



SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements

For the Quarterly Period Ended September 30, 2012

TABLE OF CONTENTS

Combined Balance Sheets	3
Combined Statements of Operations	4
Combined Statements of Comprehensive Income (Loss)	5
Combined Statements of Changes in Owners' Equity	6
Combined Statements of Cash Flows	7
Notes to Combined Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Additional Information:	
Exhibit A – Combining Financial Statements	
Exhibit B – Salton Sea Funding Corporation and Guarantors - Organization Chart	

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

	As of	
	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,914	\$ 3,101
Restricted cash	12,397	-
Trade receivables	35,695	31,210
Inventories	24,284	27,173
Other current assets	<u>106</u>	<u>1,064</u>
Total current assets	74,396	62,548
Property, plant and equipment, net	497,040	520,912
Goodwill	86,992	86,992
Intangible assets, net	41,093	45,241
Other assets	<u>385</u>	<u>482</u>
Total assets	<u>\$ 699,906</u>	<u>\$ 716,175</u>
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,805	\$ 1,080
Major maintenance accruals	431	282
Accrued interest	2,727	734
Current portion of senior secured notes and bonds	15,639	16,614
Deferred income taxes	1,432	1,432
Other current liabilities	<u>8,242</u>	<u>5,794</u>
Total current liabilities	33,276	25,936
Senior secured notes and bonds	93,797	101,130
Due to affiliates	10,763	1,665
Deferred income taxes	<u>125,023</u>	<u>137,327</u>
Total liabilities	<u>262,859</u>	<u>266,058</u>
Commitments and contingencies (Note 4)		
Owners' equity	<u>437,047</u>	<u>450,117</u>
Total liabilities and owners' equity	<u>\$ 699,906</u>	<u>\$ 716,175</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		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Operating revenue	<u>\$ 54,477</u>	<u>\$ 76,802</u>	<u>\$138,737</u>	<u>\$ 175,811</u>
Operating costs and expenses:				
Royalty, operating, general and administrative expense	26,935	27,358	96,898	90,417
Depreciation and amortization	<u>16,937</u>	<u>15,246</u>	<u>47,488</u>	<u>47,520</u>
Total operating costs and expenses	<u>43,872</u>	<u>42,604</u>	<u>144,386</u>	<u>137,937</u>
Operating income (loss)	<u>10,605</u>	<u>34,198</u>	<u>(5,649)</u>	<u>37,874</u>
Other income (expense):				
Interest expense	(2,079)	(2,317)	(6,493)	(7,505)
Interest and other income	<u>43</u>	<u>116</u>	<u>81</u>	<u>118</u>
Total other income (expense)	<u>(2,036)</u>	<u>(2,201)</u>	<u>(6,412)</u>	<u>(7,387)</u>
Income (loss) before income tax expense (benefit)	8,569	31,997	(12,061)	30,487
Income tax expense (benefit)	<u>1,986</u>	<u>(4,300)</u>	<u>(6,035)</u>	<u>(2,016)</u>
Net income (loss)	<u>\$ 6,583</u>	<u>\$ 36,297</u>	<u>\$ (6,026)</u>	<u>\$ 32,503</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)

	Three-Month Periods		Nine-Month Periods	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 6,583	\$ 36,297	\$ (6,026)	\$ 32,503
Other comprehensive loss, net of tax-				
Unrecognized amounts on retirement benefits, net of tax				
of \$(10), \$(6), \$(30) and \$(19)	(15)	(9)	(44)	(28)
Comprehensive income (loss)	\$ 6,568	\$ 36,288	\$ (6,070)	\$ 32,475

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
Balance, December 31, 2010	\$ 445,327	\$ (223)	\$ 445,104
Net income	32,503	-	32,503
Other comprehensive loss	-	(28)	(28)
Distributions	(20,000)	-	(20,000)
Balance, September 30, 2011	<u>\$ 457,830</u>	<u>\$ (251)</u>	<u>\$ 457,579</u>
Balance, December 31, 2011	\$ 451,001	\$ (884)	\$ 450,117
Net loss	(6,026)	-	(6,026)
Other comprehensive loss	-	(44)	(44)
Distributions	(7,000)	-	(7,000)
Balance, September 30, 2012	<u>\$ 437,975</u>	<u>\$ (928)</u>	<u>\$ 437,047</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)

