



SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements

For the Quarterly Period Ended June 30, 2006

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SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED BALANCE SHEETS

(In thousands)

	As of	
	June 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,855	\$ 14,932
Short-term investments	6,000	6,000
Trade accounts receivable	31,961	28,035
Trade accounts receivable from affiliate	1,078	4,244
Inventories	21,135	20,743
Prepaid expenses and other current assets	<u>2,631</u>	<u>2,265</u>
Total current assets	<u>68,660</u>	<u>76,219</u>
Properties, plants and equipment, net	592,849	599,336
Intangible assets, net	75,867	78,738
Deferred financing charges and other assets	3,105	3,556
Due from affiliates	-	1,387
Goodwill	<u>86,992</u>	<u>86,992</u>
Total assets	<u><u>\$ 827,473</u></u>	<u><u>\$ 846,228</u></u>
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,222	\$ 7,078
Accrued interest	1,650	1,734
Accrued environmental liabilities	1,512	2,830
Other accrued liabilities	12,232	10,951
Current portion of long-term debt	<u>25,504</u>	<u>25,916</u>
Total current liabilities	<u>50,120</u>	<u>48,509</u>
Senior secured notes and bonds	231,296	243,841
Due to affiliates	7,565	-
Deferred income taxes	<u>93,372</u>	<u>94,040</u>
Total liabilities	<u>382,353</u>	<u>386,390</u>
Commitments and contingencies (Note 5)		
Owners' equity	<u>445,120</u>	<u>459,838</u>
Total liabilities and owners' equity	<u><u>\$ 827,473</u></u>	<u><u>\$ 846,228</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)

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2006	2005	2006	2005
Operating revenue	<u>\$ 46,512</u>	<u>\$ 54,784</u>	<u>\$ 88,074</u>	<u>\$ 98,342</u>
Costs and expenses:				
Royalty, operating, general and administrative expense	28,222	27,012	60,386	51,210
Depreciation and amortization	<u>15,827</u>	<u>14,191</u>	<u>30,006</u>	<u>30,490</u>
Total costs and expenses	<u>44,049</u>	<u>41,203</u>	<u>90,392</u>	<u>81,700</u>
Operating income (loss)	<u>2,463</u>	<u>13,581</u>	<u>(2,318)</u>	<u>16,642</u>
Other income (expense):				
Interest expense	(5,346)	(5,871)	(10,776)	(11,882)
Interest and other income	<u>570</u>	<u>616</u>	<u>1,058</u>	<u>928</u>
Total other income (expense)	<u>(4,776)</u>	<u>(5,255)</u>	<u>(9,718)</u>	<u>(10,954)</u>
Income (loss) from continuing operations before income taxes	(2,313)	8,326	(12,036)	5,688
Provision (benefit) for income taxes	<u>(677)</u>	<u>947</u>	<u>58</u>	<u>887</u>
Income (loss) from continuing operations	(1,636)	7,379	(12,094)	4,801
Income from discontinued operations	<u>9</u>	<u>2,196</u>	<u>1,051</u>	<u>5,031</u>
Net income (loss)	<u>\$ (1,627)</u>	<u>\$ 9,575</u>	<u>\$ (11,043)</u>	<u>\$ 9,832</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENT OF OWNERS' EQUITY (Unaudited)
(In thousands)

Balance, January 1, 2006	\$ 459,838
Net loss	(11,043)
Equity distributions	(3,675)
Balance, June 30, 2006	\$ 445,120

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)

