



# SALTON SEA FUNDING CORPORATION AND GUARANTORS

**Combined Financial Statements**  
**For the Quarterly Period Ended March 31, 2007**

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

	As of	
	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 27,628	\$ 18,364
Short-term investments	15,000	-
Trade accounts receivable	23,674	27,827
Trade accounts receivable from affiliate	1,257	2,417
Inventories	20,741	21,088
Deferred income taxes	3,397	3,497
Prepaid expenses and other current assets	<u>2,622</u>	<u>1,875</u>
Total current assets	<u>94,319</u>	<u>75,068</u>
Restricted cash	292	292
Property, plant and equipment, net	568,306	574,434
Goodwill	86,992	86,992
Intangible assets, net	71,591	73,000
Due from affiliates	-	1,201
Deferred financing costs, net	<u>2,470</u>	<u>2,655</u>
<b>Total assets</b>	<u><u>\$ 823,970</u></u>	<u><u>\$ 813,642</u></u>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,216	\$ 8,569
Accrued interest	6,261	1,565
Accrued environmental liabilities	1,059	869
Other accrued liabilities	11,745	5,792
Current portion of senior secured notes and bonds	<u>25,091</u>	<u>25,091</u>
Total current liabilities	<u>49,372</u>	<u>41,886</u>
Senior secured notes and bonds	218,750	218,750
Other long-term liabilities	1,108	613
Due to affiliates	6,808	-
Deferred income taxes	<u>89,442</u>	<u>88,250</u>
Total liabilities	<u>365,480</u>	<u>349,499</u>
Commitments and contingencies (Note 5)		
Owners' equity	<u>458,490</u>	<u>464,143</u>
<b>Total liabilities and owners' equity</b>	<u><u>\$ 823,970</u></u>	<u><u>\$ 813,642</u></u>

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

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

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating revenue</b>	<u>\$ 43,254</u>	<u>\$ 41,562</u>
<b>Costs and expenses:</b>		
Royalty, operating, general and administrative expense	26,709	32,164
Depreciation and amortization	<u>15,411</u>	<u>14,179</u>
Total costs and expenses	<u>42,120</u>	<u>46,343</u>
<b>Operating income (loss)</b>	<u>1,134</u>	<u>(4,781)</u>
<b>Other income (expense):</b>		
Interest expense	(4,881)	(5,430)
Interest and other income	<u>495</u>	<u>488</u>
Total other income (expense)	<u>(4,386)</u>	<u>(4,942)</u>
<b>Loss from continuing operations before income taxes</b>	(3,252)	(9,723)
Provision for income taxes	<u>2,382</u>	<u>735</u>
<b>Loss from continuing operations</b>	(5,634)	(10,458)
Income from discontinued operations	<u>-</u>	<u>1,042</u>
<b>Net loss</b>	<u>\$ (5,634)</u>	<u>\$ (9,416)</u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF OWNERS' EQUITY (Unaudited)**  
**FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2007 AND 2006**  
(In thousands)

	<b>Owners' Equity</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
<b>Balance, January 1, 2006</b>	\$ 459,838	\$ -	\$ 459,838
Net loss	(9,416)	-	(9,416)
<b>Balance, March 31, 2006</b>	<u>\$ 450,422</u>	<u>\$ -</u>	<u>\$ 450,422</u>
<b>Balance, January 1, 2007</b>	\$ 465,374	\$ (1,231)	\$ 464,143
Adoption of FASB Interpretation No. 48	(19)	-	(19)
Net loss	(5,634)	-	(5,634)
<b>Balance, March 31, 2007</b>	<u>\$ 459,721</u>	<u>\$ (1,231)</u>	<u>\$ 458,490</u>

