



**SALTON SEA FUNDING** CORPORATION  
A MIDAMERICAN ENERGY HOLDINGS COMPANY AFFILIATE

**Financial Statements**  
**For the Quarterly Period Ended June 30, 2005**

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**SALTON SEA FUNDING CORPORATION**  
**BALANCE SHEETS**  
(Amounts in thousands, except share data)

	As of	
	June 30, 2005	December 31, 2004
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,427	\$ 14,524
Short-term investments	-	5,000
Accrued interest receivable and other current assets	1,762	1,927
Current portion of secured project notes from Guarantors	<u>16,516</u>	<u>28,620</u>
Total current assets	<u>19,705</u>	<u>50,071</u>
Secured project notes from Guarantors	256,799	269,757
Investment in net assets of Guarantors	<u>4,732</u>	<u>6,675</u>
<b>Total assets</b>	<u>\$ 281,236</u>	<u>\$ 326,503</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Accrued interest	\$ 1,759	\$ 1,914
Current portion of long-term debt	<u>16,516</u>	<u>28,620</u>
Total current liabilities	<u>18,275</u>	<u>30,534</u>
Due to affiliates	-	15,073
Senior secured notes and bonds	<u>256,799</u>	<u>269,757</u>
Total liabilities	<u>275,074</u>	<u>315,364</u>
Commitments and contingencies (Note 2)		
Stockholder's equity:		
Common stock authorized – 1,000 shares, par value \$.01 per share; issued and outstanding 100 shares	-	-
Additional paid-in capital	3,157	8,302
Retained earnings	<u>3,005</u>	<u>2,837</u>
Total stockholder's equity	<u>6,162</u>	<u>11,139</u>
<b>Total liabilities and stockholder's equity</b>	<u>\$ 281,236</u>	<u>\$ 326,503</u>

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

**SALTON SEA FUNDING CORPORATION**  
**STATEMENTS OF OPERATIONS**  
(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Unaudited)			
<b>Revenue:</b>				
Interest income	\$ 5,812	\$ 6,269	\$ 11,717	\$ 14,301
Equity income (loss) of Guarantors	<u>85</u>	<u>(133)</u>	<u>63</u>	<u>(218)</u>
Total revenue	<u>5,897</u>	<u>6,136</u>	<u>11,780</u>	<u>14,083</u>
<b>Costs and expenses:</b>				
General and administrative expenses	85	95	159	108
Interest expense	<u>5,587</u>	<u>6,196</u>	<u>11,330</u>	<u>14,181</u>
Total costs and expenses	<u>5,672</u>	<u>6,291</u>	<u>11,489</u>	<u>14,289</u>
<b>Income (loss) before income taxes</b>	225	(155)	291	(206)
Provision (benefit) for income taxes	<u>94</u>	<u>(63)</u>	<u>123</u>	<u>(84)</u>
<b>Net income (loss)</b>	<u>\$ 131</u>	<u>\$ (92)</u>	<u>\$ 168</u>	<u>\$ (122)</u>

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

**SALTON SEA FUNDING CORPORATION**  
**STATEMENTS OF STOCKHOLDER'S EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**  
(Amounts in thousands, except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, January 1, 2005</b>	100	\$ -	\$ 8,302	\$ 2,837	\$ 11,139
Net income	-	-	-	168	168
Adjustments resulting from capital transactions of Guarantors	-	-	(2,006)	-	(2,006)
Equity distributions received	-	-	265,003	-	265,003
Equity distributions made	-	-	(268,142)	-	(268,142)
<b>Balance, June 30, 2005</b>	100	\$ -	\$ 3,157	\$ 3,005	\$ 6,162

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

**SALTON SEA FUNDING CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
(Amounts in thousands)

	<b>Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 168	\$ (122)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Equity in (income) loss of Guarantors	(63)	218
Changes in assets and liabilities:		
Accrued interest receivable and other current assets	165	940
Accrued interest payable	<u>(155)</u>	<u>(940)</u>
Net cash flows from operating activities	<u>115</u>	<u>96</u>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(40,000)	(129,500)
Proceeds from sales of available-for-sale securities	45,000	133,350
Principal repayments of secured project notes from Guarantors	<u>25,062</u>	<u>150,799</u>
Net cash flows from investing activities	<u>30,062</u>	<u>154,649</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured notes and bonds	(25,062)	(150,799)
Due to affiliates, net	<u>(18,212)</u>	<u>(11,797)</u>
Net cash flows from financing activities	<u>(43,274)</u>	<u>(162,596)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(13,097)</b>	<b>(7,851)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>14,524</b>	<b>10,491</b>
<b>Cash and cash equivalents at the end of period</b>	<b><u>\$ 1,427</u></b>	<b><u>\$ 2,640</u></b>
<b>Supplemental disclosure:</b>		
Income taxes paid (received)	<u>\$ 123</u>	<u>\$ (84)</u>

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

**SALTON SEA FUNDING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

In the opinion of the management of Salton Sea Funding Corporation ("Funding Corporation"), the accompanying unaudited financial statements of Funding Corporation contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2005, the results of operations for the three-month and six-month periods ended June 30, 2005 and 2004 and the cash flows and changes in guarantors equity for the six-month periods ended June 30, 2005 and 2004. The results of operations for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

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 wholly-owned by CE Generation, LLC ("CE Generation").

The Salton Sea Guarantors (not a legal entity) consist of (1) Salton Sea Power Generation L.P. ("SSPG"), Salton Sea Power L.L.C. ("Salton Sea Power"), and Fish Lake Power LLC ("Fish Lake"), together owning a 100% interest in five operating geothermal electric power generating plants located in the Imperial Valley of California 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; (2) Salton Sea Brine Processing L.P. 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, L.P. ("Elmore"), Leathers, L.P. ("Leathers"), Del Ranch, L.P. ("Del Ranch") and CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in the Imperial Valley of California 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 and; (5) Salton Sea Minerals Corp., CalEnergy Minerals LLC ("CalEnergy Minerals") and CE Salton Sea Inc. (collectively, the "Partnership Guarantors"). VPC and VPCG collectively own 100% of the partnership interests in Vulcan. CEOC, Niguel, San Felipe and Conejo collectively own 90% of the partnership 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 Elmore, Leathers and Del Ranch. CEOC is entitled to receive from Magma, as payment for certain data and services provided by CEOC, (1) all of the partnership distributions Magma receives with respect to its 10% ownership interests in each of the Elmore, Leathers and Del Ranch Projects and (2) Magma's special distributions equal to 4.5% of total energy revenue from the Leathers Project.

CalEnergy Minerals installed facilities near the Partnership Projects that were intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the "Zinc Recovery Project"). Salton Sea Minerals Corp. owns 100% of the interests in CalEnergy Minerals and is an indirect wholly-owned subsidiary of MidAmerican Energy Holdings Company ("MEHC"). The Zinc Recovery Project ceased operations on September 10, 2004.

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

The Securities are payable from the proceeds of payments made of principal and interest on the secured project notes from the Partnership Guarantors, the Salton Sea Guarantors and the Royalty Guarantor (collectively, the "Guarantors") to Funding Corporation (the "Senior Project Notes"). 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 obligations of each Guarantor under their respective secured project notes is not limited. Funding Corporation does not conduct any operations apart from issuing the Senior Project Notes.

The unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in Funding Corporation's Annual Report on Form 10-K for the year ended December 31, 2004. In particular, Funding Corporation's significant accounting policies are presented in Note 2 to the financial statements included therein.

Certain amounts in the prior period financial statements and supporting note disclosures have been reclassified to conform to the current period presentation, including the reclassification of auction rate securities. Such reclassifications did not impact previously reported net income or retained earnings.

The accompanying balance sheet as of December 31, 2004, reflects a reclassification of instruments used in Funding Corporation's cash management program from cash and cash equivalents to short-term investments of \$5.0 million. This reclassification is to present certain auction rate securities as short-term investments rather than as cash equivalents due to the stated maturities of these investments. These instruments are classified as available-for-sale securities as management does not intend to hold them to maturity nor are they bought and sold with the objective of generating profits on short-term differences in price. The carrying value of these instruments approximates their fair value. Additionally, in the accompanying statements of cash flows, cash and cash equivalents were reduced by \$5.0 million, \$- million and \$3.9 million at December 31, 2004, June 30, 2004 and December 31, 2003, respectively, to reflect the reclassification of these instruments from cash and cash equivalents to short-term investments.

## **2. Commitments and Contingencies**

### Southern California Edison ("Edison") and the California Power Exchange

On July 10, 2003, the Salton Sea IV Project's 40 megawatt turbine went out of service due to an uncontrollable force event. Such uncontrollable force event ended, and the Salton Sea IV Project's turbine returned to service, on September 17, 2003. Edison failed to recognize the uncontrollable force event and, as such, has not paid amounts otherwise due and owing under the Salton Sea IV power purchase agreement totaling \$2.5 million. SSPG, with Fish Lake, owner of the Salton Sea IV Project, served notices of error on Edison for such unpaid amounts. As a result, the Salton Sea Guarantors had established an allowance for doubtful accounts of \$1.7 million for capacity payments as of December 31, 2003. In December 2004, as a result of a settlement agreement dated December 7, 2004 resolving the dispute, the allowance was released and the associated receivable was written off. The settlement was contingent upon approval by the California Public Utilities Commission. On July 21, 2005, the California Public Utilities Commission approved the settlement, which approval is subject to appeal for 30 days.

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo had not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the "PX Receivable"). Salton Sea Power and CE Turbo had 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 with TransAlta USA, Inc ("TransAlta") and MidAmerican Energy Holdings Company ("MEHC") (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. As of June 30, 2005, the California Power Exchange has not made any payments in connection with the PX Receivable.

