



SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements and Independent Auditors' Report

As of December 31, 2010 and 2009 and for each of the

Three Years in the Period Ended December 31, 2010

TABLE OF CONTENTS

Independent Auditors' Report	3
Combined Balance Sheets	4
Combined Statements of Operations	5
Combined Statements of Cash Flows	6
Combined Statements of Changes in Owners' Equity	7
Combined Statements of Comprehensive (Loss) Income	8
Notes to Combined Financial Statements	9
Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Additional Information:	
Exhibit A – Combining Financial Statements	
Exhibit B – Salton Sea Funding Corporation and Guarantors – Organization Chart	

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined balance sheets of Salton Sea Funding Corporation and Guarantors (the "Company") as of December 31, 2010 and 2009, and the related combined statements of operations, cash flows, changes in owners' equity, and comprehensive (loss) income for each of the three years in the period ended December 31, 2010. The combined financial statements include the accounts of the companies disclosed in Note 1. These companies are under common ownership and common management. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of Salton Sea Funding Corporation and Guarantors as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional combining financial statement information included in Exhibit A is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as whole.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
March 25, 2011

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED BALANCE SHEETS

(In thousands)

ASSETS	As of December 31,	
	2010	2009
Current assets:		
Cash and cash equivalents	\$ 6,014	\$ 14,398
Trade receivables	31,304	30,403
Inventories	24,100	23,824
Deferred income taxes	3,548	2,687
Other current assets	1,194	1,421
Total current assets	66,160	72,733
Property, plant and equipment, net	542,058	562,443
Goodwill	86,992	86,992
Intangible assets, net	50,772	56,303
Other assets	657	995
Total assets	\$ 746,639	\$ 779,466
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,466	\$ 1,256
Accrued interest	866	1,045
Current portion of senior secured notes and bonds	19,990	26,741
Deferred income taxes	794	98
Other current liabilities	3,390	10,501
Total current liabilities	27,506	39,641
Senior secured notes and bonds	117,744	137,734
Due to affiliates	1,428	1,462
Deferred income taxes	154,425	82,410
Other long-term liabilities	432	3,234
Total liabilities	301,535	264,481
Commitments and contingencies (Note 8)		
Owners' equity	445,104	514,985
Total liabilities and owners' equity	\$ 746,639	\$ 779,466

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENTS OF OPERATIONS

(In thousands)

	Years Ended December 31,		
	2010	2009	2008
Operating revenue	<u>\$ 224,571</u>	<u>\$ 229,648</u>	<u>\$ 227,722</u>
Operating costs and expenses:			
Royalty, operating, general and administrative expense	111,640	107,985	109,948
Depreciation and amortization	<u>60,898</u>	<u>58,939</u>	<u>59,855</u>
Total operating costs and expenses	<u>172,538</u>	<u>166,924</u>	<u>169,803</u>
Operating income	<u>52,033</u>	<u>62,724</u>	<u>57,919</u>
Other income (expense):			
Interest expense	(11,897)	(14,333)	(16,693)
Interest and other income	<u>413</u>	<u>547</u>	<u>1,808</u>
Total other income (expense)	<u>(11,484)</u>	<u>(13,786)</u>	<u>(14,885)</u>
Income before income tax expense (benefit)	40,549	48,938	43,034
Income tax expense (benefit)	<u>80,747</u>	<u>(1,627)</u>	<u>3,713</u>
Net (loss) income	<u>\$ (40,198)</u>	<u>\$ 50,565</u>	<u>\$ 39,321</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net (loss) income	\$(40,198)	\$ 50,565	\$ 39,321
Adjustments to reconcile net (loss) income to net cash flows from operating activities:			
Depreciation and amortization	60,898	58,939	59,855
Provision for deferred income taxes	71,379	(2,380)	1,915
Amortization of deferred financing costs	267	413	580
Changes in other operating assets and liabilities:			
Trade receivables	(901)	1,566	(296)
Inventories	(276)	(4,870)	748
Due to affiliates, net	18,407	(645)	6,856
Other current assets	227	21	61
Accounts payable and other liabilities	(5,070)	5,919	(1,659)
Net cash flows from operating activities	<u>104,733</u>	<u>109,528</u>	<u>107,381</u>
Cash flows from investing activities:			
Capital expenditures	(37,601)	(56,333)	(58,799)
Decrease in restricted cash	<u>75</u>	<u>81</u>	<u>135</u>
Net cash flows from investing activities	<u>(37,526)</u>	<u>(56,252)</u>	<u>(58,664)</u>
Cash flows from financing activities:			
Repayment of senior secured notes and bonds	(26,741)	(26,210)	(28,066)
Distributions	<u>(48,850)</u>	<u>(35,098)</u>	<u>(18,287)</u>
Net cash flows from financing activities	<u>(75,591)</u>	<u>(61,308)</u>	<u>(46,353)</u>
Net change in cash and cash equivalents	(8,384)	(8,032)	2,364
Cash and cash equivalents at beginning of year	<u>14,398</u>	<u>22,430</u>	<u>20,066</u>
Cash and cash equivalents at end of year	<u>\$ 6,014</u>	<u>\$ 14,398</u>	<u>\$ 22,430</u>
Supplemental disclosure:			
Interest paid	<u>\$ 11,809</u>	<u>\$ 14,084</u>	<u>\$ 16,256</u>
Income taxes paid (received)	<u>\$ 12,170</u>	<u>\$ (255)</u>	<u>\$ 1,798</u>
Non-cash investing transactions -			
Property, plant, and equipment additions in accounts payable	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 8,043</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENTS OF CHANGES IN OWNERS' EQUITY

(In thousands)

	Owners' Equity	Accumulated Other Comprehensive Loss, Net	Total Equity
Balance, January 1, 2008	\$ 471,078	\$ (1,641)	\$ 469,437
Net income	39,321	-	39,321
Other comprehensive loss	-	(1,113)	(1,113)
Distributions	(7,806)	-	(7,806)
Balance, December 31, 2008	502,593	(2,754)	499,839
Net income	50,565	-	50,565
Other comprehensive income	-	1,646	1,646
Distributions	(37,065)	-	(37,065)
Balance, December 31, 2009	516,093	(1,108)	514,985
Net loss	(40,198)	-	(40,198)
Other comprehensive income	-	885	885
Distributions	(30,568)	-	(30,568)
Balance, December 31, 2010	<u>\$ 445,327</u>	<u>\$ (223)</u>	<u>\$ 445,104</u>

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

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

(In thousands)

	<u>Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net (loss) income	\$ (40,198)	\$ 50,565	\$ 39,321
Other comprehensive income (loss), net of tax-			
Unrecognized amounts on retirement benefits, net of tax of			
\$467, \$1,226 and \$(579)	<u>885</u>	<u>1,646</u>	<u>(1,113)</u>
Comprehensive (loss) income	<u>\$ (39,313)</u>	<u>\$ 52,211</u>	<u>\$ 38,208</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS NOTES TO COMBINED FINANCIAL STATEMENTS

1. Organization and Operations

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 (CE Gen) 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 Company, Salton Sea Power L.L.C. (“Salton Sea Power”), and Fish Lake Power LLC, together owning a 100% interest in five operating geothermal electric power generating plants located in the Imperial Valley of California commonly known as the Salton Sea I Project, the Salton Sea II Project, the Salton Sea III Project, the Salton Sea IV Project and the Salton Sea V Project (collectively, the “Salton Sea Projects”), (2) Salton Sea Brine Processing Company, and (3) CE Salton Sea Inc. (collectively, the “Salton Sea Guarantors”).

