



SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements
For the Quarterly Period Ended March 31, 2012

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

	As of	
	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,878	\$ 3,101
Trade receivables	27,997	31,210
Inventories	27,268	27,173
Other current assets	<u>774</u>	<u>1,064</u>
Total current assets	70,917	62,548
Property, plant and equipment, net	512,589	520,912
Goodwill	86,992	86,992
Intangible assets, net	43,857	45,241
Other assets	<u>450</u>	<u>482</u>
Total assets	<u><u>\$ 714,805</u></u>	<u><u>\$ 716,175</u></u>
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,659	\$ 1,080
Major maintenance accruals	8,646	282
Accrued interest	2,934	734
Current portion of senior secured notes and bonds	16,614	16,614
Deferred income taxes	1,432	1,432
Other current liabilities	<u>8,230</u>	<u>5,794</u>
Total current liabilities	39,515	25,936
Senior secured notes and bonds	101,130	101,130
Due to affiliates	992	1,665
Deferred income taxes	<u>126,663</u>	<u>137,327</u>
Total liabilities	<u>268,300</u>	<u>266,058</u>
Commitments and contingencies (Note 4)		
Owners' equity	<u>446,505</u>	<u>450,117</u>
Total liabilities and owners' equity	<u><u>\$ 714,805</u></u>	<u><u>\$ 716,175</u></u>

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)

	Three-Month Periods	
	Ended March 31,	
	2012	2011
Operating revenue	<u>\$ 43,521</u>	<u>\$ 43,881</u>
Operating costs and expenses:		
Royalty, operating, general and administrative expense	37,843	25,092
Depreciation and amortization	<u>15,200</u>	<u>17,009</u>
Total operating costs and expenses	<u>53,043</u>	<u>42,101</u>
Operating (loss) income	<u>(9,522)</u>	<u>1,780</u>
Other income (expense):		
Interest expense	(2,233)	(2,649)
Interest and other income	<u>6</u>	<u>1</u>
Total other income (expense)	<u>(2,227)</u>	<u>(2,648)</u>
Loss before income tax (benefit) expense	(11,749)	(868)
Income tax (benefit) expense	<u>(8,149)</u>	<u>308</u>
Net loss	<u>\$ (3,600)</u>	<u>\$ (1,176)</u>

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

	Three-Month Periods	
	2012	2011
Net loss	\$ (3,600)	\$ (1,176)
Other comprehensive loss, net of tax-		
Unrecognized amounts on retirement benefits, net of tax of		
\$(8) and \$(6)	<u>(12)</u>	<u>(10)</u>
Comprehensive loss	<u>\$ (3,612)</u>	<u>\$ (1,186)</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)

	Owners' Equity	Accumulated Other Comprehensive Loss, Net	Total Equity
Balance, December 31, 2010	\$ 445,327	\$ (223)	\$ 445,104
Net loss	(1,176)	-	(1,176)
Other comprehensive loss	-	(10)	(10)
Balance, March 31, 2011	<u>\$ 444,151</u>	<u>\$ (233)</u>	<u>\$ 443,918</u>
Balance, December 31, 2011	\$ 451,001	\$ (884)	\$ 450,117
Net loss	(3,600)	-	(3,600)
Other comprehensive loss	-	(12)	(12)
Balance, March 31, 2012	<u>\$ 447,401</u>	<u>\$ (896)</u>	<u>\$ 446,505</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)

	Three-Month Periods	
	Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (3,600)	\$ (1,176)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	15,200	17,009
Deferred income taxes	(10,656)	(949)
Amortization of deferred financing costs	32	51
Changes in other operating assets and liabilities:		
Trade receivables	3,213	6,696
Inventories	(95)	(352)
Due to affiliates, net	(696)	1,180
Other assets	290	(1,495)
Accounts payable and other liabilities	<u>14,384</u>	<u>3,761</u>
Net cash flows from operating activities	<u>18,072</u>	<u>24,725</u>
Cash flows from investing activities:		
Capital expenditures	<u>(6,295)</u>	<u>(3,935)</u>
Net cash flows from investing activities	<u>(6,295)</u>	<u>(3,935)</u>
Net change in cash and cash equivalents	11,777	20,790
Cash and cash equivalents at beginning of period	<u>3,101</u>	<u>6,014</u>
Cash and cash equivalents at end of period	<u>\$ 14,878</u>	<u>\$ 26,804</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 Geothermal, LLC, an indirect wholly owned subsidiary of MidAmerican Energy Holdings Company (“MEHC”), and TransAlta (CE Gen) USA, Inc. (“TransAlta”), a wholly owned subsidiary of TransAlta Corporation. MEHC 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 Combined Financial Statements as of March 31, 2012 and for the three-month periods ended March 31,

