



# SALTON SEA FUNDING CORPORATION AND GUARANTORS

## **Combined Financial Statements**

**For the Quarterly Period Ended September 30, 2008**

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

	As of	
	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 35,476	\$ 20,066
Trade receivables	48,506	30,401
Trade receivables from affiliate	1,166	1,272
Inventories	19,057	19,702
Deferred income taxes	1,420	2,552
Other current assets	<u>1,628</u>	<u>1,579</u>
Total current assets	107,253	75,572
Property, plant and equipment, net	564,159	565,522
Goodwill	86,992	86,992
Intangible assets, net	63,215	67,363
Other assets	<u>1,634</u>	<u>2,204</u>
<b>Total assets</b>	<u><u>\$ 823,253</u></u>	<u><u>\$ 797,653</u></u>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,584	\$ 12,354
Accrued interest	5,234	1,401
Other current liabilities	9,143	6,731
Current portion of senior secured notes and bonds	<u>27,137</u>	<u>28,066</u>
Total current liabilities	49,098	48,552
Due to affiliates	11,697	4,560
Senior secured notes and bonds	177,580	190,684
Deferred income taxes	82,161	82,191
Other liabilities	<u>3,172</u>	<u>2,229</u>
Total liabilities	323,708	328,216
Commitments and contingencies (Note 4)		
Total owners' equity	<u>499,545</u>	<u>469,437</u>
<b>Total liabilities and owners' equity</b>	<u><u>\$ 823,253</u></u>	<u><u>\$ 797,653</u></u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (Unaudited)**

(In thousands)

	<u>Three-Month Periods</u> <u>Ended September 30,</u>		<u>Nine-Month Periods</u> <u>Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Operating revenue</b>	<u>\$ 78,308</u>	<u>\$ 78,494</u>	<u>\$175,281</u>	<u>\$ 170,869</u>
<b>Costs and expenses:</b>				
Royalty, operating, general and administrative expense	24,367	26,786	85,100	85,264
Depreciation and amortization	<u>13,517</u>	<u>14,469</u>	<u>46,317</u>	<u>46,218</u>
Total costs and expenses	<u>37,884</u>	<u>41,255</u>	<u>131,417</u>	<u>131,482</u>
<b>Operating income</b>	<u>40,424</u>	<u>37,239</u>	<u>43,864</u>	<u>39,387</u>
<b>Other income (expense):</b>				
Interest expense	(4,076)	(4,634)	(12,694)	(14,314)
Interest and other income	<u>572</u>	<u>637</u>	<u>1,601</u>	<u>1,961</u>
Total other income (expense)	<u>(3,504)</u>	<u>(3,997)</u>	<u>(11,093)</u>	<u>(12,353)</u>
<b>Income before provision (benefit) for income taxes</b>	36,920	33,242	32,771	27,034
Provision (benefit) for income taxes	<u>(6,459)</u>	<u>(457)</u>	<u>2,660</u>	<u>1,324</u>
<b>Net income</b>	<u>43,379</u>	<u>33,699</u>	<u>30,111</u>	<u>25,710</u>
<b>Other comprehensive income:</b>				
Unrecognized amounts on retirement benefits, net of tax of \$3, \$1, \$10 and \$2	<u>5</u>	<u>2</u>	<u>15</u>	<u>4</u>
Total other comprehensive income	<u>5</u>	<u>2</u>	<u>15</u>	<u>4</u>
<b>Comprehensive income</b>	<u>\$ 43,384</u>	<u>\$ 33,701</u>	<u>\$ 30,126</u>	<u>\$ 25,714</u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF OWNERS' EQUITY (Unaudited)**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007**  
(In thousands)

	<b>Owners' Equity</b>	<b>Accumulated Other Comprehensive Loss, Net</b>	<b>Total</b>
<b>Balance, January 1, 2007</b>	\$ 465,374	\$ (1,231)	\$ 464,143
Adoption of FASB Interpretation No. 48	(19)	-	(19)
Net income	25,710	-	25,710
Other comprehensive income	-	4	4
<b>Balance, September 30, 2007</b>	<b>\$ 491,065</b>	<b>\$ (1,227)</b>	<b>\$ 489,838</b>
<b>Balance, January 1, 2008</b>	\$ 471,078	\$ (1,641)	\$ 469,437
Net income	30,111	-	30,111
Other comprehensive income	-	15	15
Distributions	(18)	-	-
<b>Balance, September 30, 2008</b>	<b>\$ 501,171</b>	<b>\$ (1,626)</b>	<b>\$ 499,545</b>