	Nine-Month Periods Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	\$ (6,026)	\$ 32,503
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization	47,488	47,520
Deferred income taxes	(12,274)	(8,169)
Amortization of deferred financing costs	97	134
Changes in other operating assets and liabilities:		
Trade receivables	(4,485)	6,104
Inventories	2,889	(5,652)
Due to affiliates, net	8,568	8,730
Other assets	958	980
Accounts payable and other liabilities	<u>9,119</u>	<u>5,218</u>
Net cash flows from operating activities	<u>46,334</u>	<u>87,368</u>
Cash flows from investing activities:		
Capital expenditures	(19,816)	(22,184)
Increase in restricted cash	<u>(12,397)</u>	<u>(8,897)</u>
Net cash flows from investing activities	<u>(32,213)</u>	<u>(31,081)</u>
Cash flows from financing activities:		
Repayment of senior secured notes and bonds	(8,308)	(15,657)
Distributions	<u>(7,000)</u>	<u>(20,000)</u>
Net cash flows from financing activities	<u>(15,308)</u>	<u>(35,657)</u>
Net change in cash and cash equivalents	(1,187)	20,630
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>\$ 1,914</u>	<u>\$ 26,644</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 September 30, 2012 and for the three- and nine-month periods ended September 30, 2012 and 2011. The results of operations for the three- and nine-month periods ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 13, 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 nine-month period ended September 30, 2012.

2. Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		September 30, 2012	December 31, 2011
Power plants	5 to 30 years	\$ 949,871	\$ 945,541
Wells and resource development	2 to 30 years	<u>294,678</u>	<u>282,464</u>
Total operating assets		1,244,549	1,228,005
Accumulated depreciation		<u>(747,509)</u>	<u>(707,093)</u>
Property, plant and equipment, net		<u>\$ 497,040</u>	<u>\$ 520,912</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$1.5 million and \$0.7 million during the three-month periods ended September 30, 2012 and 2011, respectively, and \$1.5 million and \$2.9 million during the nine-month periods ended September 30, 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 September 30, 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	\$ 187,761	\$ 216,935	\$ 185,062
Patented technology	24 years	<u>46,290</u>	<u>34,371</u>	<u>46,290</u>	<u>32,922</u>
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 222,132</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 September 30, 2012 and 2011, and \$4.2 million for each of the nine-month periods ended September 30, 2012 and 2011. The Company expects amortization expense on acquired intangible assets to be \$1.3 million for the remaining three 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 September 30, 2012 and December 31, 2011 was \$0.1 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 were \$1.3 million and \$1.9 million for the three-month periods ended September 30, 2012 and 2011, respectively, and \$3.5 million and \$4.2 million for the nine-month periods ended September 30, 2012 and 2011, respectively.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed were \$1.4 million and \$2.9 million for the three-month periods ended September 30, 2012 and 2011, respectively, and \$5.3 million and \$8.4 million for the nine-month periods ended September 30, 2012 and 2011, 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 were \$0.2 million for each of the three-month periods ended September 30, 2012 and 2011, and \$1.0 million and \$1.1 million for the nine-month periods ended September 30, 2012 and 2011, respectively. 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 were \$0.3 million and \$0.6 million for the three-month periods ended September 30, 2012 and 2011, respectively, and \$0.9 million and \$1.3 million for the nine-month periods ended September 30, 2012 and 2011, respectively.

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 loss, net of applicable income taxes, for the nine-month period ended September 30, 2012 (in thousands):

	Unrecognized Amounts on Retirement Benefits
Balance, December 31, 2011	\$ (884)
Other comprehensive loss	(44)
Balance, September 30, 2012	<u>\$ (928)</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.

For discussion of the Company's long-term power sales agreement with Southern California Edison Company ("Edison"), refer to the "Price and Credit Risks" section included in this quarterly report.

