



# SALTON SEA FUNDING CORPORATION AND GUARANTORS

## **Combined Financial Statements**

**For the Quarterly Period Ended September 30, 2011**

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

	As of	
	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,644	\$ 6,014
Restricted cash	8,897	-
Trade receivables	25,200	31,304
Inventories	29,752	24,100
Deferred income taxes	3,548	3,548
Other current assets	<u>214</u>	<u>1,194</u>
Total current assets	94,255	66,160
Property, plant and equipment, net	521,034	542,058
Goodwill	86,992	86,992
Intangible assets, net	46,623	50,772
Other assets	<u>519</u>	<u>657</u>
<b>Total assets</b>	<b><u>\$ 749,423</u></b>	<b><u>\$ 746,639</u></b>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 617	\$ 2,466
Accrued interest	3,042	866
Current portion of senior secured notes and bonds	12,641	19,990
Deferred income taxes	794	794
Other current liabilities	<u>8,775</u>	<u>3,390</u>
Total current liabilities	25,869	27,506
Senior secured notes and bonds	109,436	117,744
Due to affiliates	10,306	1,428
Deferred income taxes	146,233	154,425
Other long-term liabilities	<u>-</u>	<u>432</u>
Total liabilities	<u>291,844</u>	<u>301,535</u>
Commitments and contingencies (Note 5)		
Owners' equity	<u>457,579</u>	<u>445,104</u>
<b>Total liabilities and owners' equity</b>	<b><u>\$ 749,423</u></b>	<b><u>\$ 746,639</u></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>Nine-Month Periods</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Operating revenue</b>	<u>\$ 76,802</u>	<u>\$ 76,618</u>	<u>\$175,811</u>	<u>\$ 174,433</u>
<b>Operating costs and expenses:</b>				
Royalty, operating, general and administrative expense	27,358	24,531	90,417	86,518
Depreciation and amortization	<u>15,246</u>	<u>14,757</u>	<u>47,520</u>	<u>46,382</u>
Total operating costs and expenses	<u>42,604</u>	<u>39,288</u>	<u>137,937</u>	<u>132,900</u>
<b>Operating income</b>	<u>34,198</u>	<u>37,330</u>	<u>37,874</u>	<u>41,533</u>
<b>Other income (expense):</b>				
Interest expense	(2,317)	(2,830)	(7,505)	(9,126)
Interest and other income	<u>116</u>	<u>70</u>	<u>118</u>	<u>125</u>
Total other income (expense)	<u>(2,201)</u>	<u>(2,760)</u>	<u>(7,387)</u>	<u>(9,001)</u>
<b>Income before income tax (benefit) expense</b>	31,997	34,570	30,487	32,532
Income tax (benefit) expense	<u>(4,300)</u>	<u>(1,372)</u>	<u>(2,016)</u>	<u>78,587</u>
<b>Net income (loss)</b>	<u>\$ 36,297</u>	<u>\$ 35,942</u>	<u>\$ 32,503</u>	<u>\$ (46,055)</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>Nine-Month Periods Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 32,503	\$ (46,055)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	47,520	46,382
Deferred income taxes	(8,169)	71,990
Amortization of deferred financing costs	134	208
Changes in other operating assets and liabilities:		
Trade receivables	6,104	(19,333)
Inventories	(5,652)	(212)
Due to affiliates, net	8,730	15,977
Other assets	980	1,269
Accounts payable and other liabilities	<u>5,218</u>	<u>2,963</u>
Net cash flows from operating activities	<u>87,368</u>	<u>73,189</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(22,184)	(33,338)
Increase in restricted cash	<u>(8,897)</u>	<u>(14,023)</u>
Net cash flows from investing activities	<u>(31,081)</u>	<u>(47,361)</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured notes and bonds	(15,657)	(18,186)
Distributions	<u>(20,000)</u>	<u>(20,000)</u>
Net cash flows from financing activities	<u>(35,657)</u>	<u>(38,186)</u>
<b>Net change in cash and cash equivalents</b>	20,630	(12,358)
<b>Cash and cash equivalents at beginning of period</b>	<u>6,014</u>	<u>14,398</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 26,644</u>	<u>\$ 2,040</u>