### **3. Related Party Transactions**

Funding Corporation received \$265.0 million of amounts due to affiliates as equity distributions and made equity distributions of \$268.1 million of amounts due from affiliates during the six-month period ended June 30, 2005. The amounts due to affiliates included amounts due to the Partnership Guarantors and Royalty Guarantor of \$203.8 million and \$61.2 million, respectively, which represent the Partnership Guarantors' and Royalty Guarantor's excess operating profits previously held in the revenue account of Funding Corporation and subsequently transferred from the distribution account of Funding Corporation pursuant to the terms and conditions of the debt of Funding Corporation. The amounts due from affiliates included amounts due from the Salton Sea Guarantors of \$64.4 million, which represent the Salton Sea Guarantors' operating losses and capital expenditures previously funded by amounts held in the revenue account of Funding Corporation and amounts due from Magma Power Company of \$203.7 million, which represent amounts previously transferred to Magma Power Company pursuant to the terms and conditions of the debt of Funding Corporation.

### **4. Senior Notes and Bonds**

The documents governing Funding Corporation's various series of senior secured notes and bonds and the related credit agreements and guarantees contain customary covenants, subject to important qualifications and limitations, that restrict Funding Corporation's and the Guarantors' ability, among other things, to pay dividends and make other restricted payments, incur additional debt, create or permit certain liens, merge, consolidate or transfer assets or enter into transactions with affiliates. The governing documents contain customary events of default and also contain certain cross default provisions with the terms of Funding Corporation's and the Guarantors' other debt. Non-compliance with these provisions or the existence of events of default, including cross defaults, can result in all obligations due under the governing documents becoming due and payable and allow exercise of other remedies including foreclosure of collateral as provided in such documents and applicable law.

The Guarantors are obligated under intercompany credit agreements with Funding Corporation to make payments to Funding Corporation as and when required to make payments on the bonds. Such payments are made through the disbursement of funds from accounts pledged for the benefit of the holders of the bonds. The ability of the Guarantors to make other distributions and disbursements from such accounts is limited by the bond indentures and other documents described above.

**SALTON SEA GUARANTORS  
COMBINED BALANCE SHEETS**  
(Amounts in thousands)

	As of	
	June 30, 2005	December 31, 2004
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Trade accounts receivable	\$ 19,300	\$ 14,872
Trade accounts receivable from affiliates	1,605	932
Prepaid expenses and other current assets	<u>4,321</u>	<u>4,032</u>
Total current assets	<u>25,226</u>	<u>19,836</u>
Properties, plants and equipment, net	367,631	372,986
Intangible assets, net	<u>21,805</u>	<u>22,379</u>
<b>Total assets</b>	<u>\$ 414,662</u>	<u>\$ 415,201</u>
<b>LIABILITIES AND GUARANTORS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 188	\$ 256
Accrued interest	1,131	1,269
Other accrued liabilities	2,982	4,282
Current portion of long-term debt	<u>12,736</u>	<u>23,918</u>
Total current liabilities	<u>17,037</u>	<u>29,725</u>
Due to affiliates	-	44,085
Senior secured project note	<u>164,010</u>	<u>175,320</u>
Total liabilities	<u>181,047</u>	<u>249,130</u>
Commitments and contingencies (Note 7)		
Guarantors' equity	<u>233,615</u>	<u>166,071</u>
<b>Total liabilities and guarantors' equity</b>	<u>\$ 414,662</u>	<u>\$ 415,201</u>

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

**SALTON SEA GUARANTORS**  
**COMBINED STATEMENTS OF OPERATIONS**  
(Amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Unaudited)			
<b>Operating revenue</b>	\$ 29,326	\$ 21,324	\$ 51,164	\$ 43,503
<b>Costs and expenses:</b>				
Royalty, operating, general and administrative expense	12,023	17,241	25,839	29,534
Depreciation and amortization	6,426	6,519	14,504	12,096
Total costs and expenses	18,449	23,760	40,343	41,630
<b>Operating income (loss)</b>	10,877	(2,436)	10,821	1,873
<b>Other income (expense):</b>				
Interest expense	(3,784)	(4,320)	(7,706)	(8,716)
Interest and other income (expense)	(13)	(40)	(11)	130
Total other income (expense)	(3,797)	(4,360)	(7,717)	(8,586)
<b>Income (loss) from continuing operations</b>	7,080	(6,796)	3,104	(6,713)
Loss from discontinued operations (Note 3)	-	(53)	-	(166)
<b>Net income (loss)</b>	\$ 7,080	\$ (6,849)	\$ 3,104	\$ (6,879)

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

**SALTON SEA GUARANTORS**  
**COMBINED STATEMENTS OF GUARANTORS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**  
(Amounts in thousands)

	<u>Amount</u>
<b>Balance, January 1, 2005</b>	\$ 166,071
Net income	3,104
Equity contributions	64,440
<b>Balance, June 30, 2005</b>	<u>\$ 233,615</u>

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

**SALTON SEA GUARANTORS**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(Amounts in thousands)

	<b>Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Income (loss) from continuing operations	\$ 3,104	\$ (6,713)
Adjustments to reconcile income (loss) from continuing operations to net cash flows from continuing operations:		
Depreciation and amortization	14,504	12,096
Changes in other items:		
Trade accounts receivable, net	(5,101)	(2,256)
Prepaid expenses and other current assets	(289)	(1,472)
Accounts payable and accrued liabilities	<u>(1,506)</u>	<u>(1,505)</u>
Net cash flows from continuing operating activities	<u>10,712</u>	<u>150</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	<u>(8,575)</u>	<u>(2,727)</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured project notes	(22,492)	(12,204)
Decrease in due to affiliates	<u>20,355</u>	<u>14,781</u>
Net cash flows from financing activities	<u>(2,137)</u>	<u>2,577</u>
<b>Net change in cash</b>	-	-
<b>Cash at the beginning of period</b>	-	-
<b>Cash at the end of period</b>	<u>\$ -</u>	<u>\$ -</u>

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

**SALTON SEA GUARANTORS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

In the opinion of the management of the Salton Sea Guarantors, the accompanying unaudited combined financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2005, the results of operations for the three-month and six-month periods ended June 30, 2005 and 2004 and the cash flows and guarantors equity for the six-month periods ended June 30, 2005 and 2004. The results of operations for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

The Salton Sea Guarantors (not a legal entity) consist of (1) Salton Sea Power Generation L.P. (“SSPG”), Salton Sea Power L.L.C. (“Salton Sea Power”), and Fish Lake Power LLC (“Fish Lake”), together owning 100% interests in five operating geothermal electric power generating plants located in the Imperial Valley of California 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, L.P. (“SSBP”) and (3) CE Salton Sea Inc. (collectively, the “Salton Sea Guarantors”). The Salton Sea Guarantors have issued secured project notes for the repayment of loans from, and guarantee the repayment of securities of, Salton Sea Funding Corporation (“Funding Corporation”), an indirect wholly-owned subsidiary of Magma Power Company (“Magma”), which in turn is wholly-owned by CE Generation, LLC (“CE Generation”).

The unaudited combined financial statements should be read in conjunction with the combined financial statements and notes thereto included in the Salton Sea Guarantors' Annual Report on Form 10-K for the year ended December 31, 2004. In particular, the Salton Sea Guarantors' significant accounting policies are presented in Note 2 to the combined financial statements included therein. Additionally, the provisions of Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”) provide accounting and disclosure requirements for retirement obligations associated with long-lived assets. The Salton Sea Guarantors' review identified legal obligations for power plant and well abandonment costs. Due to the renewable nature of the geothermal resource, the power plants and wells could be maintained and remain in production indefinitely. Accordingly, because the date on which such asset retirement obligation expenditures will be made is indeterminate, the fair value of the asset retirement obligation cannot be reasonably estimated.

Certain amounts in the prior period combined financial statements and supporting note disclosures have been reclassified to conform to the current period presentation, including the reclassification of activity as discontinued operations (see Note 3). Such reclassifications did not impact previously reported net losses or guarantors' equity.

**2. New Accounting Pronouncements**

In March 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Salton Sea Guarantors are required to adopt the provisions of FIN 47 by December 2005. Adoption of FIN 47 is not expected to have a material effect on the Salton Sea Guarantors' financial position, results of operations or cash flows.

### 3. Discontinued Operations - Mineral Reserves and Zinc Recovery Project

The Salton Sea Guarantors' long-lived assets included rights to commercial quantities of extractable minerals ("Mineral Reserves") from the elements in solution in the geothermal brine and fluids utilized at certain geothermal energy generation facilities located in the Imperial Valley of California. CalEnergy Minerals, LLC ("CalEnergy Minerals") installed facilities near the geothermal generation facilities intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process ("Zinc Recovery Project").

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash impairment charge was recorded in September 2004 to write-off the Mineral Reserves. The activity related to the Mineral Reserves is classified separately as discontinued operations in the accompanying combined statements of operations and consists of depreciation and amortization of \$0.1 million and \$0.2 million for the three-month and six-month periods ended June 30, 2004, respectively.

### 4. Properties, Plants and Equipment, Net

Properties, plants and equipment as of June 30, 2005 and December 31, 2004 are as follows, respectively (in thousands):

	<u>Estimated Useful Lives</u>	<u>June 30, 2005</u>	<u>December 31, 2004</u>
Power plant and equipment	2 to 30 years	\$ 456,055	\$ 454,762
Wells and resource development	2 to 20 years	<u>71,638</u>	<u>67,511</u>
Total operating assets		527,693	522,273
Accumulated depreciation and amortization		<u>(160,062)</u>	<u>(149,287)</u>
Property, plant and equipment, net		<u>\$ 367,631</u>	<u>\$ 372,986</u>

During the three-month and six-month periods ended June 30, 2005, the Salton Sea Guarantors replaced certain pipe with a remaining net book value of \$0.2 million and \$2.0 million, respectively, which was charged to depreciation expense in the accompanying combined statements of operations. During the three-month and six-month periods ended June 30, 2004, the Salton Sea Guarantors did not replace any pipe or other assets.

