



SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements and Independent Auditors' Report

As of December 31, 2016 and 2015 and for each of the

Three Years Ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Salton Sea Funding Corporation and Guarantors
Omaha, Nebraska

We have audited the accompanying combined financial statements of Salton Sea Funding Corporation and Guarantors (collectively, the "Company"), which comprise the combined balance sheets as of December 31, 2016 and 2015, and the related combined statements of operations, comprehensive loss, changes in owners' equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the combined financial statements. The combined financial statements include the accounts of the companies disclosed in Note 1 to the combined financial statements. These companies are under common ownership and common management.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Salton Sea Funding Corporation and Guarantors as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary combining information included in Exhibit A is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the combined financial statements. This supplementary combining information is the responsibility of Salton Sea Funding Corporation and Guarantors' management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the combined financial statements as a whole.

/s/ Deloitte & Touche LLP

Omaha, Nebraska

March 31, 2017

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED BALANCE SHEETS

(In thousands)

	As of December 31,	
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,794	\$ 23,798
Trade receivables	16,549	18,684
Inventories	24,212	23,312
Other current assets	689	940
Total current assets	54,244	66,734
Property, plant and equipment, net	426,690	429,027
Intangible assets, net	17,428	23,120
Other assets	471	140
Total assets	\$ 498,833	\$ 519,021
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,199	\$ 7,752
Major maintenance accruals	2,350	—
Accrued interest	186	312
Current portion of senior secured bonds	19,865	20,370
Other current liabilities	3,056	4,385
Total current liabilities	34,656	32,819
Senior secured bonds	9,938	29,757
Due to affiliates	1,007	1,183
Deferred income taxes	65,488	81,559
Total liabilities	111,089	145,318
Commitments and contingencies (Note 8)		
Owners' equity	387,744	373,703
Total liabilities and owners' equity	\$ 498,833	\$ 519,021

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENTS OF OPERATIONS

(In thousands)

	Years Ended December 31,		
	2016	2015	2014
Operating revenue	\$ 147,706	\$ 164,724	\$ 177,578
Operating costs and expenses:			
Royalty, operating, general and administrative expense	110,418	122,918	116,423
Depreciation and amortization	61,052	61,292	61,309
Property and other taxes	3,729	4,753	6,260
Total operating costs and expenses	175,199	188,963	183,992
Operating loss	(27,493)	(24,239)	(6,414)
Other income (expense):			
Interest expense	(3,293)	(4,767)	(6,124)
Interest and other income	201	236	216
Total other income (expense)	(3,092)	(4,531)	(5,908)
Loss before income tax benefit	(30,585)	(28,770)	(12,322)
Income tax benefit	(15,437)	(14,308)	(9,393)
Net loss	\$ (15,148)	\$ (14,462)	\$ (2,929)

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

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

	Years Ended December 31,		
	2016	2015	2014
Net loss	\$ (15,148)	\$ (14,462)	\$ (2,929)
Other comprehensive income (loss), net of tax-			
Unrecognized amounts on retirement benefits, net of tax of \$460, \$69 and (\$148)	669	101	(215)
Comprehensive loss	\$ (14,479)	\$ (14,361)	\$ (3,144)

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
(In thousands)

	Owners'	Accumulated Other Comprehensive Income, Net	Total Equity
	Equity		
Balance, December 31, 2013	\$ 326,627	\$ 1,006	\$ 327,633
Net loss	(2,929)	—	(2,929)
Other comprehensive loss - unrecognized amounts on retirement benefits	—	(215)	(215)
Contributions	25,783	—	25,783
Balance, December 31, 2014	<u>349,481</u>	<u>791</u>	<u>350,272</u>
Net loss	(14,462)	—	(14,462)
Other comprehensive income - unrecognized amounts on retirement benefits	—	101	101
Contributions	37,792	—	37,792
Balance, December 31, 2015	<u>372,811</u>	<u>892</u>	<u>373,703</u>
Net loss	(15,148)	—	(15,148)
Other comprehensive income - unrecognized amounts on retirement benefits	—	669	669
Contributions	29,500	—	29,500
Distributions	(980)	—	(980)
Balance, December 31, 2016	<u>\$ 386,183</u>	<u>\$ 1,561</u>	<u>\$ 387,744</u>

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

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

	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net loss	\$ (15,148)	\$ (14,462)	\$ (2,929)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization	61,052	61,292	61,309
Deferred income taxes	(16,531)	(17,110)	(12,837)
Amortization of debt issuance costs	48	71	93
Changes in other operating assets and liabilities:			
Trade receivables	2,135	3,224	(8,112)
Inventories	(900)	(1,288)	186
Due to affiliates, net	1,048	11,638	567
Other assets	(80)	(283)	126
Accounts payable and other liabilities	(195)	(3,850)	(1,378)
Net cash flows from operating activities	<u>31,429</u>	<u>39,232</u>	<u>37,025</u>
Cash flows from investing activities:			
Capital expenditures	<u>(51,561)</u>	<u>(34,163)</u>	<u>(55,960)</u>
Net cash flows from investing activities	<u>(51,561)</u>	<u>(34,163)</u>	<u>(55,960)</u>
Cash flows from financing activities:			
Repayment of senior secured bonds	(20,372)	(18,925)	(17,337)
Contributions	29,500	26,500	24,000
Net cash flows from financing activities	<u>9,128</u>	<u>7,575</u>	<u>6,663</u>
Net change in cash and cash equivalents	(11,004)	12,644	(12,272)
Cash and cash equivalents at beginning of period	23,798	11,154	23,426
Cash and cash equivalents at end of period	<u>\$ 12,794</u>	<u>\$ 23,798</u>	<u>\$ 11,154</u>
Supplemental disclosure:			
Interest paid	\$ 3,372	\$ 4,767	\$ 6,139
Income taxes paid	\$ 1,094	\$ 2,802	\$ 3,444
Non-cash investing transactions -			
Accounts payable related to property, plant and equipment additions	<u>\$ 2,944</u>	<u>\$ 406</u>	<u>\$ 1,396</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
NOTES TO COMBINED FINANCIAL STATEMENTS

