



**SALTON SEA FUNDING** CORPORATION AND GUARANTORS

**Combined Financial Statements (Unaudited)**

**For the Quarterly Period Ended March 31, 2016**

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#### Additional Information:

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**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED BALANCE SHEETS (Unaudited)**  
(In thousands)

	As of	
	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,824	\$ 23,798
Trade receivables	10,430	18,684
Inventories	23,536	23,312
Other current assets	533	940
Total current assets	39,323	66,734
Property, plant and equipment, net	430,020	429,027
Intangible assets, net	21,697	23,120
Due from affiliates	12,114	—
Other assets	59	140
<b>Total assets</b>	<b>\$ 503,213</b>	<b>\$ 519,021</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,612	\$ 7,752
Major maintenance accruals	5,399	—
Accrued interest	1,251	312
Current portion of senior secured bonds	20,370	20,370
Other current liabilities	6,026	4,385
Total current liabilities	41,658	32,819
Senior secured bonds	29,768	29,757
Due to affiliates	—	1,183
Deferred income taxes	67,570	81,559
Total liabilities	138,996	145,318
Commitments and contingencies (Note 4)		
Owners' equity	364,217	373,703
<b>Total liabilities and owners' equity</b>	<b>\$ 503,213</b>	<b>\$ 519,021</b>

The accompanying notes are an integral part of these combined financial statements.

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF OPERATIONS (Unaudited)**

(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Operating revenue</b>	\$ 22,655	\$ 25,128
<b>Operating costs and expenses:</b>		
Royalty, operating, general and administrative expense	29,531	38,957
Depreciation and amortization	15,271	15,446
Total operating costs and expenses	<u>44,802</u>	<u>54,403</u>
<b>Operating loss</b>	<u>(22,147)</u>	<u>(29,275)</u>
<b>Other income (expense):</b>		
Interest expense	(950)	(1,310)
Interest and other income	53	24
Total other income (expense)	<u>(897)</u>	<u>(1,286)</u>
<b>Loss before income tax benefit</b>	(23,044)	(30,561)
Income tax benefit	(13,571)	(7,765)
<b>Net loss</b>	<u>\$ (9,473)</u>	<u>\$ (22,796)</u>

The accompanying notes are an integral part of these combined financial statements.

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)**  
(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net loss	\$ (9,473)	\$ (22,796)
Other comprehensive loss, net of tax:		
Unrecognized amounts on retirement benefits, net of tax of \$(8) and \$(7)	(13)	(10)
Comprehensive loss	\$ (9,486)	\$ (22,806)

The accompanying notes are an integral part of these combined financial statements.

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF CHANGES IN OWNERS' EQUITY (Unaudited)**  
(In thousands)

	<b>Owners' Equity</b>	<b>Accumulated Other Comprehensive Income, Net</b>	<b>Total</b>
<b>Balance, December 31, 2014</b>	\$ 349,481	\$ 791	\$ 350,272
Net loss	(22,796)	—	(22,796)
Other comprehensive loss - unrecognized amounts on retirement benefits	—	(10)	(10)
<b>Balance, March 31, 2015</b>	<u>\$ 326,685</u>	<u>\$ 781</u>	<u>\$ 327,466</u>
<b>Balance, December 31, 2015</b>	\$ 372,811	\$ 892	\$ 373,703
Net loss	(9,473)	—	(9,473)
Other comprehensive loss - unrecognized amounts on retirement benefits	—	(13)	(13)
<b>Balance, March 31, 2016</b>	<u>\$ 363,338</u>	<u>\$ 879</u>	<u>\$ 364,217</u>

The accompanying notes are an integral part of these combined financial statements.

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF CASH FLOWS (Unaudited)**  
(In thousands)

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (9,473)	\$ (22,796)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	15,271	15,446
Deferred income taxes	(13,981)	(8,142)
Amortization of debt issuance costs	11	18
Changes in other operating assets and liabilities:		
Trade receivables	8,254	8,598
Inventories	(224)	(1,955)
Due to affiliates, net	(13,385)	5,521
Other assets	485	(453)
Accounts payable and other liabilities	5,636	8,107
Net cash flows from operating activities	<u>(7,406)</u>	<u>4,344</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(11,568)	(13,575)
Net cash flows from investing activities	<u>(11,568)</u>	<u>(13,575)</u>
<b>Net change in cash and cash equivalents</b>	(18,974)	(9,231)
<b>Cash and cash equivalents at beginning of period</b>	23,798	11,154
<b>Cash and cash equivalents at end of period</b>	<u>\$ 4,824</u>	<u>\$ 1,923</u>

The accompanying notes are an integral part of these combined financial statements.