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 Loss, Net</b>	<b>Total</b>
<b>Balance, December 31, 2009</b>	\$ 516,093	\$ (1,108)	\$ 514,985
Net loss	(46,055)	-	(46,055)
Other comprehensive loss	-	(22)	(22)
Distributions	(20,000)	-	(20,000)
<b>Balance, September 30, 2010</b>	<u>\$ 450,038</u>	<u>\$ (1,130)</u>	<u>\$ 448,908</u>
<b>Balance, December 31, 2010</b>	\$ 445,327	\$ (223)	\$ 445,104
Net income	32,503	-	32,503
Other comprehensive loss	-	(28)	(28)
Distributions	(20,000)	-	(20,000)
<b>Balance, September 30, 2011</b>	<u>\$ 457,830</u>	<u>\$ (251)</u>	<u>\$ 457,579</u>

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

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

	<u>Three-Month Periods</u> <u>Ended September 30,</u>		<u>Nine-Month Periods</u> <u>Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income (loss)	\$ 36,297	\$ 35,942	\$ 32,503	\$ (46,055)
Other comprehensive loss, net of tax-				
Unrecognized amounts on retirement benefits, net of tax				
of \$(6), \$(5), \$(19) and \$(15)	<u>(9)</u>	<u>(7)</u>	<u>(28)</u>	<u>(22)</u>
Comprehensive income (loss)	<u>\$ 36,288</u>	<u>\$ 35,935</u>	<u>\$ 32,475</u>	<u>\$ (46,077)</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 equally owned by MidAmerican Energy Holdings Company (“MEHC”), a consolidated subsidiary of Berkshire Hathaway Inc., and TransAlta (CE Gen) USA, Inc. (“TransAlta”), a wholly owned subsidiary of TransAlta Corporation.

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 Combined Financial Statements as of September 30, 2011 and for the three- and nine-month periods



ended September 30, 2011 and 2010. The results of operations for the three- and nine-month periods ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 11, 2011, 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 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, 2010 describes the most significant accounting policies used in the preparation of the Combined Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the nine-month period ended September 30, 2011.

## 2. Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		September 30, 2011	December 31, 2010
Power plants	5 to 30 years	\$ 940,028	\$ 935,539
Wells and resource development	2 to 30 years	<u>274,490</u>	<u>264,249</u>
Total operating assets		1,214,518	1,199,788
Accumulated depreciation		<u>(693,484)</u>	<u>(657,730)</u>
Property, plant and equipment, net		<u>\$ 521,034</u>	<u>\$ 542,058</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$0.7 million and \$- million during the three-month periods ended September 30, 2011 and 2010, respectively, and \$2.9 million and \$2.0 million during the nine-month periods ended September 30, 2011 and 2010, respectively, which was charged to depreciation expense on the Combined Statements of Operations.

## 3. Intangible Assets, Net

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

	Amortization Life	As of September 30, 2011		As of December 31, 2010	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 184,162	\$ 216,935	\$ 181,460
Patented technology	24 years	<u>46,290</u>	<u>32,440</u>	<u>46,290</u>	<u>30,993</u>
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 216,602</u>	<u>\$ 263,225</u>	<u>\$ 212,453</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended September 30, 2011 and 2010, and \$4.2 million for each of the nine-month periods ended September 30, 2011 and 2010. The Company expects amortization expense on acquired intangible assets to be \$1.3 million for the remaining three months in 2011, and \$5.5 million in 2012 through 2015.

#### **4. Income Taxes**

Income tax (benefit) increased \$(2.9) million to \$(4.3) million for the third quarter of 2011 from \$(1.4) million for the comparable period in 2010 primarily due to an increase in depletion in relation to the percentage of pre-tax book income as well the recognition of tax benefits received from the settlement of the 2005-2009 federal examination associated with energy tax credits.

