SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements

For the Quarterly Period Ended June 30, 2013

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

	As of	
	June 30, 2013	**December 31, 2012**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43	$ 7,233
Trade receivables	30,329	18,917
Inventories	22,216	24,169
Other current assets	367	888
Total current assets	52,955	51,207
Property, plant and equipment, net	469,870	488,865
Goodwill	86,992	86,992
Intangible assets, net	36,946	39,712
Other assets	297	352
Total assets	$ 647,060	$ 667,128
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,671	$ 10,807
Major maintenance accruals	1,908	2,652
Accrued interest	585	630
Current portion of senior secured notes and bonds	16,000	14,664
Deferred income taxes	1,071	1,071
Other current liabilities	4,111	4,672
Total current liabilities	35,346	34,496
Senior secured notes and bonds	77,797	86,466
Due to affiliates	16,026	1,188
Deferred income taxes	109,127	114,273
Total liabilities	238,296	236,423
Commitments and contingencies (Note 4)		
Owners' equity	408,764	430,705
Total liabilities and owners' equity	$ 647,060	$ 667,128

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 June 30,		Six-Month Periods Ended June 30,	
	2013	**2012**	**2013**	**2012**
Operating revenue	$ 43,417	$ 40,739	$ 72,083	$ 84,260
Operating costs and expenses:				
Royalty, operating, general and administrative expense	27,996	32,120	55,970	69,963
Depreciation and amortization	14,391	15,351	30,919	30,551
Total operating costs and expenses	42,387	47,471	86,889	100,514
Operating income (loss)	1,030	(6,732)	(14,806)	(16,254)
Other income (expense):				
Interest expense	(1,872)	(2,181)	(3,789)	(4,414)
Interest and other income	281	32	317	38
Total other income (expense)	(1,591)	(2,149)	(3,472)	(4,376)
Loss before income tax expense (benefit)	(561)	(8,881)	(18,278)	(20,630)
Income tax expense (benefit)	7,540	128	11,643	(8,021)
Net loss	$ (8,101)	$ (9,009)	$(29,921)	$ (12,609)

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

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

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2013	**2012**	**2013**	**2012**
Net loss	$ (8,101)	$ (9,009)	$ (29,921)	$ (12,609)
Other comprehensive loss, net of tax-				
Unrecognized amounts on retirement benefits, net of tax of $(4), $(12), $(13) and $(20)	(7)	(17)	(20)	(29)
Comprehensive loss	$ (8,108)	$ (9,026)	$ (29,941)	$ (12,638)

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) Income, Net	Total
Balance, December 31, 2011	$ 451,001	$ (884)	$ 450,117
Net loss	(12,609)	-	(12,609)
Other comprehensive loss - unrecognized amounts on retirement benefits	-	(29)	(29)
Balance, June 30, 2012	$ 438,392	$ (913)	$ 437,479
Balance, December 31, 2012	$ 430,681	$ 24	$ 430,705
Net loss	(29,921)	-	(29,921)
Contributions	8,000	-	8,000
Other comprehensive loss - unrecognized amounts on retirement benefits	-	(20)	(20)
Balance, June 30, 2013	$ 408,760	$ 4	$ 408,764

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)

	Six-Month Periods Ended June 30, 2013	2012
Cash flows from operating activities:		
Net loss	$ (29,921)	$ (12,609)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	30,919	30,551
Deferred income taxes	(5,133)	(13,472)
Amortization of deferred financing costs	53	64
Changes in other operating assets and liabilities:		
Trade receivables	(11,412)	6,360
Inventories	1,953	2,499
Due to affiliates, net	14,687	7,500
Other assets	521	599
Accounts payable and other liabilities	(693)	6,475
Net cash flows from operating activities	974	27,967
Cash flows from investing activities:		
Capital expenditures	(8,831)	(16,651)
Net cash flows from investing activities	(8,831)	(16,651)
Cash flows from financing activities:		
Repayment of senior secured notes and bonds	(7,333)	(8,308)
Contributions	8,000	-
Net cash flows from financing activities	667	(8,308)
Net change in cash and cash equivalents	(7,190)	3,008
Cash and cash equivalents at beginning of period	7,233	3,101
Cash and cash equivalents at end of period	$ 43	$ 6,109

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) Investment 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 June 30, 2013 and for the three- and six-month periods ended June 30, 2013 and 2012. The results of operations for the three- and six-month periods ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through August 13, 2013, which is the date the unaudited Combined Financial Statements were available to be issued.