### 5. Intangible Assets, Net

The Salton Sea Guarantors' acquired intangible assets consist of power purchase agreements with a cost of \$33.4 million and accumulated amortization of \$11.6 million and \$11.1 million at June 30, 2005 and December 31, 2004, respectively. Amortization expense on the power purchase agreements was \$0.3 million and \$0.5 million for each of the three-month and six-month periods ended June 30, 2005 and 2004, respectively. The Salton Sea Guarantors expect amortization expense on the power purchase agreements to be \$0.6 million for the remaining six months in 2005 and \$1.2 million for each of the four succeeding fiscal years.

### 6. Related Party Transactions

The Salton Sea Guarantors recognized \$64.4 million of amounts due to affiliates as an equity contribution during the six-month period ended June 30, 2005. The amounts due to affiliates represented Salton Sea Guarantor operating losses and capital expenditures previously funded by amounts held in the revenue account 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 three-month and six-month periods ended June 30, 2005 were \$1.5 million and \$2.6 million, respectively. The amounts expensed for the three-month and six-month periods ended June 30, 2004 were \$1.1 million and \$2.2 million, respectively.

Pursuant to the Administrative Services Agreement dated April 1, 1993 with Magma, Magma will provide administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV and Salton Sea V Projects. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed for the three-month and six-month periods ended June 30, 2005 were \$0.4 million and \$0.6 million, respectively. The amounts expensed for the three-month and six-month periods ended June 30, 2004 were \$0.3 million and \$0.6 million, respectively.

Pursuant to the Operating and Maintenance Agreement dated April 1, 1993 between CalEnergy Operating Corporation (“CEOC”) and the Salton Sea Guarantors, the Salton Sea Guarantors have retained CEOC to operate the Salton Sea Projects for a period of 32 years. Payments are made to CEOC in the form of reimbursements of expenses incurred. During the three-month and six-month periods ended June 30, 2005, the Salton Sea Guarantors reimbursed CEOC for expenses of \$7.0 million and \$10.9 million, respectively. During the three-month and six-month periods ended June 30, 2004, the Salton Sea Guarantors reimbursed CEOC for expenses of \$4.5 million and \$8.4 million, respectively.

Pursuant to a transaction agreement dated January 29, 2003 (the “TransAlta Transaction Agreement”), Salton Sea Power began selling available power from the Salton Sea V Project to TransAlta USA Inc. (“TransAlta”) on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. The TransAlta Transaction Agreement shall continue until the earlier of (a) 30 days following a written notice of termination, or (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party. Pursuant to this agreement, sales to TransAlta totaled \$2.3 million and \$4.4 million for the three-month and six-month periods ended June 30, 2005, respectively and \$1.4 million and \$2.8 million during the three-month and six-month periods ended June 30, 2004, respectively. As of June 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta were \$1.4 million and \$0.9 million, respectively.

On January 21, 2004, Salton Sea Power and CE Turbo LLC (“CE Turbo”) entered into a Green Energy Tag Purchase and Sale agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation at the Salton Sea V Project and CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing from Salton Sea Power commenced in July 2004 and totaled \$0.5 million and \$1.1 million for the three-month and six-month periods ended June 30, 2005, respectively. As of June 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta Marketing were \$0.2 million and \$- million, respectively.

Pursuant to November 1, 1998 Amended and Restated Power Sales Agreements, Salton Sea Power provided CalEnergy Minerals with its Zinc Recovery Project’s electrical energy requirements at the market rates available to Salton Sea Power, less wheeling costs.. Sales to CalEnergy Minerals from Salton Sea Power totaled \$0.4 million and \$0.8 million for the three-month and six-month periods ended June 30, 2004, respectively.. On September 10, 2004, CalEnergy Minerals ceased operations of its Zinc Recovery Project. Accordingly, except for sales during the dismantling and decommissioning phases of the Zinc Recovery Project, no further sales to CalEnergy Minerals are expected. There were no material accounts receivable balances as of June 30, 2005 and December 31, 2004, respectively.

## **7. Commitments and Contingencies**

### Southern California Edison (“Edison”) and the California Power Exchange

On July 10, 2003, the Salton Sea IV Project’s 40 megawatt turbine went out of service due to an uncontrollable force event. Such uncontrollable force event ended, and the Salton Sea IV Project’s turbine returned to service, on September 17, 2003. Edison failed to recognize the uncontrollable force event and, as such, has not paid amounts otherwise due and owing under the Salton Sea IV power purchase agreement totaling \$2.5 million. SSPG, with Fish Lake, owner of the Salton Sea IV Project, served notices of error on Edison for such unpaid amounts. As a result, the Salton Sea Guarantors had established an allowance for doubtful accounts of \$1.7 million for capacity payments as of December 31, 2003. In December 2004, as a result of a settlement agreement dated December 7, 2004 resolving the dispute, the allowance was released and the associated receivable was written off. The settlement was contingent upon approval by the California Public Utilities Commission. On July 21, 2005, the California Public Utilities Commission approved the settlement, which approval is subject to appeal for 30 days.

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power had not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$3.0 million (the "PX Receivable"). Salton Sea Power had established an allowance for doubtful accounts for this balance as of December 31, 2003. On September 29, 2004, Salton Sea Power entered into separate Transfer of Claims Agreements with TransAlta and MidAmerican Energy Holdings Company ("MEHC") (the "Transfer of Claims Agreements"), pursuant to which Salton Sea Power received \$2.9 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 wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.0 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 can be required to pay the PX Receivable, plus interest, to MEHC and TransAlta. As of June 30, 2005, the California Power Exchange has not made any payments in connection with the PX Receivable.

#### Environmental Liabilities

The Salton Sea Guarantors are subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Salton Sea Guarantors' existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Salton Sea Guarantors' cost of waste disposal and (vi) reducing the reliability of service provided by the Salton Sea Guarantors and the amount of energy available from the Salton Sea Guarantors' facilities. Any of such items could have a substantial impact on amounts required to be expended by the Salton Sea Guarantors in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the accompanying combined balance sheets at their undiscounted amounts. As of June 30, 2005 and December 31, 2004, the environmental liabilities recorded on the combined balance sheets were not material.

**PARTNERSHIP GUARANTORS  
COMBINED BALANCE SHEETS**  
(Amounts in thousands)

	As of	
	June 30, 2005	December 31, 2004
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Trade accounts receivable	\$ 17,691	\$ 13,841
Trade accounts receivable from affiliate	454	353
Inventory	20,394	18,513
Prepaid expenses and other current assets	1,894	1,649
Total current assets	40,433	34,356
Restricted cash	1,728	965
Properties, plants and equipment, net	203,192	204,985
Intangible assets, net	48,267	50,017
Management fee	58,665	61,544
Due from affiliates	-	205,386
Goodwill	56,528	56,528
<b>Total assets</b>	<b>\$ 408,813</b>	<b>\$ 613,781</b>
<b>LIABILITES AND GUARANTORS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,984	\$ 1,771
Accrued interest	628	642
Accrued environmental liabilities	3,729	4,165
Other accrued liabilities	10,254	10,440
Current portion of long-term debt	3,780	4,265
Total current liabilities	21,375	21,283
Senior secured project note	92,790	94,437
Deferred income taxes	96,801	95,371
Total liabilities	210,966	211,091
Commitments and contingencies (Note 7)		
Guarantors' equity:		
Common stock	3	3
Additional paid-in capital	477,521	681,297
Accumulated deficit	(279,677)	(278,610)
Total guarantors' equity	197,847	402,690
<b>Total liabilities and guarantors' equity</b>	<b>\$ 408,813</b>	<b>\$ 613,781</b>

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

**PARTNERSHIP GUARANTORS**  
**COMBINED STATEMENTS OF OPERATIONS**  
(Amounts in thousands)

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Operating revenue</b>	<u>\$ 23,519</u>	<u>\$ 21,372</u>	<u>\$ 43,659</u>	<u>\$ 39,797</u>
<b>Costs and expenses:</b>				
Royalty, operating, general and administrative expense	15,696	16,654	27,334	32,051
Depreciation and amortization	<u>8,040</u>	<u>10,182</u>	<u>16,477</u>	<u>16,256</u>
Total costs and expenses	<u>23,736</u>	<u>26,836</u>	<u>43,811</u>	<u>48,307</u>
<b>Operating loss</b>	<u>(217)</u>	<u>(5,464)</u>	<u>(152)</u>	<u>(8,510)</u>
<b>Other income (expense):</b>				
Interest expense	(1,921)	(2,016)	(3,869)	(4,035)
Other income (loss)	<u>248</u>	<u>105</u>	<u>103</u>	<u>(508)</u>
Total other income (expense)	<u>(1,673)</u>	<u>(1,911)</u>	<u>(3,766)</u>	<u>(4,543)</u>
<b>Loss from continuing operations before income taxes</b>	(1,890)	(7,375)	(3,918)	(13,053)
Provision (benefit) for income taxes	<u>56</u>	<u>(4,252)</u>	<u>129</u>	<u>(8,103)</u>
<b>Loss from continuing operations</b>	(1,946)	(3,123)	(4,047)	(4,950)
Income (loss) from discontinued operations, net of tax (Note 3)	<u>1,306</u>	<u>(5,163)</u>	<u>2,980</u>	<u>(13,548)</u>
<b>Net loss</b>	<u>\$ (640)</u>	<u>\$ (8,286)</u>	<u>\$ (1,067)</u>	<u>\$ (18,498)</u>

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

**PARTNERSHIP GUARANTORS**  
**COMBINED STATEMENTS OF GUARANTORS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**  
(Amounts in thousands, except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, January 1, 2005</b>	3	\$ 3	\$681,297	\$(278,610)	\$402,690
Net loss	-	-	-	(1,067)	(1,067)
Equity distributions	-	-	(203,776)	-	(203,776)
<b>Balance, June 30, 2005</b>	3	\$ 3	\$477,521	\$(279,677)	\$197,847