1. General

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

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

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

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

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

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

The following table sets out information concerning the Salton Sea Projects and the Partnership Projects (collectively, the "Imperial Valley Projects"):

Operating Project	Facility Net Capacity (MW) ⁽¹⁾	Location	Power Purchase Agreement Expiration	Power Purchaser ⁽²⁾
Salton Sea Projects:				
Salton Sea I Project ⁽³⁾	10	California	2017	Edison
Salton Sea II Project ⁽³⁾	16	California	2020	Edison
Salton Sea III Project ⁽³⁾	50	California	2019	Edison
Salton Sea IV Project	42	California	2026	Edison
Salton Sea V Project ⁽³⁾	<u>46</u>	California	2020	Riverside
Total Salton Sea Projects	<u>164</u>			
Partnership Projects:				
Vulcan Project	38	California	2039	CalEnergy
Elmore Project ⁽³⁾	42	California	2018	Edison
Leathers Project	42	California	2019	Edison
Del Ranch Project ⁽³⁾	42	California	2018	Edison
CE Turbo Project	<u>10</u>	California	2029	APS
Total Partnership Projects	<u>174</u>			
Total Imperial Valley Projects	<u>338</u>			

- (1) Facility Net Capacity represents the lesser of nominal ratings or any limitations under applicable interconnection, power purchase, or other agreements for intermittent resources and the total net dependable capability available during summer conditions for all other units. An intermittent resource's nominal rating is the manufacturer's contractually specified capability (in megawatts "MW") under specified conditions.
- (2) Southern California Edison Company ("Edison"); Riverside Public Utilities ("Riverside"); CalEnergy, LLC ("CalEnergy") and Arizona Public Service ("APS").
- (3) Certain long-term power purchase agreement renewals have been entered into with an affiliate, CalEnergy, that expire in 2039.

2. Summary of Significant Accounting Policies

Basis of Presentation

The 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 Company has evaluated subsequent events through March 31, 2017, which is the date the Combined Financial Statements were available to be issued.

Use of Estimates in Preparation of Financial Statements

The preparation of the Combined Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. These estimates include, but are not limited to, recovery of long-lived assets; impairment of goodwill and intangible assets; accounting for contingencies; income taxes; and asset retirement obligations ("AROs"). Actual results may differ from estimates used in preparing the Combined Financial Statements.

Cash Equivalents and Restricted Cash

Cash equivalents consist of funds invested in money market accounts and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions.

Inventories

Inventories consist of spare parts and supplies and are stated at cost. The cost of large replacement parts is determined using the specific identification method. The cost of the remaining spare parts and supplies is determined using the average cost method.

Property, Plant and Equipment, Net

General

The cost of additions and betterments are capitalized, while costs incurred for replacements, maintenance, overhaul and well rework and repairs that do not improve or extend the useful lives of the related assets are generally expensed. Depreciation is computed by applying the straight-line method based on estimated useful lives.

Asset Retirement Obligations

The Company recognizes AROs when it has a legal obligation to perform removal activities upon retirement of an asset. The fair value of an ARO liability is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made, and is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to the initial recognition, the ARO liability is adjusted for any revisions to the original estimate of undiscounted cash flows (with corresponding adjustments to property, plant, and equipment) and for accretion of the ARO liability due to the passage of time. Given the renewable nature of the geothermal resource, the geothermal power plants and wells could be maintained and remain in production indefinitely. Due to the indeterminate removal date, the fair value of the associated liabilities on geothermal assets cannot currently be estimated and no amounts are recognized on the Combined Financial Statements.

Intangible Assets, Net

The Company's intangible assets consist of acquired power purchase and royalty contracts and patented technology. Amortization is computed by applying the straight-line method based on the remaining contract periods.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value and any resulting impairment loss is reflected on the Combined Statements of Operations.

Revenue Recognition and Significant Customers

Operating revenue is derived primarily from the sale of electricity and is recorded based upon energy delivered and capacity provided at rates specified under long-term power purchase contracts. The majority of the contracts contain both fixed, or scheduled, and variable price periods. During the scheduled period, energy revenue is recognized at the lower of (i) amounts billable under the contract or (ii) an amount equal to the kilowatt hours ("kWh") made available during the period multiplied by the estimated average revenue per kWh over the term of the contract. Energy revenue during the variable period and capacity revenue in all periods are recognized as earned.

68%, 82% and 86% of the Company's sales of electricity were to Edison in 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, trade receivables from Edison were \$12.8 million and \$16.0 million, respectively. Trade receivables are primarily uncollateralized receivables from long-term power purchase contracts and are stated at the outstanding principal amount, net of an estimated allowance for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectibility of amounts owed to the Company by its customers. This assessment requires judgment regarding the ability of

customers to pay or the outcome of any pending disputes. As of December 31, 2016 and 2015, there was no allowance for doubtful accounts.

Unamortized Debt Issuance Costs

Debt issuance costs incurred for the issuance of long-term debt are amortized over the term of the related financing using the effective interest method.