	Six-Month Periods	
	Ended June 30,	
	2006	2005
Cash flows from operating activities:		
Income (loss) from continuing operations	\$ (12,094)	\$ 4,801
Adjustments to reconcile income (loss) from continuing operations to net cash flows from continuing operations:		
Depreciation and amortization	30,006	30,490
Deferred income taxes	(668)	35
Amortization of deferred financing costs	451	534
Changes in other items:		
Trade accounts receivable	(803)	(9,756)
Inventories, prepaid expenses and other current assets	(756)	(2,170)
Accounts payable and other accrued liabilities	<u>(509)</u>	<u>(3,895)</u>
Net cash flows from continuing operations	15,627	20,039
Net cash flows from discontinued operations	<u>682</u>	<u>(1,782)</u>
Net cash flows from operating activities	<u>16,309</u>	<u>18,257</u>
Cash flows from investing activities:		
Capital expenditures	(16,667)	(19,810)
Purchases of available-for-sale securities	(84,000)	(40,000)
Proceeds from sales of available-for-sale securities	<u>84,000</u>	<u>45,000</u>
Net cash flows from continuing operations	(16,667)	(14,810)
Net cash flows from discontinued operations	<u>(74)</u>	<u>5,436</u>
Net cash flows from investing activities	<u>(16,741)</u>	<u>(9,374)</u>
Cash flows from financing activities:		
Repayment of senior secured notes and bonds	(12,957)	(25,062)
Decrease in due from affiliates	<u>4,312</u>	<u>4,687</u>
Net cash flows from continuing operations	(8,645)	(20,375)
Net cash flows from discontinued operations	<u>-</u>	<u>(842)</u>
Net cash flows from financing activities	<u>(8,645)</u>	<u>(21,217)</u>
Net decrease in cash and cash equivalents	(9,077)	(12,334)
Cash and cash equivalents at beginning of period	<u>14,932</u>	<u>15,489</u>
Cash and cash equivalents at end of period	<u>\$ 5,855</u>	<u>\$ 3,155</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

In the opinion of the management of Salton Sea Funding Corporation ("Funding Corporation"), the accompanying unaudited combined financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of June 30, 2006, and the results of operations for the three-month and six-month periods ended June 30, 2006 and 2005 and the cash flows for the six-month periods ended June 30, 2006 and 2005. The results of operations for the three-month and six-month periods ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

The combined financial statements include the accounts of Funding Corporation and the Salton Sea Guarantors, the Partnership Guarantors and the Royalty Guarantor (each as defined below, together, the "Guarantors") as Funding Corporation and the Guarantors (collectively, the "Company") are entities under common control and management. All transactions and accounts between and among Funding Corporation and the Guarantors have been eliminated.

The unaudited combined financial statements should be read in conjunction with the audited combined financial statements and notes thereto included in the Company's audited financial statements for the year ended December 31, 2005. In particular, the Company's significant accounting policies are presented in Note 2 to the combined financial statements included therein.

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

On March 3, 1999, MidAmerican Energy Holdings Company ("MEHC") sold 50% of its ownership interests in CE Generation to El Paso CE Generation Holding Company ("El Paso"). On January 29, 2003, TransAlta USA Inc. ("TransAlta"), a wholly-owned subsidiary of TransAlta Corporation, purchased El Paso's 50% interest in CE Generation. As of May 31, 2005, TransAlta transferred all its rights and interests in CE Generation to TransAlta (CE GEN) Investments USA, Inc., which is also a wholly-owned subsidiary of TransAlta Corporation.

The Salton Sea Guarantors (not a legal entity) consist of: (1) Salton Sea Power Generation L.P. ("SSPG"), Salton Sea Power L.L.C. ("Salton Sea Power"), and Fish Lake Power LLC ("Fish Lake"), together owning a 100% interest in five operating geothermal electric power generating plants located in the Imperial Valley of California 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 combined financial statements of the Company.

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

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

The Securities are payable from the proceeds of payments made of principal and interest on the secured project notes from 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.

2. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return. Guidance is also provided on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting FIN 48 on its combined financial position and results of operations.

3. Properties, Plants and Equipment, Net

Properties, plants and equipment comprise the following (in thousands):

	Estimated Useful Lives	As of	
		June 30, 2006	December 31, 2005
Power plants	5 to 30 years	\$ 830,456	\$ 819,677
Wells and resource development	2 to 30 years	<u>225,158</u>	<u>226,357</u>
Total operating assets		1,055,614	1,046,034
Accumulated depreciation and amortization		<u>(462,765)</u>	<u>(446,698)</u>
Properties, plants and equipment, net		<u>\$ 592,849</u>	<u>\$ 599,336</u>

During the three-month and six-month periods ended June 30, 2006, the Company replaced certain pipe with a remaining net book value of \$2.8 million and \$4.4 million, respectively, which was charged to depreciation expense in the accompanying combined statements of operations. The Company replaced certain pipe with a remaining net book value of \$0.8 million and \$4.2 million, respectively, in the three-month and six-month periods ended June 30, 2005, which was charged to depreciation expense in the accompanying combined statements of operations.

