



# SALTON SEA FUNDING CORPORATION AND GUARANTORS

## **Combined Financial Statements**

**For the Quarterly Period Ended September 30, 2009**

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

	As of	
	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 42,420	\$ 22,430
Trade receivables	47,741	30,806
Trade receivables from affiliate	-	1,163
Inventories	21,405	18,954
Other current assets	<u>1,532</u>	<u>1,516</u>
Total current assets	113,098	74,869
Property, plant and equipment, net	565,704	578,245
Goodwill	86,992	86,992
Intangible assets, net	57,684	61,833
Other assets	<u>1,098</u>	<u>1,489</u>
<b>Total assets</b>	<u><u>\$ 824,576</u></u>	<u><u>\$ 803,428</u></u>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,934	\$ 16,591
Accrued interest	4,523	1,217
Current portion of senior secured notes and bonds	31,290	26,210
Other current liabilities	<u>8,101</u>	<u>8,639</u>
Total current liabilities	49,848	52,657
Senior secured notes and bonds	146,289	164,475
Due to affiliates	2,504	2,626
Deferred income taxes	80,324	80,975
Other long-term liabilities	<u>2,840</u>	<u>2,856</u>
Total liabilities	281,805	303,589
Commitments and contingencies (Note 4)		
Owners' equity	<u>542,771</u>	<u>499,839</u>
<b>Total liabilities and owners' equity</b>	<u><u>\$ 824,576</u></u>	<u><u>\$ 803,428</u></u>

The accompanying notes are an integral part of these combined 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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Operating revenue</b>	\$ <u>75,332</u>	\$ <u>78,308</u>	\$ <u>179,460</u>	\$ <u>175,281</u>
<b>Operating costs and expenses:</b>				
Royalty, operating, general and administrative expense	25,583	24,367	80,936	85,100
Depreciation and amortization	<u>14,349</u>	<u>13,517</u>	<u>43,545</u>	<u>46,317</u>
Total operating costs and expenses	<u>39,932</u>	<u>37,884</u>	<u>124,481</u>	<u>131,417</u>
<b>Operating income</b>	<u>35,400</u>	<u>40,424</u>	<u>54,979</u>	<u>43,864</u>
<b>Other income (expense):</b>				
Interest expense	(3,496)	(4,076)	(10,924)	(12,694)
Interest and other income	<u>183</u>	<u>572</u>	<u>353</u>	<u>1,601</u>
Total other income (expense)	<u>(3,313)</u>	<u>(3,504)</u>	<u>(10,571)</u>	<u>(11,093)</u>
<b>Income before income tax expense (benefit)</b>	32,087	36,920	44,408	32,771
Income tax expense (benefit)	<u>3,714</u>	<u>(6,459)</u>	<u>1,473</u>	<u>2,660</u>
<b>Net income</b>	<u>28,373</u>	<u>43,379</u>	<u>42,935</u>	<u>30,111</u>
<b>Other comprehensive (loss) income -</b>				
Unrecognized amounts on retirement benefits, net of tax of \$(1), \$3, \$(2) and \$10	<u>(1)</u>	<u>5</u>	<u>(3)</u>	<u>15</u>
<b>Comprehensive income</b>	<u>\$ 28,372</u>	<u>\$ 43,384</u>	<u>\$ 42,932</u>	<u>\$ 30,126</u>

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

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

	<b>Nine-Month Periods Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 42,935	\$ 30,111
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	43,545	46,317
Provision for deferred income taxes	(649)	1,095
Amortization of deferred financing costs	310	435
Changes in other operating assets and liabilities:		
Trade receivables	(15,772)	(17,999)
Inventories	(2,451)	645
Due to affiliates, net	(400)	7,105
Other current assets	(90)	(49)
Accounts payable and other current liabilities	<u>9,889</u>	<u>10,471</u>
Net cash flows from operating activities	<u>77,317</u>	<u>78,131</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(44,302)	(48,805)
Decrease in restricted cash	<u>81</u>	<u>135</u>
Net cash flows from investing activities	<u>(44,221)</u>	<u>(48,670)</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured notes and bonds	(13,106)	(14,033)
Distributions	<u>-</u>	<u>(18)</u>
Net cash flows from financing activities	<u>(13,106)</u>	<u>(14,051)</u>
<b>Net change in cash and cash equivalents</b>	19,990	15,410
<b>Cash and cash equivalents at beginning of period</b>	<u>22,430</u>	<u>20,066</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 42,420</u>	<u>\$ 35,476</u>