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

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

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

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

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

<u>Operating Project</u>	<u>Facility Net Capacity (MW)⁽¹⁾</u>	<u>Location</u>	<u>Power Purchase Agreement Expiration</u>	<u>Power Purchaser⁽²⁾</u>
Salton Sea Projects:				
Salton Sea I Project	10	California	2017	Edison
Salton Sea II Project	20	California	2020	Edison
Salton Sea III Project	50	California	2019	Edison
Salton Sea IV Project	40	California	2026	Edison
Salton Sea V Project	<u>49</u>	California	2020	Riverside
Total Salton Sea Projects	<u>169</u>			
Partnership Projects:				
Vulcan Project	34	California	2016	Edison
Elmore Project	38	California	2018	Edison
Leathers Project	38	California	2019	Edison
Del Ranch Project	38	California	2019	Edison
CE Turbo Project	<u>10</u>	California	2029	APS
Total Partnership Projects	<u>158</u>			
Total operating projects	<u>327</u>			

(1) Facility Net Capacity represents the nominal net megawatt (“MW”) capacity for each facility. Actual MW may vary depending on operating and reservoir conditions and plant design.

(2) Southern California Edison Company (“Edison”); Riverside Public Utilities (“Riverside”); and Arizona Public Service (“APS”).

2. Summary of Significant Accounting Policies

Basis of Presentation

The Combined Financial Statements include the accounts of Funding Corporation and the Guarantors (collectively, the “Company”) as Funding Corporation and the Guarantors are entities under common control and management. All transactions and accounts between and among Funding Corporation and the Guarantors have been eliminated. The Company has evaluated subsequent events through March 25, 2011, which is the date the Combined Financial Statements were available to be issued.

Use of Estimates in Preparation of Financial Statements

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

Cash Equivalents and Restricted Cash

Cash equivalents consist of funds invested in money market accounts and other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by legal requirements, loan agreements or other contractual provisions. Restricted amounts are included in other current assets and other assets on the Combined Balance Sheets.

Inventories

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

Property, Plant and Equipment, Net

General

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

Asset Retirement Obligations

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

Intangible Assets, Net

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

Impairment of Long-Lived Assets

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business acquisitions. The Company evaluates goodwill for impairment at least annually and completed its annual review as of October 31. Evaluating goodwill for impairment involves a two-step process. The first step is to estimate the fair value of the reporting unit. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, a second step is performed. Under the second step, the identifiable assets, including identifiable intangible assets, and liabilities of the reporting unit are estimated at fair value as of the current testing date. The excess of the estimated fair value of the reporting unit over the estimated fair value of net assets establishes the implied value of goodwill. The excess of the recorded goodwill over the implied value is charged to earnings as an impairment loss. A significant amount of judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests. The Company uses a variety of methods to estimate fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows; earnings before interest, taxes, depreciation and amortization multiples; and an appropriate discount rate. In estimating future cash flows, the Company incorporates current market information, as well as historical factors. As such, the determination of fair value incorporates significant unobservable inputs. During 2010, 2009 and 2008, the Company did not record any goodwill impairment.

Revenue Recognition and Significant Customers

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

90%, 88% and 88% of the Company’s sales of electricity were to Edison in 2010, 2009 and 2008, respectively. As of December 31, 2010 and 2009, trade receivables from Edison were \$29.1 million and \$28.4 million, respectively. Trade receivables are primarily uncollateralized receivables from long-term power purchase contracts and are stated at the outstanding principal amount, net of estimated allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company’s assessment of the collectability of amounts owed to the Company by its customers. This assessment requires judgment regarding the ability of customers to pay or the outcome of any pending disputes. As of December 31, 2010 and 2009, there was no allowance for doubtful accounts.

Unamortized Financing Costs

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

Income Taxes

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

Deferred tax assets and liabilities are based on differences between the financial statement and tax basis of assets and liabilities using estimated tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income are charged or credited directly to other comprehensive income. Other changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances are established for certain deferred tax assets where realization is not likely.

In determining the Company's income taxes, management is required to interpret complex tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the position. The tax benefit recognized in the Combined Financial Statements from each tax position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local tax examinations is uncertain, the Company believes it has made adequate provisions for these tax positions. The aggregate amount of any additional tax liabilities that may result from these examinations, if any, is not expected to have a material adverse affect on the Company's combined financial results. The Company's unrecognized tax benefits are primarily included in other long-term liabilities on the Combined Balance Sheets. Estimated interest and penalties, if any, related to uncertain tax positions are included as a component of income tax expense on the Combined Statements of Operations.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued authoritative guidance (which was codified into FASB Accounting Standards Codification Topic 810, "Consolidation," with the issuance of Accounting Standards Update No. 2009-17) that requires a primarily qualitative analysis to determine if an enterprise is the primary beneficiary of a variable interest entity. This analysis is based on whether the enterprise has (a) the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, enterprises are required to more frequently reassess whether an entity is a variable interest entity and whether the enterprise is the primary beneficiary of the variable interest entity. Finally, the guidance for consolidation or deconsolidation of a variable interest entity is amended and disclosure requirements about an enterprise's involvement with a variable interest entity are enhanced. The Company adopted this guidance as of January 1, 2010 and the adoption had no impact on the Company's combined financial results and disclosures included within Notes to Combined Financial Statements.