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

**PARTNERSHIP GUARANTORS**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(Amounts in thousands)

	<b>Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Loss from continuing operations	\$ (4,047)	\$ (4,950)
Adjustments to reconcile loss from continuing operations to net cash flows from continuing operations:		
Depreciation and amortization	16,477	16,256
Deferred income taxes	1,430	(199)
Changes in other items:		
Trade accounts receivable	(4,309)	(1,507)
Inventory, prepaid expenses and other current assets	(2,137)	(330)
Accounts payable and accrued liabilities	<u>2,451</u>	<u>5,748</u>
Net cash flows from continuing operations	9,865	15,018
Net cash flows from discontinued operations	<u>(3,961)</u>	<u>(21,891)</u>
Net cash flows from operating activities	<u>5,904</u>	<u>(6,873)</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures related to operating projects	(10,473)	(8,004)
Other	<u>415</u>	<u>1,085</u>
Net cash flows from continuing operations	(10,058)	(6,919)
Net cash flows from discontinued operations	<u>4,675</u>	<u>(523)</u>
Net cash flows from investing activities	<u>(5,383)</u>	<u>(7,442)</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured project notes	(2,132)	(2,008)
Decrease (increase) in due from affiliates	<u>2,325</u>	<u>(6,091)</u>
Net cash flows from continuing operations	193	(8,099)
Net cash flows from discontinued operations	<u>(714)</u>	<u>22,414</u>
Net cash flows from financing activities	<u>(521)</u>	<u>14,315</u>
<b>Net change in cash</b>	-	-
<b>Cash at beginning of period</b>	-	-
<b>Cash at the end of period</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental disclosure:</b>		
Income taxes paid (received)	<u>\$ 1,301</u>	<u>\$ (7,904)</u>

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

**PARTNERSHIP GUARANTORS**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

In the opinion of the management of the Partnership Guarantors, the accompanying unaudited combined financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2005, the results of operations for the three-month and six-month period ended June 30, 2005 and 2004 and the cash flows and guarantors equity for the six-month periods ended June 30, 2005 and 2004. The results of operations for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

The Partnership Guarantors (not a legal entity) consist of (1) Vulcan/BN Geothermal Power Company (“Vulcan”), Elmore, L.P. (“Elmore”), Leathers, L.P. (“Leathers”), Del Ranch, L.P. (“Del Ranch”) and CE Turbo LLC (“CE Turbo”), each of which owns an operating geothermal power plant located in the Imperial Valley of California 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 Power Company (“Magma”) and 1% owned by Salton Sea Funding Corporation (“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 and (5) Salton Sea Minerals Corp., CalEnergy Minerals LLC (“CalEnergy Minerals”) and CE Salton Sea Inc. (collectively, the “Partnership Guarantors”). VPC and VPCG collectively own 100% of the partnership interests in Vulcan. CEOC, Niguel, San Felipe and Conejo collectively own 90% of the partnership 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 Elmore, Leathers and Del Ranch. CEOC is entitled to receive from Magma, as payment for certain data and services provided by CEOC, (1) all of the partnership distributions Magma receives with respect to its 10% ownership interests in each of the Elmore, Leathers and Del Ranch Projects and (2) Magma’s special distributions equal to 4.5% of total energy revenue from the Leathers Project.

CalEnergy Minerals installed facilities near the Partnership Projects that were intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the “Zinc Recovery Project”). Salton Sea Minerals Corp. owns 100% of the interests in CalEnergy Minerals and is an indirect wholly-owned subsidiary of MidAmerican Energy Holdings Company (“MEHC”). The Zinc Recovery Project ceased operations on September 10, 2004.

The Partnership Guarantors have issued secured project notes for the repayment of loans from, and guarantee the repayment of securities of, Funding Corporation, an indirect wholly-owned subsidiary of Magma, which in turn is wholly-owned by CE Generation, LLC (“CE Generation”). Although, the guarantees of the Partnership Guarantors are limited to available cash flows, the obligation of each of the Partnership Guarantors under the project secured notes is not limited.

The unaudited combined financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Partnership Guarantors’ Annual Report on Form 10-K for the year ended December 31, 2004. In particular, the Partnership Guarantors’ significant accounting policies are presented in Note 2 to the combined financial statements included therein. Additionally, the provisions of Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”) provide accounting and disclosure requirements for retirement obligations associated with long-lived assets. The Partnership Guarantors’ review identified legal obligations for power plant and well abandonment costs. Due to the renewable nature of the geothermal resource, the power plants and wells could be maintained and remain in production indefinitely. Accordingly, because the date on which such asset retirement obligation expenditures will be made is indeterminate, the fair value of the asset retirement obligation cannot be reasonably estimated.

Certain amounts in the prior period combined financial statements and supporting note disclosures have been reclassified to conform to the current period presentation, including the reclassification of activity as discontinued operations (see Note 3). Such reclassifications did not impact previously reported net losses or guarantors’ equity.

## 2. New Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Partnership Guarantors are required to adopt the provisions of FIN 47 by December 2005. Adoption of FIN 47 is not expected to have a material effect on the Partnership Guarantors’ financial position, results of operations or cash flows.

## 3. Discontinued Operations - Mineral Assets and Zinc Recovery Project

The Partnership Guarantors' long-lived assets included rights to commercial quantities of extractable minerals from the elements in solution in the geothermal brine and fluids utilized at certain geothermal energy generation facilities located in the Imperial Valley of California and facilities installed by CalEnergy Minerals near the geothermal energy generation facilities owned by certain Partnership Guarantors that were intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the “Zinc Recovery Project”).

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash impairment charge was recorded in September 2004 to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively the “Mineral Assets”).

The activity of the Mineral Assets is classified separately as discontinued operations in the accompanying combined statements of operations and includes the following (in thousands):

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Operating revenue	<u>\$ -</u>	<u>\$ 1,186</u>	<u>\$ -</u>	<u>\$ 1,907</u>
Loss from discontinued operations	-	(8,714)	-	(22,865)
Proceeds from disposal activities, net	2,196	-	5,031	-
Income tax (provision) benefit	(890)	<u>3,551</u>	<u>(2,051)</u>	<u>9,317</u>
Income (loss) from discontinued operations, net of tax	<u>\$ 1,306</u>	<u>\$ (5,163)</u>	<u>\$ 2,980</u>	<u>\$ (13,548)</u>

A decommissioning plan, which began in September 2004, continued into 2005. Substantially all costs incurred have related to disposal activities and have been offset by proceeds from sales of the Zinc Recovery Project’s assets. Costs are recognized in the period in which the related liability is incurred. Salvage proceeds are recognized in the period earned. CalEnergy Minerals does not expect to make significant additional cash expenditures. The costs of disposal activities for the six-month period ended June 30, 2005 are as follows (in thousands):

Accrued disposal costs at December 31, 2004	\$ 430
Costs of disposal activities	366
Payments of disposal costs	<u>(796)</u>
Accrued disposal costs at June 30, 2005	<u>\$ -</u>

On December 13, 2004, CalEnergy Minerals entered into a project decommissioning contract (the “Decommissioning Contract”) and an equipment purchase agreement (the “Equipment Purchase Agreement”) with a third party contractor. Under the terms of the Decommissioning Contract, the contractor has agreed to dismantle and remove certain Zinc Recovery Project equipment and other assets on a turnkey, date certain basis in exchange for the execution of the Equipment Purchase Agreement by CalEnergy Minerals. Under the terms of the Equipment Purchase Agreement the contractor has purchased certain Zinc Recovery Project equipment for a guaranteed purchase price of approximately \$4.1 million, which was paid in full as of April 19, 2005. Additionally, any gross proceeds the contractor receives from the sale of such equipment and other assets over approximately \$5.7 million will be shared equally with CalEnergy Minerals. CalEnergy Minerals has retained ownership of the remaining Zinc Recovery Project equipment and other assets for potential direct sale to third parties. Under the terms of the Equipment Purchase Agreement and the Decommissioning Contract, CalEnergy Minerals has an option, exercisable no later than October 1, 2005, to sell this retained equipment and other assets to the contractor for approximately \$0.1 million and have it removed by the contractor no later than December 31, 2005. Total asset sales proceeds to date, including the \$4.1 million from the third party contractor, are \$6.1 million.

#### 4. Properties, Plants and Equipment, Net

Properties, plants and equipment as of June 30, 2005 and December 31, 2004 are as follows, respectively (in thousands):

	<u>Estimated Useful Lives</u>	<u>June 30, 2005</u>	<u>December 31, 2004</u>
Power plant and equipment	2 to 30 years	\$ 233,795	\$ 234,865
Wells and resource development	2 to 20 years	<u>114,670</u>	<u>108,396</u>
Total operating assets		348,465	343,261
Accumulated depreciation and amortization		<u>(145,273)</u>	<u>(138,276)</u>
Property, plant and equipment, net		<u>\$ 203,192</u>	<u>\$ 204,985</u>

During the three-month and six-month periods ended June 30, 2005, the Partnership Guarantors replaced certain pipe with a remaining net book value of \$0.5 million and \$2.0 million, respectively, which was charged to depreciation expense in the accompanying combined statements of operations. During the three-month and six-month periods ended June 30, 2004, the Partnership Guarantors replaced plant assets with a remaining book value of \$1.7 million, which was charged to depreciation expense in the accompanying combined statements of operations.

#### 5. Intangible Assets, Net

The following table summarizes the acquired intangible assets as of June 30, 2005 and December 31, 2004, respectively (in thousands):

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Power Purchase Contracts	\$ 123,002	\$ 100,817	\$ 123,002	\$ 100,032
Patented Technology	<u>46,290</u>	<u>20,208</u>	<u>46,290</u>	<u>19,243</u>
Total	<u>\$ 169,292</u>	<u>\$ 121,025</u>	<u>\$ 169,292</u>	<u>\$ 119,275</u>

Amortization expense on acquired intangible assets was \$0.9 million and \$1.8 million for each of the three-month and six-month periods ended June 30, 2005 and 2004, respectively. The Partnership Guarantors expect amortization expense on acquired intangible assets to be \$1.7 million for the remaining six months in 2005 and \$3.5 million each of the four succeeding fiscal years.