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**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF CHANGES IN OWNERS' EQUITY (Unaudited)**  
(In thousands)

	<b>Owners' Equity</b>	<b>Accumulated Other Comprehensive Loss, Net</b>	<b>Total</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)	-	(18)
<b>Balance, September 30, 2008</b>	<u>\$ 501,171</u>	<u>\$ (1,626)</u>	<u>\$ 499,545</u>
<b>Balance, January 1, 2009</b>	\$ 502,593	\$ (2,754)	\$ 499,839
Net income	42,935	-	42,935
Other comprehensive loss	-	(3)	(3)
<b>Balance, September 30, 2009</b>	<u>\$ 545,528</u>	<u>\$ (2,757)</u>	<u>\$ 542,771</u>

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

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

**1. General**

Salton Sea Funding Corporation (“Funding Corporation”), which was formed on June 20, 1995, is a special purpose Delaware corporation and was organized for the sole purpose of acting as issuer of senior secured notes and bonds. On July 21, 1995, June 20, 1996, and October 31, 1998, Funding Corporation issued \$475.0 million, \$135.0 million and \$285.0 million, respectively, of separate series of Senior Secured Notes and Bonds (collectively, the “Securities”). Funding Corporation is a wholly-owned subsidiary of Magma Power Company (“Magma”), which in turn is a wholly-owned subsidiary of CE Generation, LLC (“CE Generation”). CE Generation is equally owned by MidAmerican Energy Holdings Company (“MEHC”), a consolidated 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 LLC (“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 Combined Financial Statements as of September 30, 2009, and for the three- and nine-month periods ended September 30, 2009 and 2008. The results of operations for the three- and nine-month periods ended

September 30, 2009 are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events through November 13, 2009, which is the date the unaudited Combined Financial Statements were available to be issued.

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

The preparation of the unaudited Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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, 2008 describes the most significant accounting policies used in the preparation of the Combined Financial Statements. There have been no significant changes in the Company's assumptions regarding significant accounting estimates and policies during the nine-month period ended September 30, 2009.

## 2. Property, Plant and Equipment, Net

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

	Depreciable Life	As of	
		September 30, 2009	December 31, 2008
Power plants	5 to 30 years	\$ 919,780	\$ 908,095
Wells and resource development	2 to 30 years	<u>238,916</u>	<u>240,347</u>
Total operating assets		1,158,696	1,148,442
Accumulated depreciation		<u>(592,992)</u>	<u>(570,197)</u>
Property, plant and equipment, net		<u>\$ 565,704</u>	<u>\$ 578,245</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$0.9 million and \$4.7 million during the nine-month periods ended September 30, 2009 and 2008, 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, 2009 or 2008.

## 3. Intangible Assets, Net

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

	Amortization Life	As of September 30, 2009		As of December 31, 2008	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 176,959	\$ 216,935	\$ 174,257
Patented technology	24 years	<u>46,290</u>	<u>28,582</u>	<u>46,290</u>	<u>27,135</u>
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 205,541</u>	<u>\$ 263,225</u>	<u>\$ 201,392</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended September 30, 2009 and 2008, and \$4.2 million for each of the nine-month periods ended September 30, 2009 and 2008. The Company expects amortization expense on acquired intangible assets to be \$1.3 million for the remaining three months in 2009 and \$5.5 million in 2010 through 2013.

#### **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, 2009 and December 31, 2008 was \$0.7 million and \$1.0 million, respectively, and is included in other current liabilities on the Combined Balance Sheets. Environmental remediation liabilities that separately result from the normal operation of long-lived assets and that are legal obligations associated with the retirement of those assets are separately accounted for as asset retirement obligations.