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

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

	<b>Nine-Month Periods Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 30,111	\$ 25,710
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	46,317	46,218
Provision for deferred income taxes	1,095	(3,525)
Amortization of deferred financing costs	435	557
Changes in other items:		
Trade receivables	(17,999)	(18,543)
Inventories	645	1,432
Due to affiliates, net	7,105	4,798
Other current assets	(49)	230
Accounts payable and other liabilities	<u>10,471</u>	<u>5,508</u>
Net cash flows from operating activities	<u>78,131</u>	<u>62,385</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(48,805)	(30,027)
Purchases of available-for-sale securities	-	(99,500)
Proceeds from sales of available-for-sale securities	-	99,500
Other	<u>135</u>	<u>3</u>
Net cash flows from investing activities	<u>(48,670)</u>	<u>(30,024)</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured notes and bonds	(14,033)	(12,545)
Distributions	<u>(18)</u>	<u>-</u>
Net cash flows from financing activities	<u>(14,051)</u>	<u>(12,545)</u>
<b>Net change in cash and cash equivalents</b>	15,410	19,816
<b>Cash and cash equivalents at beginning of period</b>	<u>20,066</u>	<u>18,364</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 35,476</u>	<u>\$ 38,180</u>

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

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

**1. General**

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

The Salton Sea Guarantors (not a legal entity) consist of: (1) Salton Sea Power Generation L.P., Salton Sea Power L.L.C. (“Salton Sea Power”), and Fish Lake Power LLC, together owning a 100% interest in five operating geothermal electric power generating plants located in the Imperial Valley of California commonly known as the Salton Sea I Project, the Salton Sea II Project, the Salton Sea III Project, the Salton Sea IV Project and the Salton Sea V Project (collectively, the “Salton Sea Projects”), (2) Salton Sea Brine Processing 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 commonly known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project, respectively (collectively, the “Partnership Projects”), (2) CalEnergy Operating Corporation (“CEOC”) and Vulcan Power Company (“VPC”), both 99% owned by Magma and 1% owned by Funding Corporation, (3) San Felipe Energy Company (“San Felipe”), Conejo Energy Company (“Conejo”), and Niguel Energy Company (“Niguel”), each 100% owned by CEOC, (4) VPC Geothermal LLC (“VPCG”), which is 100% owned by VPC, (5) Salton Sea Minerals Corp., (6) CalEnergy Minerals LLC (“CalEnergy Minerals”), and (7) CE Salton Sea Inc. (collectively, the “Partnership Guarantors”). VPC and VPCG collectively own 100% of the 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 the Elmore, Leathers and Del Ranch Projects. CEOC is entitled to receive from Magma, as payment for certain data and services provided by CEOC, all of the partnership distributions Magma receives with respect to its 10% ownership interests in each of the Elmore, Leathers and Del Ranch Projects and Magma’s special distributions equal to 4.5% of total energy revenue from the Leathers Project. Given the assignment of these rights by Magma to CEOC, the 10% ownership interest in each of the Elmore, Leathers and Del Ranch Projects is reflected in the Combined Financial Statements of the Partnership Guarantors, the Salton Sea Guarantors and Funding Corporation.

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 “Royalty Projects”).

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

The unaudited Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements. Management believes the unaudited Combined Financial Statements contain all adjustments (consisting only of normal recurring adjustments) considered necessary for the fair presentation of the financial statements as of September 30, 2008, and for the three- and nine-month periods ended September 30, 2008 and 2007. Certain amounts in the prior period Combined Financial Statements have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported net income, operating

income, or owners' equity. The results of operations for the three- and nine-month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

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

The preparation of the unaudited Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from the estimates used in preparing the unaudited Combined Financial Statements. Note 2 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2007, describes the most significant accounting estimates and policies used in the preparation of the Combined Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting policies during the first nine months of 2008.

## 2. Property, Plant and Equipment, Net

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

	Estimated Useful Lives	As of	
		September 30, 2008	December 31, 2007
Power plants	5 to 30 years	\$ 886,865	\$ 863,295
Wells and resource development	2 to 30 years	<u>235,330</u>	<u>232,851</u>
Total operating assets		1,122,195	1,096,146
Accumulated depreciation		<u>(558,036)</u>	<u>(530,624)</u>
Property, plant and equipment, net		<u>\$ 564,159</u>	<u>\$ 565,522</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$4.7 million and \$3.1 million during the nine-month periods ended September 30, 2008 and 2007, respectively, which was charged to depreciation expense in the Combined Statements of Operations. The Company did not replace any pipe or equipment during the three-month periods ended September 30, 2008.

## 3. Intangible Assets, Net

Intangible assets, net comprise the following (in thousands):

	Estimated Useful Lives	As of September 30, 2008		As of December 31, 2007	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power Purchase and Royalty					
Contracts	4 to 30 years	\$ 216,935	\$ 173,356	\$ 216,935	\$ 170,656
Patented Technology	24 years	<u>46,290</u>	<u>26,654</u>	<u>46,290</u>	<u>25,206</u>
Total		<u>\$ 263,225</u>	<u>\$ 200,010</u>	<u>\$ 263,225</u>	<u>\$ 195,862</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended September 30, 2008 and 2007, and \$4.3 million for each of the nine-month periods ended September 30, 2008 and 2007. The Company expects amortization expense on acquired intangible assets to be \$1.4 million for the remaining three months in 2008 and \$5.7 million for each of the four succeeding fiscal years.