Income Taxes

Funding Corporation is included in the consolidated United States federal income tax return and other state and federal jurisdictional returns, as required, with CE Generation and its affiliates. CE Generation and its subsidiaries are included in the Berkshire Hathaway consolidated United States federal income tax return. The Guarantors are comprised of a combination of corporations and limited liability companies. Those entities that are corporations are included in the consolidated income tax returns with their parent and affiliates. Income taxes for all taxable entities are provided on a separate return basis; however, these tax obligations will be remitted to the parent only to the extent cash flows are available after operating expenses and debt service. The income or loss of each limited liability company for income tax purposes, along with any associated tax credits, is the responsibility of the individual members. For these entities in which the tax attributes flow through to its owners, no income tax provision is reflected on the Combined Financial Statements.

Deferred income tax assets and liabilities are based on differences between the financial statement and income tax basis of assets and liabilities using estimated income tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income ("OCI") are charged or credited directly to OCI. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount that is more-likely-than-not to be realized. Investment tax credits are accounted for using the flow-through method whereby the credits are recognized in the year the assets are acquired.

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Combined Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on the Company's combined financial results. The Company's unrecognized tax benefits are primarily included in other long-term liabilities on the Combined Balance Sheets. Estimated interest and penalties, if any, related to uncertain tax positions are included as a component of income tax expense on the Combined Statements of Operations.

New Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, which amends FASB Accounting Standards Codification ("ASC") Subtopic 230-10, "Statement of Cash Flows - Overall." The amendments in this guidance require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017 for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. This guidance is required to be adopted retrospectively, with early adoption permitted. 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. The Company plans to adopt ASU No. 2016-18 effective January 1, 2018.

In August 2016, the FASB issued ASU No. 2016-15, which amends FASB ASC Topic 230, "Statement of Cash Flows." The amendments in this guidance address the classification of eight specific cash flow issues within the statement of cash flows with the objective of reducing the existing diversity in practice. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017 for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. This guidance is required to be adopted retrospectively, with early adoption permitted. The Company is currently evaluating the impact of adopting this guidance on its Combined Financial Statements. The Company plans to adopt ASU No. 2016-15 effective January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02, which creates FASB ASC Topic 842, "Leases" and supersedes Topic 840 "Leases." This guidance increases transparency and comparability among entities by recording lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous guidance. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018 for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2019 and interim reporting periods within annual reporting periods beginning after December 15, 2020. This guidance is required to be adopted using a modified retrospective approach, with early adoption permitted. 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. The Company plans to adopt ASU No. 2016-02 effective January 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, which creates FASB ASC Topic 606, "Revenue from Contracts with Customers" and supersedes ASC Topic 605, "Revenue Recognition." The guidance replaces industry-specific guidance and establishes a single five-step model to identify and recognize revenue. The core principle of the guidance is that an entity should recognize revenue upon transfer of control of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires the entity to disclose further quantitative and qualitative information regarding the nature and amount of revenues arising from contracts with customers, as well as other information about the significant judgments and estimates used in recognizing revenues from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017 for public entities. For nonpublic entities, this guidance is effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019, with early adoption permitted. During 2016, the FASB issued several ASUs that clarify the implementation guidance for ASU No. 2014-09 but do not change the core principle of the guidance. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Company is currently evaluating the impact of adopting this guidance on its Combined Financial Statements and disclosures included within Notes to Combined Financial Statements. The Company currently does not expect the timing and amount of revenue currently recognized to be materially different after adoption of the new guidance as a majority of revenue is recognized when the Company has the right to invoice as it corresponds directly with the value to the customer of the Company's performance to date. The Company plans to adopt ASU No. 2014-09 effective January 1, 2018.

3. Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following as of December 31 (in thousands):

	Depreciable		
	Life	2016	2015
Power plants	5 to 30 years	\$ 1,053,333	\$ 1,017,462
Wells and resource development	2 to 30 years	352,851	335,844
Total operating assets		1,406,184	1,353,306
Accumulated depreciation		(979,494)	(924,279)
Property, plant and equipment, net		\$ 426,690	\$ 429,027

4. Intangible Assets, Net

Intangible assets, net consists of the following as of December 31 (in thousands):

	Amortization Life	2016		2015	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 203,228	\$ 216,935	\$ 199,465
Patented technology	24 years	46,290	42,569	46,290	40,640
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 245,797</u>	<u>\$ 263,225</u>	<u>\$ 240,105</u>

Amortization expense on acquired intangible assets was \$5.7 million for December 31, 2016 and \$5.5 million for each of the years ended December 31, 2015 and 2014, respectively. The Company expects amortization expense on acquired intangible assets to be \$5.7 million in 2017, \$5.0 million in 2018, \$1.0 million in 2019 and \$0.9 million in 2020 and 2021.

5. Senior Secured Bonds

Funding Corporation's long-term debt consists of 7.48% Series F Bonds due 2018 having an outstanding balance as of December 31, 2016 and 2015 of \$29.8 million and \$50.1 million, respectively.

The net revenues, equity distributions and royalties from the Imperial Valley Projects are used to pay principal and interest payments on outstanding senior secured bonds issued by Funding Corporation, the final series of which is scheduled to mature in November 2018. Funding Corporation debt is guaranteed by certain subsidiaries of Magma and secured by the capital stock of certain subsidiaries of CE Generation. The proceeds of Funding Corporation debt were loaned by Funding Corporation pursuant to loan agreements and notes (the "Imperial Valley Project Loans") to certain subsidiaries of Magma and used for the construction of certain Imperial Valley Projects, refinancing of certain indebtedness and other purposes. Debt service on the Imperial Valley Project Loans is used to repay debt service on Funding Corporation debt. The Imperial Valley Project Loans and the guarantees of Funding Corporation debt are secured by substantially all of the assets of the Guarantors, including the Imperial Valley Projects, and by the equity interests in the Guarantors. The Imperial Valley Project Loans also require Funding Corporation to maintain certain covenants. Funding Corporation was in compliance with these requirements at December 31, 2016.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of BHE in the amount of \$21.7 million as of December 31, 2016.