## 6. Related Party Transactions

The Partnership Guarantors declared \$203.8 million of amounts due from affiliates as an equity distribution during the six-month period ended June 30, 2005. The \$203.8 million represented the Partnership Guarantors' excess operating profits previously held in the revenue account of Funding Corporation and subsequently transferred from the distribution account of Funding Corporation pursuant to the terms and conditions of the debt of Funding Corporation.

MEHC contributed equity to the Partnership Guarantors to fund the Zinc Recovery Project's operating losses, capital expenditures and debt service through September 10, 2004, which was the date the Zinc Recovery Project's operations were ceased. Equity contributions for the six-month period ended June 30, 2004 were \$149.7 million and are included in the accompanying combined statement of cash flows as part of net financing activity cash flows from discontinued operations, and include MEHC's \$136.4 million funding of its guarantee of the 7.475% Senior Secured Series F Bonds due November 30, 2018 ("Series F Bonds") issued by Funding Corporation which were redeemed on March 1, 2004 and MEHC's \$13.3 million funding of the Zinc Recovery Project's operating losses.

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 management fees payable under the Magma Services Agreement totaled (\$0.1) million and (\$0.4) million for the three-month and six month periods ended June 30, 2005, respectively and (\$0.4) million and (\$1.1) million for the three-month and six-month periods ended June 30, 2004, respectively. The fees are calculated based on 10% of the income (loss) of the Leathers, Del Ranch and Elmore Projects and are capitalized and amortized over the remaining average life of the power purchase agreements. The amortization of the management fee is included in depreciation in the combined statements of operations for the periods presented.

Pursuant to the Easement Grant Deed and Agreement Regarding Rights for Geothermal Development, the Partnership Guarantors acquired from Magma Power Company rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed were \$2.1 million and \$4.3 million for the three-month and six-month periods ended June 30, 2005, respectively, and \$1.9 million and \$3.8 million for the three-month and six-month periods ended June 30, 2004, respectively.

Pursuant to a transaction agreement dated January 29, 2003 (the "TransAlta Transaction Agreement"), CE Turbo began selling available power from the CE Turbo Project to TransAlta USA, Inc. ("TransAlta") on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. The TransAlta Transaction Agreement shall continue until the earlier of (a) 30 days following a written notice of termination, or (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party. Pursuant to this agreement, sales to TransAlta totaled \$0.6 million and \$1.5 million during the three-month and six-month periods ended June 30, 2005, respectively, and \$0.6 million and \$1.3 million during the three-month and six-month periods ended June 30, 2004, respectively. As of June 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta were \$0.5 million and \$0.4 million, respectively.

On January 21, 2004, CE Turbo and Salton Sea Power LLC entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour ("MWh") of generation, a "Green Tag") associated with up to 931,800 MWh of available generation at the CE Turbo Project and Salton Sea V Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. at a market price per Green Tag. There were no sales by CE Turbo under this agreement for the three-month and six-month periods ending June 30, 2005 and 2004.

## 7. Commitments and Contingencies

### The California Power Exchange

In January 2001, the California Power Exchange declared bankruptcy. As a result, CE Turbo has not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$0.8 million (the "PX Receivable"). CE Turbo had established an allowance for doubtful accounts for this balance as of December 31, 2003. On September 29, 2004, CE Turbo entered into separate Transfer of Claims Agreements with TransAlta and MEHC (the "Transfer of Claims Agreements"), pursuant to which CE Turbo received \$0.7 million in exchange for transferring the rights to receive payment on the PX Receivable to TransAlta and MEHC. As a result of the transaction, CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$0.8 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, CE Turbo can be required to pay the PX Receivable, plus interest, to MEHC and TransAlta. As of June 30, 2005, the California Power Exchange has made no payments in connection with the PX Receivable.

### Minerals

On May 25, 2001, CalEnergy Minerals and AMEC E&C Services Inc. ("AMEC") entered into a services agreement for engineering, procurement and construction management services (the "AMEC Agreement") in connection with the resolution of numerous problems that affected the timely completion of CalEnergy Minerals' Zinc Recovery Project. Under the AMEC Agreement, AMEC represented that it had certain licenses required for its services which CalEnergy Minerals ultimately determined to be false. AMEC submitted \$2.8 million of invoices to CalEnergy Minerals that AMEC claims are due and payable under the AMEC Agreement. CalEnergy Minerals filed a lawsuit against AMEC on June 13, 2003 for declaratory judgment that would (1) prevent collection by AMEC of the \$2.8 million it claimed to be due and payable and, (2) recover payments made by CalEnergy Minerals to AMEC based on AMEC's lack of a contractor's license in California. The lawsuit also included claims by CalEnergy Minerals against AMEC for breach of contract and breach of duty of fiduciary responsibility. AMEC filed a motion to compel arbitration of the dispute. The court ruled against the motion to compel arbitration and AMEC had appealed this decision. In June 2005, CalEnergy Minerals and AMEC reached a settlement agreement, under which AMEC agreed to release its \$2.8 million claim and pay \$2.7 million to CalEnergy Minerals. The \$2.7 million payment was received July 6, 2005.

### Environmental Liabilities

The Partnership Guarantors are subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Partnership Guarantors' existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Partnership Guarantors' cost of waste disposal and (vi) reducing the reliability of service provided by the Partnership Guarantors and the amount of energy available from the Partnership Guarantors' facilities. Any of such items could have a substantial impact on amounts required to be expended by the Partnership Guarantors in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the accompanying combined balance sheets at their undiscounted amounts. As of June 30, 2005 and December 31, 2004, the environmental liabilities recorded on the combined balance sheets were \$3.7 million and \$4.2 million, respectively.

**SALTON SEA ROYALTY LLC**  
**BALANCE SHEETS**  
(Amounts in thousands, except share data)

	As of	
	June 30, 2005	December 31, 2004
	(Unaudited)	
<b>ASSETS</b>		
Royalty stream, net	\$ 11,368	\$ 11,913
Goodwill	30,464	30,464
Due from affiliates	-	<u>56,852</u>
<b>Total assets</b>	<u>\$ 41,832</u>	<u>\$ 99,229</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Current liabilities:		
Accrued interest	\$ -	\$ 3
Current portion of long-term debt	<u>-</u>	<u>437</u>
Total current liabilities	<u>-</u>	<u>440</u>
Commitments and contingencies		
Members' equity:		
Common stock, par value \$.01 per share; 100 shares authorized, issued and outstanding	-	-
Additional paid-in capital	1,561	1,561
Retained earnings	<u>40,271</u>	<u>97,228</u>
Total members' equity	<u>41,832</u>	<u>98,789</u>
<b>Total liabilities and members' equity</b>	<u>\$ 41,832</u>	<u>\$ 99,229</u>

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

**SALTON SEA ROYALTY LLC**  
**STATEMENTS OF OPERATIONS**  
(Amounts in thousands)

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Operating revenue</b>	<u>\$ 3,120</u>	<u>\$ 2,801</u>	<u>\$ 6,325</u>	<u>\$ 5,567</u>
<b>Costs and expenses:</b>				
Royalty, operating, general and administrative expenses	748	727	1,497	1,438
Amortization of royalty stream	<u>273</u>	<u>273</u>	<u>545</u>	<u>545</u>
Total costs and expenses	<u>1,021</u>	<u>1,000</u>	<u>2,042</u>	<u>1,983</u>
<b>Operating income</b>	2,099	1,801	4,283	3,584
Interest expense	<u>5</u>	<u>17</u>	<u>13</u>	<u>35</u>
<b>Net income</b>	<u>\$ 2,094</u>	<u>\$ 1,784</u>	<u>\$ 4,270</u>	<u>\$ 3,549</u>

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

**SALTON SEA ROYALTY LLC**  
**STATEMENTS OF MEMBERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**  
(Amounts in thousands, except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, January 1, 2005</b>	100	\$ -	\$ 1,561	\$ 97,228	\$ 98,789
Net income	-	-	-	4,270	4,270
Equity distributions	-	-	-	(61,227)	(61,227)
<b>Balance, June 30, 2005</b>	100	\$ -	\$ 1,561	\$ 40,271	\$ 41,832

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

**SALTON SEA ROYALTY LLC**  
**STATEMENTS OF CASH FLOWS**  
(Amounts in thousands)

	<b>Six Months</b>	
	<b>Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,270	\$ 3,549
Adjustments to reconcile net income to net cash flows from operating activities:		
Amortization of royalty stream	545	545
Changes in other items:		
Prepaid expenses and other current assets	-	5
Accrued interest	(3)	(1)
Net cash flows from operating activities	4,812	4,098
<b>Net cash flows from financing activities:</b>		
Repayment of senior secured project note	(437)	(204)
Change in due from affiliates	(4,375)	(3,894)
Net cash flows from financing activities	(4,812)	(4,098)
<b>Net change in cash</b>	-	-
<b>Cash at beginning of period</b>	-	-
<b>Cash at the end of period</b>	\$ -	\$ -

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

**SALTON SEA ROYALTY LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. General**

In the opinion of the management of Salton Sea Royalty LLC (the "Company" or the "Royalty Guarantor"), the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2005, the results of operations for the three-month and six-month periods ended June 30, 2005 and 2004 and the changes in members equity and cash flows for the six-month periods ended June 30, 2005 and 2004. The results of operations for the three-month and six-month periods ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

The Company is a special-purpose entity, 99% owned by Magma Power Company ("Magma") and 1% owned by Salton Sea Funding Corporation ("Funding Corporation"), an indirect wholly-owned subsidiary of Magma, which in turn is wholly-owned by CE Generation, LLC ("CE Generation"). The Royalty Guarantor has issued a secured project note for the repayment of, and guarantees the repayment of securities of, Funding Corporation. Although, the guarantee of the Company is limited to available cash flows, the obligation of the Royalty Guarantor under its secured project note is not limited.