2012 and 2011. The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through May 14, 2012, 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, 2011 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 three-month period ended March 31, 2012.

2. Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		March 31, 2012	December 31, 2011
Power plants	5 to 30 years	\$ 948,197	\$ 945,541
Wells and resource development	2 to 30 years	<u>285,303</u>	<u>282,464</u>
Total operating assets		1,233,500	1,228,005
Accumulated depreciation		<u>(720,911)</u>	<u>(707,093)</u>
Property, plant and equipment, net		<u>\$ 512,589</u>	<u>\$ 520,912</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$- million and \$2.1 million during the three-month periods ended March 31, 2012 and 2011, 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 March 31, 2012		As of December 31, 2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 185,963	\$ 216,935	\$ 185,062
Patented technology	24 years	<u>46,290</u>	<u>33,405</u>	<u>46,290</u>	<u>32,922</u>
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 219,368</u>	<u>\$ 263,225</u>	<u>\$ 217,984</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended March 31, 2012 and 2011. The Company expects amortization expense on acquired intangible assets to be \$4.1 million for the remaining nine months in 2012, \$5.5 million for each of the three succeeding fiscal years and \$5.7 million in 2016.

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 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, 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 March 31, 2012 and December 31, 2011 was \$1.9 million and \$1.4 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.

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 for the three-month periods ended March 31, 2012 and 2011 were \$1.2 million and \$1.1 million, 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 for the three-month periods ended March 31, 2012 and 2011 were \$2.3 million and \$2.6 million, 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 MEHC. The Company's contributions to the various plans for each of the three-month periods ended March 31, 2012 and 2011 were \$0.5 million. The portion of accumulated other comprehensive loss 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 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 for each of the three-month periods ended March 31, 2012 and 2011 were \$0.3 million.

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. Components of Accumulated Other Comprehensive Loss, Net

The following table shows the change in accumulated other comprehensive loss attributable to Salton Sea Funding Corporation by each component of other comprehensive income, net of applicable income taxes, for the three-month period ended March 31, 2012 (in thousands):

	Unrecognized Amounts on Retirement Benefits
Balance, December 31, 2011	\$ (884)
Other comprehensive loss	(12)
Balance, March 31, 2012	<u>\$ (896)</u>

7. 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. In December 2011, the FASB issued ASU No. 2011-12, which also amends FASB ASC Topic 220 to defer indefinitely the ASU No. 2011-05 requirement to present items on the face of the financial statements that are reclassified from other comprehensive income to net income. ASU No. 2011-12 is also effective for reporting periods ending after December 15, 2012. The Company early adopted this guidance on January 1, 2012 and elected the two separate but consecutive statements option.

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 adopted ASU No. 2011-04 on January 1, 2012. The adoption of this guidance did not have a material impact on the Company's 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 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, 2011 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 Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects and 16/36 of the Salton Sea IV Project, which constitute 236 megawatts (“MW”), or 72%, of the Imperial Valley Project’s total net capacity of 327 MW, sold energy produced to Edison pursuant to the respective amended power purchase agreements at a fixed average price of 6.4 cents per kilowatt-hour (“kWh”) and 6.3 cents per kWh for the three-month periods ended March 31, 2012 and 2011, respectively. Under the terms of the respective amended power purchase agreements, beginning May 1, 2012, the energy produced by these projects will be sold to Edison at its avoided cost of energy. Edison’s avoided cost of energy is currently highly correlated to the cost of natural gas and was 3.0 cents per kWh and 4.0 cents per kWh for the three-month periods ended March 31, 2012 and 2011, respectively. Refer to the “Price and Credit Risks” section included in the Company’s audited Combined Financial Statements for the year ended December 31, 2011 for further discussion.