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

Salton Sea Funding Corporation ("Funding Corporation"), which was formed on June 20, 1995, is a special purpose Delaware corporation and was organized for the sole purpose of acting as issuer of senior secured notes and bonds. On July 21, 1995, June 20, 1996, and October 31, 1998, Funding Corporation issued \$475.0 million, \$135.0 million and \$285.0 million, respectively, of separate series of Senior Secured Notes and Bonds (collectively, the "Securities"). Funding Corporation is a wholly-owned subsidiary of Magma Power Company ("Magma"), which in turn is a wholly-owned subsidiary of CE Generation, LLC ("CE Generation"). CE Generation is owned by BHE Geothermal, LLC, an indirect wholly-owned subsidiary of Berkshire Hathaway Energy Company ("BHE"). BHE is a consolidated subsidiary of Berkshire Hathaway Inc.

The Salton Sea Guarantors (not a legal entity) consist of: (1) Salton Sea Power Generation Company, Salton Sea Power L.L.C. ("Salton Sea Power"), and Fish Lake Power LLC, together owning a 100% interest in five operating geothermal electric power generating plants located in the Imperial Valley of California commonly known as the Salton Sea I Project, the Salton Sea II Project, the Salton Sea III Project, the Salton Sea IV Project and the Salton Sea V Project (collectively, the "Salton Sea Projects"), (2) Salton Sea Brine Processing Company, and (3) CE Salton Sea Inc. (collectively, the "Salton Sea Guarantors").

The Partnership Guarantors (not a legal entity) consist of: (1) Vulcan/BN Geothermal Power Company ("Vulcan"), Elmore Company ("Elmore"), CE Leathers Company ("Leathers"), Del Ranch Company ("Del Ranch") and CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in the Imperial Valley of California commonly known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project, respectively (collectively, the "Partnership Projects"), (2) CalEnergy Operating Corporation ("CEOC") and Vulcan Power Company ("VPC"), both 99% owned by Magma and 1% owned by Funding Corporation, (3) San Felipe Energy Company ("San Felipe"), Conejo Energy Company ("Conejo"), and Niguel Energy Company ("Niguel"), each 100% owned by CEOC, (4) VPC Geothermal LLC ("VPCG"), which is 100% owned by VPC, (5) Salton Sea Minerals Corp., (6) CalEnergy Minerals LLC ("CalEnergy Minerals"), and (7) CE Salton Sea Inc. (collectively, the "Partnership Guarantors"). VPC and VPCG collectively own 100% of the interests in Vulcan. CEOC, Niguel, San Felipe and Conejo collectively own 90% of the interests in each of Elmore, Leathers and Del Ranch, respectively. CE Salton Sea Inc. owns CE Turbo.

Magma owns all of the remaining 10% interests in each of the Elmore, Leathers and Del Ranch Projects. CEOC is entitled to receive from Magma, as payment for certain data and services provided by CEOC, all of the distributions Magma receives with respect to its 10% ownership interests in each of the Elmore, Leathers and Del Ranch Projects and Magma's special distributions equal to 4.5% of total energy revenue from the Leathers Project. Given the assignment of these rights by Magma to CEOC, the 10% ownership interest in each of the Elmore, Leathers and Del Ranch Projects is reflected on the Combined Financial Statements of the Partnership Guarantors, the Salton Sea Guarantors and Funding Corporation.

Salton Sea Royalty Company (the "Royalty Guarantor") is the beneficiary of an assignment of certain fees and royalties paid by the Elmore, Leathers and Del Ranch Projects (the "Royalty Projects").

The Securities are payable from the proceeds of payments made of principal and interest on the secured project notes from the Salton Sea Guarantors, the Partnership Guarantors and the Royalty Guarantor (collectively, the "Guarantors") to Funding Corporation. The Securities are also guaranteed on a joint and several basis by the Guarantors, each of which is an affiliate of Magma and Funding Corporation. Although the guarantees of the Partnership Guarantors and the Royalty Guarantor are limited to available cash flow (the guarantee of the Salton Sea Guarantors is not so limited), the obligations of each Guarantor under their respective secured project notes is not limited to available cash flow. Funding Corporation does not conduct any operations apart from those related to the issuance of the Securities.