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

The preparation of the unaudited Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited Combined Financial Statements and the reported amounts of revenue and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Combined Financial Statements. Note 2 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2012 describes the most significant accounting policies used in the preparation of the unaudited Combined Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the six-month period ended June 30, 2013.

2. Property, Plant and Equipment, Net

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

		As of	
	Depreciable Life	**June 30, 2013**	**December 31, 2012**
Power plants	5 to 30 years	$ 962,122	$ 955,502
Wells and resource development	2 to 30 years	297,246	294,736
Total operating assets		1,259,368	1,250,238
Accumulated depreciation		(789,498)	(761,373)
Property, plant and equipment, net		$ 469,870	$ 488,865

3. Intangible Assets, Net

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

		As of June 30, 2013		**As of December 31, 2012**	
	Amortization Life	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Power purchase and royalty contracts	4 to 30 years	$ 216,935	$ 190,461	$ 216,935	$ 188,660
Patented technology	24 years	46,290	35,818	46,290	34,853
Intangible assets, net		$ 263,225	$ 226,279	$ 263,225	$ 223,513

Amortization expense on acquired intangible assets was $1.4 million for each of the three-month periods ended June 30, 2013 and 2012, and $2.8 million for each of the six-month periods ended June 30, 2013 and 2012. The Company expects amortization expense on acquired intangible assets to be $2.7 million for the remaining six months in 2013, $5.5 million in 2014 and 2015 and $5.7 million in 2016 and 2017.

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 June 30, 2013 and December 31, 2012 was $0.1 million and $0.3 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 $1.1 million and $1.0 million for the three-month periods ended June 30, 2013 and 2012, respectively, and $1.8 million and $2.2 million for the six-month periods ended June 30, 2013 and 2012, 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 $1.7 million and $1.6 million for the three-month periods ended June 30, 2013 and 2012, respectively, and $3.2 million and $3.9 million for the six-month periods ended June 30, 2013 and 2012, 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 $0.3 million for each of the three-month periods ended June 30, 2013 and 2012, and $0.8 million for each of the six-month periods ended June 30, 2013 and 2012. 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 $0.2 million and $0.3 million for the three-month periods ended June 30, 2013 and 2012, respectively, and $0.4 million and $0.6 million for the six-month periods ended June 30, 2013 and 2012, 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. New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, which amends FASB Accounting Standards Codification (“ASC”) Topic 220, “Comprehensive Income.” The amendments in this guidance require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (“AOCI”) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required by GAAP that provide additional detail about those amounts. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of adopting this guidance on its Combined Financial Statements and disclosures included within Notes to Combined Financial Statements.

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, 2012 for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

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

	Second Quarter		**First Six Months**	
	2013	**2012**	**2013**	**2012**
Operating revenue	$43.4	$40.8	$72.1	$84.3
Overall capacity factor	84.9%	82.7%	80.7%	82.6%
Megawatt hours produced	605,000	589,800	1,143,800	1,178,200
Facility net capacity (megawatts) (weighted average)	326.4	326.4	326.4	326.4

Operating revenue increased $2.6 million, or 6.4%, for the second quarter of 2013 compared to 2012 due to the following:

- $1.5 million increase due to higher energy rates at certain Imperial Valley Projects.

- $1.1 million increase due to a 2.6% increase in energy production. The energy production increase primarily resulted from the timing of scheduled maintenance.

Operating revenue decreased $12.2 million, or 14.5%, for the first six months of 2013 compared to 2012 due to the following:

- $10.1 million decrease due to lower energy rates at certain Imperial Valley Projects.

- $2.1 million decrease due to a 2.9% decrease in energy production. The energy production decrease primarily resulted from transmission line outages and equipment repairs at certain Imperial Valley Projects in 2013.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general and administrative expense decreased $4.1 million, or 12.8%, to $28.0 million for the second quarter of 2013 from $32.1 million for the comparable period in 2012 primarily due to lower maintenance costs at certain Imperial Valley Projects.