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

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors’ power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed were \$1.8 million and \$1.9 million for the three-month periods ended September 30, 2009 and 2008, respectively, and were \$4.4 million for each of the nine-month periods ended September 30, 2009 and 2008.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed were \$2.7 million and \$2.9 million for the three-month periods ended September 30, 2009 and 2008, respectively, and were \$8.1 million and \$7.8 million for the nine-month periods ended September 30, 2009 and 2008, 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 contributions to the various plans were \$0.1 million and \$0.3 million for the three-month periods ended September 30, 2009 and 2008, respectively, and \$1.1 million and \$1.3 million for the nine-month periods ended September 30, 2009 and 2008, respectively. 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 Project and the Salton Sea V Project. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed were \$0.6 million for each of the three-month periods ended September 30, 2009 and 2008 and \$1.3 million for each of the nine-month periods ended September 30, 2009 and 2008.

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. Effective August 7, 2006 through May 31, 2009, up to 26 megawatts (“MW”) of available power from the Salton Sea V Project was sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. The TransAlta Transaction Agreement expired May 31, 2009. Pursuant to this agreement, sales to TransAlta totaled \$- million and \$5.0 million for the three- and nine-month periods ended September 30, 2009, respectively, and \$3.1 million and \$8.6 million for the three- and nine-month periods ended September 30, 2008, respectively. As of December 31, 2008, the trade receivable balance from TransAlta was \$1.0 million.

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 for the three- and nine-month periods ended September 30, 2008, respectively. As of December 31, 2008, the trade receivable balance from TransAlta Marketing was \$0.2 million.

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

Accumulated other comprehensive loss, net consists of unrecognized amounts on retirement benefits of \$2.7 million, net of tax of \$1.9 million, as of September 30, 2009 and December 31, 2008.

## 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. Explanations include management's best estimate of the impact of weather and other factors. This discussion should be read in conjunction with the Company's historical unaudited Combined Financial Statements and the notes thereto 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 undertakes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors should not be construed as exclusive.

### Results of Operations

#### *Operating Revenue*

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2008 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:

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Operating revenue	\$75.4	\$78.3	\$179.5	\$175.3
Overall capacity factor	95.7%	99.2%	93.9%	89.7%
MWh produced	689,700	715,000	2,007,200	1,924,500
Facility net capacity (MW) (weighted average)	326.4	326.4	326.4	326.4

Operating revenue for the third quarter of 2009 decreased \$2.9 million, or 3.7%, from the comparable period in 2008 primarily due to the following:

- \$1.9 million decrease due to a 3.5% decrease in energy production. The energy production decrease primarily results from the timing of scheduled maintenance.
- \$0.6 million decrease due to lower energy rates at certain Imperial Valley Projects.
- \$0.5 million decrease in Green Tag revenue due to the expiration of the Company's related party contract with TransAlta Marketing. Refer to Note 5 of Notes to Combined Financial Statements included elsewhere in this report.

Operating revenue for the first nine months of 2009 increased \$4.2 million, or 2.4%, from the comparable period in 2008 primarily due to the following:

- \$5.5 million increase due to a 4.3% increase in energy production. The energy production increase primarily results from fewer scheduled maintenance activities.
- \$1.5 million decrease in Green Tag revenue due to the expiration of the Company's related party contract with TransAlta Marketing. Refer to Note 5 of Notes to Combined Financial Statements included elsewhere in this report.

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

Royalty, operating, general, and administrative expense increased \$1.2 million, or 4.9%, to \$25.6 million for the third quarter of 2009 from \$24.4 million for the comparable period in 2008 due primarily to higher acid and scale disposal costs.

Royalty, operating, general, and administrative expense decreased \$4.2 million, or 4.9%, to \$80.9 million for the first nine months of 2009 from \$85.1 million for the comparable period in 2008 due primarily to the timing and scope of scheduled maintenance, partially offset by higher acid and scale disposal costs.

#### *Depreciation and Amortization*

Depreciation and amortization increased \$0.8 million, or 5.9%, to \$14.3 million for the third quarter of 2009 from \$13.5 million for the comparable period in 2008 due primarily to additional capital placed in service.

Depreciation and amortization decreased \$2.8 million, or 6.0%, to \$43.5 million for the first nine months of 2009 from \$46.3 million for the comparable period in 2008. The decrease was due primarily to the timing of the 2008 plug and abandonment of a production well that delivered brine to certain Imperial Valley Projects and comparably longer lives of production pipeline replacement given the higher quality of material used at certain Imperial Valley Projects, partially offset by additional capital placed in service.

### *Interest Expense*

Interest expense for the third quarter and for the first nine months of 2009 decreased \$0.6 million to \$3.5 million and \$1.8 million to \$10.9 million, respectively, from the comparable periods in 2008 due to lower outstanding debt balances.