The unaudited Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Combined Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the unaudited Combined Financial Statements as of March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015. The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 13, 2016, which is the date the unaudited Combined Financial Statements were available to be issued.



The unaudited Combined Financial Statements include the accounts of Funding Corporation and the Guarantors (collectively, the "Company") as Funding Corporation and the Guarantors are entities under common control and management. All transactions and accounts between and among Funding Corporation and the Guarantors have been eliminated.

The preparation of the unaudited Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Combined Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Combined Financial Statements. Note 2 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2015 describes the most significant accounting policies used in the preparation of the unaudited Combined Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the three-month period ended March 31, 2016.

## 2. Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following (in thousands):

	Depreciable Life	As of	
		March 31, 2016	December 31, 2015
Power plants	5 to 30 years	\$ 1,032,111	\$ 1,017,462
Wells and resource development	2 to 30 years	336,036	335,844
Total operating assets		1,368,147	1,353,306
Accumulated depreciation		(938,127)	(924,279)
Property, plant and equipment, net		<u>\$ 430,020</u>	<u>\$ 429,027</u>

## 3. Goodwill and Intangible Assets, Net

Goodwill consists of the following (in thousands):

	As of March 31, 2016		As of December 31, 2015	
	Gross Carrying Amount	Accumulated Impairment Losses	Gross Carrying Amount	Accumulated Impairment Losses
Goodwill	\$ 151,330	\$ 151,330	\$ 151,330	\$ 151,330

The Company did not record any goodwill impairment for the three-month periods ended March 31, 2016 and 2015.

Intangible assets, net consists of the following (in thousands):

	Amortization Life	As of March 31, 2016		As of December 31, 2015	
		Gross	Accumulated	Gross	Accumulated
		Carrying Amount	Amortization	Carrying Amount	Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 200,406	\$ 216,935	\$ 199,465
Patented technology	24 years	46,290	41,122	46,290	40,640
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 241,528</u>	<u>\$ 263,225</u>	<u>\$ 240,105</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended March 31, 2016 and 2015. The Company expects amortization expense on acquired intangible assets to be \$4.3 million for the remaining nine months in 2016, \$5.7 million in 2017, \$5.0 million in 2018, \$1.0 million in 2019 and \$0.9 million in 2020.

#### 4. Commitments and Contingencies

##### *The California Power Exchange*

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo did not receive payment for power sold to El Paso Merchant Energy Company ("EPME") under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the "PX Receivable"). Salton Sea Power and CE Turbo established an allowance for doubtful accounts for this balance as of December 31, 2003. On September 29, 2004, Salton Sea Power and CE Turbo entered into separate Transfer of Claims Agreements (the "Transfer of Claims Agreements"), pursuant to which Salton Sea Power and CE Turbo received an aggregate of \$3.7 million in exchange for transferring the rights to receive payment on the PX Receivable to TransAlta and BHE. As a result of the transaction, Salton Sea Power and CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.8 million current liability to reflect the collection risk retained under the Transfer of Claims Agreements. Pursuant to the Transfer of Claims Agreements, to the extent that the PX Receivable becomes uncollectible, Salton Sea Power and CE Turbo can be required to pay the PX Receivable, plus interest, to BHE and TransAlta. EPME informed Salton Sea Power and CE Turbo that, on July 6, 2007, it received a distribution in connection with a settlement involving its claims in the California Power Exchange bankruptcy proceeding. In August 2007, EPME paid \$2.4 million, or \$1.2 million each to BHE and TransAlta, in connection with the bankruptcy proceeding distribution that EPME received on their behalf. Accordingly, Salton Sea Power and CE Turbo reduced their collective liability by \$2.4 million to \$1.4 million.

##### *Environmental Laws and Regulations*

The Company is subject to federal, state and local laws and regulations regarding water quality, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company's current and future operations. The Company believes it is in material compliance with all applicable laws and regulations.

## 5. Related Party Transactions

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors' power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed were \$0.5 million and \$0.6 million for the three-month periods ended March 31, 2016 and 2015, respectively.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed were \$1.1 million and \$1.2 million for the three-month periods ended March 31, 2016 and 2015, respectively.