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

	First Quarter	
	2012	2011
Operating revenue	\$43.5	\$43.9
Overall capacity factor	82.5%	85.9%
Megawatt hours produced	588,400	605,300
Facility net capacity (MW) (weighted average)	326.4	326.4

Operating revenue decreased \$0.4 million, or 0.9%, for the first quarter of 2012 compared to 2011 primarily due to a 2.8% decrease in energy production. The energy production decrease resulted from the timing of planned outages at certain Imperial Valley Projects.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general and administrative expense increased \$12.7 million, or 50.6%, to \$37.8 million for the first quarter of 2012 from \$25.1 million for the comparable period in 2011 primarily due to the timing of planned outages at certain Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization decreased \$1.8 million, or 10.6%, to \$15.2 million for the first quarter of 2012 from \$17.0 million for the comparable period in 2011 primarily due to the disposal of bioreactors at the Salton Sea III and IV Projects in 2011.

Interest Expense

Interest expense decreased \$0.4 million, or 15.4% to \$2.2 million for the first quarter of 2012 from \$2.6 million for the comparable period in 2011 due to lower outstanding debt balances.

Income Tax (Benefit) Expense

Income tax (benefit) expense decreased \$(8.4) million to a benefit of \$(8.1) million for the first quarter of 2012 from an expense of \$0.3 million for the comparable period in 2011 primarily due to the decrease in pre-tax income and the timing of recognition of tax benefits associated with depletion and energy tax credits.

Liquidity and Capital Resources

The Company's cash and cash equivalents were \$14.9 million as of March 31, 2012 compared to \$3.1 million as of December 31, 2011.

Net cash flows from operating activities were \$18.1 million for the first quarter of 2012 compared to \$24.7 million for the comparable period in 2011. The decrease was primarily due to the timing of planned outages at certain Imperial Valley Projects.

Net cash flows from investing activities were \$(6.3) million for the first quarter of 2012 compared to \$(3.9) million for the comparable period in 2011. The change was due to higher capital expenditures in 2012 related primarily to timing of drilling projects.

Forecasted capital expenditures for 2012 are approximately \$28 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.

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. 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 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.

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, 2011. 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, 2011. The Company's exposure to market risk and its management of such risk has not changed materially since December 31, 2011.

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: May 14, 2012

/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: May 14, 2012

/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, 2012
(in thousands)