### *Interest and Other Income*

Interest and other income for the third quarter and first nine months of 2009 decreased \$0.4 million to \$0.2 million and \$1.2 million to \$0.4 million, respectively, from the comparable periods in 2008 due primarily to lower average interest rates.

### *Income Tax Expense (Benefit)*

Income tax expense (benefit) was \$3.7 million and \$(6.5) million for the third quarter of 2009 and 2008, respectively. The change was due primarily to a decrease in depletion and net energy credits relative to projected annual book income and an increase in energy credit valuation.

Income tax expense was \$1.5 million and \$2.7 million for the first nine months of 2009 and 2008, respectively. The change was due primarily to an increase in depletion and net energy credits relative to projected annual book income, partially offset by an increase in the pre-tax income from entities subject to U.S. federal income tax.

### Liquidity and Capital Resources

Net cash flows from operating activities for the nine-month periods ended September 30, 2009 and 2008 were \$77.3 million and \$78.1 million, respectively, due primarily to changes in working capital items, partially offset by higher earnings related to fewer scheduled maintenance activities.

Net cash flows from investing activities for the nine-month periods ended September 30, 2009 and 2008 were \$(44.2) million and \$(48.7) million, respectively. The change is due to lower capital expenditures in 2009.

Forecasted capital expenditures for 2009 are approximately \$57 million. 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 in 2009 than historical expenditures. The Company expects to meet these capital expenditure needs with cash flows from operations.

Net cash flows from financing activities for the nine-month periods ended September 30, 2009 and 2008 were \$(13.1) million and \$(14.1) million, respectively, due primarily to lower scheduled debt repayments.

### Environmental Matters

Refer to Note 4 of Notes to Combined Financial Statements included elsewhere in this report and the “Environmental Matters” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s annual report for the year ended December 31, 2008 for additional information regarding certain environmental matters affecting the Company’s operations.

### *Climate Change*

As a result of increased attention to global climate change in the United States, there are significant future environmental regulations under consideration to increase the deployment of clean energy technologies and regulate emissions of greenhouse gases at the state, regional and federal levels. Congress and federal policy makers are considering climate change legislation and a variety of national climate change policies, such as the American Clean Energy and Security Act of 2009 (“Waxman-Markey bill”). In addition, governmental and nongovernmental organizations and others have become more active in initiating litigation under existing environmental and other laws.

In June 2009, the United States House of Representatives passed the Waxman-Markey bill, introduced by Representatives Henry Waxman and Edward Markey. In addition to a federal renewable portfolio standard, which would require utilities to

obtain a portion of their energy from certain qualifying renewable sources, and energy efficiency measures, the bill requires a reduction in greenhouse gas emissions beginning in 2012, with emission reduction targets of 3% below 2005 levels by 2012; 17% below 2005 levels by 2020; 42% below 2005 levels by 2030; and 83% below 2005 levels by 2050 under a “cap and trade” program. In September 2009 a similar bill was introduced in the United States Senate by Senators Barbara Boxer and John Kerry, which would require a reduction in greenhouse gas emissions beginning in 2012 with emission reduction targets consistent with the Waxman-Markey bill, with the exception of the 2020 target, which requires 20% reductions below 2005 levels. If the Waxman-Markey bill or some other federal comprehensive climate change bill were to pass both Houses of Congress and be signed into law by the President, the impact on the Company’s financial performance could be material and would depend on a number of factors, including the required timing and level of greenhouse gas reductions, the price and availability of offsets and allowances used for compliance and the ability of the Company to receive revenue from customers for increased costs. The new law would likely result in increased operating costs and expenses and additional capital expenditures. To the extent the Company is not allowed to receive revenue from customers or cannot otherwise recover the costs to comply with climate change requirements, these requirements could have a material adverse impact on the Company’s consolidated financial results.