Income tax expense (benefit) decreased \$80.6 million to a benefit of \$(2.0) million for the first nine months of 2011 from \$78.6 million of expense for the comparable period in 2010 primarily due to the recognition of certain deferred income tax liabilities in 2010 resulting from the conversion of seven partnerships to corporations (the "Conversions") effective January 1, 2010.

The Conversions were effected for the purpose of optimizing the organizational structure of the Company, CE Generation and its affiliates under existing federal and state tax laws and regulations. By doing so, the Company, CE Generation and its affiliates are able to recognize certain benefits under existing federal and state tax laws which they were unable to realize under their previous form of organization. As of January 1, 2010 and consistent with its new form of organization, the Company incurred additional income tax expense of \$77.1 million related to the recognition of certain deferred income tax liabilities resulting from the Conversions.

#### **5. 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 MEHC. 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 MEHC 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 MEHC 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, emissions performance standards, 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.

##### *Accrued Environmental Costs*

The Company is fully or partly responsible for environmental remediation at various contaminated sites, including sites that are or were part of the Company's operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expenses are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company's proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of September 30, 2011 and December 31, 2010 was \$0.7 million and \$0.6 million, respectively, and is included in other current liabilities on the Combined Balance Sheets. Environmental remediation liabilities that separately

result from the normal operation of long-lived assets and that are legal obligations associated with the retirement of those assets are separately accounted for as asset retirement obligations.

## **6. 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 \$1.9 million and \$1.8 million for the three-month periods ended September 30, 2011 and 2010, respectively, and \$4.2 million for each of the nine-month periods ended September 30, 2011 and 2010.

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 \$2.9 million and \$3.0 million for the three-month periods ended September 30, 2011 and 2010, respectively, and \$8.4 million and \$8.2 million for the nine-month periods ended September 30, 2011 and 2010, respectively.

The Company participates in pension and other postretirement benefit plans sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly owned subsidiary of MEHC. The Company's contributions to the various plans were \$0.2 million and \$0.3 million for the three-month periods ended September 30, 2011 and 2010, respectively, and \$1.1 million and \$1.2 million for the nine-month periods ended September 30, 2011 and 2010, respectively. The portion of accumulated other comprehensive loss attributable to the Company has been allocated from MEC in accordance with intercompany service agreements.

Pursuant to the Administrative Services Agreement dated April 1, 1993, with Magma (the "Magma Services Agreement"), Magma will provide 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 \$0.6 million for each of the three-month periods ended September 30, 2011 and 2010, and \$1.3 million for each of the nine-month periods ended September 30, 2011 and 2010.

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.

## **7. Components of Accumulated Other Comprehensive Loss, Net**

Accumulated other comprehensive loss, net consists of unrecognized amounts on retirement benefits of \$0.3 million and \$0.2 million as of September 30, 2011 and December 31, 2010, respectively, net of tax of \$0.2 million, as of September 30, 2011 and December 31, 2010.

## **8. New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, which amends FASB Accounting Standards Codification ("ASC") Topic 220, "Comprehensive Income." ASU No. 2011-05 provides an entity with the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of the option chosen, this guidance also requires presentation of items on the face of the financial statements that are reclassified from other comprehensive income to net income. This guidance does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income or how tax effects of each item of other comprehensive income are presented. This guidance is effective for reporting periods ending after December 15, 2012. The Company is currently evaluating which presentation option will be implemented.

In May 2011, the FASB issued ASU No. 2011-04, which amends FASB ASC Topic 820, “Fair Value Measurements and Disclosures.” The amendments in this guidance are not intended to result in a change in current accounting. ASU No. 2011-04 requires additional disclosures relating to fair value measurements categorized within Level 3 of the fair value hierarchy, including quantitative information about unobservable inputs, the valuation process used by the entity and the sensitivity of unobservable input measurements. Additionally, entities are required to disclose the level of the fair value hierarchy for assets and liabilities that are not measured at fair value in the balance sheet, but for which disclosure of the fair value is required. This guidance is effective for reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of adopting this guidance on its disclosures included within Notes to Combined Financial Statements.

