

## EXHIBIT 4-F-2

### DEVELOPMENT AND MANAGEMENT AGREEMENT

The Pajaro/Sunny Mesa Community Services District ("PSMCSD"), a community services district located in Monterey County, CA, and operating pursuant to the laws of the State of California, currently produces, operates, and provides public water services and supplies to customers, households, commercial and industrial businesses, and agricultural enterprises both inside and outside of the District's boundaries.

Poseidon Resources Corporation ("Poseidon"), a Delaware corporation headquartered in Stamford, Connecticut, is organized and is currently engaged in the permitting, development, financing, construction and operation of both publicly owned and privately owned seawater and brackish water desalination plants throughout the United States for the purpose of the production, sale, and delivery of potable water.

Both PSMCSD and Poseidon, herein after referred to as the "Parties", desire to enter into and proceed forward with this Agreement (the "Agreement") for the purposes of facilitating the permitting and entitlement of and the actual development of a seawater desalination plant to produce potable water to serve customers in Monterey County, California, and adjacent areas. Further, the Parties agree that this Agreement shall define how the Parties shall work together, how the Parties shall share certain costs and expenses, and how the Parties shall perform and exercise certain rights and responsibilities in connection with the development, financing, construction, ownership, operations, and management of a twenty (20) to twenty-five (25) million gallon per day seawater desalination facility (the "Project").

PSMCSD, after months of staff research and review, has concluded that Poseidon is uniquely and singularly qualified to develop, construct, and operate PSMCSD's proposed desalination plant at Moss Landing, CA.

The Project shall be located and constructed on, and utilize the physical facilities and improvements of, the leased premises (the "Premises") in Moss Landing California that are the subject of and fully described in that "Property and Pipeline Capacity Lease Agreement" between PSMCSD and HMBY, L.P. Said "Property and Pipeline Capacity Lease Agreement" is attached to this agreement as "Exhibit A".

Pursuant to the above recitals and the Parties' mutual desire and consent to enter into this Agreement, the Parties, therefore, agree as follows:

#### I. The Project

The proposed desalination facility (the "Project") is intended by the Parties to produce potable water that may serve the service areas of the California-American Water Company, cities of the Monterey Peninsula, the unincorporated area of the County of Monterey, the areas of the Pajaro/Sunny Mesa Community District, and areas in the Pajaro Valley Water Management Agency. The Parties agree that the Project shall be constructed

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in full compliance with the provisions of all California laws and Monterey County ordinances, and is intended to produce between 20-25 million gallons of potable water per day.

## II. Parties' Rights

- A. PSMCSD and Poseidon, in undertaking the entitlement, development, construction, and implementation of the Project pursuant hereto, each shall be granted exclusive rights to provide certain services to the Project to be performed by the designated Party, its affiliate, its agent, or its subsidiary. The undertakings with respect to such exclusive rights are conditioned upon the fulfillment of that Party's obligations in the entitlement and development of the Project and shall be subject to requirements of the Project lenders, state laws, and local ordinances.
1. PSMCSD shall have the following rights:
    - a.) The right to own and manage the Project;
    - b.) The right to appoint Poseidon Resources Corporation as PSMCSD's exclusive management agent for the purposes of securing all entitlements and environmental and governmental approvals for the Project, and for the purposes of overseeing, managing, controlling, and completion of the construction, implementation, development, and long-term operation of the Project;
    - c.) The right to approve the form and substance of all applications for entitlements and governmental approvals for the Project prior to the filing of such entitlements or applications for governmental approvals.
    - d.) The right to receive water produced by the Project for the following purposes:
      - 1.) Delivery to PSMCSD's wholesale and retail customers and ratepayers, and
      - 2.) Intermediate the delivery of the product water from the Project to municipalities, water agencies, utilities and other water users.
    - e.) The right, but not the obligation, to provide financing of all the costs necessary to develop and implement the Project, providing that such financing does not increase the price of water as described below.
  2. Water produced by the Project shall be delivered to PSMCSD under a subsequent long term Management and Services Agreement, or agreements, which specifies, among other things, product water quality, quantity and reliability. The price of water shall range from \$1,100 to \$1,200 per acre-foot (2005 dollars), and shall be adjusted over time with changes in consumer price index, changes in rent for

Premises, and the cost of energy. The Management and Services Agreement shall be subject to the provisions of the Property and Pipeline Capacity Lease Agreement.

3. Poseidon shall have the following rights:
  - a.) The right to be appointed and to serve as PSMCSD's exclusive management agent for the purposes of securing all entitlements and environmental and governmental approvals for the Project, and for the purposes of overseeing, managing, controlling, and completing the implementation, development, construction, and long-term operation of the Project under a subsequent long-term Management and Service Agreement;
  - b.) The right to sublease and have easements with respect to the Premises so long as such interests are in compliance with such laws or ordinances governing, controlling, or affecting the Project or its entitlements.
  - c.) To the extent PSMCSD elects not to provide financing pursuant to Section II. 1. e. above, the right to provide financing for the Project.