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

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

	<b>Three-Month Periods</b>	
	<b>Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Loss from continuing operations	\$ (5,634)	\$ (10,458)
Adjustments to reconcile loss from continuing operations to net cash flows from continuing operations:		
Depreciation and amortization	15,411	14,179
Deferred income taxes	2,270	661
Amortization of deferred financing costs	185	225
Changes in other items:		
Trade accounts receivable	5,313	3,426
Inventories, prepaid expenses and other current assets	(400)	(3,201)
Accounts payable and other accrued liabilities	<u>5,220</u>	<u>13,062</u>
Net cash flows from continuing operations	22,365	17,894
Net cash flows from discontinued operations	<u>-</u>	<u>163</u>
Net cash flows from operating activities	<u>22,365</u>	<u>18,057</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(7,430)	(5,601)
Purchases of available-for-sale securities	(45,000)	(28,000)
Proceeds from sales of available-for-sale securities	<u>30,000</u>	<u>26,000</u>
Net cash flows from continuing operations	(22,430)	(7,601)
Net cash flows from discontinued operations	<u>-</u>	<u>20</u>
Net cash flows from investing activities	<u>(22,430)</u>	<u>(7,581)</u>
<b>Cash flows from financing activities:</b>		
Decrease (increase) in due from affiliates	<u>9,329</u>	<u>(3,202)</u>
Net cash flows from continuing operations	9,329	(3,202)
Net cash flows from discontinued operations	<u>-</u>	<u>862</u>
Net cash flows from financing activities	<u>9,329</u>	<u>(2,340)</u>
<b>Net increase in cash and cash equivalents</b>	9,264	8,136
<b>Cash and cash equivalents at beginning of period</b>	<u>18,364</u>	<u>14,932</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 27,628</u>	<u>\$ 23,068</u>

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

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

**1. General**

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

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

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

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

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, 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 accompanying unaudited Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim periods. Accordingly, they do not include all the information and footnotes required for annual financial statements. Management believes the unaudited Combined Financial Statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position as of March 31, 2007 and the results of operations and cash flows for the three-month periods ended March 31, 2007 and 2006. Certain amounts in the prior period Combined Financial Statements have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported net income, owners' equity or cash flows. The results of operations for the three-month periods ended March 31, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited Combined Financial Statements include the accounts of Funding Corporation and the Guarantors (collectively, the "Company"), which are entities under common control and management. Intercompany accounts and transactions 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. Management's Discussion and Analysis and Note 2 of Notes to Combined Financial Statements included in the Company's audited Combined Financial Statements for the year ended December 31, 2006, describe the most significant accounting estimates and policies used in the preparation of the Combined Financial Statements. There have been no significant changes in the Company's assumptions regarding critical accounting estimates and significant accounting policies during the first three months of 2007, except as described in Note 2.

## **2. New Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its combined financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its combined financial position and results of operations.

In September 2006, the FASB issued FASB Staff Position ("FSP") No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities." This FSP addresses appropriate methods of accounting for planned major maintenance activities and specifically prohibits the use of the accrue-in-advance method. The Company currently expenses costs as incurred for major maintenance activities, which is permitted under this FSP. The FSP became effective January 1, 2007 and had no impact on the Company's combined financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). The Company adopted the provisions of FIN 48 effective January 1, 2007. Under FIN 48, tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in the Company's tax returns that do not meet these recognition and measurement standards.

As of January 1, 2007, the Company had \$1.6 million of unrecognized tax benefits. Of this amount, the Company recognized a net increase in the liability for unrecognized tax benefits of \$1.0 million as a cumulative effect of adopting FIN 48, which was offset by a reduction in deferred income tax liabilities of \$1.0 million in the Combined Balance Sheet. The remaining \$0.6 million had been previously accrued under SFAS No. 5, "Accounting for Contingencies," or SFAS No. 109, "Accounting for Income Taxes." The entire \$1.6 million of unrecognized tax benefits is included in other long-term liabilities in the Combined Balance Sheet.

Included in the \$1.6 million are \$0.6 million of net unrecognized tax benefits 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. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had \$0.1 million accrued for the payment of interest, which is included in unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. The U.S. Internal Revenue Service has closed examination of the Company's income tax returns through 2003. In addition, open tax years related to a number of state jurisdictions remain subject to examination. During the three-month period ended March 31, 2007, there were no material changes to the liability for uncertain tax positions.

### 3. Property, Plant and Equipment, Net

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

	Estimated Useful Lives	As of	
		March 31, 2007	December 31, 2006
Power plants	5 to 30 years	\$ 837,347	\$ 831,812
Wells and resource development	2 to 30 years	<u>230,207</u>	<u>230,189</u>
Total operating assets		1,067,554	1,062,001
Accumulated depreciation and amortization		<u>(499,248)</u>	<u>(487,567)</u>
Property, plant and equipment, net		<u>\$ 568,306</u>	<u>\$ 574,434</u>

During the three-month periods ended March 31, 2007 and 2006, the Company replaced certain pipe and equipment with a remaining net book value of \$0.8 million and \$1.6 million, respectively, which was charged to depreciation expense in the accompanying Combined Statements of Operations.