EXHIBIT A

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 2	\$ -	\$ 14,876	\$ 14,878
Trade receivables	13,429	14,568	-	-	27,997
Inventories	-	27,268	-	-	27,268
Other current assets	366	389	-	19	774
Total current assets	<u>13,795</u>	<u>42,227</u>	<u>-</u>	<u>14,895</u>	<u>70,917</u>
Property, plant and equipment, net	284,938	227,651	-	-	512,589
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	14,382	24,046	5,429	-	43,857
Other assets	259	191	-	-	450
Total assets	<u>\$ 313,374</u>	<u>\$ 350,643</u>	<u>\$ 35,893</u>	<u>\$ 14,895</u>	<u>\$ 714,805</u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 428	\$ 1,231	\$ -	\$ -	\$ 1,659
Major maintenance accruals	624	8,022	-	-	8,646
Accrued interest	1,691	1,243	-	-	2,934
Current portion of secured project notes	9,576	7,038	-	(16,614)	-
Current portion of senior secured notes and bonds	-	-	-	16,614	16,614
Deferred income taxes	914	518	-	-	1,432
Other current liabilities	1,784	6,446	-	-	8,230
Total current liabilities	<u>15,017</u>	<u>24,498</u>	<u>-</u>	<u>-</u>	<u>39,515</u>
Secured project notes	58,290	42,840	-	(101,130)	-
Senior secured notes and bonds	-	-	-	101,130	101,130
Due to affiliates	1,096	2	-	(106)	992
Deferred income taxes	66,004	58,470	2,189	-	126,663
Total liabilities	<u>140,407</u>	<u>125,810</u>	<u>2,189</u>	<u>(106)</u>	<u>268,300</u>
Owners' equity:					
Owners' equity	172,967	225,729	33,704	15,001	447,401
Accumulated other comprehensive loss, net	-	(896)	-	-	(896)
Total owners' equity	<u>172,967</u>	<u>224,833</u>	<u>33,704</u>	<u>15,001</u>	<u>446,505</u>
Total liabilities and owners' equity	<u>\$ 313,374</u>	<u>\$ 350,643</u>	<u>\$ 35,893</u>	<u>\$ 14,895</u>	<u>\$ 714,805</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING BALANCE SHEET (Unaudited)
AS OF DECEMBER 31, 2011
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 5	\$ -	\$ 3,096	\$ 3,101
Trade receivables	14,577	16,633	-	-	31,210
Inventories	-	27,173	-	-	27,173
Other current assets	539	493	-	32	1,064
Total current assets	<u>15,116</u>	<u>44,304</u>	<u>-</u>	<u>3,128</u>	<u>62,548</u>
Property, plant and equipment, net	291,228	229,684	-	-	520,912
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	14,670	24,936	5,635	-	45,241
Other assets	278	204	-	-	482
Total assets	<u>\$ 321,292</u>	<u>\$ 355,656</u>	<u>\$ 36,099</u>	<u>\$ 3,128</u>	<u>\$ 716,175</u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 167	\$ 913	\$ -	\$ -	\$ 1,080
Major maintenance accruals	212	70	-	-	282
Accrued interest	423	311	-	-	734
Current portion of secured project notes	9,576	7,038	-	(16,614)	-
Current portion of senior secured notes and bonds	-	-	-	16,614	16,614
Deferred income taxes	914	518	-	-	1,432