## 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 update forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of 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, 2010 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:

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Operating revenue	\$76.8	\$76.6	\$175.8	\$174.4
Overall capacity factor	94.6%	95.3%	89.9%	89.1%
Megawatt hours produced	681,600	687,100	1,922,300	1,905,000
Facility net capacity megawatts (weighted average)	326.4	326.4	326.4	326.4

Operating revenue increased \$0.2 million, or 0.3%, for the third quarter of 2011 compared to 2010 primarily due to the following:

- \$0.3 million increase due to higher energy rates at certain Imperial Valley Projects.
- \$0.1 million decrease due to a 0.8% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at the Salton Sea Projects in 2011.

Operating revenue increased \$1.4 million, or 0.8%, for the first nine months of 2011 compared to 2010 primarily due to the following:

- \$0.9 million increase due to a 0.9% increase in energy production. The energy production increase primarily resulted from equipment repairs at the CE Turbo Project in 2010.
- \$0.5 million increase due to higher energy rates at certain Imperial Valley Projects.

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

Royalty, operating, general and administrative expense increased \$2.9 million, or 11.8%, to \$27.4 million for the third quarter of 2011 from \$24.5 million for the comparable period in 2010 primarily due to the timing of planned outages at certain Imperial Valley Projects.

Royalty, operating, general and administrative expense increased \$3.9 million, or 4.5%, to \$90.4 million for the first nine months of 2011 from \$86.5 million for the comparable period in 2010 primarily due to the timing of planned maintenance at certain Imperial Valley Projects.

#### *Depreciation and Amortization*

Depreciation and amortization increased \$0.4 million, or 2.7%, to \$15.2 million for the third quarter of 2011 from \$14.8 million for the comparable period in 2010 primarily due to the timing of capital replacement projects and related equipment disposals at the Vulcan Project.

Depreciation and amortization increased \$1.1 million, or 2.4%, to \$47.5 million for the first nine months of 2011 from \$46.4 million for the comparable period in 2010 primarily due to the timing of capital replacement projects and related equipment disposals.

### *Interest Expense*

Interest expense decreased \$0.5 million to \$2.3 million and \$1.6 million to \$7.5 million for the third quarter and for the first nine months of 2011, respectively, from \$2.8 million and \$9.1 million, respectively, for the comparable periods in 2010 due to lower outstanding debt balances.

### *Income Tax Expense*

Income tax (benefit) increased \$(2.9) million to \$(4.3) million for the third quarter of 2011 from \$(1.4) million for the comparable period in 2010 primarily due to an increase in depletion in relation to the percentage of pre-tax book income as well the recognition of tax benefits received from the settlement of the 2005-2009 federal examination associated with energy tax credits.

Income tax expense (benefit) decreased \$80.6 million to a benefit of \$(2.0) million for the first nine months of 2011 from \$78.6 million of expense for the comparable period in 2010 primarily due to the recognition of certain deferred income tax liabilities in 2010 resulting from the conversion of seven partnerships to corporations (the "Conversions") effective January 1, 2010.

The Conversions were effected for the purpose of optimizing the organizational structure of the Company, CE Generation and its affiliates under existing federal and state tax laws and regulations. By doing so, the Company, CE Generation and its affiliates are able to recognize certain benefits under existing federal and state tax laws which they were unable to realize under their previous form of organization. As of January 1, 2010 and consistent with its new form of organization, the Company incurred additional income tax expense of \$77.1 million related to the recognition of certain deferred income tax liabilities resulting from the Conversions.

### Liquidity and Capital Resources

The Company's cash and cash equivalents were \$26.6 million as of September 30, 2011, compared to \$6.0 million as of December 31, 2010.

Net cash flows from operating activities for the nine-month periods ended September 30, 2011 and 2010 were \$87.4 million and \$73.2 million, respectively. The increase was primarily due to the timing of cash receipts from a customer on its outstanding trade receivable balance.