### III. Parties' Responsibilities

- A. Poseidon is responsible for the development and management of the Project, all in coordination with Pajaro/Sunny Mesa as it relates to Pajaro/Sunny Mesa's property and business interests, including but not limited to the following:
  1. Coordinating development plans and milestone schedules with Pajaro/Sunny Mesa;
  2. Arranging for development services, such as engineering, permitting, legal, environmental documents, a pilot project, tax and accounting services with third parties, and paying for services with respect thereto;
  3. Negotiating all contracts, including but not limited to those for solid waste disposal, construction, operation and maintenance, and other such goods and services required for the implementation of the Project;
  4. Obtaining permits, licenses and other government approvals;
  5. To the extent Pajaro/Sunny Mesa elects not to provide financing pursuant to section II 1.e. above, securing non-recourse financing

required to implement the Project in accordance with Section I. above;  
and

6. Coordinating the development activities of the Parties, including soliciting data and information from, and distributing information to, the Parties with respect to the development progress of the Project, including with respect to each of the activities detailed in this section III.A.

B. Pajaro/Sunny Mesa will provide and be responsible for the following:

1. Coordination of other site development plans and milestone schedules with Poseidon;
2. Reasonable access to the site and its facilities for the purposes of the development of the Project; and
3. Non-financial support to Poseidon in obtaining permits, licenses, pipeline easements, and other governmental approvals.

C. PSMCSD and Poseidon shall mutually be responsible for identifying and contracting with other recipients for the delivery of product water from the Project.

D. Within 150 days of the date of this agreement, the Parties shall negotiate the terms and conditions of the long term Management and Service Agreement, which shall include provisions for the assignment or sublease of the Premises to Poseidon.

E. General Mutual Responsibilities – In carrying out this Agreement, each Party agrees to: (i) cooperate with the other Party in all respects, (ii) use its good faith efforts to accomplish Project activities and identify and resolve problems, (iii) seek to appropriately structure and obtain Project financing, and (iv) use its good faith efforts to work with the other Party to generally achieve and carry out the Project successfully. The Parties acknowledge that it is the intention of the Parties to reach an agreement with the California-American Water Company, or its successor in interest, in order to facilitate the development of a single desalination facility in the Moss Landing area.

#### IV. Cost Sharing – Development Costs

A. Each Party shall be responsible for its internal costs and expenses relating to the development of the Project. Poseidon shall fund all Third Party Costs (as defined below) relating to development of the Project. Third party costs (“Third Party Costs”) are defined as all costs and expenses

incurred in the development of the Project for goods and services provided to the Parties by entities that are unrelated organizationally to any of the Parties. Goods and services may be provided by vendors designated by each Party or affiliates of the Parties, however, such Third Party Costs, shall be on an arms-length basis, at standard rates and pursuant to written arrangements.

V. Term

- A. This Agreement shall remain in force and effect until the earlier of the following;
1. This Agreement is superseded by one or more additional agreements between the Parties; or
  2. July 1, 2008.

Provided, however, the Parties may terminate this Agreement at any time if the Parties jointly conclude that the Project is not economically or technically feasible. Additionally, either Party may terminate this Agreement in the event of a material adverse change in the other Party, or it is determined by the terminating Party that it is not in its business interest to pursue the development of the Project. In the event of such latter termination, the terminating Party shall not pursue the development of a desalination project at the Premises for a period of three years. In the event that the non-terminating Party continues the development of the Project, costs incurred by the terminating Party shall be reimbursed at the time of construction financing of the Project.

- B. In the event of a termination or the expiration of this Agreement, and until such time as all costs have been reimbursed, any and all intellectual property, trade secrets, studies, research, engineering, designs, equipment, permits and entitlements ("Work Products") developed, produced or received pursuant to this Agreement shall become the exclusive property of the Party that incurred the costs and expenses used to generate such Work Products.

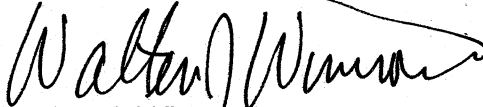
VI. Miscellaneous

- A. This Agreement shall be governed by the laws of the State of California and ordinances of the County of Monterey and shall only be amended in writing by all Parties.
- B. No Party shall have any liability to any other Party for any indirect or consequential loss or damage in connection with this Agreement.

C. Nothing contained in this Agreement is intended to create any relationship among the Parties other than as explicitly set forth herein.

If you are in agreement with the terms and conditions of this Agreement, please indicate so by having the appropriate and authorized person sign below and returning to me an executed copy. We at Poseidon Resources look forward to working with your team on this exciting project.

Sincerely,

  
Walter J. Winrow  
President & Chief Operating Officer

Accepted and Agreed:  
Pajaro/Sunny Mesa Community Services District

By: Joe Rosa

Name: Joe ROSA

Title: General Manager

Date: July 27, 2005

Accepted and Agreed:  
Pajaro/Sunny Mesa Community Services District

By: Joe Espinola

Name: Joe Espinola

Title: President

Date: 08-05-05