4. Intangible Assets, Net

Intangible assets comprise the following (in thousands):

	<u>Estimated Useful Lives</u>	<u>As of June 30, 2006</u>		<u>As of December 31, 2005</u>	
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Power Purchase Contracts	4 to 30 years	\$ 216,935	\$ 165,044	\$ 216,935	\$ 163,314
Patented Technology	24 years	46,290	22,314	46,290	21,173
Total		<u>\$ 263,225</u>	<u>\$ 187,358</u>	<u>\$ 263,225</u>	<u>\$ 184,487</u>

Amortization expense on acquired intangible assets was \$1.4 million for each of the three-month periods ended June 30, 2006 and 2005 and \$2.8 million for each of the six-month periods ended June 30, 2006 and 2005, respectively. The Company expects amortization expense on acquired intangible assets to be \$2.9 million for the remaining six months in 2006 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 with TransAlta and MEHC (the "Transfer of Claims Agreements"), pursuant to which Salton Sea Power and CE Turbo received an aggregate of \$3.7 million in exchange for transferring the rights to receive payment on the PX Receivable to TransAlta and MEHC. As a result of the transaction, Salton Sea Power and CE Turbo wrote-off the PX Receivable and the related allowance for doubtful accounts and recorded a \$3.8 million current liability to reflect the collection risk retained under the Transfer of Claims Agreements. Pursuant to the Transfer of Claims Agreements, to the extent that the PX Receivable becomes uncollectible, Salton Sea Power and CE Turbo can be required to pay the PX Receivable, plus interest, to MEHC and TransAlta. As of June 30, 2006, EPME had not made any payments in connection with the PX Receivable.

Environmental

The Company is subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Company's existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Company's cost of waste disposal and (vi) reducing the reliability of service provided by the Company and the amount of energy available from the Company's facilities. Any of such items could have a substantial impact on amounts required to be expended by the Company in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the consolidated balance sheets at their undiscounted amounts. As of June 30, 2006 and December 31, 2005, the environmental liabilities recorded in the accompanying consolidated balance sheets as current liabilities were \$1.5 million and \$2.8 million, respectively.

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 the three-month and six-month periods ended June 30, 2006, were \$1.0 million and \$2.2 million, respectively, and \$1.5 million and \$2.6 million, respectively, in the three-month and six-month periods ended June 30, 2005.

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 and six-month periods ended June 30, 2006, were \$2.4 million and \$4.3 million, respectively, and \$2.4 million and \$4.8 million, respectively, in the three-month and six-month periods ended June 30, 2005.

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 \$0.4 million and \$0.3 million, respectively, for the three-month periods ended June 30, 2006, and 2005, and \$1.0 million for each of the six-month periods ended June 30, 2006 and 2005, 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 the three-month and six-month periods ended June 30, 2006 were \$0.3 million and \$0.6 million, respectively, and \$0.4 million and \$0.6 million, respectively, in the three-month and six-month periods ended June 30, 2005.

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 \$1.4 million and \$4.2 million, respectively, for the three-month and six-month periods ended June 30, 2006, and \$2.9 million and \$5.9 million, respectively, for the three-month and six-month periods ended June 30, 2005. As of June 30, 2006 and December 31, 2005, accounts receivable balances from TransAlta were \$0.9 million and \$4.1 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. Each of Salton Sea Power, CE Turbo, and TransAlta 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 \$0.6 million and \$1.1 million, respectively, for each of the three-month and six-month periods ended June 30, 2006 and 2005. As of June 30, 2006, and December 31, 2005, accounts receivable balances from TransAlta Marketing was \$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 combined financial statements. This discussion should be read in conjunction with the Company's historical combined financial statements and the related notes thereto included elsewhere in this report. The Company's actual results in the future could differ significantly from the historical results.

The Guarantors consist of the following legal entities:

- *Salton Sea Guarantors* - Salton Sea Brine Processing, L.P., Salton Sea Power Generation L.P., Salton Sea Power L.L.C., and Fish Lake Power LLC, each of which have an ownership interest in one or more of five operating geothermal power plants in the Imperial Valley of California commonly known as the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project and Salton Sea V Project (collectively, the "Salton Sea Projects"), and CE Salton Sea Inc.
- *Partnership Guarantors* - Vulcan/BN Geothermal Power Company, Elmore, L.P., Leathers, L.P., Del Ranch, L.P., CE Turbo LLC ("CE Turbo"), each of which owns an operating geothermal power plant located in 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 recovery, 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 events occurred during the three-month and six-month periods ended June 30, 2006, and 2005, as discussed in more detail herein, that highlight some of the factors which affected, or may affect in the future, the Company's financial condition, results of operations and liquidity:

- The Imperial Valley Projects had more extensive brine system and turbine overhauls in the first six months of 2006 compared to the first six months of 2005. The 2006 overhauls are longer in duration and have higher associated repair and maintenance costs than the 2005 overhauls. The overhaul schedules vary from year to year and are scheduled at intervals based on plant operating hours.