The annual repayments of Funding Corporation's debt for the years beginning January 1, 2017 and thereafter, excluding unamortized debt issuance costs, are as follows (in thousands):

2017	\$ 19,865
2018	9,969
Total	<u>\$ 29,834</u>

6. Income Taxes

Income tax benefit consists of the following for the years ended December 31 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current:			
Federal	\$ 484	\$ 1,844	\$ 2,449
State	610	958	995
	<u>1,094</u>	<u>2,802</u>	<u>3,444</u>
Deferred:			
Federal	(14,202)	(15,552)	(10,073)
State	(2,329)	(1,558)	(2,764)
	<u>(16,531)</u>	<u>(17,110)</u>	<u>(12,837)</u>
Total	<u>\$ (15,437)</u>	<u>\$ (14,308)</u>	<u>\$ (9,393)</u>

A reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to loss before income tax benefit is as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	3.7	1.4	9.3
Percentage depletion	2.2	11.3	26.8
Energy tax credits	8.1	6.8	12.4
Change in valuation allowance	2.0	(5.3)	(8.9)
Production activities deduction	0.3	0.7	1.5
Other, net	(0.8)	(0.2)	0.1
Effective income tax rate	<u>50.5%</u>	<u>49.7%</u>	<u>76.2%</u>

The net deferred income tax liability consists of the following as of December 31 (in thousands):

	<u>2016</u>	<u>2015</u>
Deferred income tax assets:		
Net operating loss carryforwards	\$ 63,232	\$ 59,488
Tax credit carryforwards	45,818	43,053
Other	2,099	1,633
Total deferred income tax assets	<u>111,149</u>	<u>104,174</u>
Valuation allowances	(47,405)	(47,228)
Total deferred income tax assets, net	<u>63,744</u>	<u>56,946</u>
Deferred income tax liabilities:		
Property-related items	(121,087)	(128,511)
Intangible assets	(7,101)	(9,410)
Other	(1,044)	(584)
Total deferred income tax liabilities	<u>(129,232)</u>	<u>(138,505)</u>
Net deferred income tax liability	<u>\$ (65,488)</u>	<u>\$ (81,559)</u>

The following table provides the Company's net operating loss and tax credit carryforwards and expiration dates as of December 31, 2016 (in thousands):

	<u>Federal</u>	<u>State</u>
Net operating loss carryforwards	\$ 163,927	\$ 101,935
Deferred income taxes on net operating loss carryforwards	\$ 57,374	\$ 5,858
Expiration dates	2020-2036	2017-2036
Energy and other tax credits ⁽¹⁾	\$ 43,229	\$ 2,589
Expiration dates	2035 - indefinite	2023 - indefinite

⁽¹⁾ The energy and other tax credits relate principally to federal energy tax credits.

The United States Internal Revenue Service has effectively settled its examination of the Company's income tax returns through December 31, 2008. In addition, state tax agencies have closed their examinations of the Company's income tax returns through at least December 31, 2008.

7. Fair Value Measurements

The carrying value of the Company's cash, certain cash equivalents, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity of these instruments. The Company uses a three level hierarchy for determining fair value and a financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company's long-term debt is carried at cost on the Combined Financial Statements. The fair value of the Company's long-term debt is a Level 2 fair value measurement and has been estimated based upon quoted market prices. The following table presents the carrying value and estimated fair value of the Company's long-term debt as of December 31 (in thousands):

	<u>2016</u>		<u>2015</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Senior secured bonds	\$ 29,803	\$ 30,132	\$ 50,127	\$ 50,203

8. 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 BHE and TransAlta (CE GEN) Investment USA, Inc. ("TransAlta"), a former member of CE Generation. As a result of the transaction, Salton Sea Power and CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.8 million current liability to reflect the collection risk retained under the Transfer of Claims Agreements. Pursuant to the Transfer of Claims Agreements, to the extent that the PX Receivable becomes uncollectible, Salton Sea Power and CE Turbo can be required to pay the PX Receivable, plus interest, to BHE and TransAlta. EPME informed Salton Sea Power and CE Turbo that, on July 6, 2007, it received a distribution in connection with a settlement involving its claims in the California Power Exchange bankruptcy proceeding. In August 2007, EPME paid \$2.4 million, or \$1.2 million each to BHE and TransAlta, in connection with the bankruptcy proceeding distribution that EPME received on their behalf. Accordingly, Salton Sea Power and CE Turbo reduced their collective liability by \$2.4 million to \$1.4 million.

Environmental Laws and Regulations

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

9. Related Party Transactions

In July 2013, the Company entered into a long term power purchase agreement with CalEnergy which became effective during 2016 upon the expiration of a previous contract. Pursuant to the agreement, the Company recognized \$16.6 million of operating revenue in the Combined Statements of Operations for the year ended December 31, 2016. As of December 31, 2016, the Company's Combined Balance Sheets included trade receivables due from CalEnergy of \$1.6 million.

Funding Corporation made non-cash equity distributions of \$1.0 million for the year ended December 31, 2016. Funding Corporation received non-cash equity contributions of \$11.3 million and \$1.8 million for the years ended December 31, 2015 and 2014, respectively. The non-cash equity transactions represent the operating losses and capital expenditures of certain Guarantors previously funded by amounts held in the revenue account of Funding Corporation and amounts previously transferred to Magma pursuant to the terms and conditions of the debt of Funding Corporation.

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors' power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed for the years ended December 31, 2016, 2015 and 2014 were \$3.8 million, \$4.5 million and \$4.5 million, respectively.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed for the years ended December 31, 2016, 2015 and 2014 were \$4.4 million, \$5.3 million and \$7.6 million, respectively.