The Company participates in the MidAmerican Energy Company Retirement Plan and the MidAmerican Energy Company Welfare Benefit Plan, each of which is sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly-owned subsidiary of BHE. The Company's contributions to the various plans were \$0.5 million and \$0.6 million for the three-month periods ended March 31, 2016 and 2015, respectively. The portion of accumulated other comprehensive income attributable to the Company has been allocated from MEC in accordance with the intercompany administrative service agreement.

Pursuant to the Administrative Services Agreement dated April 1, 1993 with Magma (the "Magma Services Agreement"), Magma provides administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV Project and the Salton Sea V Project. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed were \$0.1 million for each of the three-month periods ended March 31, 2016 and 2015.

Pursuant to the Magma Services Agreement, Magma has agreed to pay CEOC all equity cash flows and certain royalties payable by the Partnership Guarantors in exchange for providing data and services to Magma. As security for the obligations of Magma under the Magma Services Agreement, Magma has collaterally assigned to CEOC its rights to such equity cash flows and certain royalties. The assignment of such rights has been reflected on the Combined Financial Statements of the Company.

## 6. New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, which creates FASB Accounting Standards Codification ("ASC") Topic 842, "Leases" and supersedes Topic 840 "Leases." This guidance increases transparency and comparability among entities by recording lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous guidance. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted, and is required to be adopted using a modified retrospective approach. The Company is currently evaluating the impact of adopting this guidance on its Combined Financial Statements and disclosures included within Notes to Combined Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, which creates FASB ASC Topic 606, "Revenue from Contracts with Customers" and supersedes ASC Topic 605, "Revenue Recognition." The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year to interim and annual reporting periods beginning after December 15, 2017. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Company is currently evaluating the impact of adopting this guidance on its Combined Financial Statements and disclosures included within Notes to Combined Financial Statements.

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## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected the combined financial condition and results of operations of Salton Sea Funding Corporation ("Funding Corporation") and the Guarantors (collectively, the "Company") during the periods included herein. Explanations include management's best estimate of the impact of weather and other factors. This discussion should be read in conjunction with the Company's historical unaudited Combined Financial Statements and Notes to Combined Financial Statements included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

The Guarantors consist of the following legal entities:

- *Salton Sea Guarantors* - Salton Sea Brine Processing Company, Salton Sea Power Generation Company, Salton Sea Power L.L.C., and Fish Lake Power LLC, each of which have an ownership interest in one or more of five operating geothermal power plants in the Imperial Valley of California commonly known as the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project and Salton Sea V Project (collectively, the "Salton Sea Projects"), and CE Salton Sea Inc.
- *Partnership Guarantors* - Vulcan/BN Geothermal Power Company ("Vulcan"), Elmore Company ("Elmore"), CE Leathers Company ("Leathers"), Del Ranch Company ("Del Ranch"), and CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in the Imperial Valley of California commonly known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project (collectively, the "Partnership Projects"), CalEnergy Minerals LLC, Salton Sea Minerals Corp., CE Salton Sea Inc., CalEnergy Operating Corporation, Vulcan Power Company, San Felipe Energy Company, Conejo Energy Company, Niguel Energy Company, and VPC Geothermal LLC.
- *Royalty Guarantor* - Salton Sea Royalty Company.

The Salton Sea Projects and the Partnership Projects are collectively known as the Imperial Valley Projects. Refer to Exhibit B, included herein, for additional information regarding the legal organization and ownership structure of the Company.

## Forward-Looking Statements

From time to time, the Company may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond the control of the Company or any of its subsidiaries individually. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of the Company's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. The Company has identified important factors that could cause actual results to differ materially from those expectations, including weather effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing factors should not be construed as exclusive.

## Results of Operations

### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the period. Refer to Note 1 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2015 for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

The following represents operating revenue (in millions), aggregate capacity and electricity production of the Imperial Valley Projects:

	First Quarter	
	2016	2015
Operating revenue	\$ 22.7	\$ 25.1
Overall capacity factor	66.9%	67.8%
Megawatt hours produced	493,500	494,900
Facility net capacity (megawatts) (weighted average)	338.0	338.0

Operating revenue decreased \$2.4 million, or 9.6%, for the first quarter of 2016 compared to 2015 due to the following:

- \$1.8 million decrease due primarily to a decrease in production at certain Imperial Valley Projects.
- \$0.6 million decrease due to lower energy rates at certain Imperial Valley Projects.