- On May 30, 2006, certain Imperial Valley Projects entered into amendments to their respective power purchase agreements with Southern California Edison (“Edison”) which provide for a fixed energy price commencing May 1, 2007, and ending April 30, 2012. The amendments are subject to the approval of the California Public Utilities Commission (“CPUC”). Edison filed an advice letter with the CPUC on July 28, 2006, seeking approval of the amendments in November 2006. Through August 11, 2006, no parties have filed opposition. The CPUC is under no formal schedule to approve the amendment. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kilowatt-hour (“kWh”), escalated 1 percent annually beginning May 1, 2008. The current energy price of 5.37 cents per kWh will remain in effect through April 30, 2007.

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 to the combined financial statements included in the Company's audited financial statements for the year ended December 31, 2005, for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a facilities 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:

	Three-Month Periods		Six-Month Periods	
	Ended June 30,		Ended June 30,	
	2006	2005	2006	2005
Overall capacity factor	81.7%	96.4%	85.7%	93.6%
Megawatt hour ("MWh") produced	582,600	687,100	1,215,000	1,326,800
Capacity (net MW) (weighted average)	326.4	326.4	326.4	326.4

The \$8.3 million, or 15.1%, decrease in operating revenue at the Imperial Valley Projects in the second quarter of 2006 from the comparable period in 2005 primarily reflects \$6.7 million of lower revenue from a 15.2% decrease in energy production and a \$1.6 million decrease due to lower energy rates, mainly at the Salton Sea IV and V Projects. The energy production decrease primarily results from more extensive Region 1 brine system and turbine overhaul outages and a wind storm event causing downed power poles and lines, which are not owned or maintained by the Imperial Valley Projects, and forced downtime of approximately 3 days at certain Imperial Valley Projects.

The \$10.3 million, or 10.5%, decrease in operating revenue at the Imperial Valley Projects in the first six months of 2006 from the comparable period in 2005 primarily reflects \$6.9 million of lower revenue from an 8.4% decrease in energy production and a \$3.4 million decrease due to lower energy rates, mainly at the Salton Sea IV and V Projects. The energy production decrease primarily results from more extensive Region 1 brine system and turbine overhaul outages and a wind storm event causing downed power poles and lines, which are not owned or maintained by the Imperial Valley Projects, and forced downtime of approximately 3 days at certain Imperial Valley Projects.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general, and administrative expense increased \$1.2 million, or 4.4%, to \$28.2 million for the second quarter of 2006 from \$27.0 million for the comparable period in 2005. The increase was primarily due to a \$1.5 million increase in maintenance expense due to more extensive brine system and turbine overhauls and associated maintenance repairs at the Imperial Valley Projects in 2006 and smaller increases relating to higher chemical costs.

Royalty, operating, general, and administrative expense increased \$9.2 million, or 18.0%, to \$60.4 million for the first six months of 2006 from \$51.2 million for the comparable period in 2005. The increase was primarily due to an \$8.5 million

increase in maintenance expense due to more extensive brine system and turbine overhauls and associated maintenance repairs at the Imperial Valley Projects in 2006 and smaller increases relating to higher chemical costs.

Depreciation and Amortization

Depreciation and amortization increased \$1.6 million to \$15.8 million for the second quarter of 2006 from \$14.2 million for the comparable period in 2005. The increase was due primarily to a \$2.0 million increase in disposals of certain replaced pipe at the Imperial Valley Projects in 2006. During the second quarter of 2006 and 2005, the Company replaced certain pipe with a remaining net book value of \$2.8 million and \$0.8 million, respectively, which was charged to depreciation expense in the accompanying combined statements of operations.

Depreciation and amortization decreased \$0.5 million to \$30.0 million for the first six months of 2006 from \$30.5 million for the comparable period in 2005 due primarily to lower capital expenditures.