Net cash flows from investing activities for the nine-month periods ended September 30, 2011 and 2010 were \$(31.1) million and \$(47.4) million, respectively. The decrease was due to lower capital expenditures in 2011 related primarily to timing of drilling projects and changes in restricted cash related to scheduled debt service payments.

Forecasted capital expenditures for 2011 are approximately \$40 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.

Net cash flows from financing activities for the nine-month periods ended September 30, 2011 and 2010 were \$(35.7) million and \$(38.2) million, respectively, and consisted of scheduled debt repayments and distributions of \$20 million to CE Generation in both 2011 and 2010.

### Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding water quality, emissions performance standards, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company's current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the Environmental Protection Agency 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.

There have been no material changes to environmental laws and regulations subsequent to 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, 2010. Refer to Note 5 of Notes to Combined Financial Statements included elsewhere in this report for additional information regarding certain environmental laws and regulations affecting the Company.

#### 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, 2010. The Company’s exposure to market risk and its management of such risk has not changed materially since December 31, 2010.



## CERTIFICATION

I, Stephen A. Larsen, 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: November 11, 2011

/s/ Stephen A. Larsen  
Stephen A. Larsen  
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: November 11, 2011

/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 SEPTEMBER 30, 2011**

EXHIBIT A

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 26,644	\$ 26,644
Restricted cash	-	-	-	8,897	8,897
Trade receivables	11,920	13,280	-	-	25,200
Inventories	-	29,752	-	-	29,752
Deferred income taxes	-	3,548	-	-	3,548
Other current assets	69	119	-	26	214
Total current assets	<u>11,989</u>	<u>46,699</u>	<u>-</u>	<u>35,567</u>	<u>94,255</u>
Property, plant and equipment, net	296,273	224,761	-	-	521,034
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	14,957	25,825	5,841	-	46,623
Other assets	299	220	-	-	519
<b>Total assets</b>	<u>\$ 323,518</u>	<u>\$ 354,033</u>	<u>\$ 36,305</u>	<u>\$ 35,567</u>	<u>\$ 749,423</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 110	\$ 507	\$ -	\$ -	\$ 617
Accrued interest	1,753	1,289	-	-	3,042
Current portion of secured project notes	7,286	5,355	-	(12,641)	-
Current portion of senior secured notes and bonds	-	-	-	12,641	12,641
Deferred income taxes	794	-	-	-	794
Other current liabilities	2,431	6,344	-	-	8,775
Total current liabilities	<u>12,374</u>	<u>13,495</u>	<u>-</u>	<u>-</u>	<u>25,869</u>