The Royalty Guarantor receives an assignment of royalties and certain fees paid by three partnership projects: Del Ranch, Elmore and Leathers (collectively, the "Royalty Projects"). All of the Royalty Projects are engaged in the operation of geothermal power plants located in the Imperial Valley of California. Substantially all of the assigned royalties are based on a percentage of energy and capacity revenue of the Royalty Projects.

The unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. In particular, the Company's significant accounting policies are presented in Note 2 to the financial statements included therein.

**2. Royalty Stream**

The royalty stream has a cost of \$60.5 million and accumulated amortization of \$49.1 million and \$48.6 million as of June 30, 2005 and December 31, 2004, respectively. Royalty stream amortization expense was \$0.3 million and \$0.5 million for each of the three-month and six-month periods ended June 30, 2005 and 2004, respectively. Royalty stream amortization expense is expected to be \$0.5 million for the remaining six months in 2005 and \$1.1 million for each of the four succeeding fiscal years.

**3. Related Party Transactions**

The Company declared \$61.2 million of amounts due from affiliates as an equity distribution to those affiliates during the six-month period ended June 30, 2005. The \$61.2 million represented the Company's excess operating profits previously held in the revenue account of Funding Corporation and subsequently transferred from the distribution account of Funding Corporation pursuant to the terms and conditions of the debt of Funding Corporation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations of Salton Sea Funding Corporation ("Funding Corporation") and Salton Sea Brine Processing, L.P., Salton Sea Power Generation L.P. ("SSPG"), Salton Sea Power L.L.C. ("Salton Sea Power"), and Fish Lake Power LLC ("Fish Lake"), which own five operating geothermal power plants in Imperial Valley, California known as 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. (together with the owners of the Salton Sea Projects, the "Salton Sea Guarantors"), Vulcan/BN Geothermal Power Company, Elmore, L.P., Leathers, L.P., Del Ranch, L.P., CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in Imperial Valley, California known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project, (collectively, the "Partnership Projects" and together with the Salton Sea Projects, the "Imperial Valley Projects"), CalEnergy Minerals LLC ("CalEnergy Minerals"), Salton Sea Minerals Corp., CE Salton Sea Inc., CalEnergy Operating Corporation ("CEOC"), Vulcan Power Company, San Felipe Energy Company, Conejo Energy Company, Niguel Energy Company, and VPC Geothermal LLC, (collectively, the "Partnership Guarantors"), and Salton Sea Royalty LLC (the "Royalty Guarantor", together with the Salton Sea Guarantors and the Partnership Guarantors, the "Guarantors"), during the periods included in the accompanying statements of operations. This discussion should be read in conjunction with Funding Corporation's and the Guarantors' historical financial statements and the notes to those statements. Actual results in the future could differ significantly from the historical results.

### Forward-Looking Statements

From time to time, Funding Corporation and the Guarantors may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond their control. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost recovery, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of Funding Corporation's or the Guarantors' 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 to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. Funding Corporation and the Guarantors have 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. Neither Funding Corporation nor the Guarantors assume any responsibility to update forward-looking information contained herein.

### Executive Summary

The following significant events and changes, as discussed in more detail herein, highlight some factors that affect the comparability of our financial results for the six-month periods ended June 30, 2005 and 2004:

- On September 10, 2004, management made the decision to cease operations of the facilities installed near the geothermal energy generation facilities located in the Imperial Valley of California that were intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process ("the Zinc Recovery Project"). Based on this decision, the Partnership Guarantors and Salton Sea Guarantors recognized an impairment charge to write-off the Zinc Recovery Project, rights to quantities of extractable minerals (the "Mineral Reserves") and allocated goodwill (collectively, the "Mineral Assets").
- On March 1, 2004, Funding Corporation completed the redemption of \$136.4 million of its 7.475% Senior Secured Series F Bonds ("Series F Bonds") due on November 30, 2018. Funding Corporation made a demand on MidAmerican Energy Holdings Company ("MEHC") and MEHC performed under that demand in order to fund the redemption.
- During the three-month and six-month periods ended June 30, 2005, Funding Corporation and the Guarantors declared and received equity distributions and contributions related to affiliate balances.

- There were more major brine system and turbine overhaul outages during the three-month and six-month periods ended June 30, 2004 compared to more mini-brine system and minor turbine overhaul outages during the same periods in 2005. The major overhauls are longer in duration and have higher associated repair and maintenance costs. The overhaul schedules vary from year to year and are scheduled at intervals based on plant operating hours.

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. At June 30, 2005, the capacity factors for the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project, and Salton Sea V Project plants are based on capacity amounts of approximately 10, 20, 50, 40, and 49 net megawatts ("MW"), respectively. At June 30, 2005, the capacity factors for the Vulcan Project, Elmore Project, Leathers Project, Del Ranch Project, and CE Turbo Project plants are based on capacity amounts of approximately 34, 38, 38, 38 and 10 net MW, respectively. Each plant possesses an operating margin, which allows for production in excess of the amount listed above. 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 these 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 these projects.

The following operating data represents the aggregate capacity and electricity production of the Salton Sea Projects:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Overall capacity factor	94.8%	68.3%	86.7%	77.8%
Megawatt hour ("MWh") produced	348,800	251,200	634,000	572,500
Capacity (net MW) (weighted average)	168.4	168.4	168.4	168.4

The overall capacity factor and production for the Salton Sea Guarantors increase for the three-month and six-month periods ended June 30, 2005, as compared to the same periods in 2004, resulted from the scheduled major brine system outage and major turbine overhaul outages in 2004 compared to a mini-brine system outage and minor turbine outages in 2005. The major overhauls consist of more extensive repairs and are longer in duration. The overhaul schedules vary from year to year and are generally scheduled at intervals based on plant operating hours.

The following operating data represents the aggregate capacity and electricity production of the Partnership Projects:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Overall capacity factor	98.0%	87.1%	100.9%	90.6%
Megawatt hour ("MWh") produced	338,300	300,500	692,800	625,000
Capacity (net MW) (weighted average)	158.0	158.0	158.0	158.0

The overall capacity factor and production for the Partnership Guarantors increase for the three-month and six-month periods ended June 30, 2005, as compared to the same periods in 2004, resulted from more scheduled major brine system and turbine overhaul outages in 2004 compared to 2005. The overhaul schedules vary from year to year and are generally scheduled at intervals based on plant operating hours.

## **Results of Operations for the Three-Month Periods Ended June 30, 2005 and 2004**

Funding Corporation's interest income decreased \$0.5 million to \$5.8 million for the three-month period ended June 30, 2005, from \$6.3 million for the same period in 2004. Interest income represents interest earned on secured project notes receivable from Guarantors and interest earned on cash balances.

Funding Corporation's interest expense decreased \$0.6 million to \$5.6 million for the three-month period ended June 30, 2005, from \$6.2 million for the same period in 2004. Interest expense represents interest owed on the senior secured notes and bonds.

The decrease in interest income and expense was due to lower outstanding balances of the secured project notes receivable from Guarantors and the senior notes and bonds, due to debt amortization.

The Salton Sea Guarantors' operating revenue increased \$8.0 million, or 37.6%, to \$29.3 million for the three-month period ended June 30, 2005, from \$21.3 million for the same period in 2004. The increase reflected higher revenue of \$6.7 million due to increased production as a result of the timing and length of scheduled maintenance outages as well as favorable energy pricing of \$1.3 million in 2005.

The Salton Sea Guarantors' operating expenses, which include royalty, operating, general and administrative expense decreased \$5.2 million, or 30.2%, to \$12.0 million for three-month period ended June 30, 2005, from \$17.2 million for the same period in 2004. The decrease was due to less extensive maintenance outages, which included a major brine system outage and rotor replacements in 2004 and a mini-brine system outage and no rotor replacements in 2005.

The Salton Sea Guarantors' depreciation and amortization decreased \$0.1 million to \$6.4 million for the three-month period ended June 30, 2005, from \$6.5 million for the same period in 2004.

The Salton Sea Guarantors' interest expense decreased \$0.5 million to \$3.8 million for the three-month period ended June 30, 2005, from \$4.3 million for the same period in 2004. The decrease was due to lower outstanding debt balances.

The Salton Sea Guarantors are comprised of partnerships or limited liability companies. Income taxes are the responsibility of the partners or members and the Salton Sea Guarantors have no obligation to provide funds to the partners or members for payment of any tax liabilities. Accordingly, the Salton Sea Guarantors have no tax obligations.

The Salton Sea Guarantors' loss from discontinued operations for the three-months ended June 30, 2004 was \$0.1 million, which represents depreciation of the Mineral Reserves.

The Partnership Guarantors' operating revenue increased \$2.1 million, or 9.8%, to \$23.5 million for the three-month period ended June 30, 2005, from \$21.4 million for the same period in 2004. The increase was due to increased production in 2005 as the result of the reduced extent and length of scheduled maintenance outages, which included more major brine system and turbine overhauls in 2004 compared to 2005.

The Partnership Guarantors' royalty, operating, general and administrative expense decreased \$1.0 million, or 6.0%, to \$15.7 million for three-month period ended June 30, 2005, from \$16.7 million for the same period in 2004 due to less extensive maintenance in 2005 partially offset by increased royalty expense from increased revenue in 2005.

The Partnership Guarantors' depreciation and amortization decreased \$2.2 million to \$8.0 million for the three-month period ended June 30, 2005, from \$10.2 million for the same period in 2004. The decrease was due to higher disposals of certain replaced pipe in 2004 with a remaining net book value of \$1.7 million, partially offset by disposals of pipe in 2005 with a remaining net book value of \$0.5 million.