The Company participates in the MidAmerican Energy Company Retirement Plan and the MidAmerican Energy Company Welfare Benefit Plan, each of which is sponsored by MidAmerican Energy Company ("MEC"), an indirect wholly-owned subsidiary of BHE. The Company's contributions to the various plans were \$1.5 million, \$1.4 million and \$1.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, the Company recorded in due to affiliates its portion of the over funded status of the pension and other postretirement plan of \$2.6 million and \$1.4 million, respectively. The portion of AOCI attributable to the Company has been allocated from MEC in accordance with the intercompany administrative service agreement.

Pursuant to the Administrative Services Agreement dated April 1, 1993 with Magma (the "Magma Services Agreement"), Magma provides administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV Project and the Salton Sea V Project. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expended for the years ended December 31, 2016, 2015 and 2014 were \$0.9 million, \$1.2 million and \$1.2 million, 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.

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 Combined Financial Statements and Notes to Combined Financial Statements included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

The Guarantors consist of the following legal entities:

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

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

Forward-Looking Statements

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

Results of Operations

Operating Revenue

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Combined Financial Statements 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:

	Years Ended December 31,		
	2016	2015	2014
Operating revenue	\$ 147.7	\$ 164.7	\$ 177.6
Overall capacity factor	75.7%	86.8%	81.5%
Megawatt hours produced	2,248,400	2,571,100	2,352,000
Facility net capacity (megawatts) (weighted average)	338.0	338.0	329.3

Operating revenue for 2016 decreased \$17.0 million, or 10.3%, from 2015 primarily due to the following:

- \$22.9 million decrease due to a 12.6% decrease in production at the Company's geothermal facilities in the Imperial Valley of California (the "Imperial Valley Projects").
- \$5.9 million increase due to higher energy rates at the Imperial Valley Projects.

Operating revenue for 2015 decreased \$12.9 million, or 7.3%, from 2014 primarily due to the following:

- \$25.4 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$12.5 million increase due to a 9.3% increase in production at the Imperial Valley Projects.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general and administrative expense decreased \$12.5 million, or 10.2%, to \$110.5 million for 2016 from \$123.0 million for 2015 primarily due to lower maintenance costs at certain Imperial Valley Projects.

Royalty, operating, general and administrative expense increased \$6.5 million, or 5.6%, to \$123.0 million for 2015 from \$116.5 million for 2014 primarily due to higher maintenance costs at certain Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization decreased \$0.2 million, or 0.3%, to \$61.1 million for 2016 from \$61.3 million for 2015 primarily due to lower capital expenditures at certain Imperial Valley Projects.

Depreciation and amortization was \$61.3 million for 2015 and 2014.

Property and Other Taxes

Property and other taxes decreased \$1.1 million to \$3.6 million for 2016 compared to 2015 and \$1.5 million to \$4.7 million for 2015 compared to 2014. The decreases were due to lower property valuations at certain Imperial Valley Projects.

Interest Expense

Interest expense decreased \$1.5 million to \$3.3 million for 2016 compared to 2015 and \$1.3 million to \$4.8 million for 2015 compared to 2014. The decreases were due to lower outstanding debt balances.

Income Tax Benefit

Income tax benefit increased \$1.1 million to \$15.4 million for 2016 compared to 2015. The effective tax rates were 50.5% and 49.7% in 2016 and 2015, respectively. The changes in income tax benefit and the effective tax rate were primarily due to a decrease in income before income tax benefit and changes in valuation allowances offset by a decrease in tax benefits associated with depletion.

Income tax benefit increased \$4.9 million to \$14.3 million for 2015 compared to 2014. The effective tax rates were 49.7% and 76.2% in 2015 and 2014, respectively. The changes in income tax benefit and the effective tax rate were primarily due to a decrease in income before income tax benefit.

Liquidity and Capital Resources

The Company's cash and cash equivalents were \$12.8 million as of December 31, 2016, compared to \$23.8 million as of December 31, 2015.

Net cash flows from operating activities for 2016 and 2015 were \$31.4 million and \$39.2 million, respectively. The decrease was primarily due to the timing of maintenance at certain Imperial Valley projects.

Net cash flows from operating activities for 2015 and 2014 were \$39.2 million and \$37.0 million, respectively. The increase was primarily due to the timing of maintenance at certain Imperial Valley projects.

The timing of the Company's income tax cash flows from period to period can be significantly affected by the estimated federal income tax payment methods and assumptions for each payment date.

In December 2014, the Tax Increase Prevention Act of 2014 (the "Act") was signed into law, extending the 50% bonus depreciation for qualifying property purchased and placed in-service before January 1, 2015 and before January 1, 2016 for certain longer-lived assets. As a result of the Act, the Company's cash flows from operations benefited in 2015 due to bonus depreciation on qualifying assets placed in-service.

In December 2015, the Protecting Americans from Tax Hikes Act of 2015 ("PATH") was signed into law, extending bonus depreciation for qualifying property acquired and placed in-service before January 1, 2020 (bonus depreciation rates will be 50% in 2015-2017, 40% in 2018, and 30% in 2019), with an additional year for certain longer lived assets. As a result of PATH, the Company's cash flows from operations are expected to benefit due to bonus depreciation on qualifying assets placed in-service through 2019.

Net cash flows from investing activities for 2016 and 2015 were \$(51.6) million and \$(34.2) million, respectively. The increase was due to higher capital expenditures in 2016.

Net cash flows from investing activities for 2015 and 2014 were \$(34.2) million and \$(56.0) million, respectively. The decrease was due to lower capital expenditures in 2015.

Forecasted capital expenditures for 2016 are approximately \$80 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 2016 and 2015 were \$9.1 million and \$7.6 million, respectively. The change was due primarily to higher contributions from members received during 2016 for the purpose of assisting with Funding Corporation's debt service payments. Funding Corporation expects to receive owner capital contributions in 2017 for the purpose of assisting with Funding Corporation's scheduled 2017 debt service payments and a portion of the Company's 2017 capital expenditure needs.