3. Property, Plant and Equipment, Net

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

	Depreciable Life	2010	2009
		<u> </u>	<u> </u>
Power plants	5 to 30 years	\$ 935,539	\$ 922,374
Wells and resource development	2 to 30 years	<u>264,249</u>	<u>245,726</u>
Total operating assets		1,199,788	1,168,100
Accumulated depreciation		<u>(657,730)</u>	<u>(605,657)</u>
Property, plant and equipment, net		<u>\$ 542,058</u>	<u>\$ 562,443</u>

The Company replaced certain pipe and equipment with a remaining net book value of \$2.3 million, \$2.2 million and \$4.7 million for the years ended December 31, 2010, 2009, and 2008, respectively, which was charged to depreciation expense on the Combined Statements of Operations.

4. Intangible Assets, Net

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

	Amortization Life	2010		2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power purchase and royalty contracts	4 to 30 years	\$ 216,935	\$ 181,460	\$ 216,935	\$ 177,856
Patented technology	24 years	<u>46,290</u>	<u>30,993</u>	<u>46,290</u>	<u>29,066</u>
Intangible assets, net		<u>\$ 263,225</u>	<u>\$ 212,453</u>	<u>\$ 263,225</u>	<u>\$ 206,922</u>

Amortization expense on acquired intangible assets was \$5.5 million for each of the years ended December 31, 2010, 2009 and 2008. The Company expects amortization expense on acquired intangible assets to be \$5.5 million for each of the five succeeding fiscal years.

5. Senior Secured Bonds

Funding Corporation's long-term debt consists of the following as of December 31 (in thousands):

	2010	2009
7.84% Series C Bonds, due 2010	\$ -	\$ 9,630
8.30% Series E Bonds, due 2011	11,322	24,822
7.48% Series F Bonds, due 2018	<u>126,412</u>	<u>130,023</u>
	<u>\$ 137,734</u>	<u>\$ 164,475</u>

The net revenues, equity distributions and royalties from the Imperial Valley Projects are used to pay principal and interest payments on outstanding senior secured bonds issued by Funding Corporation, the final series of which is scheduled to mature in November 2018. Funding Corporation debt is guaranteed by certain subsidiaries of Magma and secured by the capital stock of certain subsidiaries of CE Generation. The proceeds of Funding Corporation debt were loaned by Funding Corporation pursuant to loan agreements and notes (the "Imperial Valley Project Loans") to certain subsidiaries of Magma and used for the construction of certain Imperial Valley Projects, refinancing of certain indebtedness and other purposes. Debt service on the Imperial Valley Project Loans is used to repay debt service on Funding Corporation debt. The Imperial Valley Project Loans and the guarantees of Funding Corporation debt are secured by substantially all of the assets of the Guarantors, including the Imperial Valley Projects, and by the equity interests in the Guarantors. The Imperial Valley Project Loans also require Funding Corporation to maintain certain covenants. Funding Corporation was in compliance with these requirements at December 31, 2010.

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of \$19.3 million at December 31, 2010.

The annual repayments of Funding Corporation's debt for the years beginning January 1, 2011 and thereafter are as follows (in thousands):

2011	\$ 19,990
2012	16,614
2013	14,664
2014	17,337
2015	18,925
Thereafter	<u>50,204</u>
Total	<u>\$ 137,734</u>

6. Income Taxes

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current:			
Federal	\$ 6,899	\$ 555	\$ 2,633
State	<u>2,469</u>	<u>198</u>	<u>(835)</u>
	<u>9,368</u>	<u>753</u>	<u>1,798</u>
Deferred:			
Federal	57,711	(1,871)	1,309
State	<u>13,668</u>	<u>(509)</u>	<u>606</u>
	<u>71,379</u>	<u>(2,380)</u>	<u>1,915</u>
Total	<u>\$ 80,747</u>	<u>\$ (1,627)</u>	<u>\$ 3,713</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	0.4	0.3	(2.4)
Percentage depletion	(20.7)	(8.1)	(10.5)
Energy tax credits	0.1	(9.2)	(5.6)
Change in valuation allowance	(10.6)	4.2	10.2
Production activities deduction	(2.3)	-	0.2
Partnership earnings	-	(25.6)	(34.2)
Interest expense adjustment	4.8	-	16.3
Deferred tax adjustment due to the Conversions	190.3	-	-
Other, net	<u>2.1</u>	<u>0.1</u>	<u>(0.4)</u>
Effective income tax rate	<u>199.1%</u>	<u>(3.3)%</u>	<u>8.6%</u>

Effective January 1, 2010, the Guarantors' elected to convert seven partnerships to corporations ("the Conversions"). The Conversions were effected for the purpose of optimizing the organizational structure of the Company, CE Generation and its affiliates under existing federal and state tax laws and regulations. By doing so, the Company, CE Generation and its affiliates are able to recognize certain benefits under existing federal and state tax laws which they were unable to realize under their previous form of organization. As of January 1, 2010 and consistent with its new form of organization, the Company incurred additional income tax expense of \$77.1 million related to the recognition of certain deferred income tax liabilities resulting from the Conversions.

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

	<u>2010</u>	<u>2009</u>
Deferred income tax assets:		
Accruals not currently deductible for tax purposes	\$ 872	\$ 610
Employee benefits	196	704
Net operating loss carryforwards	41,887	38,915
Federal and state credit carryforwards	<u>30,695</u>	<u>31,647</u>
Total deferred income tax assets	73,650	71,876
Valuation allowance	<u>(33,709)</u>	<u>(35,243)</u>
Total deferred income tax assets, net	<u>39,941</u>	<u>36,633</u>
Deferred income tax liabilities:		
Property, plant and equipment and intangible assets, net	<u>(191,608)</u>	<u>(116,454)</u>
Net deferred income tax liability	<u>\$ (151,667)</u>	<u>\$ (79,821)</u>
Reflected as:		
Current asset	\$ 3,548	\$ 2,687
Current liability	(794)	(98)
Non-current asset	4	-
Non-current liability	<u>(154,425)</u>	<u>(82,410)</u>
	<u>\$ (151,667)</u>	<u>\$ (79,821)</u>

As of December 31, 2010, the Company has available \$37.7 million of federal net operating loss carryforwards that begin to expire in 2021 and \$4.2 million of state net operating loss carryforwards that begin to expire in 2012 unless previously utilized. As of December 31, 2010, the Company has available \$22.8 million of federal energy tax credit carryforwards that begin to expire in 2020 unless previously utilized and \$6.3 million of federal alternative minimum tax credit carryforwards and \$1.6 million of state income tax credit carryforwards, both of which do not expire and will carryforward indefinitely until utilized.

The United States Internal Revenue Service has closed examination of the Company's income tax returns through 2003. In addition, state jurisdictions have closed examination of the Company's income tax returns through at least 2004.