The Partnership Guarantors' effective tax rate was (3.0%) for the three-month period ended June 30, 2005, as compared to 57.7% for the same period in 2004. Changes in the effective rate are due primarily to the generation of energy tax credits and changes to depletion deductions. Income taxes will be paid by the parent of the Partnership Guarantors from distributions made to the parent by the Partnership Guarantors, which occur after payment of operating expenses and debt service.

The Partnership Guarantors' income from discontinued operations was \$1.3 million for the three-month period ended June 30, 2005, compared to a loss of \$5.2 million for the same period in 2004. CalEnergy Minerals ceased operations of and began decommissioning its Zinc Recovery Project during September 2004. The change is due to operating losses in 2004 compared to proceeds from the sales of assets in 2005.

The Royalty Guarantor's net income was \$2.1 million for the three-month period ended June 30, 2005, as compared to \$1.8 million for the same period in 2004. The increase was due to increased revenue at the Elmore, Leathers and Del Ranch Projects due to decreased maintenance outages.

### **Results of Operations for the Six-Month Periods Ended June 30, 2005 and 2004**

Funding Corporation's interest income decreased \$2.6 million to \$11.7 million for the six-month period ended June 30, 2005, from \$14.3 million for the same period in 2004. Interest income represents interest due on secured project notes receivable from the Guarantors and interest earned on cash balances.

Funding Corporation's interest expense decreased \$2.9 million to \$11.3 million for the six-month period ended June 30, 2005, from \$14.2 million for the same period in 2004. Interest expense represents interest due on the senior secured notes and bonds.

The decrease in interest income and expense was due to lower outstanding balances of the secured project notes receivable from Guarantors and the senior notes and bonds, reduced by the redemption of \$136.4 million of the Series F bonds on March 1, 2004 and normal debt amortization.

The Salton Sea Guarantors' operating revenue increased \$7.7 million, or 17.7%, to \$51.2 million for the six-month period ended June 30, 2005, from \$43.5 million for the same period in 2004. The increase reflected a \$4.1 million increase due to increased production as a result of the timing and length of scheduled maintenance outages and favorable energy pricing of \$3.6 million in 2005.

The Salton Sea Guarantors' royalty, operating, general and administrative expense decreased \$3.7 million, or 12.5%, to \$25.8 million for six-month period ended June 30, 2005, from \$29.5 million for the same period in 2004. The decrease was due to the timing of scheduled maintenance outages and less extensive maintenance in 2005.

The Salton Sea Guarantors' depreciation and amortization increased \$2.4 million to \$14.5 million for the six-month period ended June 30, 2005, from \$12.1 million for the same period in 2004. The increase was due to the disposal of certain replaced pipe in 2005 with a remaining net book value of \$2.0 million.

The Salton Sea Guarantors' interest expense decreased \$1.0 million to \$7.7 million for the six-month period ended June 30, 2005, from \$8.7 million for the same period in 2004. The decrease was due to lower outstanding debt balances.

The Salton Sea Guarantors are comprised of partnerships or limited liability companies. Income taxes are the responsibility of the partners or members and the Salton Sea Guarantors have no obligation to provide funds to the partners or members for payment of any tax liabilities. Accordingly, the Salton Sea Guarantors have no tax obligations.

The Salton Sea Guarantors' loss from discontinued operations for the six-months ended June 30, 2004 was \$0.2 million, which represents depreciation of the Mineral Reserves.

The Partnership Guarantors' operating revenue increased \$3.9 million, or 9.8%, to \$43.7 million for the six-month period ended June 30, 2005, from \$39.8 million for the same period in 2004. The increase was due to increased production in 2005 as the result of the timing and reduced length of scheduled maintenance outages.

The Partnership Guarantors' royalty, operating, general and administrative expense decreased \$4.8 million, or 15.0%, to \$27.3 million for six-month period ended June 30, 2005, from \$32.1 million for the same period in 2004 due to the timing of scheduled maintenance outages and less extensive scheduled maintenance in 2005 resulting in reduced expense of \$5.8 million in 2005.

The Partnership Guarantors' depreciation and amortization increased \$0.2 million to \$16.5 million for the six-month period ended June 30, 2005, from \$16.3 million for the same period in 2004. The increase was due to higher disposals of certain replaced pipe in 2005 with a remaining net book value of \$2.0 million compared with disposals with a \$1.7 million remaining net book value of \$1.7 million in 2004.

The Partnership Guarantors' effective tax rate was (3.3%) for the six-month period ended June 30, 2005, as compared to 62.1% for the same period in 2004. Changes in the effective rate are due primarily to the generation of energy tax credits and changes to depletion deductions... Income taxes will be paid by the parent of the Partnership Guarantors from distributions made to the parent by the Partnership Guarantors, which occur after payment of operating expenses and debt service.

The Partnership Guarantors' income from discontinued operations was \$3.0 million for the six-month period ended June 30, 2005, compared to a loss of \$13.5 million for the same period in 2004. CalEnergy Minerals ceased operations of and began decommissioning its Zinc Recovery Project during September 2004. The change is due to operating losses in 2004 compared to proceeds from the sales of assets in 2005.

The Royalty Guarantor's net income was \$4.3 million for the six-month period ended June 30, 2005, as compared to \$3.5 million for the same period in 2004. The increase was due to increased revenue at the Leathers, Elmore and Del Ranch Projects due to decreased maintenance outages in 2005.

### **Liquidity and Capital Resources**

The Salton Sea Guarantors' only source of revenue is payments received pursuant to long term power sales agreements with Southern California Edison Company ("Edison"), other than Salton Sea V Project revenue and interest earned on funds on deposit. The Partnership Guarantors' primary source of revenue is payments received pursuant to long term power sales agreements with Edison, other than CE Turbo Project revenue and interest earned on funds on deposit. The Royalty Guarantor's only source of revenue is royalties received pursuant to resource lease agreements with the Partnership Projects. Because of the Guarantor's dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Guarantors to fund operating and maintenance expenses, payments of interest and principal on the debt securities, projected capital expenditures and debt service reserve fund requirements.

Funding Corporation's cash flows from investing activities was \$30.1 million for the six-month period ended June 30, 2005, as compared with \$154.7 million for the same period in 2004. The decrease was due the principal repayment of the secured notes from Guarantors related to the Series F Bonds which were redeemed on March 1, 2004.

Funding Corporation's cash flows used in financing activities was \$43.3 million for the six-month period ended June 30, 2005, as compared with \$162.6 million for the same period in 2004. The decrease was due to the principal repayment of the Series F Bonds which were redeemed on March 1, 2004.

The Salton Sea Guarantors generated cash flows from operations of \$10.7 million for the six-month period ended June 30, 2005, compared with \$0.2 million for the same period in 2004. The increase was primarily due to higher operating income as a result of reduced maintenance outages and costs in 2005.

The Salton Sea Guarantors' cash flows used in investing activities was \$8.6 million for the six-month period ended June 30, 2005, compared to \$2.7 million for the same period in 2004. Capital expenditures are the primary component of investing activities and increased in 2005 due to purchases of pipe.

The Salton Sea Guarantors' cash flows used in financing activities was \$2.1 million for the six-month period ended June 30, 2005, compared with cash flow generated of \$2.6 million for the same period in 2004. The increase in cash used in financing activities was due to higher principal repayments during 2005. Additionally, the Salton Sea Guarantors do not carry cash balances, therefore the variability in amounts payable to and receivable from affiliates reflects the net change of cash flows from operations, cash used in investing activities and debt service requirements. Funding Corporation holds all cash balances of the Salton Sea Guarantors in restricted accounts maintained at a collateral agent for the benefit of Funding Corporation's bondholders, therefore the variability in amounts payable to affiliates has a direct relationship to the net excess or shortage of cash flows of the Salton Sea Guarantors.

The Partnership Guarantors generated cash flows from continuing operations of \$9.9 million for the six-month period ended June 30, 2005, compared with \$15.0 million for the same period in 2004. The decrease was largely due to changes in working capital. The Partnership Guarantors' cash flows used in discontinued operations was \$4.0 million for the six-month period ended June 30, 2005, compared with \$21.9 million for the same period in 2004. The decrease in cash used in discontinued operations relates to decreased operating expenditures in 2005 as a result of CalEnergy Minerals ceasing operations of its Zinc Recovery Project during September 2004.

The Partnership Guarantors' cash flows used in continuing investing activities increased to \$10.1 million for the six-month period ended June 30, 2005, compared with \$6.9 million for the same period in 2004. Capital expenditures are the primary component of investing activities which increased in 2005 due to the purchase of pipe. The Partnership Guarantors' cash flows from discontinued investing activities was \$4.7 million for the six-month period ended June 30, 2005, compared with cash flows used of \$0.5 million for the same period in 2004. The increase is due to proceeds received from asset sales in 2005.

The Partnership Guarantors' cash flows from continuing financing activities was \$0.2 million for the six-month period ended June 30, 2005, compared with cash flows used of \$8.1 million for the same period in 2004. The Partnership Guarantors do not carry cash balances, therefore the variability in amounts payable to and receivable from affiliates reflects the net change of cash flows from operations, cash used in investing activities and debt service requirements. Funding Corporation holds all cash balances of the Partnership Guarantors in restricted accounts maintained at a collateral agent for the benefit of Funding Corporation's bondholders, therefore the variability in amounts payable to affiliates has a direct relationship to the net excess or shortage of cash flows of the Partnership Guarantors.

The Partnership Guarantors cash flows used in discontinued financing activities of \$0.7 million for the six-month period ended June 30, 2005, compared with cash flows generated of \$22.4 million for the same period in 2004. Cash flows generated from financing activities from discontinued operations in 2004 reflect the redemption of the Series F Bonds offset by MEHC's equity contributions to fund the Zinc Recovery Project's operating losses, and capital expenditures and MEHC's funding of its guarantee of the Series F Bonds which were redeemed on March 1, 2004.