#### **4. Commitments and Contingencies**

##### The California Power Exchange

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo did not receive payment for power sold to El Paso Merchant Energy Company (“EPME”) under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the “PX Receivable”). Salton Sea Power and CE Turbo established an allowance for doubtful accounts for this balance as of December 31, 2003. On September 29, 2004, Salton Sea Power and CE Turbo entered into separate Transfer of Claims Agreements (the “Transfer of Claims Agreements”), pursuant to which Salton Sea Power and CE Turbo received an aggregate of \$3.7 million in exchange for transferring the rights to receive payment on the PX Receivable to TransAlta and MEHC. As a result of the transaction, Salton Sea Power and CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.8 million current liability to reflect the collection risk retained under the Transfer of Claims Agreements. Pursuant to the Transfer of Claims Agreements, to the extent that the PX Receivable becomes uncollectible, Salton Sea Power and CE Turbo can be required to pay the PX Receivable, plus interest, to MEHC and TransAlta. EPME informed Salton Sea Power and CE Turbo that, on July 6, 2007, it received a distribution in connection with a settlement involving its claims in the California Power Exchange bankruptcy proceeding. In August 2007, EPME paid \$2.4 million, or \$1.2 million each to MEHC and TransAlta, in connection with the bankruptcy proceeding distribution that EPME received on their behalf. Accordingly, Salton Sea Power and CE Turbo reduced their collective liability by \$2.4 million to \$1.4 million.

##### Environmental Matters

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

##### *Accrued Environmental Costs*

The Company is fully or partly responsible for environmental remediation at various contaminated sites, including sites that are or were part of the Company’s operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expenses are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company’s proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of September 30, 2008 and December 31, 2007 was \$0.9 million and \$1.1 million, respectively, and is included in other current liabilities in the Combined Balance Sheets.

#### **5. Related Party Transactions**

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors’ power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed for the three- and nine-month periods ended September 30, 2008 were \$1.9 million and \$4.4 million, respectively, and for the three- and nine-month periods ended September 30, 2007 were \$2.0 million and \$4.3 million, respectively.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed for the three- and nine-month periods ended September 30, 2008 were \$2.9 million and \$7.8 million, respectively, and for the three- and nine-month periods ended September 30, 2007 were \$2.6 million and \$7.3 million, respectively.

The Company participates in multi-employer pension plans sponsored by MidAmerican Energy Company (“MEC”), an indirect wholly-owned subsidiary of MEHC. The Company’s contribution to the various plans was \$0.3 million and \$1.3 million, respectively, for the three- and nine-month periods ended September 30, 2008, and \$0.4 million and \$1.4 million, respectively, for the three- and nine-month periods ended September 30, 2007. The portion of accumulated other comprehensive loss attributable to the Company has been allocated from MEC in accordance with intercompany service agreements.

Pursuant to the Administrative Services Agreement dated April 1, 1993, with Magma (the “Magma Services Agreement”), Magma will provide administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV and Salton Sea V Projects. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed were \$0.6 million and \$1.3 million, respectively, for the three- and nine-month periods ended September 30, 2008, and \$0.6 million and \$1.2 million, respectively, for the three- and nine-month periods ended September 30, 2007.

Pursuant to the Magma Services Agreement, Magma has agreed to pay CEOC all equity cash flows and certain royalties payable by the Partnership Guarantors in exchange for providing data and services to Magma. As security for the obligations of Magma under the Magma Services Agreement, Magma has collaterally assigned to CEOC its rights to such equity cash flows and certain royalties. The assignment of such rights has been reflected in the Combined Financial Statements of the Company.

Pursuant to a transaction agreement dated January 29, 2003 (the “TransAlta Transaction Agreement”), Salton Sea Power and CE Turbo began selling available power from their geothermal facilities in the Imperial Valley of California (“the Salton Sea V Project” and the “CE Turbo Project”, respectively) to 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 \$3.1 million and \$8.6 million, respectively, for the three- and nine-month periods ended September 30, 2008, and \$3.6 million and \$8.5 million, respectively, for the three- and nine-month periods ended September 30, 2007. As of September 30, 2008 and December 31, 2007, accounts receivable balances from TransAlta were \$1.0 million and \$1.1 million, respectively. Effective August 7, 2006 through May 31, 2009, up to 26 megawatts (“MW”) of available power from the Salton Sea V Project will be sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. Salton Sea Power, CE Turbo, and TransAlta each have agreed not to exercise their respective 30 day termination right described above with respect to such amount of available power through such period.

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 of the Salton Sea V Project and the 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 totaled \$0.5 million and \$1.5 million, respectively, for the three- and nine-month periods ended September 30, 2008, and \$0.5 million and \$1.6 million, respectively, for the three- and nine-month periods ended September 30, 2007. As of September 30, 2008 and December 31, 2007, accounts receivable balances from TransAlta Marketing were \$0.2 million.