Royalty, operating, general and administrative expense decreased $14.0 million, or 20.0%, to $56.0 million for the first six months of 2013 from $70.0 million for the comparable period in 2012 primarily due to lower maintenance costs at certain Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization decreased $1.0 million, or 6.5%, to $14.4 million for the second quarter of 2013 from $15.4 million for the comparable period in 2012 primarily due to lower capital expenditures at certain Imperial Valley Projects.

Depreciation and amortization increased $0.3 million, or 1.0%, to $30.9 million for the first six months of 2013 from $30.6 million for the comparable period in 2012 primarily due to the timing of projects placed in service.

Interest Expense

Interest expense decreased $0.3 million to $1.9 million and $0.6 million to $3.8 million for the second quarter and for the first six months of 2013, respectively, from $2.2 million and $4.4 million, respectively, for the comparable periods in 2012 due to lower outstanding debt balances.

Income Tax Expense (Benefit)

Income tax expense increased $7.4 million to $7.5 million for the second quarter of 2013 from $0.1 million for the comparable period in 2012. The effective tax rates were (1,344.0)% and (1.4)% for the second quarters of 2013 and 2012, respectively. The changes in income tax expense and the effective tax rates were primarily due to the timing of recognition of tax benefits associated with depletion and energy tax credits.

Income tax expense (benefit) increased $19.6 million to an expense of $11.6 million for the first six months of 2013 from a benefit of $(8.0) million for the comparable period in 2012. The effective tax rates were (63.7)% and 38.9% for the first six months of 2013 and 2012, respectively. The changes in income tax expense (benefit) and the effective tax rates were primarily due to 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 $- million as of June 30, 2013 compared to $7.2 million as of December 31, 2012.

Net cash flows from operating activities for the six-month periods ended June 30, 2013 and 2012 were $1.0 million and $28.0 million, respectively. The decrease was primarily due to decreased revenues, partially offset by lower operating costs, at certain Imperial Valley Projects.

Net cash flows from investing activities for the six-month periods ended June 30, 2013 and 2012 were $(8.8) million and $(16.7) million, respectively. The change was due to lower capital expenditures in 2013.

Forecasted capital expenditures for 2013 are approximately $27 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 six-month periods ended June 30, 2013 and 2012 were $0.7 million and $(8.3) million, respectively. The change was due primarily to equity contributions made during the second quarter of 2013. The Company received $8.0 million, $4.0 million each from MidAmerican Geothermal, LLC and TransAlta, for the purpose of assisting with Funding Corporation's second quarter 2013 debt service payment.

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. 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. The discussion below contains material developments since those disclosed in the "Environmental Laws and Regulations" section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report for the year ended December 31, 2012.

Climate Change

In April 2012, the EPA proposed New Source Performance Standards for greenhouse gases (“GHG”) at new fossil-fueled generating facilities at an emissions rate of 1,000 pounds per megawatt hour, which are expected to be finalized in 2013. The EPA is also under a consent decree to establish GHG emissions performance standards for existing and modified sources.

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, 2012. The Company’s exposure to market risk and its management of such risk has not changed materially since December 31, 2012.

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: August 13, 2013

<u>/s/ Stephen A. Larsen</u>
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: August 13, 2013