### 4. Intangible Assets, Net

Intangible assets comprise the following (in thousands):

	Estimated Useful Lives	As of March 31, 2007		As of December 31, 2006	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Power Purchase and Royalty					
Contracts	4 to 30 years	\$ 216,935	\$ 167,874	\$ 216,935	\$ 166,947
Patented Technology	24 years	<u>46,290</u>	<u>23,760</u>	<u>46,290</u>	<u>23,278</u>
Total		<u>\$ 263,225</u>	<u>\$ 191,634</u>	<u>\$ 263,225</u>	<u>\$ 190,225</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended March 31, 2007 and 2006. The Company expects amortization expense on acquired intangible assets to be \$4.3 million for the remaining nine months in 2007 and \$5.7 million for each of the four succeeding fiscal years.

### 5. 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 USA Inc. (“TransAlta”) and MidAmerican Energy Holdings Company (“MEHC”). As a result of the transaction, Salton Sea Power and CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.8 million current liability to reflect the collection risk retained under the Transfer of Claims Agreements. Pursuant to the Transfer of Claims Agreements, to the extent that the PX Receivable becomes uncollectible, Salton Sea Power and CE Turbo can be required to pay the PX Receivable, plus interest, to MEHC and TransAlta. As of March 31, 2007, EPME had not made any payments in connection with the PX Receivable.

### 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 that results from other than normal operations 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 expense is 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 March 31, 2007 and December 31, 2006 was \$1.1 million and \$0.9 million, respectively, and is included in accrued environmental liabilities in the accompanying Combined Balance Sheets. Environmental remediation liabilities that result from the normal operation of long-live assets and that are associated with the retirement of those assets are accounted for as asset retirement obligations.

## **6. Related Party Transactions**

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors’ power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed for each of the three-month periods ended March 31, 2007 and 2006, were \$1.2 million.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed for the three-month periods ended March 31, 2007 and 2006, were \$2.0 million and \$1.9 million, respectively.

The Company participates in multi-employer pension plans sponsored by MidAmerican Energy Company, an indirect wholly-owned subsidiary of MEHC. The Company’s contribution to the various plans was \$0.5 million and \$0.6 million for the three-month periods ended March 31, 2007, and 2006, respectively.

Pursuant to the Administrative Services Agreement dated April 1, 1993, with Magma (the “Magma Services Agreement”), Magma will provide administrative and management services to the Salton Sea Guarantors, excluding the Salton Sea IV and Salton Sea V Projects. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed for each of the three-month periods ended March 31, 2007 and 2006 were \$0.3 million.

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 statements of Funding Corporation and the Guarantors.

Pursuant to a transaction agreement dated January 29, 2003 (the “TransAlta Transaction Agreement”), Salton Sea Power and CE Turbo began selling available power from the Salton Sea V Project and CE Turbo Project to TransAlta on February 12, 2003, based on percentages of the Dow Jones SP-15 Index. The TransAlta Transaction Agreement shall continue until the earlier of (a) 30 days following a written notice of termination, or (b) any other termination date mutually agreed to by the parties. No such notice of termination has been given by either party. Pursuant to this agreement, sales to TransAlta totaled \$3.2 million and \$2.8 million for the three-month periods ended March 31, 2007 and 2006, respectively. As of March 31, 2007 and December 31, 2006, accounts receivable balances from TransAlta were \$1.1 million and \$2.2 million, respectively. Effective August 7, 2006, through May 31, 2009, up to 26 MW of available power from the Salton Sea V Project will be sold to TransAlta under the TransAlta Transaction Agreement at a fixed price. Salton Sea Power, CE Turbo, and TransAlta each have agreed not to exercise their respective 30 day termination right described above with respect to such amount of available power through such period.

On January 21, 2004, Salton Sea Power and CE Turbo entered into a Green Energy Tag Purchase and Sale Agreement to sell the non-power attributes (the non-power attributes made available by one megawatt hour (“MWh”) of generation, a “Green Tag”) associated with up to 931,800 MWh of available generation of the Salton Sea V Project and the CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. (“TransAlta Marketing”) at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing totaled \$0.5 million for each of the three-month periods ended March 31, 2007 and 2006. As of March 31, 2007 and December 31, 2006, accounts receivable balances from TransAlta Marketing were \$0.2 million.