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

	Third Quarter		First Nine Months	
	2012	2011	2012	2011
Operating revenue	\$54.4	\$76.8	\$138.7	\$175.8
Overall capacity factor	85.3%	94.6%	83.5%	89.9%
Megawatt hours produced	614,800	681,600	1,793,000	1,922,300
Facility net capacity megawatts (weighted average)	326.4	326.4	326.4	326.4

Operating revenue decreased \$22.4 million, or 29.2%, for the third quarter of 2012 compared to 2011 primarily due to the following:

- \$16.8 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$5.6 million decrease due to a 9.8% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at certain Imperial Valley Projects in 2012.

Operating revenue decreased \$37.1 million, or 21.1%, for the first nine months of 2012 compared to 2011 primarily due to the following:

- \$27.9 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$9.2 million decrease due to a 6.7% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at certain Imperial Valley Projects in 2012.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general and administrative expense decreased \$0.5 million, or 1.8%, to \$26.9 million for the third quarter of 2012 from \$27.4 million for the comparable period in 2011 primarily due to lower royalty costs at certain Imperial Valley Projects.

Royalty, operating, general and administrative expense increased \$6.5 million, or 7.2%, to \$96.9 million for the first nine months of 2012 from \$90.4 million for the comparable period in 2011 primarily due to higher maintenance costs at certain Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization increased \$1.7 million, or 11.2%, to \$16.9 million for the third quarter of 2012 from \$15.2 million for the comparable period in 2011 primarily due to equipment disposals at certain Imperial Valley Projects in 2012.

Depreciation and amortization was \$47.5 million for each of the first nine months of 2012 and 2011.

Interest Expense

Interest expense decreased \$0.2 million to \$2.1 million and \$1.0 million to \$6.5 million for the third quarter and for the first nine months of 2012, respectively, from \$2.3 million and \$7.5 million, respectively, for the comparable periods in 2011 due to lower outstanding debt balances.

Income Tax Expense (Benefit)

Income tax expense increased \$6.3 million to \$2.0 million for the third quarter of 2012 from a benefit of \$(4.3) million for the comparable period in 2011 primarily due to a decrease in tax benefits associated with depletion as a result of the decrease in pre-tax income and an increase in deferred income tax valuation allowances.

Income tax benefit increased \$4.0 million to \$(6.0) million for the first nine months of 2012 from \$(2.0) million for the comparable period in 2011 primarily due to the decrease in pre-tax income.

Liquidity and Capital Resources

The Company's cash and cash equivalents were \$1.9 million as of September 30, 2012, compared to \$3.1 million as of December 31, 2011.

Net cash flows from operating activities for the nine-month periods ended September 30, 2012 and 2011 were \$46.3 million and \$87.4 million, respectively. The decrease was primarily due to changes in working capital items.

Net cash flows from investing activities for the nine-month periods ended September 30, 2012 and 2011 were \$(32.2) million and \$(31.1) million, respectively. The increase was due to changes in restricted cash related to scheduled debt service payments, partially offset by lower capital expenditures related primarily to timing of drilling projects.

Forecasted capital expenditures for 2012 are approximately \$26 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, 2012 and 2011 were \$(15.3) million and \$(35.7) million, respectively. The decrease is due to lower distributions and scheduled debt repayments in 2012.

On October 17, 2012, the Company was notified of a transmission outage on Edison's Mirage-Ramon 220-kilovolt transmission line from October 22, 2012 through November 21, 2012 ("outage period") to relocate line position and replace relays at the Mirage and Ramon terminals. The Company has curtailed certain Imperial Valley Projects by approximately 80 megawatts during the outage period and estimates it will earn \$2.4 million in lower revenue. We are completing planned maintenance work during the outage period, which was originally planned to be completed in the first six-months of 2013, to mitigate the economic impact. The maintenance is expected to cost \$3.6 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. 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 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 4 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, except as discussed below.