Other current liabilities	1,078	4,716	-	-	5,794
Total current liabilities	<u>12,370</u>	<u>13,566</u>	<u>-</u>	<u>-</u>	<u>25,936</u>
Secured project notes	58,290	42,840	-	(101,130)	-
Senior secured notes and bonds	-	-	-	101,130	101,130
Due to affiliates	1,096	569	-	-	1,665
Deferred income taxes	68,167	66,886	2,274	-	137,327
Total liabilities	<u>139,923</u>	<u>123,861</u>	<u>2,274</u>	<u>-</u>	<u>266,058</u>
Owners' equity:					
Owners' equity	181,369	232,679	33,825	3,128	451,001
Accumulated other comprehensive loss, net	-	(884)	-	-	(884)
Total owners' equity	<u>181,369</u>	<u>231,795</u>	<u>33,825</u>	<u>3,128</u>	<u>450,117</u>
Total liabilities and owners' equity	<u>\$ 321,292</u>	<u>\$ 355,656</u>	<u>\$ 36,099</u>	<u>\$ 3,128</u>	<u>\$ 716,175</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 23,541	\$ 19,980	\$ 3,072	\$ (3,072)	\$ 43,521
Operating costs and expenses:					
Royalty, operating, general and administrative expense	11,616	28,524	761	(3,058)	37,843
Depreciation and amortization	7,349	7,645	206	-	15,200
Total operating costs and expenses	<u>18,965</u>	<u>36,169</u>	<u>967</u>	<u>(3,058)</u>	<u>53,043</u>
Operating income (loss)	<u>4,576</u>	<u>(16,189)</u>	<u>2,105</u>	<u>(14)</u>	<u>(9,522)</u>
Other income (expense):					
Interest expense	(1,287)	(946)	-	-	(2,233)
Interest and other income	-	6	-	-	6
Total other income (expense)	<u>(1,287)</u>	<u>(940)</u>	<u>-</u>	<u>-</u>	<u>(2,227)</u>
Income (loss) before income tax (benefit) expense	3,289	(17,129)	2,105	(14)	(11,749)
Income tax (benefit) expense	(379)	(8,414)	650	(6)	(8,149)
Net income (loss)	<u>\$ 3,668</u>	<u>\$ (8,715)</u>	<u>\$ 1,455</u>	<u>\$ (8)</u>	<u>\$ (3,600)</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2011
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 21,363	\$ 22,518	\$ 3,474	\$ (3,474)	\$ 43,881
Operating costs and expenses:					
Royalty, operating, general and administrative expense	11,501	16,175	874	(3,458)	25,092
Depreciation and amortization	9,251	7,552	206	-	17,009
Total operating costs and expenses	<u>20,752</u>	<u>23,727</u>	<u>1,080</u>	<u>(3,458)</u>	<u>42,101</u>
Operating income (loss)	<u>611</u>	<u>(1,209)</u>	<u>2,394</u>	<u>(16)</u>	<u>1,780</u>
Other income (expense):					
Interest expense	(1,383)	(1,266)	-	-	(2,649)
Interest and other income	-	1	-	-	1
Total other income (expense)	<u>(1,383)</u>	<u>(1,265)</u>	<u>-</u>	<u>-</u>	<u>(2,648)</u>
(Loss) income before income tax expense (benefit)	(772)	(2,474)	2,394	(16)	\$ (868)
Income tax expense (benefit)	33	(473)	754	(6)	308
Net (loss) income	<u>\$ (805)</u>	<u>\$ (2,001)</u>	<u>\$ 1,640</u>	<u>\$ (10)</u>	<u>\$ (1,176)</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012
(in thousands)