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

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations of Salton Sea Funding Corporation ("Funding Corporation") and the Guarantors (collectively, the "Company") during the periods included in the accompanying unaudited Combined Financial Statements. This discussion should be read in conjunction with the Company's historical Combined Financial Statements and the related notes thereto. 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., CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in the Imperial Valley of California commonly known as the Vulcan Project, the Elmore Project, the Leathers Project, the Del Ranch Project and the CE Turbo Project, respectively, (collectively, the "Partnership Projects"), CalEnergy Minerals LLC, Salton Sea Minerals Corp., CE Salton Sea Inc., CalEnergy Operating Corporation, Vulcan Power Company, San Felipe Energy Company, Conejo Energy Company, Niguel Energy Company, and VPC Geothermal LLC.
- *Royalty Guarantor* - Salton Sea Royalty LLC.

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

### Forward-Looking Statements

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

### Executive Summary

The following significant event occurred during the first three months of 2007, as discussed in more detail herein, which highlights some of the factors that affected, or may affect in the future, the Company's financial condition, results of operations and liquidity:

- The Imperial Valley Projects had less extensive brine system and turbine overhauls during the first three months of 2007 compared to the first three months of 2006. The 2007 overhauls were shorter in duration and had lower associated repair and maintenance costs than the 2006 overhauls. The overhaul schedules vary from year to year and are scheduled at intervals based on expected maintenance requirements.

## 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, 2006, 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 operating data represents the aggregate capacity and electricity production of the Imperial Valley Projects:

	<b>Three-Month Periods Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Overall capacity factor	91.5%	89.7%
MWh produced	644,800	632,500
Capacity (net MW) (weighted average)	326.4	326.4

The \$1.7 million, or 4.1%, increase in operating revenue at the Imperial Valley Projects in the first quarter of 2007 from the comparable period in 2006 primarily reflects a \$1.2 million increase in operating revenue due to a 1.9% increase in energy production and a \$0.5 million increase due to higher energy rates, mainly at the Salton Sea IV and V Projects. The energy production increase primarily results from less extensive brine system and turbine overhaul outages and less curtailed production at certain Imperial Valley Projects.

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

Royalty, operating, general, and administrative expense decreased \$5.5 million, or 17.1%, to \$26.7 million for the first quarter of 2007 from \$32.2 million from the comparable period in 2006. The decrease was primarily due to less extensive brine system and turbine overhauls in 2007.

### *Depreciation and Amortization*

Depreciation and amortization increased \$1.2 million to \$15.4 million for the first quarter of 2007 from the comparable period in 2006 primarily due to a change in useful lives on brine production pipelines.

### *Interest Expense*

Interest expense for the first quarter of 2007 decreased \$0.5 million to \$4.9 million, from the comparable period in 2006 due to lower outstanding debt balances.

### *Provision for Income Taxes*

The provision for income taxes for the first quarter of 2007 increased \$1.7 million to \$2.4 million from the comparable period in 2006 due to a net decrease in pre-tax loss from entities subject to U.S. federal tax and energy credits at Partnership Guarantors.

### Liquidity and Capital Resources

The Company generated cash flows from operations of \$22.4 million for the three-month period ended March 31, 2007, compared with \$18.1 million for the same period in 2006. The increase was due primarily to higher revenue from increased energy production and decreased operating expenses resulting from less extensive brine system and turbine overhaul outages at the Imperial Valley Projects.

Cash flows used in investing activities were \$22.4 million for the three-month period ended March 31, 2007 compared with \$7.6 million for the same period in 2006 due to the timing of purchases and sales of available-for-sale securities used in the Company's cash management program and an increase in capital expenditures.

Forecasted capital expenditures for 2007 are \$35.7 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company has decided to purchase pipeline replacement materials which are expected to have a longer useful life than the material currently used. The new material is expected to result in higher capital expenditures than historical expenditures in 2008 through 2009. The Company expects to meet these capital expenditure needs with cash flows from operations.

Cash flows generated in financing activities were \$9.3 million for the three-month period ended March 31, 2007 compared with cash flows used of \$2.3 million for the same period in 2006 is due to timing of affiliate transactions.

### Environmental Matters

In addition to the discussion contained herein, refer to Note 5 of Notes to Combined Financial Statements included herein and the Company's Annual Report for the year ended December 31, 2006 for additional information regarding certain environmental matters affecting the Company's operations.