## **6. Components of Accumulated Other Comprehensive Loss, Net**

Accumulated other comprehensive loss, net is included in total owners’ equity in the Combined Balance Sheets and consists of unrecognized amounts on retirement benefits of \$1.6 million, net of tax of \$1.3 million, as of September 30, 2008 and December 31, 2007.

## 7. New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option may only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. The Company adopted SFAS No. 159 effective January 1, 2008, and did not elect the fair value option for any existing eligible items.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In February 2008, the FASB issued Staff Position No. 157-2, “Effective Date of FASB Statement No. 157” (“FSP FAS 157-2”), which delays the effective date of SFAS No. 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the combined financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. In October 2008, the FASB issued FSP No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP FAS 157-3”), which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The Company adopted the provisions of SFAS No. 157 for assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The partial adoption of SFAS No. 157 did not have a material impact on the Company’s Combined Financial Statements.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected the financial condition and results of operations of Salton Sea Funding Corporation ("Funding Corporation") and the Guarantors (collectively, the "Company") during the periods included herein. This discussion should be read in conjunction with the Company's historical unaudited Combined Financial Statements and the notes included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

The Guarantors consist of the following legal entities:

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

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

### Forward-Looking Statements

From time to time, the Company may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond the control of the Company or any of its subsidiaries individually. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of the Company's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. The Company has identified important factors that could cause actual results to differ materially from those expectations, including weather effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company does not assume any responsibility to update forward-looking information contained herein.

### Results of Operations

#### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2007 for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

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

	<b>Three-Month Periods Ended September 30,</b>		<b>Nine-Month Periods Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating revenue	\$78.3	\$78.5	\$175.3	\$170.9
Overall capacity factor	99.2%	96.8%	89.7%	89.7%
Megawatt hour produced	715,000	697,500	1,924,500	1,918,100
Capacity (net MW) (weighted average)	326.4	326.4	326.4	326.4

Operating revenue for the third quarter of 2008 decreased \$0.2 million, or 0.3%, from the comparable period in 2007 primarily due to the following:

- \$1.6 million increase from a 2.5% increase in energy production. The energy production increase primarily results from the timing of scheduled maintenance.
- \$0.6 million increase in operating revenue due to higher energy rates at certain Imperial Valley Projects. The Imperial Valley Projects that receive the avoided cost of energy from Southern California Edison (“Edison”) increased their fixed energy price from 5.37 cents per kWh to 6.15 cents per kWh beginning May 1, 2007.
- \$2.4 million decrease related to the 2007 recovery from the PX Receivable as discussed in Note 4.

Operating revenue for the first nine months of 2008 increased \$4.4 million, or 2.6%, from the comparable period in 2007 primarily due to the following:

- \$5.5 million increase in operating revenue due to higher energy rates at certain Imperial Valley Projects. The Imperial Valley Projects that receive the avoided cost of energy from Edison increased their fixed energy price from 5.37 cents per kWh to 6.15 cents per kWh beginning May 1, 2007.
- \$1.3 million increase from a 0.3% increase in energy production. The energy production increase primarily results from the timing of scheduled maintenance.
- \$2.4 million decrease related to the 2007 recovery from the PX Receivable as discussed in Note 4.

#### *Royalty, Operating, General and Administrative Expense*

Royalty, operating, general, and administrative expense decreased \$2.4 million, or 9.0%, to \$24.4 million for the third quarter of 2008 from \$26.8 million for the comparable period in 2007. The decrease was primarily due to the timing of scheduled maintenance.

Royalty, operating, general, and administrative expense decreased \$0.2 million, or 0.2%, to \$85.1 million for the first nine months of 2008 from \$85.3 million for the comparable period in 2007 due primarily to higher repair and employee related costs offset by the timing of scheduled maintenance.

#### *Depreciation and Amortization*

Depreciation and amortization decreased \$1.0 million to \$13.5 million for the third quarter of 2008 from \$14.5 million for the comparable period in 2007. The decrease was due primarily to comparably longer lives of production pipeline replacement given the higher quality of material used at certain Imperial Valley Projects.

Depreciation and amortization increased \$0.1 million to \$46.3 million for the first nine months of 2008 from \$46.2 million for the comparable period in 2007 due primarily to the plug and abandonment of a production well that delivered brine to certain Imperial Valley Projects and was partially offset by comparably longer lives of production pipeline replacement given the higher quality of material used at certain Imperial Valley Projects.

### *Interest Expense*

Interest expense for the second quarter and for the first nine months of 2008 decreased \$0.5 million to \$4.1 million and \$1.6 million to \$12.7 million, respectively, from the comparable periods in 2007 due to lower outstanding debt balances.

### *Provision (Benefit) for Income Taxes*

The benefit for income taxes for the third quarter of 2008 increased \$6.0 million to \$6.5 million from the comparable period in 2007 primarily due to an increase in depletion and net energy credits at the Partnership Guarantors in relation to the percentage of pre-tax book income.