### *Royalty, Operating, General and Administrative Expense*

Royalty, operating, general and administrative expense decreased \$9.5 million, or 24.4%, to \$29.5 million for the first quarter of 2016 from \$39.0 million for the comparable period in 2015 due primarily to lower maintenance costs at certain Imperial Valley Projects.

### *Depreciation and Amortization*

Depreciation and amortization decreased \$0.1 million, or 0.6%, to \$15.3 million for the first quarter of 2016 from \$15.4 million for the comparable period in 2015 due primarily to the timing of Imperial Valley Projects placed in service.

### *Interest Expense*

Interest expense decreased \$0.3 million, to \$1.0 million for the first quarter of 2016 from \$1.3 million for the comparable period in 2015 due to lower outstanding debt balances.

### *Income Tax Benefit*

Income tax benefit increased \$5.8 million to \$13.6 million for the first quarter of 2016 from \$7.8 million for the comparable period in 2015. The effective tax rate was 58.9% and 25.5% for the first quarters of 2016 and 2015, respectively. The changes in income tax benefit and the effective tax rate were primarily due to a change in valuation allowance recorded in 2015.

### Liquidity and Capital Resources

The Company's cash and cash equivalents were \$4.8 million as of March 31, 2016, compared to \$23.8 million as of December 31, 2015.

Net cash flows from operating activities for the three-month periods ended March 31, 2016 and 2015 were \$(7.4) million and \$4.3 million, respectively. The change was primarily due to the timing of customer payments, partially offset by lower maintenance costs at certain Imperial Valley Projects.

Net cash flows from investing activities for the three-month periods ended March 31, 2016 and 2015 were \$(11.6) million and \$(13.6) million, respectively. The change was due to lower capital expenditures in 2016.

Forecasted capital expenditures for 2016 are approximately \$62.0 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditure requirements with cash flows from operations and owner capital contributions.

Funding Corporation expects to receive owner capital contributions in 2016 for the purpose of assisting with Funding Corporation's scheduled 2016 debt service payments and a portion of the Company's 2016 capital expenditure needs.

### Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding water quality, emission performance standards, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact its current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide regulators with the authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the United States Environmental Protection Agency ("EPA") and various other state and local agencies. All such laws and regulations are subject to a range of interpretation, which may ultimately be resolved by the courts. Environmental laws and regulations continue to evolve, and the Company is unable to predict the impact of the changing laws and regulations on its operations and combined financial results. The Company believes it is in material compliance with all applicable laws and regulations. Refer to Note 4 of Notes to Combined Financial Statements included elsewhere in this report for additional information regarding certain environmental laws and regulations affecting the Company. There have been no material developments in environmental laws and regulations since those disclosed in the "Environmental Laws and Regulations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report for the year ended December 31, 2015.

### Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see the "Quantitative and Qualitative Disclosures About Market Risk" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report for the year ended December 31, 2015. The Company's exposure to market risk and its management of such risk has not changed materially since December 31, 2015.

## CERTIFICATION

I, William J. Fehrman, certify that:

1. I have reviewed this Quarterly Report of Salton Sea Funding Corporation and the Guarantors (collectively, the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its combined subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 13, 2016

/s/ William J. Fehrman  
William J. Fehrman  
President  
(principal executive officer)

## CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this Quarterly Report of Salton Sea Funding Corporation and the Guarantors (collectively, the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its combined subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: May 13, 2016

/s/ Stephen D. Dickas  
Stephen D. Dickas  
Vice President & Controller  
(principal financial officer)