As of December 31, 2010 and 2009, net unrecognized tax benefits totaled \$0.6 million and \$3.0 million, respectively, which included \$2.0 million and \$0.5 million, respectively, of tax positions that, if recognized, would have an impact on the effective tax rate. The remaining unrecognized tax benefits relate to tax positions for which ultimate deductibility is highly certain but for which there is uncertainty as to the timing of such deductibility. Recognition of these tax benefits, other than applicable interest and penalties, would not affect the Company's effective tax rate.

7. Fair Value Measurements

The carrying value of the Company's cash and cash equivalents, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity of these instruments. The Company's long-term debt is carried at cost on the Combined Financial Statements. The fair value of the Company's long-term debt has been estimated based upon quoted market prices. The following table presents the carrying value and estimated fair value of the Company's long-term debt as of December 31 (in thousands):

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Senior secured notes and bonds	<u>\$ 137,734</u>	<u>\$ 146,215</u>	<u>\$ 164,475</u>	<u>\$ 174,188</u>

8. Commitments and Contingencies

The California Power Exchange

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

Environmental Laws and Regulations

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

Accrued Environmental Costs

The Company is fully or partly responsible for environmental remediation at various contaminated sites, including sites that are or were part of the Company’s operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expenses are believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company’s proportionate responsibility, contractual indemnities and coverage provided by insurance policies. The liability recorded as of December 31, 2010 and 2009 was \$0.6 million and \$0.9 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.

9. Related Party Transactions

Funding Corporation made equity distributions of \$30.6 million, \$37.1 million and \$7.8 million for the years ended December 31, 2010, 2009 and 2008, respectively. The equity distributions represent the operating losses and capital expenditures of certain Guarantors previously funded by amounts held in the revenue account of Funding Corporation and amounts previously transferred to Magma pursuant to the terms and conditions of the debt of Funding Corporation.

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors’ power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed for the years ended December 31, 2010, 2009 and 2008 were \$5.5 million, \$5.7 million and \$5.8 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 expended for the years ended December 31, 2010, 2009 and 2008 were \$11.1 million, \$11.0 million and \$10.6 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 contributions to the various plans were \$1.6 million, \$1.5 million and \$1.8 million for the years ended December 31, 2010, 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 expended for the years ended December 31, 2010, 2009 and 2008 were \$1.6 million, \$1.6 million and \$1.7 million, respectively.

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

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 on May 31, 2009. Pursuant to this agreement, sales to TransAlta totaled \$5.0 million and \$11.7 million for the years ended December 31, 2009 and 2008, respectively.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation 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 \$2.1 million for the year ended December 31, 2008.

10. Components of Accumulated Other Comprehensive Loss, Net

Accumulated other comprehensive loss, net consists of unrecognized amounts on retirement benefits of \$0.2 million, net of tax of \$0.2 million, and \$1.1 million, net of tax of \$0.7 million, as of December 31, 2010 and 2009, respectively.

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

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

The Guarantors consist of the following legal entities:

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

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

Forward-Looking Statements

From time to time, the Company may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond the control of the Company or any of its subsidiaries individually. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of the Company's expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. These types of forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results and performance of the Company to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. The Company has identified important factors that could cause actual results to differ materially from those expectations, including weather effects on revenues and other operating uncertainties, uncertainties relating to economic and political conditions and uncertainties regarding the impact of regulations, changes in government policy and competition. The Company undertakes no obligation to 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 for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facility's net capacity. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions. The amount of revenues received by the projects is affected by the extent to which they are able to operate and generate electricity. Accordingly, the capacity and capacity factor figures provide information on operating performance that has affected the revenues received by the projects.

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

	Years Ended December 31,		
	2010	2009	2008
Operating revenue	\$224.6	\$229.6	\$227.7
Overall capacity factor	90.7%	94.8%	91.9%
Megawatt hours produced	2,593,200	2,710,800	2,635,400
Facility net capacity megawatts (weighted average)	326.4	326.4	326.4

Operating revenue at the Imperial Valley Projects decreased \$5.0 million, or 2.2%, for 2010 compared to 2009 primarily due to the following:

- \$6.9 million decrease due to a 4.3% decrease in energy production. The energy production decrease primarily resulted from equipment repairs at the Salton Sea Projects and the CE Turbo Project.
- \$1.9 million increase due to higher energy rates at certain Imperial Valley Projects.

Operating revenue at the Imperial Valley Projects increased \$1.9 million, or 0.8%, for 2009 compared to 2008 primarily due to the following:

- \$4.9 million increase due to a 2.9% increase in energy production. The energy production increase primarily resulted from the timing of scheduled maintenance.
- \$2.1 million decrease in Green Tag revenue due to the expiration of the Company's related party contract with TransAlta Marketing. Refer to Note 9 of Notes to Combined Financial Statements included elsewhere in this report.
- \$0.9 million decrease due to lower energy rates at certain Imperial Valley Projects.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general and administrative expense increased \$3.6 million, or 3.3%, to \$111.6 million for 2010 from \$108.0 million for 2009 primarily due to the scope and timing of scheduled maintenance, partially offset by lower acid and scale disposal costs at the Imperial Valley Projects.

Royalty, operating, general and administrative expense decreased \$1.9 million, or 1.7%, to \$108.0 million for 2009 from \$109.9 million for 2008 primarily due to the scope and timing of scheduled maintenance, partially offset by higher acid and scale disposal costs at the Imperial Valley Projects.

Depreciation and Amortization

Depreciation and amortization increased \$2.0 million, or 3.4%, to \$60.9 million for 2010 from \$58.9 million for 2009 primarily due to the timing of capital replacement projects and related asset abandonments at the Imperial Valley Projects.

Depreciation and amortization decreased \$1.0 million, or 1.7%, to \$58.9 million for 2009 from \$59.9 million for 2008 primarily due to comparably longer lives of production pipeline replacement given the higher quality of material used at certain Imperial Valley Projects.

Interest Expense

Interest expense decreased \$2.4 million to \$11.9 million for 2010 compared to 2009 and \$2.4 million to \$14.3 million for 2009 compared to 2008. The decreases were due to lower outstanding debt balances.

Interest and Other Income

Interest and other income decreased \$0.1 million to \$0.4 million for 2010 compared to 2009 and \$1.3 million to \$0.5 million for 2009 compared to 2008. The decreases were primarily due to lower average interest rates.

Income Tax Expense (Benefit)

Income tax expense (benefit) increased \$82.3 million to \$80.7 million for 2010 from \$(1.6) million for 2009. The effective tax rates were 199.1% and (3.3)% in 2010 and 2009, respectively. The increases in income tax expense and the effective tax rate were primarily due to the recognition of certain deferred income tax liabilities resulting from the conversion of seven partnerships to corporations (the "Conversions") effective January 1, 2010.