The provision for income taxes for the first nine months of 2008 increased \$1.4 million to \$2.7 million from the comparable period in 2007 primarily due to a decrease in depletion at the Partnership Guarantors in relation to the percentage of pre-tax book income and an increase in net operating loss valuation at the Salton Sea Guarantors.

### Liquidity and Capital Resources

Cash flows from operations were \$78.1 million for the nine-month period ended September 30, 2008 compared with \$62.4 million for the same period in 2007 due primarily to higher operating revenues and changes in working capital items.

Cash flows used in investing activities were \$48.7 million for the nine-month period ended September 30, 2008 compared with \$30.0 million for the same period in 2007 due to higher capital expenditures in 2008 related primarily to the Company's pipeline replacement program.

Forecasted capital expenditures for 2008 and 2009 are approximately \$61 million and \$64 million, respectively. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company is purchasing pipeline replacement materials which are expected to have a longer useful life than the material currently used. The new material will result in higher capital expenditures than historical expenditures in 2008 and 2009. The Company expects to meet these capital expenditure needs with cash flows from operations.

Cash flows used in financing activities were \$14.1 million for the nine-month period ended September 30, 2008 compared with \$12.5 million for the same period in 2007 due primarily to scheduled debt repayments.

### Environmental Matters

For discussion regarding environmental matters affecting the Company's operations, refer to Note 4 of Notes to Combined Financial Statements included herein and the Company's Annual Report for the year ended December 31, 2007.

## Commodity and Credit Risks

The Imperial Valley Projects' primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Imperial Valley Projects' dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Imperial Valley Projects to fund operating and maintenance expenses, payments of interest and principal on debt securities, projected capital expenditures and debt service reserve fund requirements. Approximately 89% of the Company's electricity sales were to Edison for the nine-month period ended September 30, 2008.

In June and November 2001, the Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects which were then receiving Edison's avoided cost of energy, entered into agreements that provided for amended energy payments. The amendments provided for fixed energy payments per kWh in lieu of Edison's avoided cost of energy. The fixed energy price was 3.25 cents per kWh from December 1, 2001 to April 30, 2002, and increased to 5.37 cents per kWh commencing May 1, 2002 through April 30, 2007. On May 30, 2006, the Imperial Valley Projects that receive Edison's avoided cost of energy entered into amendments to their respective power purchase agreements with Edison which provide for a fixed energy price commencing May 1, 2007, and ending April 30, 2012. The amendments were approved by the California Public Utilities Commission and such approval became final on October 19, 2006. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the projects subject to these amendments will revert back to Edison's avoided cost of energy. There can be no assurances that Edison's avoided cost of energy after May 1, 2012 will result in revenues equivalent to the current fixed energy payments being received. For the years ended December 31, 2007, 2006, and 2005, Edison's average avoided cost of energy was 6.9 cents per kWh, 6.9 cents per kWh and 7.7 cents per kWh, respectively. Estimates of Edison's future avoided cost of energy vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings, which may change the definition of the avoided cost of energy, and other commodity factors.

## CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this Quarterly Report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its combined subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: November 14, 2008

/s/ Stephen A. Larsen  
Stephen A. Larsen  
President  
(principal executive officer)

## CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this Quarterly Report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its combined subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter (the Company’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: November 14, 2008

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF SEPTEMBER 30, 2008**  
(in thousands)

EXHIBIT A

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 6	\$ -	\$ 35,470	\$ 35,476
Trade receivables	22,625	25,866	-	15	48,506
Trade receivables from affiliate	1,166	-	-	-	1,166
Inventories	-	19,057	-	-	19,057
Deferred income taxes	1,209	211	-	-	1,420
Other current assets	730	852	-	46	1,628
Total current assets	<u>25,730</u>	<u>45,992</u>	<u>-</u>	<u>35,531</u>	<u>107,253</u>
Property, plant and equipment, net	333,124	231,035	-	-	564,159
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	18,407	36,499	8,309	-	63,215
Other assets	806	828	-	-	1,634
<b>Total assets</b>	<u>\$ 378,067</u>	<u>\$ 370,882</u>	<u>\$ 38,773</u>	<u>\$ 35,531</u>	<u>\$ 823,253</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 3,551	\$ 4,033	\$ -	\$ -	\$ 7,584
Accrued interest	3,012	2,222	-	-	5,234
Other accrued liabilities	1,861	7,278	-	4	9,143
Current portion of secured project notes	22,997	4,140	-	(27,137)	-
Current portion of senior secured notes and bonds	-	-	-	27,137	27,137
Total current liabilities	<u>31,421</u>	<u>17,673</u>	<u>-</u>	<u>4</u>	<u>49,098</u>
Due to affiliates	(27,960)	14,355	-	25,302	11,697
Secured project notes	95,824	81,756	-	(177,580)	-
Senior secured notes and bonds	-	-	-	177,580	177,580
Deferred income taxes	12,130	70,031	-	-	82,161
Other liabilities	302	2,865	-	5	3,172
Total liabilities	<u>111,717</u>	<u>186,680</u>	<u>-</u>	<u>25,311</u>	<u>323,708</u>
Owners' equity:					
Owners' equity	266,350	185,828	38,773	10,220	501,171
Accumulated other comprehensive loss, net	-	(1,626)	-	-	(1,626)
Total owners' equity	<u>266,350</u>	<u>184,202</u>	<u>38,773</u>	<u>10,220</u>	<u>499,545</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 378,067</u>	<u>\$ 370,882</u>	<u>\$ 38,773</u>	<u>\$ 35,531</u>	<u>\$ 823,253</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF DECEMBER 31, 2007**