In April 2009, the United States Environmental Protection Agency (the “EPA”) issued a proposed finding, in response to the United States Supreme Court’s 2007 decision in the case of *Massachusetts v. EPA*, that under Section 202(a) of the Clean Air Act six greenhouse gases – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – threaten the public health and welfare of current and future generations. The finding does not include any proposed regulations regarding greenhouse gas emissions; however, such regulatory or legislative action could have a significant adverse impact on the Company’s generating facilities. In September 2009, in anticipation of the regulation of greenhouse gases under Section 202(a) of the Clean Air Act, the EPA released a proposed greenhouse gas “tailoring” rule which would require new or modified facilities with increased greenhouse gas emissions in excess of 25,000 tons per year of carbon dioxide equivalent emissions to undergo a best available control technology review. In addition, the proposal would require the incorporation of greenhouse gas emissions under Title V operating permits.

#### Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see the “Quantitative and Qualitative Disclosures About Market Risk” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s annual report for the year ended December 31, 2008. The Company’s exposure to market risk and its management of such risk has not changed materially since December 31, 2008.

## 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 13, 2009

/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 13, 2009

/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, 2009**  
(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	\$ -	\$ 1	\$ -	\$ 42,419	\$ 42,420
Trade receivables	22,110	25,631	-	-	47,741
Inventories	-	21,405	-	-	21,405
Other current assets	656	768	-	108	1,532
Total current assets	<u>22,766</u>	<u>47,805</u>	<u>-</u>	<u>42,527</u>	<u>113,098</u>
Property, plant and equipment, net	323,619	242,085	-	-	565,704
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	17,257	32,941	7,486	-	57,684
Other assets	540	558	-	-	1,098
<b>Total assets</b>	<u><u>\$ 364,182</u></u>	<u><u>\$ 379,917</u></u>	<u><u>\$ 37,950</u></u>	<u><u>\$ 42,527</u></u>	<u><u>\$ 824,576</u></u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 1,484	\$ 4,450	\$ -	\$ -	\$ 5,934
Accrued interest	2,413	2,110	-	-	4,523
Current portion of secured project notes	21,921	9,369	-	(31,290)	-
Current portion of senior secured notes and bonds	-	-	-	31,290	31,290
Other current liabilities	1,496	6,606	(1)	-	8,101
Total current liabilities	<u>27,314</u>	<u>22,535</u>	<u>(1)</u>	<u>-</u>	<u>49,848</u>
Secured project notes	73,903	72,386	-	(146,289)	-
Senior secured notes and bonds	-	-	-	146,289	146,289
Due to affiliates	1,095	(3,543)	-	4,952	2,504
Deferred income taxes	16,420	63,904	-	-	80,324
Other long-term liabilities	-	2,805	-	35	2,840
Total liabilities	<u>118,732</u>	<u>158,087</u>	<u>(1)</u>	<u>4,987</u>	<u>281,805</u>
Owners' equity:					
Owners' equity	245,450	224,587	37,951	37,540	545,528
Accumulated other comprehensive loss, net	-	(2,757)	-	-	(2,757)
Total owners' equity	<u>245,450</u>	<u>221,830</u>	<u>37,951</u>	<u>37,540</u>	<u>542,771</u>
<b>Total liabilities and owners' equity</b>	<u><u>\$ 364,182</u></u>	<u><u>\$ 379,917</u></u>	<u><u>\$ 37,950</u></u>	<u><u>\$ 42,527</u></u>	<u><u>\$ 824,576</u></u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**  