The Conversions were effected for the purpose of optimizing the organizational structure of the Company, CE Generation and its affiliates under existing federal and state tax laws and regulations. By doing so, the Company, CE Generation and its affiliates are able to recognize certain benefits under existing federal and state tax laws which they were unable to realize under their previous form of organization. Following January 1, 2010 and consistent with its new form of organization, the Company incurred additional income tax expense of \$77.1 million related to the recognition of certain deferred income tax liabilities resulting from the Conversions. Due to the Company's inclusion in the consolidated United States federal tax return and other state and federal jurisdictional returns with CE Generation and its affiliates, the Conversions will have no cash impact on the Company.

Income tax expense (benefit) decreased \$5.3 million to \$(1.6) million for 2009 from \$3.7 million for 2008. The effective tax rates were (3.3)% and 8.6% in 2009 and 2008, respectively. The decreases in income tax expense and the effective tax rate were primarily due to the interest expense adjustment in 2008 and additional energy tax credits generated in 2009.

Liquidity and Capital Resources

The Company's cash and cash equivalents were \$6.0 million as of December 31, 2010, compared to \$14.4 million as of December 31, 2009.

Net cash flows from operating activities for 2010 and 2009 were \$104.7 million and \$109.5 million, respectively. The decrease was primarily due to equipment repairs at the Salton Sea and CE Turbo Projects and timing of scheduled maintenance activities.

Net cash flows from investing activities for 2010 and 2009 were \$(37.5) million and \$(56.3) million, respectively. The decrease was due to lower capital expenditures related to pipeline replacement materials.

Forecasted capital expenditures for 2011 are approximately \$41 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company expects to meet these capital expenditure requirements with cash flows from operations.

Net cash flows from financing activities for 2010 and 2009 were \$(75.6) million and \$(61.3) million, respectively. The increase was due to higher cash distributions.

Environmental Laws and Regulations

The Company is subject to federal, state and local laws and regulations regarding water quality, climate change, hazardous and solid waste disposal and other environmental matters that have the potential to impact the Company's current and future operations. In addition to imposing continuing compliance obligations, these laws and regulations provide authority to levy substantial penalties for noncompliance including fines, injunctive relief and other sanctions. These laws and regulations are administered by the EPA and various other state and local agencies. All such laws and regulations are subject to a range of interpretation, which may ultimately be resolved by the courts. Environmental laws and regulations continue to evolve, and the Company is unable to predict the impact of the changing laws and regulations on its operations and combined financial results. The Company believes it is in material compliance with all applicable laws and regulations. Refer to Note 8 of Notes to Combined Financial Statements included elsewhere in this report for information regarding environmental contingencies.

Climate Change

The increased global attention to climate change has resulted in significant measures being proposed at the federal level to regulate greenhouse gas ("GHG") emissions. The United States Congress has considered, but has not adopted, comprehensive climate change legislation, which included a market-based cap-and-trade program that was intended to reduce GHG emissions 83% below 2005 levels by 2050.

In December 2009, the EPA published its findings that GHG threaten the public health and welfare and is pursuing regulation of GHG emissions under the Clean Air Act. Additionally, in May 2010, the EPA issued the greenhouse gas "tailoring rule" to address permitting requirements for GHG after determining that GHG are subject to regulation and would trigger Clean Air Act permitting requirements for stationary sources beginning in January 2011. Numerous lawsuits have been filed on both the EPA's endangerment finding and the tailoring rule and are pending in the D.C. Circuit.

The Company supports the implementation of reasonable emissions caps, but opposes trading mechanisms that impose additional costs and do not result in decreased emissions. The Company also believes that any law or regulation should provide a reasonable transition period to allow the phase in of low-carbon generating technologies that will achieve sustainable and cost-effective GHG emissions reduction benefits.

While the debate continues at the federal and international level over the direction of climate change policy, several states have developed or are developing state-specific laws or regional initiatives to report or mitigate GHG emissions. In addition, governmental, non-governmental and environmental organizations have become more active in pursuing climate change related litigation under existing laws.

The impact of pending federal, regional, state and international accords, legislation, regulation, or judicial proceedings related to climate change cannot be quantified in any meaningful range at this time. New requirements limiting GHG emissions could have a material adverse impact on the Company, the United States and the global economy. Companies and industries with higher GHG emissions, such as utilities with significant coal-fired generating facilities, will be subject to more direct impacts and greater financial and regulatory risks. The impact is dependent on numerous factors, none of which can be meaningfully quantified at this time. These factors include, but are not limited to, the magnitude and timing of GHG emissions reduction requirements; the design of the requirements; the cost, availability and effectiveness of emissions control technology; the price, distribution method and availability of offsets and allowances used for compliance; government-imposed compliance costs; and the existence and nature of incremental cost recovery mechanisms.

The impact of events or conditions caused by climate change, whether from natural processes or human activities, could vary widely, from highly localized to worldwide, and the extent to which the Company's operations may be affected is uncertain. Climate change may cause physical and financial risk through, among other things, sea level rise, changes in precipitation and extreme weather events. Consumer demand for energy may increase or decrease, based on overall changes in weather and as customers promote lower energy consumption through the continued use of energy efficiency programs or other means.

Federal Legislation

In June 2009, the United States House of Representatives passed the American Clean Energy and Security Act of 2009 (“Waxman-Markey bill”). In addition to a federal RPS, which would have required utilities to obtain a portion of their energy from certain qualifying renewable sources and energy efficiency measures, the bill required a reduction in GHG emissions beginning in 2012, with emissions 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. Similar legislation was introduced in the Senate, but it did not pass.

Contractual Obligations

The Company has contractual obligations that may affect its combined financial condition. The following table summarizes the Company’s material contractual cash obligations as of December 31, 2010 (in thousands):

	Payments Due by Period				Total
	2011	2012- 2013	2014- 2015	2016 and After	
Long-term debt	\$ 19,990	\$ 31,278	\$ 36,262	\$ 50,204	\$ 137,734
Interest payments on long-term debt ⁽¹⁾	<u>9,757</u>	<u>15,776</u>	<u>10,953</u>	<u>5,790</u>	<u>42,276</u>
Total contractual cash obligations	<u>\$ 29,747</u>	<u>\$ 47,054</u>	<u>\$ 47,215</u>	<u>\$ 55,994</u>	<u>\$ 180,010</u>

⁽¹⁾ Not reflected on the Combined Balance Sheets.

The Company has other types of commitments that arise primarily from letters of credit or relate to uncertain tax positions (Note 6) which have not been included in the above table because the amount and timing of the cash payments are not certain. Refer to the respective referenced note in Notes to Combined Financial Statements included elsewhere in this report for additional information.

