIZATION FORM
DESCRIPTION AND TERMS**

The U.S. Bank Money Market account is a U.S. Bank National Association (“U.S. Bank”) interest-bearing money market deposit account designed to meet the needs of U.S. Bank’s Corporate Trust Services Escrow Group and other Corporate Trust customers of U.S. Bank. Selection of this investment includes authorization to place funds on deposit and invest with U.S. Bank.

U.S. Bank uses the daily balance method to calculate interest on this account (actual/365 or 366). This method applies a daily periodic rate to the principal balance in the account each day. Interest is accrued daily and credited monthly to the account. Interest rates are determined at U.S. Bank’s discretion, and may be tiered by customer deposit amount.

The owner of the account is U.S. Bank as Agent for its trust customers. U.S. Bank’s trust department performs all account deposits and withdrawals. Deposit accounts are FDIC Insured per depositor, as determined under FDIC Regulations, up to applicable FDIC limits.

AUTOMATIC AUTHORIZATION

In the absence of specific written direction to the contrary, U.S. Bank is hereby directed to invest and reinvest proceeds and other available moneys in the U.S. Bank Money Market Account. The U.S. Bank Money Market Account is a permitted investment under the operative documents and this authorization is the permanent direction for investment of the moneys until notified in writing of alternate instructions.

Company Name

Signature of Authorized Directing Party

ANNEX 2 TO ESCROW AGREEMENT
SCHEDULE OF ESCROW AGENT FEES