Net cash flows from financing activities for 2015 and 2014 were \$7.6 million and \$6.7 million, respectively. The change was due primarily to higher contributions from members received during 2015 for the purpose of assisting with Funding Corporation's debt service payments.

Contractual Obligations

The Company has contractual cash obligations that may affect its combined financial condition. The following table summarizes the Company's material contractual cash obligations as of December 31, 2016 (in thousands):

	Payments Due by Period		
	2017	2018	Total
Long-term debt	\$ 19,865	\$ 9,969	\$ 29,834
Interest payments on long-term debt ⁽¹⁾	1,859	559	2,418
Total contractual cash obligations	<u>\$ 21,724</u>	<u>\$ 10,528</u>	<u>\$ 32,252</u>

⁽¹⁾ Not reflected on the Combined Balance Sheets.

The Company has other types of commitments that arise primarily from letters of credit, which have not been included in the above table because the amount and timing of the cash payments are not certain.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of Berkshire Hathaway Energy Company in the amount of \$21.7 million as of December 31, 2016.

Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding air and water quality, emission performance standards, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact its current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide regulators with the authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the United States Environmental Protection Agency ("EPA") and various 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 8 of Notes to Combined Financial Statements included elsewhere in this report for additional information regarding certain environmental laws and regulations affecting the Company.

Climate Change

In December 2015, an international agreement was negotiated by 195 nations to create a universal framework for coordinated action on climate change in what is referred to as the Paris Agreement. The Paris Agreement reaffirms the goal of limiting global temperature increase well below 2 degrees Celsius, while urging efforts to limit the increase to 1.5 degrees Celsius; establishes commitments by all parties to make nationally determined contributions and pursue domestic measures aimed at achieving the commitments; commits all countries to submit emissions inventories and report regularly on their emissions and progress made in implementing and achieving their nationally determined commitments; and commits all countries to submit new commitments every five years, with the expectation that the commitments will get more aggressive. In the context of the Paris Agreement, the United States agreed to reduce greenhouse gas emissions 26% to 28% by 2025 from 2005 levels. After more than 55 countries representing more than 55% of global greenhouse gas emissions submitted their ratification documents, the Paris Agreement became effective November 4, 2016. Under the terms of the Paris Agreement, ratifying countries are bound for a three-year period and must provide one-year's notice of their intent to withdraw. The cornerstone of the United States' commitment is the Clean Power Plan which was finalized by the EPA in 2015.

Renewable Portfolio Standards

The California renewable portfolio standard ("RPS") required all California retail sellers to procure an average of 20% of retail load from renewable resources by December 31, 2013, 25% by December 31, 2016 and 33% by December 31, 2020. In October 2015, California Senate Bill No. 350 was signed into law, which increased the current RPS requirement to 40% by December 31, 2024, 45% by December 31, 2027 and 50% by December 31, 2030. The Company is not considered a retail seller in California and is not

subject to the California RPS requirements. However, the Company's Imperial Valley Projects may find more favorable market conditions for their output as a result of the California RPS.

Inflation

Historically, overall inflation and changing prices have not had a significant impact on the Company's combined financial results.

Off-Balance Sheet Arrangements

The Company does not have any obligations which meet the definition of an off-balance sheet arrangement and which have or are reasonably likely to have a material effect on the Combined Financial Statements.

New Accounting Pronouncements

For a discussion of new accounting pronouncements affecting the Company, refer to Note 2 of Notes to Combined Financial Statements included elsewhere in this report.

Critical Accounting Estimates

Certain accounting measurements require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized on the Combined Financial Statements based on such estimates involve numerous assumptions subject to varying and potentially significant degrees of judgment and uncertainty and will likely change in the future as additional information becomes available. The following critical accounting estimates are impacted significantly by the Company's methods, judgments and assumptions used in the preparation of the Combined Financial Statements and should be read in conjunction with the Company's Summary of Significant Accounting Policies included in Note 2 of Notes to Combined Financial Statements included elsewhere in this report.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment, including property, plant and equipment and intangible assets, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus the residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated fair value and any resulting impairment loss is reflected on the Combined Statements of Operations.

The estimate of cash flows arising from the future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from the future use of the asset. Changes in judgment that could significantly alter the calculation of the fair value or the recoverable amount of the asset may result from significant changes in the business climate, management's plans, legal factors, market price of the asset, the use of the asset or the physical condition of the asset, future market prices, load growth, competition and many other factors over the life of the asset. Any resulting impairment loss is highly dependent on the underlying assumptions and could significantly affect the Company's results of operations.

Income Taxes

In determining the Company's income taxes, management is required to interpret complex income tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local income tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Combined Financial Statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local income tax examinations is uncertain, the Company believes it has made adequate provisions for these income tax positions. The aggregate amount of any additional income tax liabilities that may result from these examinations, if any, is not expected to have a material impact on the Company's combined financial results.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company is exposed to interest rate risk on future debt issuances. The Company manages its interest rate risk by limiting its exposure to variable interest rates primarily through the issuance of fixed-rate long-term debt. As a result of the fixed interest rates, the Company's fixed-rate long-term debt does not expose the Company to the risk of loss due to changes in market interest rates. Additionally, because fixed-rate long-term debt is not carried at fair value on the Combined Balance Sheets, changes in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity.

Price and Credit Risks

The Company's primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Company's dependence on Edison, any material failure of Edison to fulfill its obligations would significantly impair the Company's ability 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 68% of the Company's sales of electricity were to Edison in 2016.