In support of Funding Corporation’s debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each letter of credit was issued in the amount of \$19.3 million at December 31, 2010.

Inflation

Inflation has not had a significant impact on the Company’s costs.

Off-Balance Sheet Arrangements

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

New Accounting Pronouncements

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

Critical Accounting Estimates

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

Impairment of Long-Lived Assets and Goodwill

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

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

The Company's Combined Balance Sheet as of December 31, 2010 includes goodwill of acquired businesses of \$87.0 million. The Company evaluates goodwill for impairment at least annually and completed its annual review as of October 31. Additionally, no indicators of impairment were identified as of December 31, 2010. A significant amount of judgment is required in estimating the fair value of a reporting unit and performing goodwill impairment tests. The Company uses a variety of methods to estimate fair value, principally discounted projected future net cash flows. Key assumptions used include, but are not limited to, the use of estimated future cash flows, earnings before interest, taxes, depreciation and amortization multiples and an appropriate discount rate. Estimated future cash flows are impacted by, among other factors, growth rates, changes in regulations and rates, ability to renew contracts and estimates of future commodity prices. In estimating cash flows, the Company incorporates current market information as well as historical factors.

Income Taxes

In determining the Company's income taxes, management is required to interpret complex tax laws and regulations. The Company's income tax returns are subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the position. The tax benefit recognized in the Combined Financial Statements from each tax position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Although the ultimate resolution of the Company's federal, state and local tax examinations is uncertain, the Company believes it has made adequate provisions for these tax positions. The aggregate amount of any additional tax liabilities that may result from these examinations, if any, is not expected to have a material adverse affect on the Company's combined financial results.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

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 the debt securities, projected capital expenditures and debt service reserve fund requirements. Approximately 90% of the Company's sales of electricity were to Edison in 2010.

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, 2010, 2009 and 2008, Edison's average avoided cost of energy was 4.3 cents per kWh, 4.1 cents per kWh and 8.6 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 Annual Report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated 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 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: March 25, 2011

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

CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this Annual Report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated 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 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: March 25, 2011

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



SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING BALANCE SHEET
AS OF DECEMBER 31, 2010

EXHIBIT A

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 3	\$ -	\$ 6,011	\$ 6,014
Trade receivables	15,254	16,050	-	-	31,304
Inventories	-	24,100	-	-	24,100
Deferred income taxes	-	3,548	-	-	3,548
Other current assets	601	558	-	35	1,194
Total current assets	<u>15,855</u>	<u>44,259</u>	<u>-</u>	<u>6,046</u>	<u>66,160</u>
Property, plant and equipment, net	307,127	234,931	-	-	542,058
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	15,820	28,494	6,458	-	50,772
Other assets	362	291	-	4	657
Total assets	<u><u>\$ 339,164</u></u>	<u><u>\$ 364,503</u></u>	<u><u>\$ 36,922</u></u>	<u><u>\$ 6,050</u></u>	<u><u>\$ 746,639</u></u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 726	\$ 1,740	\$ -	\$ -	\$ 2,466
Accrued interest	454	412	-	-	866
Current portion of secured project notes	4,996	14,994	-	(19,990)	-
Current portion of senior secured notes and bonds	-	-	-	19,990	19,990
Deferred income taxes	794	-	-	-	794
Other current liabilities	309	3,081	-	-	3,390
Total current liabilities	<u>7,279</u>	<u>20,227</u>	<u>-</u>	<u>-</u>	<u>27,506</u>
Secured project notes	67,866	49,878	-	(117,744)	-
Senior secured notes and bonds	-	-	-	117,744	117,744
Due to affiliates	1,096	332	-	-	1,428
Deferred income taxes	79,959	71,877	2,589	-	154,425
Other long-term liabilities	-	366	-	66	432
Total liabilities	<u>156,200</u>	<u>142,680</u>	<u>2,589</u>	<u>66</u>	<u>301,535</u>
Owners' equity:					
Owners' equity	182,964	222,046	34,333	5,984	445,327
Accumulated other comprehensive loss, net	-	(223)	-	-	(223)
Total owners' equity	<u>182,964</u>	<u>221,823</u>	<u>34,333</u>	<u>5,984</u>	<u>445,104</u>
Total liabilities and owners' equity	<u><u>\$ 339,164</u></u>	<u><u>\$ 364,503</u></u>	<u><u>\$ 36,922</u></u>	<u><u>\$ 6,050</u></u>	<u><u>\$ 746,639</u></u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING BALANCE SHEET
AS OF DECEMBER 31, 2009