**AS OF DECEMBER 31, 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>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 4	\$ -	\$ 22,426	\$ 22,430
Trade receivables	15,171	15,635	-	-	30,806
Trade receivables from affiliate	1,163	-	-	-	1,163
Inventories	-	18,954	-	-	18,954
Other current assets	640	824	-	52	1,516
Total current assets	<u>16,974</u>	<u>35,417</u>	<u>-</u>	<u>22,478</u>	<u>74,869</u>
Property, plant and equipment, net	337,171	241,074	-	-	578,245
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	18,120	35,610	8,103	-	61,833
Other assets	711	778	-	-	1,489
<b>Total assets</b>	<u>\$ 372,976</u>	<u>\$ 369,407</u>	<u>\$ 38,567</u>	<u>\$ 22,478</u>	<u>\$ 803,428</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 6,071	\$ 10,520	\$ -	\$ -	\$ 16,591
Accrued interest	677	540	-	-	1,217
Current portion of secured project notes	22,501	3,709	-	(26,210)	-
Current portion of senior secured notes and bonds	-	-	-	26,210	26,210
Other current liabilities	2,655	5,971	1	12	8,639
Total current liabilities	<u>31,904</u>	<u>20,740</u>	<u>1</u>	<u>12</u>	<u>52,657</u>
Secured project notes	84,574	79,901	-	(164,475)	-
Senior secured notes and bonds	-	-	-	164,475	164,475
Due to affiliates	1,102	1,524	-	-	2,626
Deferred income taxes	15,779	65,196	-	-	80,975
Other long-term liabilities	315	2,524	-	17	2,856
Total liabilities	<u>133,674</u>	<u>169,885</u>	<u>1</u>	<u>29</u>	<u>303,589</u>
Owners' equity:					
Owners' equity	239,302	202,276	38,566	22,449	502,593
Accumulated other comprehensive loss, net	-	(2,754)	-	-	(2,754)
Total owners' equity	<u>239,302</u>	<u>199,522</u>	<u>38,566</u>	<u>22,449</u>	<u>499,839</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 372,976</u>	<u>\$ 369,407</u>	<u>\$ 38,567</u>	<u>\$ 22,478</u>	<u>\$ 803,428</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2009**  
(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>	\$ 88,502	\$ 90,958	\$ 10,756	\$ (10,756)	\$ 179,460
<b>Operating costs and expenses:</b>					
Royalty, operating, general and administrative expense	41,642	47,186	2,788	(10,680)	80,936
Depreciation and amortization	21,288	21,640	617	-	43,545
Total operating costs and expenses	<u>62,930</u>	<u>68,826</u>	<u>3,405</u>	<u>(10,680)</u>	<u>124,481</u>
<b>Operating income (loss)</b>	<u>25,572</u>	<u>22,132</u>	<u>7,351</u>	<u>(76)</u>	<u>54,979</u>
<b>Other income (expense):</b>					
Interest expense	(5,971)	(4,953)	-	-	(10,924)
Interest and other income	-	327	-	26	353
Total other income (expense)	<u>(5,971)</u>	<u>(4,626)</u>	<u>-</u>	<u>26</u>	<u>(10,571)</u>
<b>Income (loss) before income tax expense (benefit)</b>	19,601	17,506	7,351	(50)	44,408
Income tax expense (benefit)	959	535	-	(21)	1,473
<b>Net income (loss)</b>	<u>\$ 18,642</u>	<u>\$ 16,971</u>	<u>\$ 7,351</u>	<u>\$ (29)</u>	<u>\$ 42,935</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 Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 88,953	\$ 86,328	\$ 10,370	\$ (10,370)	\$ 175,281
<b>Operating 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 operating 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 income tax expense (benefit)</b>	22,814	2,662	7,036	259	\$ 32,771
Income tax expense (benefit)	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 CASH FLOWS (Unaudited)**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2009**  
(in thousands)