Secured project notes	63,078	46,358	-	(109,436)	-
Senior secured notes and bonds	-	-	-	109,436	109,436
Due to affiliates	1,096	(608)	-	9,818	10,306
Deferred income taxes	71,319	72,568	2,346	-	146,233
Total liabilities	<u>147,867</u>	<u>131,813</u>	<u>2,346</u>	<u>9,818</u>	<u>291,844</u>
Owners' equity:					
Owners' equity	175,651	222,471	33,959	25,749	457,830
Accumulated other comprehensive loss, net	-	(251)	-	-	(251)
Total owners' equity	<u>175,651</u>	<u>222,220</u>	<u>33,959</u>	<u>25,749</u>	<u>457,579</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 323,518</u>	<u>\$ 354,033</u>	<u>\$ 36,305</u>	<u>\$ 35,567</u>	<u>\$ 749,423</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF DECEMBER 31, 2010**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 3	\$ -	\$ 6,011	\$ 6,014
Trade receivables	15,254	16,050	-	-	31,304
Inventories	-	24,100	-	-	24,100
Deferred income taxes	-	3,548	-	-	3,548
Other current assets	601	558	-	35	1,194
Total current assets	<u>15,855</u>	<u>44,259</u>	<u>-</u>	<u>6,046</u>	<u>66,160</u>
Property, plant and equipment, net	307,127	234,931	-	-	542,058
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	15,820	28,494	6,458	-	50,772
Other assets	362	291	-	4	657
<b>Total assets</b>	<u><u>\$ 339,164</u></u>	<u><u>\$ 364,503</u></u>	<u><u>\$ 36,922</u></u>	<u><u>\$ 6,050</u></u>	<u><u>\$ 746,639</u></u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 726	\$ 1,740	\$ -	\$ -	\$ 2,466
Accrued interest	454	412	-	-	866
Current portion of secured project notes	4,996	14,994	-	(19,990)	-
Current portion of senior secured notes and bonds	-	-	-	19,990	19,990
Deferred income taxes	794	-	-	-	794
Other current liabilities	309	3,081	-	-	3,390
Total current liabilities	<u>7,279</u>	<u>20,227</u>	<u>-</u>	<u>-</u>	<u>27,506</u>
Secured project notes	67,866	49,878	-	(117,744)	-
Senior secured notes and bonds	-	-	-	117,744	117,744
Due to affiliates	1,096	332	-	-	1,428
Deferred income taxes	79,959	71,877	2,589	-	154,425
Other long-term liabilities	-	366	-	66	432
Total liabilities	<u>156,200</u>	<u>142,680</u>	<u>2,589</u>	<u>66</u>	<u>301,535</u>
Owners' equity:					
Owners' equity	182,964	222,046	34,333	5,984	445,327
Accumulated other comprehensive loss, net	-	(223)	-	-	(223)
Total owners' equity	<u>182,964</u>	<u>221,823</u>	<u>34,333</u>	<u>5,984</u>	<u>445,104</u>
<b>Total liabilities and owners' equity</b>	<u><u>\$ 339,164</u></u>	<u><u>\$ 364,503</u></u>	<u><u>\$ 36,922</u></u>	<u><u>\$ 6,050</u></u>	<u><u>\$ 746,639</u></u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 84,588	\$ 91,223	\$ 11,078	\$ (11,078)	\$ 175,811
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	48,857	49,743	2,852	(11,035)	90,417
Depreciation and amortization	23,593	23,310	617	-	47,520
Total operating costs and expenses	<u>72,450</u>	<u>73,053</u>	<u>3,469</u>	<u>(11,035)</u>	<u>137,937</u>
<b>Operating income (loss)</b>	<u>12,138</u>	<u>18,170</u>	<u>7,609</u>	<u>(43)</u>	<u>37,874</u>