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS

EXHIBIT A

COMBINING BALANCE SHEET (Unaudited)
AS OF JUNE 30, 2013
(in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 3	$ -	$ 40	$ 43
Trade receivables	15,166	15,163	-	-	30,329
Inventories	-	22,216	-	-	22,216
Other current assets	173	189	-	5	367
Total current assets	15,339	37,571	-	45	52,955
Property, plant and equipment, net	258,731	211,139	-	-	469,870
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	12,945	19,599	4,402	-	36,946
Other assets	171	126	-	-	297
Total assets	$ 287,186	$ 324,963	$ 34,866	$ 45	$ 647,060
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	$ 4,631	$ 7,040	$ -	$ -	$ 11,671
Major maintenance accruals	1,135	773	-	-	1,908
Accrued interest	337	248	-	-	585
Current portion of secured project notes	9,222	6,778	-	(16,000)	-
Current portion of senior secured notes and bonds	-	-	-	16,000	16,000
Deferred income taxes	794	277	-	-	1,071
Other current liabilities	317	3,794	-	-	4,111
Total current liabilities	16,436	18,910	-	-	35,346
Secured project notes	44,841	32,956	-	(77,797)	-
Senior secured notes and bonds	-	-	-	77,797	77,797
Due to affiliates	1,127	(341)	-	15,240	16,026
Deferred income taxes	61,574	45,764	1,789	-	109,127
Total liabilities	123,978	97,289	1,789	15,240	238,296
Owners' equity:					
Owners' equity	163,208	227,670	33,077	(15,195)	408,760
Accumulated other comprehensive income, net	-	4	-	-	4
Total owners' equity	163,208	227,674	33,077	(15,195)	408,764
Total liabilities and owners' equity	$ 287,186	$ 324,963	$ 34,866	$ 45	$ 647,060

SALTON SEA FUNDING CORPORATION AND GUARANTORS EXHIBIT A (Continued)
COMBINING BALANCE SHEET (Unaudited)
AS OF DECEMBER 31, 2012
(in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 2	$ -	$ 7,231	$ 7,233
Trade receivables	11,256	7,661	-	-	18,917
Inventories	-	24,169	-	-	24,169
Other current assets	401	454	-	33	888
Total current assets	11,657	32,286	-	7,264	51,207
Property, plant and equipment, net	266,934	221,931	-	-	488,865
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	13,520	21,379	4,813	-	39,712
Other assets	203	149	-	-	352
Total assets	$ 292,314	$ 332,273	$ 35,277	$ 7,264	$ 667,128
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	$ 2,545	$ 8,262	$ -	$ -	$ 10,807
Major maintenance accruals	118	2,534	-	-	2,652
Accrued interest	363	267	-	-	630
Current portion of secured project notes	8,452	6,212	-	(14,664)	-
Current portion of senior secured notes and bonds	-	-	-	14,664	14,664
Deferred income taxes	794	277	-	-	1,071
Other current liabilities	1,893	2,778	1	-	4,672
Total current liabilities	14,165	20,330	1	-	34,496
Secured project notes	49,838	36,628	-	(86,466)	-
Senior secured notes and bonds	-	-	-	86,466	86,466
Due to affiliates	1,122	66	-	-	1,188
Deferred income taxes	60,748	51,576	1,949	-	114,273
Total liabilities	125,873	108,600	1,950	-	236,423
Owners' equity:					
Owners' equity	166,441	223,649	33,327	7,264	430,681
Accumulated other comprehensive income, net	-	24	-	-	24
Total owners' equity	166,441	223,673	33,327	7,264	430,705
Total liabilities and owners' equity	$ 292,314	$ 332,273	$ 35,277	$ 7,264	$ 667,128

SALTON SEA FUNDING CORPORATION AND GUARANTORS EXHIBIT A (Continued)
COMBINING STATEMENT OF OPERATIONS (Unaudited)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013
(in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
Operating revenue	$ 36,601	$ 35,482	$ 4,210	$ (4,210)	$ 72,083
Operating costs and expenses:					
Royalty, operating, general and administrative expense	31,555	27,514	1,082	(4,181)	55,970
Depreciation and amortization	14,434	16,074	411	-	30,919
Total operating costs and expenses	45,989	43,588	1,493	(4,181)	86,889
Operating (loss) income	(9,388)	(8,106)	2,717	(29)	(14,806)
Other income (expense):					
Interest expense	(2,184)	(1,605)	-	-	(3,789)
Interest and other income	-	309	-	8	317
Total other income (expense)	(2,184)	(1,296)	-	8	(3,472)
(Loss) income before income tax expense (benefit)	(11,572)	(9,402)	2,717	(21)	(18,278)
Income tax expense (benefit)	16,617	(5,799)	833	(8)	11,643
Net (loss) income	$ (28,189)	$ (3,603)	$ 1,884	$ (13)	$ (29,921)