### 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 Southern California Edison Company ("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 83% of the Company's sales of electricity were to Edison for the three month period ended March 31, 2007.

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 kilowatt hour ("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, 2006, 2005 and 2004, Edison's average avoided cost of energy was 6.9 cents per kWh, 7.7 cents per kWh and 5.9 cents per kWh, respectively. Estimates of Edison's future avoided cost of energy vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings, which may change the definition of the avoided cost of energy, and other commodity factors.

## CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this quarterly report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its 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 (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: May 14, 2007

/s/ Stephen A. Larsen  
Stephen A. Larsen  
President  
(chief 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 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 (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: May 14, 2007

/s/ Stephen D. Dickas  
Stephen D. Dickas  
Controller  
(chief financial officer)

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**

EXHIBIT A

**March 31, 2007**

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 56	\$ -	\$ 27,572	\$ 27,628
Short-term investments	-	-	-	15,000	15,000
Trade accounts receivable	12,909	10,765	-	-	23,674
Trade accounts receivable from affiliate	1,257	-	-	-	1,257
Inventories	-	20,741	-	-	20,741
Deferred income taxes	2,798	599	-	-	3,397
Prepaid expenses and other current assets	1,163	1,419	-	40	2,622
Total current assets	<u>18,127</u>	<u>33,580</u>	<u>-</u>	<u>42,612</u>	<u>94,319</u>
Restricted cash	-	292	-	-	292
Property, plant and equipment, net	346,887	221,419	-	-	568,306
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	20,132	41,821	9,638	-	71,591
Deferred financing costs, net	1,486	984	-	-	2,470
<b>Total assets</b>	<u>\$ 386,632</u>	<u>\$ 354,624</u>	<u>\$ 40,102</u>	<u>\$ 42,612</u>	<u>\$ 823,970</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 2,428	\$ 2,788	\$ -	\$ -	\$ 5,216
Accrued interest	3,896	2,365	-	-	6,261
Accrued environmental liabilities	-	1,059	-	-	1,059
Other accrued liabilities	2,687	9,058	-	-	11,745
Current portion of secured project notes	22,131	2,960	-	(25,091)	-
Current portion of senior secured notes and bonds	-	-	-	25,091	25,091
Total current liabilities	<u>31,142</u>	<u>18,230</u>	<u>-</u>	<u>-</u>	<u>49,372</u>
Secured project notes	130,568	88,182	-	(218,750)	-
Senior secured notes and bonds	-	-	-	218,750	218,750
Other long-term liabilities	-	1,108	-	-	1,108
Due to affiliates	(6,206)	(3,027)	-	16,041	6,808
Deferred income taxes	5,372	84,070	-	-	89,442
Total liabilities	<u>160,876</u>	<u>188,563</u>	<u>-</u>	<u>16,041</u>	<u>365,480</u>
Owners' equity:					
Owners' equity	225,756	167,292	40,102	26,571	459,721
Accumulated other comprehensive loss, net of tax	-	(1,231)	-	-	(1,231)
Total Owners' Equity	<u>225,756</u>	<u>166,061</u>	<u>40,102</u>	<u>26,571</u>	<u>458,490</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 386,632</u>	<u>\$ 354,624</u>	<u>\$ 40,102</u>	<u>\$ 42,612</u>	<u>\$ 823,970</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING BALANCE SHEET (Unaudited)**

EXHIBIT A (Continued)