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ 2	\$ -	\$ 14,396	\$ 14,398
Trade receivables	14,611	15,792	-	-	30,403
Inventories	-	23,824	-	-	23,824
Deferred income taxes	-	2,687	-	-	2,687
Other current assets	645	717	-	59	1,421
Total current assets	<u>15,256</u>	<u>43,022</u>	<u>-</u>	<u>14,455</u>	<u>72,733</u>
Property, plant and equipment, net	321,405	241,038	-	-	562,443
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	16,970	32,052	7,281	-	56,303
Other assets	483	512	-	-	995
Total assets	<u><u>\$ 354,114</u></u>	<u><u>\$ 373,152</u></u>	<u><u>\$ 37,745</u></u>	<u><u>\$ 14,455</u></u>	<u><u>\$ 779,466</u></u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 363	\$ 893	\$ -	\$ -	\$ 1,256
Accrued interest	530	515	-	-	1,045
Current portion of secured project notes	11,711	15,030	-	(26,741)	-
Current portion of senior secured notes and bonds	-	-	-	26,741	26,741
Deferred income taxes	98	-	-	-	98
Other current liabilities	2,783	7,120	1	597	10,501
Total current liabilities	<u>15,485</u>	<u>23,558</u>	<u>1</u>	<u>597</u>	<u>39,641</u>
Secured project notes	72,863	64,871	-	(137,734)	-
Senior secured notes and bonds	-	-	-	137,734	137,734
Due to affiliates	1,101	361	-	-	1,462
Deferred income taxes	14,952	67,458	-	-	82,410
Other long-term liabilities	-	3,193	-	41	3,234
Total liabilities	<u>104,401</u>	<u>159,441</u>	<u>1</u>	<u>638</u>	<u>264,481</u>
Owners' equity:					
Owners' equity	249,713	214,819	37,744	13,817	516,093
Accumulated other comprehensive loss, net	-	(1,108)	-	-	(1,108)
Total owners' equity	<u>249,713</u>	<u>213,711</u>	<u>37,744</u>	<u>13,817</u>	<u>514,985</u>
Total liabilities and owners' equity	<u><u>\$ 354,114</u></u>	<u><u>\$ 373,152</u></u>	<u><u>\$ 37,745</u></u>	<u><u>\$ 14,455</u></u>	<u><u>\$ 779,466</u></u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 110,731	\$ 113,840	\$ 14,690	\$ (14,690)	\$ 224,571
Operating costs and expenses:					
Royalty, operating, general and administrative expense	55,625	66,681	4,002	(14,668)	111,640
Depreciation and amortization	29,428	30,647	823	-	60,898
Total operating costs and expenses	<u>85,053</u>	<u>97,328</u>	<u>4,825</u>	<u>(14,668)</u>	<u>172,538</u>
Operating income (loss)	<u>25,678</u>	<u>16,512</u>	<u>9,865</u>	<u>(22)</u>	<u>52,033</u>
Other income (expense):					
Interest expense	(5,985)	(5,912)	-	-	(11,897)
Interest and other income	-	406	-	7	413
Total other income (expense)	<u>(5,985)</u>	<u>(5,506)</u>	<u>-</u>	<u>7</u>	<u>(11,484)</u>
Income before income tax expense (benefit)	19,693	11,006	9,865	(15)	40,549
Income tax expense (benefit)	74,532	170	6,030	15	80,747
Net (loss) income	<u>\$ (54,839)</u>	<u>\$ 10,836</u>	<u>\$ 3,835</u>	<u>\$ (30)</u>	<u>\$ (40,198)</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 113,958	\$ 115,690	\$ 14,586	\$ (14,586)	\$ 229,648
Operating costs and expenses:					
Royalty, operating, general and administrative expense	54,279	63,783	3,754	(13,831)	107,985
Depreciation and amortization	29,453	28,663	823	-	58,939
Total operating costs and expenses	<u>83,732</u>	<u>92,446</u>	<u>4,577</u>	<u>(13,831)</u>	<u>166,924</u>
Operating income (loss)	<u>30,226</u>	<u>23,244</u>	<u>10,009</u>	<u>(755)</u>	<u>62,724</u>
Other income (expense):					
Interest expense	(7,764)	(6,569)	-	-	(14,333)
Interest and other income	(1)	520	-	28	547
Total other income (expense)	<u>(7,765)</u>	<u>(6,049)</u>	<u>-</u>	<u>28</u>	<u>(13,786)</u>
Income (loss) before income tax (benefit) expense	22,461	17,195	10,009	(727)	\$ 48,938
Income tax (benefit) expense	(409)	(945)	-	(273)	(1,627)
Net income (loss)	<u>\$ 22,870</u>	<u>\$ 18,140</u>	<u>\$ 10,009</u>	<u>\$ (454)</u>	<u>\$ 50,565</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 116,619	\$ 111,103	\$ 14,053	\$ (14,053)	\$ 227,722
Operating costs and expenses:					
Royalty, operating, general and administrative expense	51,737	68,521	3,656	(13,966)	109,948
Depreciation and amortization	25,464	33,567	824	-	59,855
Total operating costs and expenses	<u>77,201</u>	<u>102,088</u>	<u>4,480</u>	<u>(13,966)</u>	<u>169,803</u>
Operating income	<u>39,418</u>	<u>9,015</u>	<u>9,573</u>	<u>(87)</u>	<u>57,919</u>
Other income (expense):					
Interest expense	(9,743)	(6,950)	-	-	(16,693)
Interest and other income	188	1,203	-	417	1,808
Total other income (expense)	<u>(9,555)</u>	<u>(5,747)</u>	<u>-</u>	<u>417</u>	<u>(14,885)</u>
Income before income tax expense (benefit)	29,863	3,268	9,573	330	\$ 43,034
Income tax expense (benefit)	8,762	(5,202)	-	153	3,713
Net income	<u>\$ 21,101</u>	<u>\$ 8,470</u>	<u>\$ 9,573</u>	<u>\$ 177</u>	<u>\$ 39,321</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Net (loss) income	\$ (54,839)	\$ 10,836	\$ 3,835	\$ (30)	\$ (40,198)
Adjustments to reconcile net (loss) income to net cash flows from operating activities:					
Depreciation and amortization	29,428	30,647	823	-	60,898
Provision for deferred income taxes	65,703	3,091	2,589	(4)	71,379
Amortization of deferred financing costs	121	146	-	-	267
Changes in other operating assets and liabilities:					
Trade receivables	(643)	(258)	-	-	(901)
Inventories	-	(276)	-	-	(276)
Due to affiliates, net	(12,080)	(3,314)	(7,246)	41,047	18,407
Other current assets	44	159	-	24	227
Accounts payable and other liabilities	(507)	(3,990)	(1)	(572)	(5,070)
Net cash flows from operating activities	<u>27,227</u>	<u>37,041</u>	<u>-</u>	<u>40,465</u>	<u>104,733</u>
Cash flows from investing activities:					
Capital expenditures	(15,515)	(22,086)	-	-	(37,601)
Decrease in restricted cash	-	75	-	-	75
Net cash flows from investing activities	<u>(15,515)</u>	<u>(22,011)</u>	<u>-</u>	<u>-</u>	<u>(37,526)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(11,712)	(15,029)	-	-	(26,741)
Distributions	-	-	-	(48,850)	(48,850)
Net cash flows from financing activities	<u>(11,712)</u>	<u>(15,029)</u>	<u>-</u>	<u>(48,850)</u>	<u>(75,591)</u>
Net change in cash and cash equivalents	-	1	-	(8,385)	(8,384)
Cash and cash equivalents at beginning of period	-	2	-	14,396	14,398
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 6,011</u>	<u>\$ 6,014</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Net income (loss)	\$ 22,870	\$ 18,140	\$ 10,009	\$ (454)	\$ 50,565
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
Depreciation and amortization	29,453	28,663	823	-	58,939
Provision for deferred income taxes	(729)	(1,651)	-	-	(2,380)
Amortization of deferred financing costs	228	185	-	-	413
Changes in other operating assets and liabilities:					
Trade receivables	1,723	(157)	-	-	1,566
Inventories	-	(4,870)	-	-	(4,870)
Due to affiliates, net	(12,460)	(4,274)	(10,831)	26,920	(645)
Other current assets	(5)	33	-	(7)	21
Accounts payable and other liabilities	(1,739)	7,050	(1)	609	5,919
Net cash flows from operating activities	<u>39,341</u>	<u>43,119</u>	<u>-</u>	<u>27,068</u>	<u>109,528</u>
Cash flows from investing activities:					
Capital expenditures	(16,840)	(39,493)	-	-	(56,333)
Decrease in restricted cash	-	81	-	-	81
Net cash flows from investing activities	<u>(16,840)</u>	<u>(39,412)</u>	<u>-</u>	<u>-</u>	<u>(56,252)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(22,501)	(3,709)	-	-	(26,210)
Distributions	-	-	-	(35,098)	(35,098)
Net cash flows from financing activities	<u>(22,501)</u>	<u>(3,709)</u>	<u>-</u>	<u>(35,098)</u>	<u>(61,308)</u>
Net change in cash and cash equivalents	-	(2)	-	(8,030)	(8,032)
Cash and cash equivalents at beginning of period	-	4	-	22,426	22,430
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 14,396</u>	<u>\$ 14,398</u>