SALTON SEA FUNDING CORPORATION AND GUARANTORS EXHIBIT A (Continued)

COMBINING STATEMENT OF OPERATIONS (Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

(in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
Operating revenue	$ 43,647	$ 40,613	$ 5,181	$ (5,181)	$ 84,260
Operating costs and expenses:					
Royalty, operating, general and administrative expense	28,067	45,726	1,322	(5,152)	69,963
Depreciation and amortization	14,711	15,429	411	-	30,551
Total operating costs and expenses	42,778	61,155	1,733	(5,152)	100,514
Operating income (loss)	869	(20,542)	3,448	(29)	(16,254)
Other income (expense):					
Interest expense	(2,544)	(1,870)	-	-	(4,414)
Interest and other income	-	37	-	1	38
Total other income (expense)	(2,544)	(1,833)	-	1	(4,376)
(Loss) income before income tax expense (benefit)	(1,675)	(22,375)	3,448	(28)	$ (20,630)
Income tax expense (benefit)	1,152	(10,210)	1,048	(11)	(8,021)
Net (loss) income	$ (2,827)	$ (12,165)	$ 2,400	$ (17)	$ (12,609)

SALTON SEA FUNDING CORPORATION AND GUARANTORS EXHIBIT A (Continued)
COMBINING STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013
(in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
Cash flows from operating activities:					
Net (loss) income	$ (28,189)	$ (3,603)	$ 1,884	$ (13)	$ (29,921)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	14,434	16,074	411	-	30,919
Deferred income taxes	826	(5,799)	(160)	-	(5,133)
Amortization of deferred financing costs	32	21	-	-	53
Changes in other operating assets and liabilities:					
Trade receivables	(3,910)	(7,502)	-	-	(11,412)
Inventories	-	1,953	-	-	1,953
Due to affiliates, net	24,950	7,077	(2,134)	(15,206)	14,687
Other assets	228	265	-	28	521
Accounts payable and other liabilities	902	(1,594)	(1)	-	(693)
Net cash flows from operating activities	9,273	6,892	-	(15,191)	974
Cash flows from investing activities:					
Capital expenditures	(5,046)	(3,785)	-	-	(8,831)
Net cash flows from investing activities	(5,046)	(3,785)	-	-	(8,831)
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(4,227)	(3,106)	-	-	(7,333)
Contributions	-	-	-	8,000	8,000
Net cash flows from financing activities	(4,227)	(3,106)	-	8,000	667
Net change in cash and cash equivalents	-	1	-	(7,191)	(7,190)
Cash and cash equivalents at beginning of period	-	2	-	7,231	7,233
Cash and cash equivalents at end of period	$ -	$ 3	$ -	$ 40	$ 43

SALTON SEA FUNDING CORPORATION AND GUARANTORS EXHIBIT A (Continued)