**December 31, 2006**

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 55	\$ -	\$ 18,309	\$ 18,364
Trade accounts receivable	13,561	14,266	-	-	27,827
Trade accounts receivable from affiliate	2,417	-	-	-	2,417
Inventories	-	21,088	-	-	21,088
Deferred income taxes	2,898	599	-	-	3,497
Prepaid expenses and other current assets	859	908	-	108	1,875
Total current assets	<u>19,735</u>	<u>36,916</u>	<u>-</u>	<u>18,417</u>	<u>75,068</u>
Restricted cash	-	292	-	-	292
Property, plant and equipment, net	347,464	226,970	-	-	574,434
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	20,420	42,705	9,875	-	73,000
Due from affiliates	(3,044)	(2,869)	-	7,114	1,201
Deferred financing costs, net	1,617	1,038	-	-	2,655
<b>Total assets</b>	<u>\$ 386,192</u>	<u>\$ 361,580</u>	<u>\$ 40,339</u>	<u>\$ 25,531</u>	<u>\$ 813,642</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 2,778	\$ 5,791	\$ -	\$ -	\$ 8,569
Accrued interest	974	591	-	-	1,565
Accrued environmental liabilities	-	869	-	-	869
Other accrued liabilities	1,797	3,995	-	-	5,792
Current portion of secured project notes	22,131	2,960	-	(25,091)	-
Current portion of senior secured notes and bonds	-	-	-	25,091	25,091
Total current liabilities	<u>27,680</u>	<u>14,206</u>	<u>-</u>	<u>-</u>	<u>41,886</u>
Secured project notes	130,568	88,182	-	(218,750)	-
Senior secured notes and bonds	-	-	-	218,750	218,750
Other long-term liabilities	-	613	-	-	613
Deferred income taxes	5,248	83,002	-	-	88,250
Total liabilities	<u>163,496</u>	<u>186,003</u>	<u>-</u>	<u>-</u>	<u>349,499</u>
Owners' equity:					
Owners' equity	222,696	176,808	40,339	25,531	465,374
Accumulated other comprehensive loss, net of tax	-	(1,231)	-	-	(1,231)
Total Owners' Equity	<u>222,696</u>	<u>175,577</u>	<u>40,339</u>	<u>25,531</u>	<u>464,143</u>
<b>Total liabilities and owners' equity</b>	<u>\$ 386,192</u>	<u>\$ 361,580</u>	<u>\$ 40,339</u>	<u>\$ 25,531</u>	<u>\$ 813,642</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**For the Three-Month Period Ended March 31, 2007**  
(in thousands)

EXHIBIT A (Continued)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Operating revenue</b>	\$ 24,799	\$ 18,455	\$ 2,612	\$ (2,612)	\$ 43,254
<b>Costs and expenses:</b>					
Royalty, operating, general and administrative expense	10,640	17,988	671	(2,590)	26,709
Depreciation and amortization	6,553	8,621	237	-	15,411
Total costs and expenses	<u>17,193</u>	<u>26,609</u>	<u>908</u>	<u>(2,590)</u>	<u>42,120</u>
<b>Operating income (loss)</b>	<u>7,606</u>	<u>(8,154)</u>	<u>1,704</u>	<u>(22)</u>	<u>1,134</u>
<b>Other income (expense):</b>					
Interest expense	(3,054)	(1,827)	-	-	(4,881)
Interest and other income	-	173	-	322	495
Total other income (expense)	<u>(3,054)</u>	<u>(1,654)</u>	<u>-</u>	<u>322</u>	<u>(4,386)</u>
<b>Income (loss) from continuing operations before income taxes</b>	4,552	(9,808)	1,704	300	(3,252)
Provision for income taxes	289	1,970	-	123	2,382
<b>Net income (loss)</b>	<u>\$ 4,263</u>	<u>\$ (11,778)</u>	<u>\$ 1,704</u>	<u>\$ 177</u>	<u>\$ (5,634)</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF OPERATIONS (Unaudited)**  
**For the Three-Month Period Ended March 31, 2006**  
(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>	\$ 23,727	\$ 17,835	\$ 2,496	\$ (2,496)	\$ 41,562
<b>Costs and expenses:</b>					
Royalty, operating, general and administrative expense	12,293	21,461	875	(2,465)	32,164
Depreciation and amortization	7,258	6,684	237	-	14,179
Total costs and expenses	<u>19,551</u>	<u>28,145</u>	<u>1,112</u>	<u>(2,465)</u>	<u>46,343</u>
<b>Operating income (loss)</b>	<u>4,176</u>	<u>(10,310)</u>	<u>1,384</u>	<u>(31)</u>	<u>(4,781)</u>
<b>Other income (expense):</b>					
Interest expense	(3,527)	(1,897)	(6)	-	(5,430)
Interest and other income	-	245	-	243	488
Total other income (expense)	<u>(3,527)</u>	<u>(1,652)</u>	<u>(6)</u>	<u>243</u>	<u>(4,942)</u>
<b>Income (loss) from continuing operations before income taxes</b>	649	(11,962)	1,378	212	(9,723)
Provision (benefit) for income taxes	1,270	(622)	-	87	735
<b>Income (loss) from continuing operations</b>	<u>(621)</u>	<u>(11,340)</u>	<u>1,378</u>	<u>125</u>	<u>(10,458)</u>
Income from discontinued operations	-	1,042	-	-	1,042
<b>Net income (loss)</b>	<u>\$ (621)</u>	<u>\$ (10,298)</u>	<u>\$ 1,378</u>	<u>\$ 125</u>	<u>\$ (9,416)</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**For the Three-Month Period Ended March 31, 2007**  
(in thousands)