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 24	\$ -	\$ 20,042	\$ 20,066
Trade receivables	15,011	15,390	-	-	30,401
Trade receivables from affiliate	1,272	-	-	-	1,272
Inventories	-	19,702	-	-	19,702
Deferred income taxes	2,341	211	-	-	2,552
Other current assets	728	787	-	64	1,579
Total current assets	<u>19,352</u>	<u>36,114</u>	<u>-</u>	<u>20,106</u>	<u>75,572</u>
Property, plant and equipment, net	341,432	224,090	-	-	565,522
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	19,270	39,167	8,926	-	67,363
Other assets	1,090	1,114	-	-	2,204
<b>Total assets</b>	<u>\$ 381,144</u>	<u>\$ 357,013</u>	<u>\$ 39,390</u>	<u>\$ 20,106</u>	<u>\$ 797,653</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 4,095	\$ 8,259	\$ -	\$ -	\$ 12,354
Accrued interest	830	571	-	-	1,401
Other accrued liabilities	1,787	4,944	-	-	6,731
Current portion of secured project notes	23,494	4,572	-	(28,066)	-
Current portion of senior secured notes and bonds	-	-	-	28,066	28,066
Total current liabilities	<u>30,206</u>	<u>18,346</u>	<u>-</u>	<u>-</u>	<u>48,552</u>
Due to affiliates	1,117	3,443	-	-	4,560
Secured project notes	107,074	83,610	-	(190,684)	-
Senior secured notes and bonds	-	-	-	190,684	190,684
Deferred income taxes	8,616	73,575	-	-	82,191
Other liabilities	-	2,229	-	-	2,229
Total liabilities	<u>147,013</u>	<u>181,203</u>	<u>-</u>	<u>-</u>	<u>328,216</u>
Owners' equity:					
Owners' equity	234,131	177,451	39,390	20,106	471,078
Accumulated other comprehensive loss, net	-	(1,641)	-	-	(1,641)
Total owners' equity	<u>234,131</u>	<u>175,810</u>	<u>39,390</u>	<u>20,106</u>	<u>469,437</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 381,144</u>	<u>\$ 357,013</u>	<u>\$ 39,390</u>	<u>\$ 20,106</u>	<u>\$ 797,653</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea</u> <u>Guarantors</u>	<u>Partnership</u> <u>Guarantors</u>	<u>Royalty</u> <u>Guarantor</u>	<u>Funding</u> <u>Corporation &amp;</u> <u>Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 88,953	\$ 86,328	\$ 10,370	\$ (10,370)	\$ 175,281
<b>Costs and expenses:</b>					
Royalty, operating, general and administrative expense	39,466	53,229	2,717	(10,312)	85,100
Depreciation and amortization	19,406	26,294	617	-	46,317
Total costs and expenses	<u>58,872</u>	<u>79,523</u>	<u>3,334</u>	<u>(10,312)</u>	<u>131,417</u>
<b>Operating income (loss)</b>	<u>30,081</u>	<u>6,805</u>	<u>7,036</u>	<u>(58)</u>	<u>43,864</u>
<b>Other income (expense):</b>					
Interest expense	(7,455)	(5,239)	-	-	(12,694)
Interest and other income	188	1,096	-	317	1,601
Total other income (expense)	<u>(7,267)</u>	<u>(4,143)</u>	<u>-</u>	<u>317</u>	<u>(11,093)</u>
<b>Income before provision (benefit) for income taxes</b>	22,814	2,662	7,036	259	32,771
Provision (benefit) for income taxes	4,303	(1,755)	-	112	2,660
<b>Net income</b>	<u>\$ 18,511</u>	<u>\$ 4,417</u>	<u>\$ 7,036</u>	<u>\$ 147</u>	<u>\$ 30,111</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 86,269	\$ 84,600	\$ 9,759	\$ (9,759)	\$ 170,869
<b>Costs and expenses:</b>					
Royalty, operating, general and administrative expense	43,070	49,304	2,572	(9,682)	85,264
Depreciation and amortization	20,497	25,009	712	-	46,218
Total costs and expenses	<u>63,567</u>	<u>74,313</u>	<u>3,284</u>	<u>(9,682)</u>	<u>131,482</u>
<b>Operating income (loss)</b>	<u>22,702</u>	<u>10,287</u>	<u>6,475</u>	<u>(77)</u>	<u>39,387</u>
<b>Other income (expense):</b>					
Interest expense	(8,873)	(5,441)	-	-	(14,314)
Interest and other income	-	879	-	1,082	1,961
Total other income (expense)	<u>(8,873)</u>	<u>(4,562)</u>	<u>-</u>	<u>1,082</u>	<u>(12,353)</u>
<b>Income before provision (benefit) for income taxes</b>	13,829	5,725	6,475	1,005	27,034
Provision (benefit) for income taxes	2,939	(2,027)	-	412	1,324
<b>Net income</b>	<u>\$ 10,890</u>	<u>\$ 7,752</u>	<u>\$ 6,475</u>	<u>\$ 593</u>	<u>\$ 25,710</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2008**  
(in thousands)