**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF MARCH 31, 2016**  
(In thousands)

EXHIBIT A

	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	<b>Combined</b>
				<b>Eliminations</b>	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ —	\$ 2	\$ —	\$ 4,822	\$ 4,824
Trade receivables	2,988	7,442	—	—	10,430
Inventories	—	23,536	—	—	23,536
Other current assets	237	304	—	(8)	533
Total current assets	3,225	31,284	—	4,814	39,323
Property, plant and equipment, net	235,076	194,944	—	—	430,020
Intangible assets, net	9,782	9,765	2,150	—	21,697
Due (to) from affiliates	(1,129)	(87)	—	13,330	12,114
Other assets	—	59	—	—	59
Total assets	\$ 246,954	\$ 235,965	\$ 2,150	\$ 18,144	\$ 503,213
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 3,765	\$ 4,847	\$ —	\$ —	\$ 8,612
Major maintenance accruals	5,366	33	—	—	5,399
Accrued interest	721	530	—	—	1,251
Current portion of secured project notes	11,741	8,629	—	(20,370)	—
Current portion of senior secured bonds	—	—	—	20,370	20,370
Other current liabilities	1,679	4,347	—	—	6,026
Total current liabilities	23,272	18,386	—	—	41,658
Secured project notes	17,158	12,610	—	(29,768)	—
Senior secured bonds	—	—	—	29,768	29,768
Deferred income taxes	42,735	23,959	876	—	67,570
Total liabilities	83,165	54,955	876	—	138,996
Owners' equity:					
Owners' equity	163,789	180,131	1,274	18,144	363,338
Accumulated other comprehensive income, net	—	879	—	—	879
Total owners' equity	163,789	181,010	1,274	18,144	364,217
<b>Total liabilities and owners' equity</b>	<b>\$ 246,954</b>	<b>\$ 235,965</b>	<b>\$ 2,150</b>	<b>\$ 18,144</b>	<b>\$ 503,213</b>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF DECEMBER 31, 2015**  
(In thousands)

EXHIBIT A (Continued)

	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	<b>Combined</b>
				<b>Eliminations</b>	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ —	\$ 2	\$ —	\$ 23,796	\$ 23,798
Trade receivables	10,314	8,370	—	—	18,684
Inventories	—	23,312	—	—	23,312
Other current assets	387	513	—	40	940
Total current assets	10,701	32,197	—	23,836	66,734
Property, plant and equipment, net	230,235	198,792	—	—	429,027
Intangible assets, net	10,070	10,705	2,345	—	23,120
Other assets	—	140	—	—	140
Total assets	<u>\$ 251,006</u>	<u>\$ 241,834</u>	<u>\$ 2,345</u>	<u>\$ 23,836</u>	<u>\$ 519,021</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 2,700	\$ 5,052	\$ —	\$ —	\$ 7,752
Accrued interest	180	132	—	—	312
Current portion of secured project notes	11,741	8,629	—	(20,370)	—
Current portion of senior secured bonds	—	—	—	20,370	20,370
Other current liabilities	950	3,435	—	—	4,385
Total current liabilities	15,571	17,248	—	—	32,819
Secured project notes	17,152	12,605	—	(29,757)	—
Senior secured bonds	—	—	—	29,757	29,757
Due to affiliates	1,129	54	—	—	1,183
Deferred income taxes	54,277	26,326	956	—	81,559
Total liabilities	<u>88,129</u>	<u>56,233</u>	<u>956</u>	<u>—</u>	<u>145,318</u>
Owners' equity:					
Owners' equity	162,877	184,709	1,389	23,836	372,811
Accumulated other comprehensive income, net	—	892	—	—	892
Total owners' equity	<u>162,877</u>	<u>185,601</u>	<u>1,389</u>	<u>23,836</u>	<u>373,703</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 251,006</u>	<u>\$ 241,834</u>	<u>\$ 2,345</u>	<u>\$ 23,836</u>	<u>\$ 519,021</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2016**  
(In thousands)

EXHIBIT A (Continued)

	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	<b>Combined</b>
				<b>Eliminations</b>	
<b>Operating revenue</b>	\$ 9,048	\$ 13,607	\$ 1,473	\$ (1,473)	\$ 22,655
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	20,602	10,008	374	(1,453)	29,531
Depreciation and amortization	7,674	7,402	195	—	15,271
Total operating costs and expenses	28,276	17,410	569	(1,453)	44,802
<b>Operating (loss) income</b>	(19,228)	(3,803)	904	(20)	(22,147)
<b>Other income (expense):</b>					
Interest expense	(548)	(402)	—	—	(950)
Interest and other income	—	48	—	5	53
Total other income (expense)	(548)	(354)	—	5	(897)
<b>(Loss) income before income tax (benefit) expense</b>	(19,776)	(4,157)	904	(15)	(23,044)
Income tax (benefit) expense	(11,542)	(2,298)	276	(7)	(13,571)
<b>Net (loss) income</b>	\$ (8,234)	\$ (1,859)	\$ 628	\$ (8)	\$ (9,473)

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015**  
(In thousands)

EXHIBIT A (Continued)