EXHIBIT A (Continued)

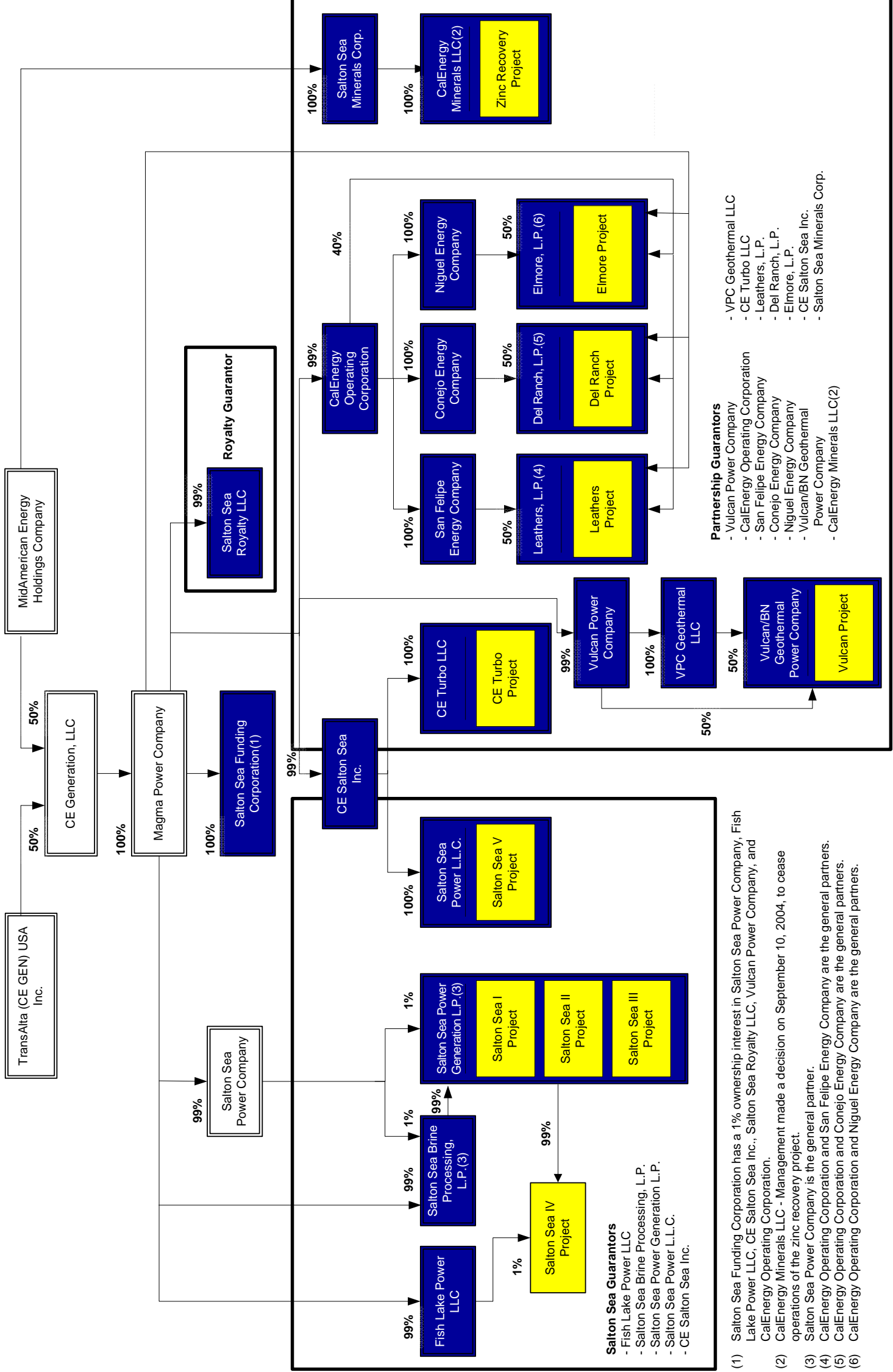
	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation &amp; Eliminations</u>	<u>Combined</u>
<b>Cash flows from operating activities:</b>					
Income (loss) from continuing operations	\$ 4,263	\$ (11,778)	\$ 1,704	\$ 177	\$ (5,634)
Adjustments to reconcile income (loss) from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	6,553	8,621	237	-	15,411
Deferred income taxes	224	2,046	-	-	2,270
Amortization of deferred financing costs	131	54	-	-	185
Changes in other items:					
Trade accounts receivable	1,812	3,501	-	-	5,313
Inventories, prepaid expenses and other current assets	(304)	(164)	-	68	(400)
Accounts payable and accrued liabilities	1,057	4,163	-	-	5,220
Net cash from operating activities	<u>13,736</u>	<u>6,443</u>	<u>1,941</u>	<u>245</u>	<u>22,365</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(3,300)	(4,130)	-	-	(7,430)
Purchases of available-for-sale securities	-	-	-	(45,000)	(45,000)
Proceeds from sales of available-for-sale securities	-	-	-	30,000	30,000
Net cash from investing activities	<u>(3,300)</u>	<u>(4,130)</u>	<u>-</u>	<u>(15,000)</u>	<u>(22,430)</u>
<b>Cash flows from financing activities:</b>					
Decrease (increase) in due from affiliates	(10,436)	(2,312)	(1,941)	24,018	9,329
Net cash from financing activities	<u>(10,436)</u>	<u>(2,312)</u>	<u>(1,941)</u>	<u>24,018</u>	<u>9,329</u>
<b>Net change in cash and cash equivalents</b>	-	1	-	9,263	9,264
<b>Cash and cash equivalents at the beginning of period</b>	-	55	-	18,309	18,364
<b>Cash and cash equivalents at the end of period</b>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ -</u>	<u>\$ 27,572</u>	<u>\$ 27,628</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENT OF CASH FLOWS (Unaudited)**  
**For the Three-Month Period Ended March 31, 2006**  
(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>					
Income (loss) from continuing operations	\$ (621)	\$ (11,340)	\$ 1,378	\$ 125	\$ (10,458)