Price and Credit Risks

The Imperial Valley Projects’ primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Imperial Valley Projects’ dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Imperial Valley Projects to fund operating and maintenance expenses, payments of interest and principal on the debt securities, projected capital expenditures and debt service reserve fund requirements. Approximately 89% of the Company’s sales of electricity were to Edison in 2011.

In June and November 2001, the Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects and 16/36 of the Salton Sea IV Project (representing 72% of the Imperial Valley Projects’ total net owned capacity), which were then receiving Edison’s avoided cost of energy, entered into agreements that provided for amended energy payments. The amendments provided for fixed energy payments per kWh in lieu of Edison’s avoided cost of energy. The fixed energy price was 3.25 cents per kWh from December 1, 2001, to April 30, 2002, and increased to 5.37 cents per kWh commencing May 1, 2002, through April 30, 2007. On May 30, 2006, the Imperial Valley Projects that received Edison’s avoided cost of energy entered into amendments to their respective power purchase agreements with Edison which provided for a fixed energy price commencing May 1, 2007 and ending April 30, 2012. The amendments were approved by the California Public Utilities Commission and such approval became final on October 19, 2006. The energy price under the respective amended power purchase agreements during the fixed price period was 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the projects subject to these amendments reverted back to Edison’s avoided cost of energy, which is currently highly correlated to the cost of natural gas and was 3.0 cents per kWh and 4.2 cents per kWh for the three-month periods ended September 30, 2012 and 2011, respectively, and 2.8 cents per kWh and 4.1 cents per kWh for the nine-month periods ended September 30, 2012 and 2011, respectively. There can be no assurances that Edison’s avoided cost of energy after May 1, 2012 will result in revenues equivalent to the previous fixed energy payments received. Due to continued falling natural gas prices, the Company believes that Edison’s avoided cost of energy for 2012 will likely continue to be below 2011 levels. Estimates of Edison’s future avoided cost of energy could vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings which may change the definition of the avoided cost of energy and other commodity factors.