EXHIBIT A (Continued)

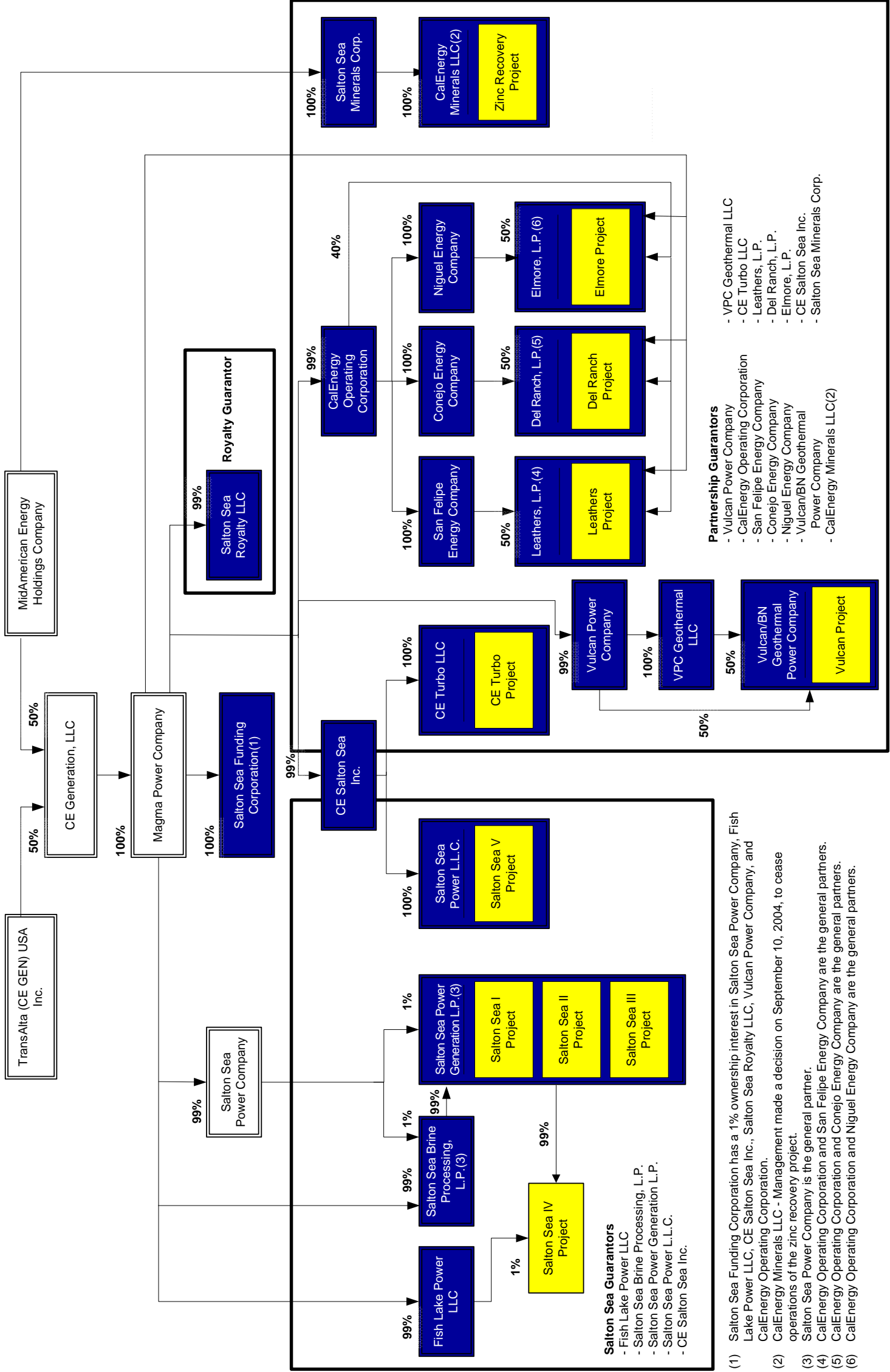
	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ 18,642	\$ 16,971	\$ 7,351	\$ (29)	\$ 42,935
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	21,288	21,640	617	-	43,545
Provision for deferred income taxes	641	(1,290)	-	-	(649)
Amortization of deferred financing costs	171	139	-	-	310
Changes in other operating assets and liabilities:					
Trade receivables	(5,776)	(9,996)	-	-	(15,772)
Inventories	-	(2,451)	-	-	(2,451)
Due to affiliates, net	(12,501)	(5)	(7,966)	20,072	(400)
Other current assets	(16)	(18)	-	(56)	(90)
Accounts payable and other current liabilities	732	9,153	(2)	6	9,889
Net cash flows from operating activities	<u>23,181</u>	<u>34,143</u>	<u>-</u>	<u>19,993</u>	<u>77,317</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(11,930)	(32,372)	-	-	(44,302)
Decrease in restricted cash	-	81	-	-	81
Net cash flows from investing activities	<u>(11,930)</u>	<u>(32,291)</u>	<u>-</u>	<u>-</u>	<u>(44,221)</u>
<b>Cash flows from financing activities:</b>					
Repayment of senior secured notes and bonds	(11,251)	(1,855)	-	-	(13,106)
Net cash flows from financing activities	<u>(11,251)</u>	<u>(1,855)</u>	<u>-</u>	<u>-</u>	<u>(13,106)</u>
<b>Net change in cash and cash equivalents</b>	-	(3)	-	19,993	19,990
<b>Cash and cash equivalents at beginning of period</b>	-	4	-	22,426	22,430
<b>Cash and cash equivalents at end of period</b>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 42,419</u>	<u>\$ 42,420</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 operating assets and liabilities:					
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 current 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)
Decrease in restricted cash	-	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 beginning of period</b>	-	24	-	20,042	20,066
<b>Cash and cash equivalents at end of period</b>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 35,470</u>	<u>\$ 35,476</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.