EXHIBIT A (Continued)

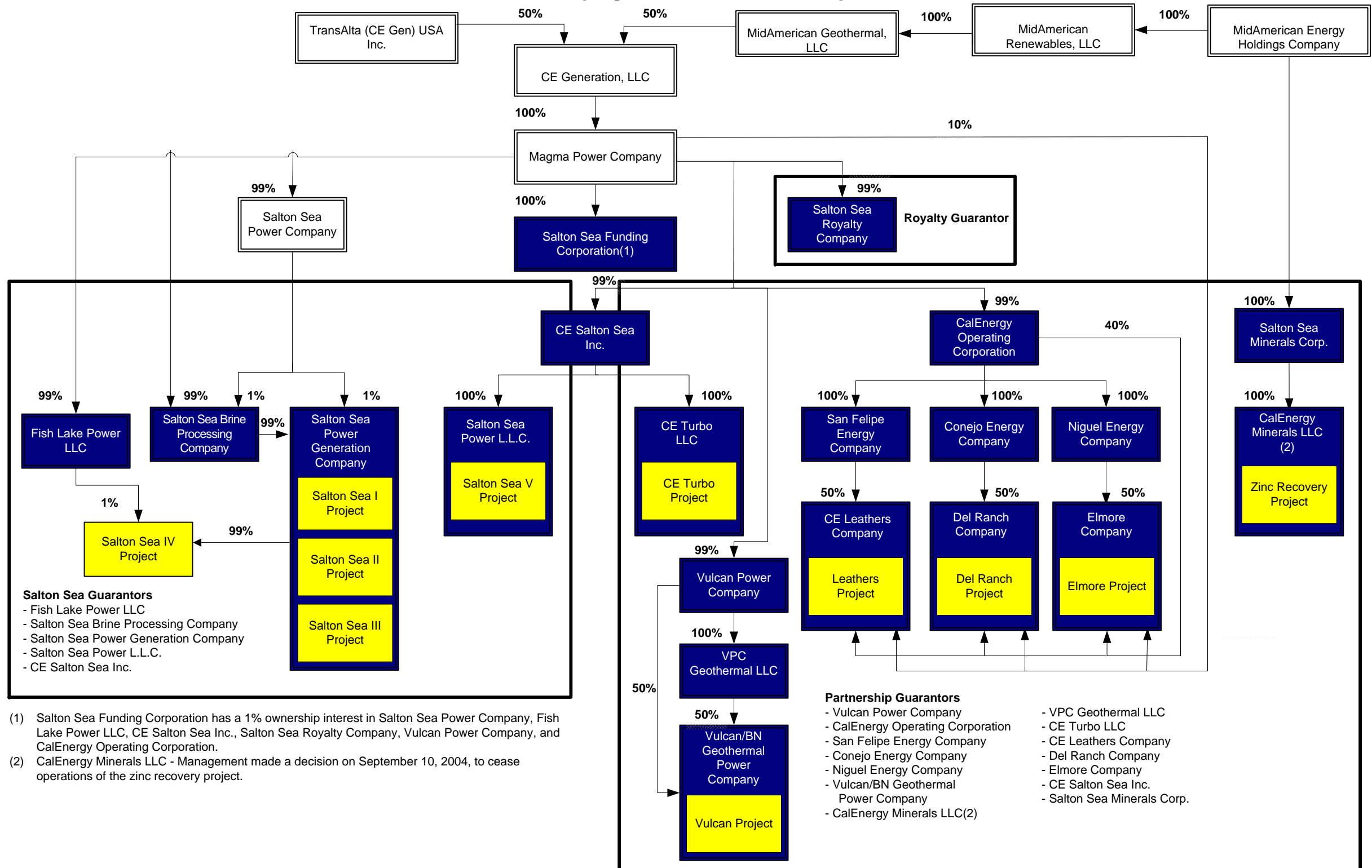
	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Net income (loss)	\$ 3,668	\$ (8,715)	\$ 1,455	\$ (8)	\$ (3,600)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	7,349	7,645	206	-	15,200
Deferred income taxes	(2,163)	(8,408)	(85)	-	(10,656)
Amortization of deferred financing costs	19	13	-	-	32
Changes in other operating assets and liabilities:					
Trade receivables	1,148	2,065	-	-	3,213
Inventories	-	(95)	-	-	(95)
Due to affiliates, net	(11,940)	1,045	(1,576)	11,775	(696)
Other assets	173	104	-	13	290
Accounts payable and other liabilities	2,684	11,700	-	-	14,384
Net cash flows from operating activities	<u>938</u>	<u>5,354</u>	<u>-</u>	<u>11,780</u>	<u>18,072</u>
Cash flows from investing activities:					
Capital expenditures	<u>(938)</u>	<u>(5,357)</u>	<u>-</u>	<u>-</u>	<u>(6,295)</u>
Net cash flows from investing activities	<u>(938)</u>	<u>(5,357)</u>	<u>-</u>	<u>-</u>	<u>(6,295)</u>
Net change in cash and cash equivalents	-	(3)	-	11,780	11,777
Cash and cash equivalents at beginning of period	-	5	-	3,096	3,101
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 14,876</u>	<u>\$ 14,878</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2011
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Net (loss) income	\$ (805)	\$ (2,001)	\$ 1,640	\$ (10)	\$ (1,176)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	9,251	7,552	206	-	17,009
Deferred income taxes	(1,190)	322	(80)	(1)	(949)
Amortization of deferred financing costs	21	30	-	-	51
Changes in other operating assets and liabilities:					
Trade receivables	4,408	2,288	-	-	6,696
Inventories	-	(352)	-	-	(352)
Due to affiliates, net	(11,468)	(6,371)	(1,766)	20,785	1,180
Other assets	(775)	(737)	-	17	(1,495)
Accounts payable and other liabilities	1,525	2,235	-	1	3,761
Net cash flows from operating activities	<u>967</u>	<u>2,966</u>	<u>-</u>	<u>20,792</u>	<u>24,725</u>
Cash flows from investing activities:					
Capital expenditures	<u>(967)</u>	<u>(2,968)</u>	<u>-</u>	<u>-</u>	<u>(3,935)</u>
Net cash flows from investing activities	<u>(967)</u>	<u>(2,968)</u>	<u>-</u>	<u>-</u>	<u>(3,935)</u>
Net change in cash and cash equivalents	-	(2)	-	20,792	20,790
Cash and cash equivalents at beginning of period	-	3	-	6,011	6,014
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 26,803</u>	<u>\$ 26,804</u>

Exhibit B - Salton Sea Funding Corporation 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.