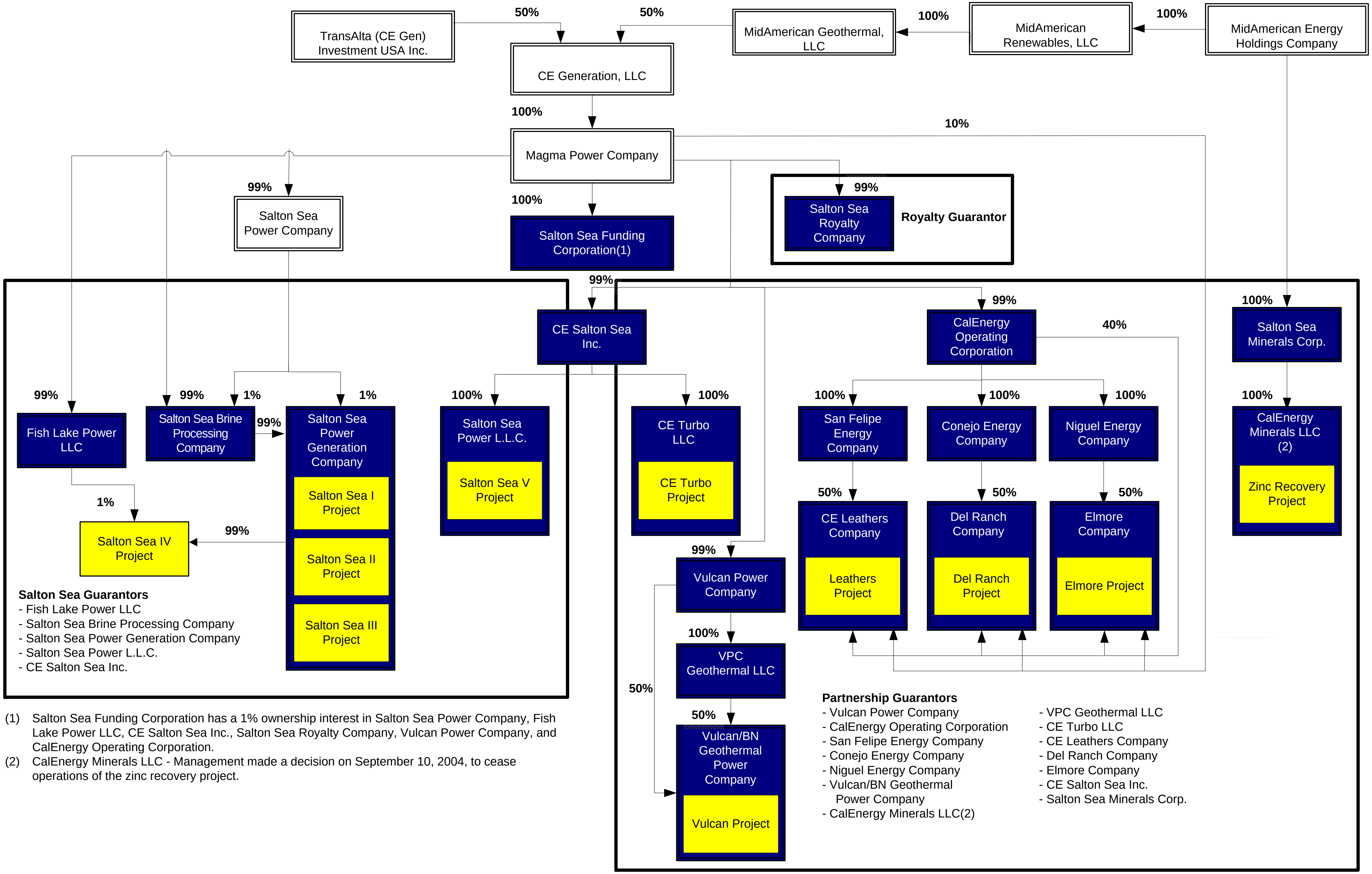
COMBINING STATEMENT OF CASH FLOWS (Unaudited)

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

(in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
Cash flows from operating activities:					
Net (loss) income	$ (2,827)	$ (12,165)	$ 2,400	$ (17)	$ (12,609)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	14,711	15,429	411	-	30,551
Deferred income taxes	(3,096)	(10,210)	(166)	-	(13,472)
Amortization of deferred financing costs	37	27	-	-	64
Changes in other operating assets and liabilities:					
Trade receivables	2,481	3,879	-	-	6,360
Inventories	-	2,499	-	-	2,499
Due to affiliates, net	(5,718)	12,866	(2,645)	2,997	7,500
Other assets	347	225	-	27	599
Accounts payable and other liabilities	1,540	4,935	-	-	6,475
Net cash flows from operating activities	7,475	17,485	-	3,007	27,967
Cash flows from investing activities:					
Capital expenditures	(2,686)	(13,965)	-	-	(16,651)
Net cash flows from investing activities	(2,686)	(13,965)	-	-	(16,651)
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(4,789)	(3,519)	-	-	(8,308)
Net cash flows from financing activities	(4,789)	(3,519)	-	-	(8,308)
Net change in cash and cash equivalents	-	1	-	3,007	3,008
Cash and cash equivalents at beginning of period	-	5	-	3,096	3,101
Cash and cash equivalents at end of period	$ -	$ 6	$ -	$ 6,103	$ 6,109

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



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

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