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 of 3.25 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 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 highly correlated to the cost of natural gas and was 2.8 cents per kWh, 3.1 cents per kWh and 4.8 cents per kWh for the years ended December 31, 2016, 2015 and 2014, 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. 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, William J. Fehrman, certify that:

1. I have reviewed this Annual 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: March 31, 2017

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

CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this Annual 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: March 31, 2017

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

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

EXHIBIT A

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 2	\$ —	\$ 12,792	\$ 12,794
Trade receivables	8,794	7,755	—	—	16,549
Inventories	—	24,212	—	—	24,212
Other current assets	247	405	—	37	689
Total current assets	9,041	32,374	—	12,829	54,244
Property, plant and equipment, net	235,885	190,805	—	—	426,690
Intangible assets, net	8,920	6,945	1,563	—	17,428
Other assets	192	279	—	—	471
Total assets	<u>\$ 254,038</u>	<u>\$ 230,403</u>	<u>\$ 1,563</u>	<u>\$ 12,829</u>	<u>\$ 498,833</u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 1,863	\$ 7,336	\$ —	\$ —	\$ 9,199
Major maintenance accruals	755	1,595	—	—	2,350
Accrued interest	107	79	—	—	186
Current portion of secured project notes	11,450	8,415	—	(19,865)	—
Current portion of senior secured bonds	—	—	—	19,865	19,865
Other current liabilities	592	2,464	—	—	3,056
Total current liabilities	14,767	19,889	—	—	34,656
Secured project notes	5,728	4,210	—	(9,938)	—
Senior secured bonds	—	—	—	9,938	9,938
Due to affiliates	1,129	(122)	—	—	1,007
Deferred income taxes	48,257	16,594	637	—	65,488
Total liabilities	<u>69,881</u>	<u>40,571</u>	<u>637</u>	<u>—</u>	<u>111,089</u>
Owners' equity:					
Owners' equity	184,157	188,271	926	12,829	386,183
Accumulated other comprehensive income, net	—	1,561	—	—	1,561
Total owners' equity	<u>184,157</u>	<u>189,832</u>	<u>926</u>	<u>12,829</u>	<u>387,744</u>
Total liabilities and owners' equity	<u>\$ 254,038</u>	<u>\$ 230,403</u>	<u>\$ 1,563</u>	<u>\$ 12,829</u>	<u>\$ 498,833</u>

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

EXHIBIT A (Continued)

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands)

EXHIBIT A (Continued)

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
Operating revenue	\$ 76,487	\$ 71,219	\$ 5,779	\$ (5,779)	\$ 147,706
Operating costs and expenses:					
Royalty, operating, general and administrative expense	52,206	62,375	1,540	(5,703)	110,418
Depreciation and amortization	31,196	29,074	782	—	61,052
Property and other taxes	2,020	1,709	—	—	3,729
Total operating costs and expenses	85,422	93,158	2,322	(5,703)	175,199
Operating (loss) income	(8,935)	(21,939)	3,457	(76)	(27,493)
Other income (expense):					
Interest expense	(1,898)	(1,395)	—	—	(3,293)
Interest and other income	—	177	—	24	201
Total other income (expense)	(1,898)	(1,218)	—	24	(3,092)
(Loss) income before income tax (benefit) expense	(10,833)	(23,157)	3,457	(52)	(30,585)
Income tax (benefit) expense	(6,269)	(10,192)	1,046	(22)	(15,437)
Net (loss) income	\$ (4,564)	\$ (12,965)	\$ 2,411	\$ (30)	\$ (15,148)

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In thousands)

EXHIBIT A (Continued)

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
Operating revenue	\$ 90,067	\$ 74,657	\$ 7,063	\$ (7,063)	\$ 164,724
Operating costs and expenses:					
Royalty, operating, general and administrative expense	63,557	64,461	1,892	(6,992)	122,918
Depreciation and amortization	30,230	30,239	823	—	61,292
Property and other taxes	2,405	2,348	—	—	4,753
Total operating costs and expenses	96,192	97,048	2,715	(6,992)	188,963
Operating (loss) income	(6,125)	(22,391)	4,348	(71)	(24,239)
Other income (expense):					
Interest expense	(2,748)	(2,019)	—	—	(4,767)
Interest and other income	15	221	—	—	236
Total other income (expense)	(2,733)	(1,798)	—	—	(4,531)
(Loss) income before income tax (benefit) expense	(8,858)	(24,189)	4,348	(71)	(28,770)
Income tax (benefit) expense	(4,667)	(10,940)	1,327	(28)	(14,308)
Net (loss) income	\$ (4,191)	\$ (13,249)	\$ 3,021	\$ (43)	\$ (14,462)

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

EXHIBIT A (Continued)

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
Operating revenue	\$ 89,674	\$ 87,904	\$ 10,024	\$ (10,024)	\$ 177,578
Operating costs and expenses:					
Royalty, operating, general and administrative expense	64,204	59,552	2,625	(9,958)	116,423
Depreciation and amortization	28,852	31,634	823	—	61,309
Property and other taxes	3,309	2,951	—	—	6,260
Total operating costs and expenses	96,365	94,137	3,448	(9,958)	183,992
Operating (loss) income	(6,691)	(6,233)	6,576	(66)	(6,414)
Other income (expense):					
Interest expense	(3,530)	(2,594)	—	—	(6,124)
Interest and other income	—	214	—	2	216
Total other income (expense)	(3,530)	(2,380)	—	2	(5,908)
Loss before income tax expense (benefit)	(10,221)	(8,613)	6,576	(64)	(12,322)
Income tax (benefit) expense	(6,028)	(5,388)	2,049	(26)	(9,393)
Net (loss) income	\$ (4,193)	\$ (3,225)	\$ 4,527	\$ (38)	\$ (2,929)

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In thousands)

EXHIBIT A (Continued)