	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	<b>Combined</b>
				<b>Eliminations</b>	
<b>Operating revenue</b>	\$ 12,509	\$ 12,619	\$ 1,630	\$ (1,630)	\$ 25,128
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	22,279	17,843	448	(1,613)	38,957
Depreciation and amortization	7,384	7,856	206	—	15,446
Total operating costs and expenses	29,663	25,699	654	(1,613)	54,403
<b>Operating (loss) income</b>	(17,154)	(13,080)	976	(17)	(29,275)
<b>Other income (expense):</b>					
Interest expense	(755)	(555)	—	—	(1,310)
Interest and other income	10	14	—	—	24
Total other income (expense)	(745)	(541)	—	—	(1,286)
<b>(Loss) income before income tax (benefit) expense</b>	(17,899)	(13,621)	976	(17)	(30,561)
Income tax (benefit) expense	(11,529)	3,471	300	(7)	(7,765)
<b>Net (loss) income</b>	\$ (6,370)	\$ (17,092)	\$ 676	\$ (10)	\$ (22,796)

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2016**  
(In thousands)

EXHIBIT A (Continued)

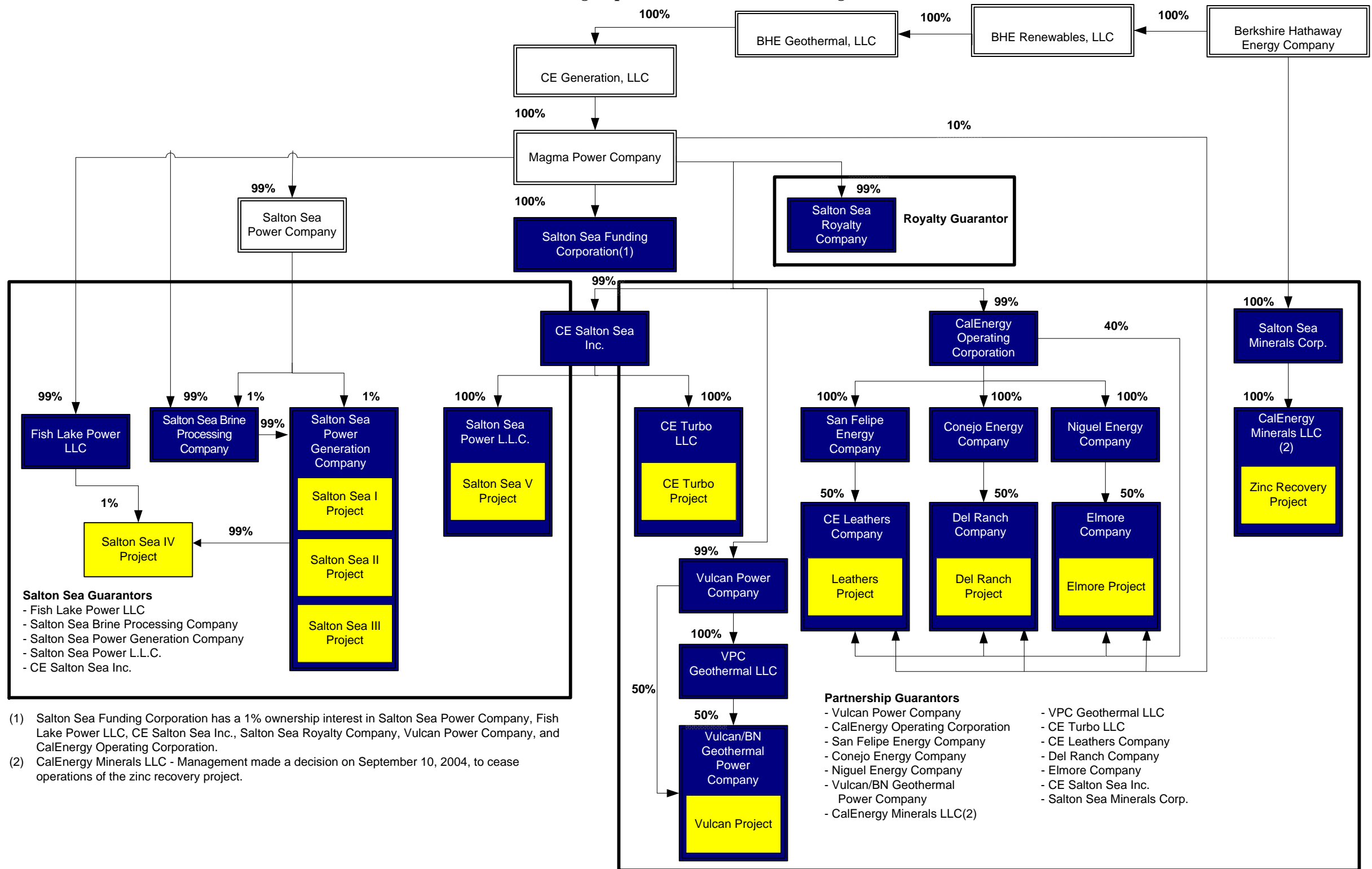
	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	<b>Combined</b>
				<b>Eliminations</b>	
<b>Cash flows from operating activities:</b>					
Net (loss) income	\$ (8,234)	\$ (1,859)	\$ 628	\$ (8)	\$ (9,473)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	7,674	7,402	195	—	15,271
Deferred income taxes	(11,542)	(2,359)	(80)	—	(13,981)
Amortization of debt issuance costs	7	4	—	—	11
Changes in other operating assets and liabilities:					
Trade receivables	7,326	928	—	—	8,254
Inventories	—	(224)	—	—	(224)
Due to affiliates, net	8,373	(2,004)	(742)	(19,012)	(13,385)
Other assets	150	289	—	46	485
Accounts payable and other liabilities	5,565	72	(1)	—	5,636
Net cash flows from operating activities	<u>9,319</u>	<u>2,249</u>	<u>—</u>	<u>(18,974)</u>	<u>(7,406)</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(9,319)	(2,249)	—	—	(11,568)
Net cash flows from investing activities	<u>(9,319)</u>	<u>(2,249)</u>	<u>—</u>	<u>—</u>	<u>(11,568)</u>
<b>Net change in cash and cash equivalents</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(18,974)</b>	<b>(18,974)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>—</b>	<b>2</b>	<b>—</b>	<b>23,796</b>	<b>23,798</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 4,822</b>	<b>\$ 4,824</b>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2015**  
(In thousands)