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 13, 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: November 13, 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 SEPTEMBER 30, 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	\$ -	\$ 1,912	\$ 1,914
Restricted cash	-	-	-	12,397	12,397
Trade receivables	17,049	18,646	-	-	35,695
Inventories	-	24,284	-	-	24,284
Other current assets	20	59	-	27	106
Total current assets	<u>17,069</u>	<u>42,991</u>	<u>-</u>	<u>14,336</u>	<u>74,396</u>
Property, plant and equipment, net	271,258	225,782	-	-	497,040
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	13,807	22,268	5,018	-	41,093
Other assets	222	163	-	-	385
Total assets	<u><u>\$ 302,356</u></u>	<u><u>\$ 347,732</u></u>	<u><u>\$ 35,482</u></u>	<u><u>\$ 14,336</u></u>	<u><u>\$ 699,906</u></u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 1,175	\$ 3,630	\$ -	\$ -	\$ 4,805
Major maintenance accruals	368	63	-	-	431
Accrued interest	1,572	1,155	-	-	2,727
Current portion of secured project notes	9,014	6,625	-	(15,639)	-
Current portion of senior secured notes and bonds	-	-	-	15,639	15,639
Deferred income taxes	914	518	-	-	1,432
Other current liabilities	2,514	5,728	(1)	1	8,242
Total current liabilities	<u>15,557</u>	<u>17,719</u>	<u>(1)</u>	<u>1</u>	<u>33,276</u>
Secured project notes	54,063	39,734	-	(93,797)	-
Senior secured notes and bonds	-	-	-	93,797	93,797
Due to affiliates	1,096	(490)	-	10,157	10,763
Deferred income taxes	63,311	59,683	2,029	-	125,023
Total liabilities	<u>134,027</u>	<u>116,646</u>	<u>2,028</u>	<u>10,158</u>	<u>262,859</u>
Owners' equity:					
Owners' equity	168,329	232,014	33,454	4,178	437,975
Accumulated other comprehensive loss, net	-	(928)	-	-	(928)
Total owners' equity	<u>168,329</u>	<u>231,086</u>	<u>33,454</u>	<u>4,178</u>	<u>437,047</u>
Total liabilities and owners' equity	<u><u>\$ 302,356</u></u>	<u><u>\$ 347,732</u></u>	<u><u>\$ 35,482</u></u>	<u><u>\$ 14,336</u></u>	<u><u>\$ 699,906</u></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 NINE-MONTH PERIOD ENDED SEPTEMBER 30, 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	\$ 69,329	\$ 69,408	\$ 7,072	\$ (7,072)	\$ 138,737
Operating costs and expenses:					
Royalty, operating, general and administrative expense	42,968	59,107	1,852	(7,029)	96,898
Depreciation and amortization	23,494	23,377	617	-	47,488
Total operating costs and expenses	<u>66,462</u>	<u>82,484</u>	<u>2,469</u>	<u>(7,029)</u>	<u>144,386</u>
Operating income (loss)	<u>2,867</u>	<u>(13,076)</u>	<u>4,603</u>	<u>(43)</u>	<u>(5,649)</u>
Other income (expense):					
Interest expense	(3,742)	(2,751)	-	-	(6,493)
Interest and other income	-	80	-	1	81
Total other income (expense)	<u>(3,742)</u>	<u>(2,671)</u>	<u>-</u>	<u>1</u>	<u>(6,412)</u>
(Loss) income before income tax (benefit) expense	(875)	(15,747)	4,603	(42)	(12,061)
Income tax (benefit) expense	(258)	(7,173)	1,414	(18)	(6,035)
Net (loss) income	<u>\$ (617)</u>	<u>\$ (8,574)</u>	<u>\$ 3,189</u>	<u>\$ (24)</u>	<u>\$ (6,026)</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 & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 84,588	\$ 91,223	\$ 11,078	\$ (11,078)	\$ 175,811
Operating costs and expenses:					
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>
Operating income (loss)	<u>12,138</u>	<u>18,170</u>	<u>7,609</u>	<u>(43)</u>	<u>37,874</u>
Other income (expense):					
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>
Income (loss) before income tax (benefit) expense	8,053	14,867	7,609	(42)	\$ 30,487
Income tax (benefit) expense	(4,766)	455	2,375	(80)	(2,016)
Net income	<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 CASH FLOWS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 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 (loss) income	\$ (617)	\$ (8,574)	\$ 3,189	\$ (24)	\$ (6,026)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	23,494	23,377	617	-	47,488
Deferred income taxes	(4,856)	(7,173)	(245)	-	(12,274)
Amortization of deferred financing costs	56	41	-	-	97
Changes in other operating assets and liabilities:					
Trade receivables	(2,472)	(2,013)	-	-	(4,485)
Inventories	-	2,889	-	-	2,889
Due to affiliates, net	(12,359)	6,256	(3,560)	18,231	8,568
Other assets	519	434	-	5	958
Accounts payable and other liabilities	3,787	5,332	(1)	1	9,119
Net cash flows from operating activities	<u>7,552</u>	<u>20,569</u>	<u>-</u>	<u>18,213</u>	<u>46,334</u>
Cash flows from investing activities:					
Capital expenditures	(2,763)	(17,053)	-	-	(19,816)
Increase in restricted cash	-	-	-	(12,397)	(12,397)
Net cash flows from investing activities	<u>(2,763)</u>	<u>(17,053)</u>	<u>-</u>	<u>(12,397)</u>	<u>(32,213)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(4,789)	(3,519)	-	-	(8,308)
Distributions	-	-	-	(7,000)	(7,000)
Net cash flows from financing activities	<u>(4,789)</u>	<u>(3,519)</u>	<u>-</u>	<u>(7,000)</u>	<u>(15,308)</u>
Net change in cash and cash equivalents	-	(3)	-	(1,184)	(1,187)
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>\$ 1,912</u>	<u>\$ 1,914</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 & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
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>
Cash flows from investing activities:					
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>
Cash flows from financing activities:					
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>
Net change in cash and cash equivalents	-	(3)	-	20,633	20,630
Cash and cash equivalents at beginning of period	-	3	-	6,011	6,014
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,644</u>	<u>\$ 26,644</u>