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
Cash flows from operating activities:					
Net (loss) income	\$ (4,565)	\$ (12,965)	\$ 2,411	\$ (29)	\$ (15,148)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	31,195	29,075	782	—	61,052
Deferred income taxes	(6,020)	(10,192)	(319)	—	(16,531)
Amortization of debt issuance costs	28	20	—	—	48
Changes in other operating assets and liabilities:					
Trade receivables	1,520	615	—	—	2,135
Inventories	—	(900)	—	—	(900)
Due to affiliates, net	22,414	21,986	(2,874)	(40,478)	1,048
Other assets	(53)	(30)	—	3	(80)
Accounts payable and other liabilities	(729)	534	—	—	(195)
Net cash flows from operating activities	<u>43,790</u>	<u>28,143</u>	<u>—</u>	<u>(40,504)</u>	<u>31,429</u>
Cash flows from investing activities:					
Capital expenditures	(32,047)	(19,514)	—	—	(51,561)
Net cash flows from investing activities	<u>(32,047)</u>	<u>(19,514)</u>	<u>—</u>	<u>—</u>	<u>(51,561)</u>
Cash flows from financing activities:					
Repayment of senior secured bonds	(11,743)	(8,629)	—	—	(20,372)
Contributions	—	—	—	29,500	29,500
Net cash flows from financing activities	<u>(11,743)</u>	<u>(8,629)</u>	<u>—</u>	<u>29,500</u>	<u>9,128</u>
Net change in cash and cash equivalents	<u>—</u>	<u>—</u>	<u>—</u>	<u>(11,004)</u>	<u>(11,004)</u>
Cash and cash equivalents at beginning of period	<u>—</u>	<u>2</u>	<u>—</u>	<u>23,796</u>	<u>23,798</u>
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 12,792</u>	<u>\$ 12,794</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In thousands)

EXHIBIT A (Continued)

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
Cash flows from operating activities:					
Net (loss) income	\$ (4,191)	\$ (13,249)	\$ 3,021	\$ (43)	\$ (14,462)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	30,230	30,239	823	—	61,292
Deferred income taxes	(5,835)	(10,940)	(335)	—	(17,110)
Amortization of debt issuance costs	41	30	—	—	71
Changes in other operating assets and liabilities:					
Trade receivables	1,228	1,996	—	—	3,224
Inventories	—	(1,288)	—	—	(1,288)
Due to affiliates, net	8,672	20,281	(3,508)	(13,807)	11,638
Other assets	(117)	(161)	—	(5)	(283)
Accounts payable and other liabilities	257	(4,106)	(1)	—	(3,850)
Net cash flows from operating activities	<u>30,285</u>	<u>22,802</u>	<u>—</u>	<u>(13,855)</u>	<u>39,232</u>
Cash flows from investing activities:					
Capital expenditures	(19,377)	(14,786)	—	—	(34,163)
Net cash flows from investing activities	<u>(19,377)</u>	<u>(14,786)</u>	<u>—</u>	<u>—</u>	<u>(34,163)</u>
Cash flows from financing activities:					
Repayment of senior secured bonds	(10,908)	(8,017)	—	—	(18,925)
Contributions	—	—	—	26,500	26,500
Net cash flows from financing activities	<u>(10,908)</u>	<u>(8,017)</u>	<u>—</u>	<u>26,500</u>	<u>7,575</u>
Net change in cash and cash equivalents	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>12,645</u>	<u>12,644</u>
Cash and cash equivalents at beginning of period	<u>—</u>	<u>3</u>	<u>—</u>	<u>11,151</u>	<u>11,154</u>
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 23,796</u>	<u>\$ 23,798</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

EXHIBIT A (Continued)

	Salton Sea	Partnership	Royalty	Funding	
	Guarantors	Guarantors	Guarantor	Corporation &	Combined
				Eliminations	
Cash flows from operating activities:					
Net (loss) income	\$ (4,193)	\$ (3,225)	\$ 4,527	\$ (38)	\$ (2,929)
Adjustments to reconcile net loss to net cash flows from operating activities:					
Depreciation and amortization	28,852	31,634	823	—	61,309
Deferred income taxes	(7,115)	(5,388)	(334)	—	(12,837)
Amortization of debt issuance costs	54	39	—	—	93
Changes in other operating assets and liabilities:					
Trade receivables	(4,366)	(3,746)	—	—	(8,112)
Inventories	—	186	—	—	186
Due to affiliates, net	17,904	23,910	(5,016)	(36,231)	567
Other assets	204	(73)	—	(5)	126
Accounts payable and other liabilities	(2,222)	843	—	1	(1,378)
Net cash flows from operating activities	<u>29,118</u>	<u>44,180</u>	<u>—</u>	<u>(36,273)</u>	<u>37,025</u>
Cash flows from investing activities:					
Capital expenditures	(19,125)	(36,835)	—	—	(55,960)
Net cash flows from investing activities	<u>(19,125)</u>	<u>(36,835)</u>	<u>—</u>	<u>—</u>	<u>(55,960)</u>
Cash flows from financing activities:					
Repayment of senior secured bonds	(9,993)	(7,344)	—	—	(17,337)
Distributions	—	—	—	24,000	24,000
Net cash flows from financing activities	<u>(9,993)</u>	<u>(7,344)</u>	<u>—</u>	<u>24,000</u>	<u>6,663</u>
Net change in cash and cash equivalents	<u>—</u>	<u>1</u>	<u>—</u>	<u>(12,273)</u>	<u>(12,272)</u>
Cash and cash equivalents at beginning of period	<u>—</u>	<u>2</u>	<u>—</u>	<u>23,424</u>	<u>23,426</u>
Cash and cash equivalents at end of period	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 11,151</u>	<u>\$ 11,154</u>