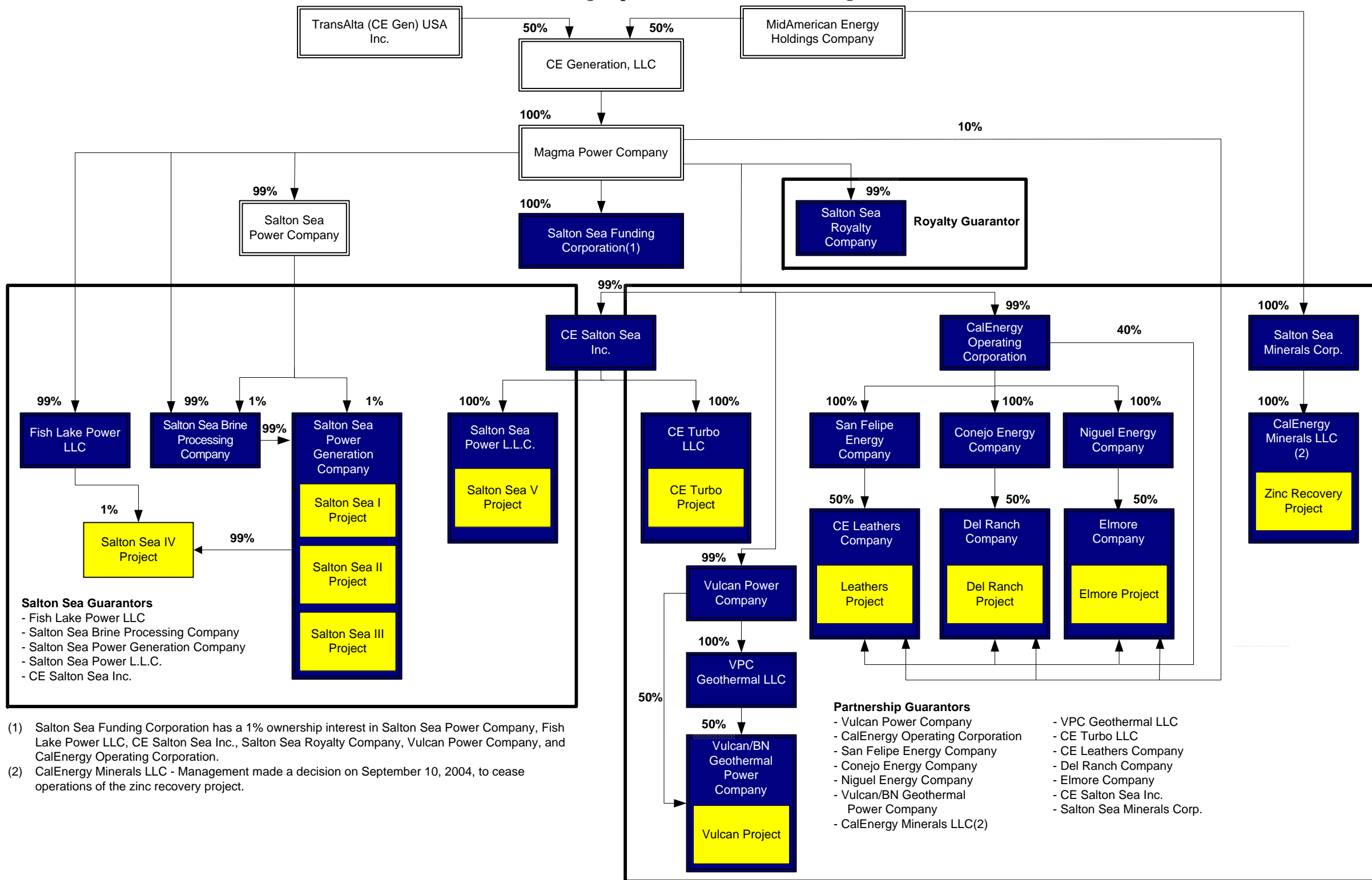
SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Net income	\$ 21,101	\$ 8,470	\$ 9,573	\$ 177	\$ 39,321
Adjustments to reconcile income to net cash flows from operating activities:					
Depreciation and amortization	25,464	33,567	824	-	59,855
Provision for deferred income taxes	9,504	(7,589)	-	-	1,915
Amortization of deferred financing costs	379	201	-	-	580
Changes in other items:					
Trade receivables	(51)	(245)	-	-	(296)
Inventories	-	748	-	-	748
Due to affiliates, net	(15,945)	12,745	(10,397)	20,453	6,856
Other current assets	86	(37)	-	12	61
Accounts payable and other liabilities	(2,106)	418	-	29	(1,659)
Net cash flows from operating activities	<u>38,432</u>	<u>48,278</u>	<u>-</u>	<u>20,671</u>	<u>107,381</u>
Cash flows from investing activities:					
Capital expenditures	(14,939)	(43,860)	-	-	(58,799)
Decrease in restricted cash	-	135	-	-	135
Net cash flows from investing activities	<u>(14,939)</u>	<u>(43,725)</u>	<u>-</u>	<u>-</u>	<u>(58,664)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(23,493)	(4,573)	-	-	(28,066)
Distributions	-	-	-	(18,287)	(18,287)
Net cash flows from financing activities	<u>(23,493)</u>	<u>(4,573)</u>	<u>-</u>	<u>(18,287)</u>	<u>(46,353)</u>
Net change in cash and cash equivalents	-	(20)	-	2,384	2,364
Cash and cash equivalents at beginning of period	-	24	-	20,042	20,066
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 22,426</u>	<u>\$ 22,430</u>

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



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

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

- Salton Sea Guarantors**
- Fish Lake Power LLC
 - Salton Sea Brine Processing Company
 - Salton Sea Power Generation Company
 - 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)
 - VPC Geothermal LLC
 - CE Turbo LLC
 - CE Leathers Company
 - Del Ranch Company
 - Elmore Company
 - CE Salton Sea Inc.
 - Salton Sea Minerals Corp.