EXHIBIT A (Continued)

	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	<b>Combined</b>
				<b>Eliminations</b>	
<b>Cash flows from operating activities:</b>					
Net (loss) income	\$ (6,369)	\$ (17,094)	\$ 678	\$ (11)	\$ (22,796)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	7,384	7,857	205	—	15,446
Deferred income taxes	(11,529)	3,471	(84)	—	(8,142)
Amortization of debt issuance costs	10	8	—	—	18
Changes in other operating assets and liabilities:					
Trade receivables	6,143	2,455	—	—	8,598
Inventories	—	(1,955)	—	—	(1,955)
Due to affiliates, net	1,245	14,299	(799)	(9,224)	5,521
Other assets	(238)	(222)	—	7	(453)
Accounts payable and other liabilities	9,050	(942)	—	(1)	8,107
Net cash flows from operating activities	<u>5,696</u>	<u>7,877</u>	<u>—</u>	<u>(9,229)</u>	<u>4,344</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(5,696)	(7,879)	—	—	(13,575)
Net cash flows from investing activities	<u>(5,696)</u>	<u>(7,879)</u>	<u>—</u>	<u>—</u>	<u>(13,575)</u>
<b>Net change in cash and cash equivalents</b>	<b>—</b>	<b>(2)</b>	<b>—</b>	<b>(9,229)</b>	<b>(9,231)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>—</b>	<b>3</b>	<b>—</b>	<b>11,151</b>	<b>11,154</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ 1,922</b>	<b>\$ 1,923</b>

**Exhibit B - Salton Sea Funding Coporation and Guarantors - Organization Chart**



(1) Salton Sea Funding Corporation has a 1% ownership interest in Salton Sea Power Company, Fish Lake Power LLC, CE Salton Sea Inc., Salton Sea Royalty Company, Vulcan Power Company, and CalEnergy Operating Corporation.

(2) CalEnergy Minerals LLC - Management made a decision on September 10, 2004, to cease operations of the zinc recovery project.

- Partnership Guarantors**
- Vulcan Power Company
  - CalEnergy Operating Corporation
  - San Felipe Energy Company
  - Conejo Energy Company
  - Niguel Energy Company
  - Vulcan/BN Geothermal Power Company
  - CalEnergy Minerals LLC(2)
  - VPC Geothermal LLC
  - CE Turbo LLC
  - CE Leathers Company
  - Del Ranch Company
  - Elmore Company
  - CE Salton Sea Inc.
  - Salton Sea Minerals Corp.