Adjustments to reconcile income (loss) from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	7,258	6,684	237	-	14,179
Deferred income taxes	514	147	-	-	661
Amortization of deferred financing costs	162	57	6	-	225
Changes in other items:					
Trade accounts receivable	621	2,805	-	-	3,426
Inventories, prepaid expenses and other current assets	(1,494)	(1,748)	-	41	(3,201)
Accounts payable and accrued liabilities	7,662	5,400	-	-	13,062
Net cash flows from continuing operations	14,102	2,005	1,621	166	17,894
Net cash flows from discontinued operations	-	163	-	-	163
Net cash from operating activities	<u>14,102</u>	<u>2,168</u>	<u>1,621</u>	<u>166</u>	<u>18,057</u>
<b>Cash flows from investing activities:</b>					
Capital expenditures	(2,553)	(3,048)	-	-	(5,601)
Purchases of available-for-sale securities	-	-	-	(28,000)	(28,000)
Proceeds from sales of available-for-sale securities	-	-	-	26,000	26,000
Net cash flows from continuing operations	(2,553)	(3,048)	-	(2,000)	(7,601)
Net cash flows from discontinued operations	-	20	-	-	20
Net cash from investing activities	<u>(2,553)</u>	<u>(3,028)</u>	<u>-</u>	<u>(2,000)</u>	<u>(7,581)</u>
<b>Cash flows from financing activities:</b>					
Decrease (increase) in due from affiliates	(11,549)	618	(1,621)	9,350	(3,202)
Net cash flows from continuing operations	(11,549)	618	(1,621)	9,350	(3,202)
Net cash flows from discontinued operations	-	862	-	-	862
Net cash from financing activities	<u>(11,549)</u>	<u>1,480</u>	<u>(1,621)</u>	<u>9,350</u>	<u>(2,340)</u>
<b>Net change in cash and cash equivalents</b>	-	620	-	7,516	8,136
<b>Cash and cash equivalents at the beginning of period</b>	-	300	-	14,632	14,932
<b>Cash and cash equivalents at the end of period</b>	<u>\$ -</u>	<u>\$ 920</u>	<u>\$ -</u>	<u>\$ 22,148</u>	<u>\$ 23,068</u>

**Exhibit B - Salton Sea Funding Corporation 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 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.