<b>Other income (expense):</b>					
Interest expense	(4,085)	(3,420)	-	-	(7,505)
Interest and other income	-	117	-	1	118
Total other income (expense)	<u>(4,085)</u>	<u>(3,303)</u>	<u>-</u>	<u>1</u>	<u>(7,387)</u>
<b>Income (loss) before income tax (benefit) expense</b>	8,053	14,867	7,609	(42)	30,487
Income tax (benefit) expense	(4,766)	455	2,375	(80)	(2,016)
<b>Net income</b>	<u>\$ 12,819</u>	<u>\$ 14,412</u>	<u>\$ 5,234</u>	<u>\$ 38</u>	<u>\$ 32,503</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2010**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 84,617	\$ 89,816	\$ 10,913	\$ (10,913)	\$ 174,433
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	43,383	50,992	3,053	(10,910)	86,518
Depreciation and amortization	22,619	23,146	617	-	46,382
Total operating costs and expenses	<u>66,002</u>	<u>74,138</u>	<u>3,670</u>	<u>(10,910)</u>	<u>132,900</u>
<b>Operating income (loss)</b>	<u>18,615</u>	<u>15,678</u>	<u>7,243</u>	<u>(3)</u>	<u>41,533</u>
<b>Other income (expense):</b>					
Interest expense	(4,589)	(4,537)	-	-	(9,126)
Interest and other income	-	121	-	4	125
Total other income (expense)	<u>(4,589)</u>	<u>(4,416)</u>	<u>-</u>	<u>4</u>	<u>(9,001)</u>
<b>Income before income tax expense (benefit)</b>	14,026	11,262	7,243	1	\$ 32,532
Income tax expense (benefit)	74,046	(683)	5,181	43	78,587
<b>Net (loss) income</b>	<u>\$ (60,020)</u>	<u>\$ 11,945</u>	<u>\$ 2,062</u>	<u>\$ (42)</u>	<u>\$ (46,055)</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net income	\$ 12,819	\$ 14,412	\$ 5,234	\$ 38	\$ 32,503
Adjustments to reconcile net income to net cash flows from operating activities:					
Depreciation and amortization	23,593	23,310	617	-	47,520
Deferred income taxes	(8,640)	710	(243)	4	(8,169)
Amortization of deferred financing costs	63	71	-	-	134
Changes in other operating assets and liabilities:					
Trade receivables	3,334	2,770	-	-	6,104
Inventories	-	(5,652)	-	-	(5,652)
Due to affiliates, net	(20,116)	(15,091)	(5,608)	49,545	8,730
Other assets	532	439	-	9	980
Accounts payable and other liabilities	2,817	2,467	-	(66)	5,218
Net cash flows from operating activities	<u>14,402</u>	<u>23,436</u>	<u>-</u>	<u>49,530</u>	<u>87,368</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(11,904)	(10,280)	-	-	(22,184)
Increase in restricted cash	-	-	-	(8,897)	(8,897)
Net cash flows from investing activities	<u>(11,904)</u>	<u>(10,280)</u>	<u>-</u>	<u>(8,897)</u>	<u>(31,081)</u>
<b>Cash flows from financing activities:</b>					
Repayment of senior secured notes and bonds	(2,498)	(13,159)	-	-	(15,657)
Distributions	-	-	-	(20,000)	(20,000)
Net cash flows from financing activities	<u>(2,498)</u>	<u>(13,159)</u>	<u>-</u>	<u>(20,000)</u>	<u>(35,657)</u>
<b>Net change in cash and cash equivalents</b>	-	(3)	-	20,633	20,630
<b>Cash and cash equivalents at beginning of period</b>	-	3	-	6,011	6,014
<b>Cash and cash equivalents at end of period</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,644</u>	<u>\$ 26,644</u>