EXHIBIT A (Continued)

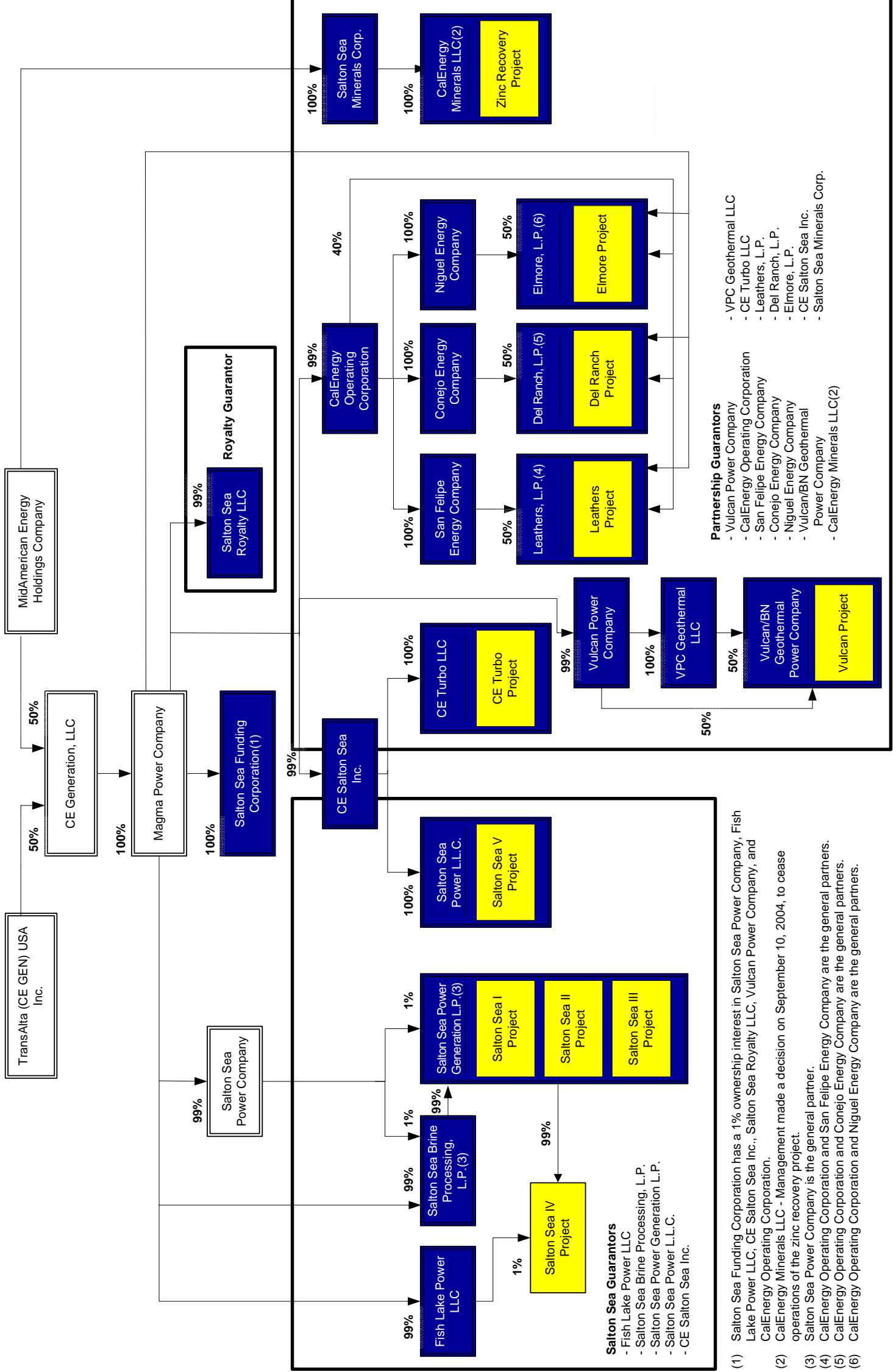
	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net income	\$ 18,511	\$ 4,417	\$ 7,036	\$ 147	\$ 30,111
Adjustments to reconcile net income to net cash flows from operating activities:					
Depreciation and amortization	19,406	26,294	617	-	46,317
Provision for deferred income taxes	4,646	(3,551)	-	-	1,095
Amortization of deferred financing costs	284	151	-	-	435
Changes in other items:					
Trade receivables	(7,508)	(10,476)	-	(15)	(17,999)
Inventories	-	645	-	-	645
Due to affiliates, net	(15,392)	14,881	(7,653)	15,269	7,105
Other current assets	(2)	(65)	-	18	(49)
Accounts payable and other liabilities	3,808	6,654	-	9	10,471
Net cash flows from operating activities	<u>23,753</u>	<u>38,950</u>	<u>-</u>	<u>15,428</u>	<u>78,131</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(12,006)	(36,799)	-	-	(48,805)
Other	-	135	-	-	135
Net cash flows from investing activities	<u>(12,006)</u>	<u>(36,664)</u>	<u>-</u>	<u>-</u>	<u>(48,670)</u>
<b>Cash flows from financing activities:</b>					
Repayment of senior secured notes and bonds	(11,747)	(2,286)	-	-	(14,033)
Distributions	-	(18)	-	-	(18)
Net cash flows from financing activities	<u>(11,747)</u>	<u>(2,304)</u>	<u>-</u>	<u>-</u>	<u>(14,051)</u>
<b>Net change in cash and cash equivalents</b>	-	(18)	-	15,428	15,410
<b>Cash and cash equivalents at the beginning of period</b>	-	24	-	20,042	20,066
<b>Cash and cash equivalents at the end of period</b>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 35,470</u>	<u>\$ 35,476</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net income	\$ 10,890	\$ 7,752	\$ 6,475	\$ 593	\$ 25,710
Adjustments to reconcile net income to net cash flows from operating activities:					
Depreciation and amortization	20,497	25,009	712	-	46,218
Provision for deferred income taxes	2,806	(6,331)	-	-	(3,525)
Amortization of deferred financing costs	395	162	-	-	557
Changes in other items:					
Trade receivables	(8,091)	(10,452)	-	-	(18,543)
Inventories	-	1,432	-	-	1,432
Due to affiliates, net	(1,986)	(5,227)	(7,187)	19,198	4,798
Other current assets	121	77	-	32	230
Accounts payable and other liabilities	1,961	3,545	-	2	5,508
Net cash flows from operating activities	<u>26,593</u>	<u>15,967</u>	<u>-</u>	<u>19,825</u>	<u>62,385</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(15,528)	(14,499)	-	-	(30,027)
Purchases of available-for-sale securities	-	-	-	(99,500)	(99,500)
Proceeds from sales of available-for-sale securities	-	-	-	99,500	99,500
Other	-	3	-	-	3
Net cash flows from investing activities	<u>(15,528)</u>	<u>(14,496)</u>	<u>-</u>	<u>-</u>	<u>(30,024)</u>
<b>Cash flows from financing activities:</b>					
Repayment of senior secured notes and bonds	(11,065)	(1,480)	-	-	(12,545)
Net cash flows from financing activities	<u>(11,065)</u>	<u>(1,480)</u>	<u>-</u>	<u>-</u>	<u>(12,545)</u>
<b>Net change in cash and cash equivalents</b>	-	(9)	-	19,825	19,816
<b>Cash and cash equivalents at the beginning of period</b>	-	55	-	18,309	18,364
<b>Cash and cash equivalents at the end of period</b>	<u>\$ -</u>	<u>\$ 46</u>	<u>\$ -</u>	<u>\$ 38,134</u>	<u>\$ 38,180</u>