The Royalty Guarantors generated cash flows from operations of \$4.8 million for the six-month period ended June 30, 2005, compared with \$4.1 million for the same period in 2004. The Royalty Guarantor's cash flows used in financing activities was \$4.8 million for the six-month period ended June 30, 2005 compared with \$4.1 million for the same period in 2004. The increases were the result of higher royalty revenue in 2005.

#### Zinc Recovery Project and Minerals Assets

On May 25, 2001, CalEnergy Minerals and AMEC E&C Services, Inc. ("AMEC") entered into a services agreement for engineering, procurement and construction management services (the "AMEC Agreement") in connection with the resolution of numerous problems that affected the construction of CalEnergy Minerals' Zinc Recovery Project. Under the AMEC Agreement, AMEC represented that it had certain licenses required for its services, which CalEnergy Minerals ultimately determined to be false. AMEC submitted \$2.8 million of invoices to CalEnergy Minerals that AMEC claims are due and payable under the AMEC Agreement. Calenergy Minerals filed a lawsuit against AMEC on June 13, 2003 for a declaratory judgment that would (1) prevent collection by AMEC of the \$2.8 million it claimed to be due and payable and, (2) recover payments made by CalEnergy Minerals to AMEC based on AMEC's lack of a contractor's license in California. The lawsuit also included claims by CalEnergy Minerals against AMEC for breach of contract and breach of duty of fiduciary responsibility. AMEC filed a motion to compel arbitration of the dispute. The court ruled against the motion to compel arbitration and AMEC had appealed this decision. In June 2005, CalEnergy Minerals and AMEC reached a settlement agreement, under which AMEC agreed to release its \$2.8 million claim and pay \$2.7 million to CalEnergy Minerals. The \$2.7 million payment was received July 6, 2005.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash impairment charge was recorded in September 2004 to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively, the "Minerals Assets"). A decommissioning plan, which began in September 2004, continued into 2005. Substantially all costs incurred have related to disposal activities and have been offset by proceeds from sales of the Zinc Recovery Project's assets. Costs are recognized in the period in which the related liability is incurred. Salvage proceeds are recognized in the period earned. CalEnergy Minerals does not expect to make significant additional cash expenditures. The activity of the Minerals Assets is classified separately as discontinued operations in the combined statements of operations and cash flows for the Guarantors.

On December 13, 2004, CalEnergy Minerals entered into a project decommissioning contract (the “Decommissioning Contract”) and an equipment purchase agreement (the “Equipment Purchase Agreement”) with a third party contractor. Under the terms of the Decommissioning Contract, the contractor has agreed to dismantle and remove certain Zinc Recovery Project equipment and other assets on a turnkey, date certain basis in exchange for the execution of the Equipment Purchase Agreement by CalEnergy Minerals. Under the terms of the Equipment Purchase Agreement the contractor has purchased certain Zinc Recovery Project equipment for a guaranteed purchase price of approximately \$4.1 million, which was paid in full as of April 19, 2005. Additionally, any gross proceeds the contractor receives from the sale of such equipment and other assets over approximately \$5.7 million will be shared equally with CalEnergy Minerals. CalEnergy Minerals has retained ownership of the remaining Zinc Recovery Project equipment and other assets for potential direct sale to third parties. Under the terms of the Equipment Purchase Agreement and the Decommissioning Contract, CalEnergy Minerals has an option, exercisable no later than October 1, 2005, to sell this retained equipment and other assets to the contractor for approximately \$0.1 million and have it removed by the contractor no later than December 31, 2005. Total asset sales proceeds to date, including the \$4.1 million from the third party contractor, are \$6.1 million.

### Environmental Liabilities

The Guarantors are subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Guarantors' existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Guarantors' cost of waste disposal and (vi) reducing the reliability of service provided by the Guarantors and the amount of energy available from the Guarantors' facilities. Any of such items could have a substantial impact on amounts required to be expended by the Guarantors in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the accompanying combined balance sheets at their undiscounted amounts. As of June 30, 2005 and December 31, 2004, the environmental liabilities recorded on the combined balance sheets were \$3.7 million and \$4.2 million, respectively.

### **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 Power Company (“Magma”), rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors' power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed for the three-month and six-month periods ended June 30, 2005 were \$1.5 million and \$2.6 million, respectively. The amounts expensed for the three-month and six-month periods ended June 30, 2004 were \$1.1 million and \$2.2 million, respectively.

Pursuant to the Administrative Services Agreement dated April 1, 1993 with Magma, Magma will provide administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV and Salton Sea V Projects. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed for the three-month and six-month periods ended June 30, 2005 were \$0.4 million and \$0.6 million, respectively. The amounts expensed for the three-month and six-month periods ended June 30, 2004 were \$0.3 million and \$0.6 million, respectively.

Pursuant to the Operating and Maintenance Agreement dated April 1, 1993 between CalEnergy Operating Corporation (“CEOC”) and the Salton Sea Guarantors, the Salton Sea Guarantors have retained CEOC to operate the Salton Sea Projects for a period of 32 years. Payments are made to CEOC in the form of reimbursements of expenses incurred. During the three-month and six-month periods ended June 30, 2005, the Salton Sea Guarantors reimbursed CEOC for expenses of \$7.0 million and \$10.9 million, respectively. During the three-month and six-month periods ended June 30, 2004, the Salton Sea Guarantors reimbursed CEOC for expenses of \$4.5 million and \$8.4 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 management fees payable under the Magma Services Agreement totaled (\$0.1) million and (\$0.4) million for the three-month and six month periods ended June 30, 2005, respectively and (\$0.4) million and (\$1.1) million for the three-month and six-month periods ended June 30, 2004, respectively. The fees are calculated based on 10% of the income (loss) of the Leathers, Del Ranch and Elmore Projects and are capitalized and amortized over the remaining average life of the power purchase agreements. The amortization of the management fee is included in depreciation in the combined statements of operations for the periods presented.

Pursuant to the Easement Grant Deed and Agreement Regarding Rights for Geothermal Development, the Partnership Guarantors acquired from Magma Power Company rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed were \$2.1 million and \$4.3 million for the three-month and six-month periods ended June 30, 2005, respectively, and \$1.9 million and \$3.8 million for the three-month and six-month periods ended June 30, 2004, respectively.

Pursuant to a transaction agreement dated January 29, 2003 (the “TransAlta Transaction Agreement”), Salton Sea Power and CE Turbo began selling available power from the Salton Sea V Project and the CE Turbo Project to TransAlta USA Inc. (“TransAlta”) on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. The TransAlta Transaction Agreement shall continue until the earlier of (a) 30 days following a written notice of termination, or (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party. Pursuant to this agreement, sales to TransAlta totaled \$2.9 million and \$5.9 million for the three-month and six-month periods ended June 30, 2005, respectively, and \$2.0 million and \$4.1 million during the three-month and six-month periods ended June 30, 2004, respectively. As of June 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta were \$1.9 million and \$1.3 million, respectively.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation at the Salton Sea V Project and CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing from Salton Sea Power commenced in July 2004 and totaled \$0.5 million and \$1.1 million for the three-month and six-month periods ended June 30, 2005, respectively. As of June 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta Marketing were \$0.2 million and \$- million, respectively.

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo had not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the “PX Receivable”). Salton Sea Power and CE Turbo had 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 with TransAlta USA, Inc (“TransAlta”) and MidAmerican Energy Holdings Company (“MEHC”) (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. As of June 30, 2005, the California Power Exchange has not made any payments in connection with the PX Receivable.

Pursuant to November 1, 1998 Amended and Restated Power Sales Agreements, Salton Sea Power provided CalEnergy Minerals with its Zinc Recovery Project's electrical energy requirements at the market rates available to Salton Sea Power, less wheeling costs. Pursuant to these agreements, sales to CalEnergy Minerals from Salton Sea Power totaled \$0.4 million and \$0.8 million for the three-month and six-month periods ended June 30, 2004, respectively. On September 10, 2004, CalEnergy Minerals ceased operations of its Zinc Recovery Project. Accordingly, except for sales during the dismantling and decommissioning phases of the Zinc Recovery Project, no further sales to CalEnergy Minerals are expected. There were no material accounts receivable balances as of June 30, 2005 and December 31, 2004, respectively.

Funding Corporation received \$265.0 million of amounts due to affiliates as equity distributions and made equity distributions of \$268.1 million of amounts due from affiliates during the six-month period ended June 30, 2005. The amounts due to affiliates include amounts due to the Partnership Guarantors and the Royalty Guarantor of \$203.8 million and \$61.2 million, respectively, which represent the Partnership Guarantors' and Royalty Guarantor's excess operating profits previously held in the revenue account of Funding Corporation and subsequently transferred from the distribution account of Funding Corporation pursuant to terms and conditions of the debt of Funding Corporation. The amounts due from affiliates include amounts due from the Salton Sea Guarantors of \$64.4 million, which represent the Salton Sea Guarantors' operating losses and capital expenditures previously funded by amounts held in the revenue account of Funding Corporation and amounts due from Magma Power Company of \$203.7 million, which represent amounts previously transferred to Magma pursuant to the terms and conditions of the debt of Funding Corporation.

As described above, the Partnership Guarantors and the Royalty Guarantor declared \$203.8 million and \$61.2 million, respectively, of amounts due from affiliates as equity distributions during the six-month period ended June 30, 2005, and the Salton Sea Guarantors recognized \$64.4 million of amounts due to affiliates as an equity contribution during the six-month period ended June 30, 2005.

MEHC contributed equity to the Partnership Guarantors to fund the Zinc Recovery Project's operating losses, capital expenditures and debt service through September 10, 2004, which was the date the Zinc Recovery Project's operations were ceased. Equity contributions for the six-months ended June 30, 2004 were \$149.7 million and are included in the accompanying combined statement of cash flows as part of net financing activity cash flows from discontinued operations, and include MEHC's \$136.4 million funding of its guarantee of the Series F Bonds issued by Funding Corporation which were redeemed on March 1, 2004 and MEHC's \$13.3 million funding of the Zinc Recovery Project's operating losses.