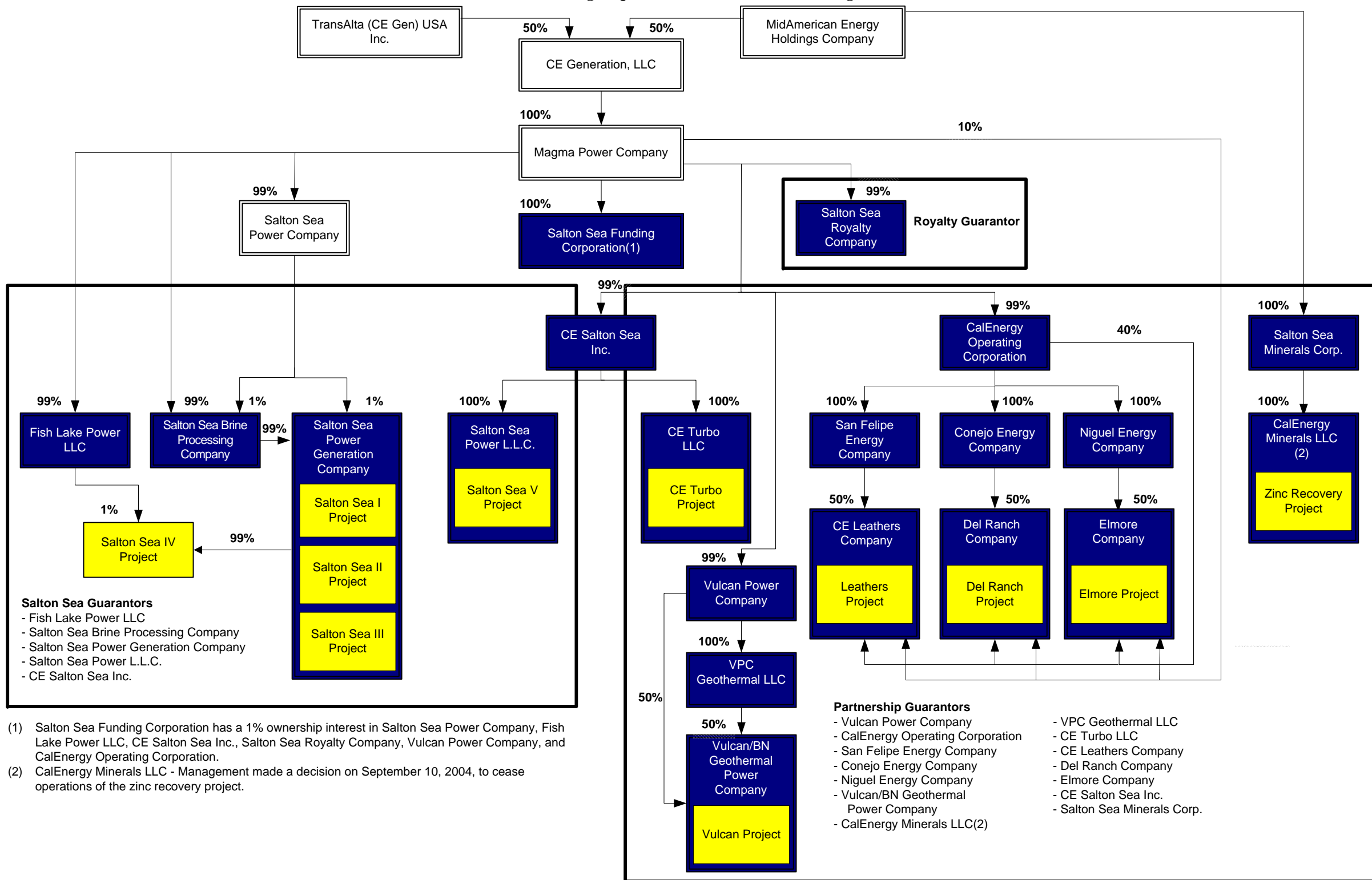
**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2010**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net (loss) income	\$ (60,020)	\$ 11,945	\$ 2,062	\$ (42)	\$ (46,055)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	22,619	23,146	617	-	46,382
Deferred income taxes	67,474	1,849	2,671	(4)	71,990
Amortization of deferred financing costs	99	109	-	-	208
Changes in other operating assets and liabilities:					
Trade receivables	(8,469)	(10,864)	-	-	(19,333)
Inventories	-	(212)	-	-	(212)
Due to affiliates, net	(766)	(215)	(5,349)	22,307	15,977
Other assets	620	620	-	29	1,269
Accounts payable and other liabilities	3,662	(148)	(1)	(550)	2,963
Net cash flows from operating activities	<u>25,219</u>	<u>26,230</u>	<u>-</u>	<u>21,740</u>	<u>73,189</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(14,548)	(18,790)	-	-	(33,338)
Decrease (increase) in restricted cash	-	75	-	(14,098)	(14,023)
Net cash flows from investing activities	<u>(14,548)</u>	<u>(18,715)</u>	<u>-</u>	<u>(14,098)</u>	<u>(47,361)</u>
<b>Cash flows from financing activities:</b>					
Repayment of senior secured notes and bonds	(10,671)	(7,515)	-	-	(18,186)
Distributions	-	-	-	(20,000)	(20,000)
Net cash flows from financing activities	<u>(10,671)</u>	<u>(7,515)</u>	<u>-</u>	<u>(20,000)</u>	<u>(38,186)</u>
<b>Net change in cash and cash equivalents</b>	-	-	-	(12,358)	(12,358)
<b>Cash and cash equivalents at beginning of period</b>	-	2	-	14,396	14,398
<b>Cash and cash equivalents at end of period</b>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 2,038</u>	<u>\$ 2,040</u>



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



- Salton Sea Guarantors**
- Fish Lake Power LLC
  - Salton Sea Brine Processing Company
  - Salton Sea Power Generation Company
  - Salton Sea Power L.L.C.
  - CE Salton Sea Inc.

- 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.

(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.