**Exhibit B - Salton Sea Funding Corporation and Guarantors - Organization Chart**



**Salton Sea Guarantors**  
 - Fish Lake Power LLC  
 - Salton Sea Brine Processing, L.P.  
 - Salton Sea Power Generation L.P.  
 - Salton Sea Power L.L.C.  
 - CE Salton Sea Inc.

**Partnership Guarantors**  
 - Vulcan Power Company  
 - CalEnergy Operating Corporation  
 - San Felipe Energy Company  
 - Conejo Energy Company  
 - Niguel Energy Company  
 - Vulcan/BN Geothermal Power Company  
 - CalEnergy Minerals LLC(2)

**Partnership Guarantors**  
 - VPC Geothermal LLC  
 - CE Turbo LLC  
 - Leathers, L.P.  
 - Del Ranch, L.P.  
 - Elmore, L.P.  
 - CE Salton Sea Inc.  
 - Salton Sea Minerals Corp.

(1) Salton Sea Funding Corporation has a 1% ownership interest in Salton Sea Power Company, Fish Lake Power LLC, CE Salton Sea Inc., Salton Sea Royalty LLC, Vulcan Power Company, and CalEnergy Operating Corporation.  
 (2) CalEnergy Minerals LLC - Management made a decision on September 10, 2004, to cease operations of the zinc recovery project.  
 (3) Salton Sea Power Company is the general partner.  
 (4) CalEnergy Operating Corporation and San Felipe Energy Company are the general partners.  
 (5) CalEnergy Operating Corporation and Conejo Energy Company are the general partners.  
 (6) CalEnergy Operating Corporation and Niguel Energy Company are the general partners.