Interest Expense

Interest expense for the second quarter and for the first six months of 2006 decreased \$0.6 million to \$5.3 million and \$1.1 million to \$10.8 million, respectively, from the comparable periods in 2005 due to lower outstanding debt balances.

Provision (Benefit) for Income Taxes

The provision (benefit) for income taxes for the second quarter and for the first six months of 2006 decreased \$1.6 million to (\$0.7) million and decreased \$0.8 million to \$0.1 million from the comparable periods in 2005 due to decreased pre-tax income from the Salton Sea Power L.L.C. and the Partnership Guarantors.

Discontinued Operations

The income from discontinued operations of \$1.1 million for the six-month period ended June 30, 2006, reflects the proceeds received from property tax refunds related to the Zinc Recovery Project. The income from discontinued operations of \$5.0 million for the six-month period ended June 30, 2005, reflects the proceeds received from the sale of assets, partially offset by the disposal costs incurred, in connection with the September 2004 decision to cease the operations of the Zinc Recovery Project.

Liquidity and Capital Resources

The Company generated cash flows from operations of \$16.3 million for the six-month period ended June 30, 2006, compared with \$18.3 million for the same period in 2005. The decrease was due primarily to lower revenue from decreased energy production resulting from more extensive Region 1 brine system and turbine overhaul outages, a wind storm event causing downed power poles and lines and forced downtime of approximately 3 days at certain Imperial Valley Projects and increased operating expenses from more extensive brine system and turbine overhauls and associated maintenance repairs at the Imperial Valley Projects.

The Guarantors' 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.

In June and November 2001, the Imperial Valley 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 receiving Edison's avoided cost of energy entered into amendments to their respective power purchase agreements which provide for a fixed energy price commencing May 1, 2007, and ending April 30, 2012. The amendments are subject to the approval of the CPUC. Edison filed an advice letter with CPUC on July 28, 2006, seeking approval of the amendments in November 2006. Through August 11, 2006, no parties have filed opposition. The CPUC is

under no formal schedule to approve the amendment. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kWh, escalated by 1 percent annually beginning May 1, 2008.

Cash flows used in investing activities were \$16.7 million for the six-month period ended June 30, 2006 compared with \$9.4 million for the same period in 2005 due to higher equipment sales in 2005 from the Zinc Recovery Project discontinued operations and decreased capital expenditures, as described below.

Capital expenditures decreased to \$16.7 million for the six-month period ended June 30, 2006, from \$19.8 million for the comparable period in 2005 due to lower capital pipe replacements. Forecasted capital expenditures for 2006 are \$31.3 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The company is evaluating pipeline replacement materials which are expected to have a longer useful life than the material currently used. The new material would result in higher capital expenditures than historical expenditures in 2007 through 2009. The Company expects to meet these capital expenditures with cash flows from operations.

Cash flows used in financing activities were \$8.6 million for the six-month period ended June 30, 2006 compared with \$21.2 million for the same period in 2005 due primarily to the final principal payment made in 2005 on the Series "B" Senior Secured Notes and Bonds.

Environmental Liabilities

The Company is subject to numerous legislative and regulatory environmental protection requirements involving air and water pollution, waste management, hazardous chemical use, noise abatement, and land use aesthetics. State and federal environmental laws and regulations currently have, and future modifications may have, the effect of (i) increasing the lead time for the construction of new facilities, (ii) significantly increasing the total cost of new facilities, (iii) requiring modification of the Company's existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Company's cost of waste disposal and (vi) reducing the reliability of service provided by the Company and the amount of energy available from the Company's facilities. Any of such items could have a substantial impact on amounts required to be expended by the Company in the future. Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated. Estimates of the liability are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other social and economic factors, and include estimates of associated legal costs. These amounts also consider prior experience in remediation of sites, other companies' clean-up experience and data released by the Environmental Protection Agency or other organizations. These estimated liabilities are subject to revision in future periods based on actual costs or new circumstances, and are included in the consolidated balance sheets at their undiscounted amounts. As of June 30, 2006 and December 31, 2005, the environmental liabilities recorded in the accompanying consolidated balance sheets as current liabilities were \$1.5 million and \$2.8 million, respectively.

CERTIFICATION

I, Stefan A. Bird, 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 officers 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 officers 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: August 11, 2006

/s/ Stefan A. Bird
Stefan A. Bird
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 officers 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 officers 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: August 11, 2006

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

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

EXHIBIT A

June 30, 2006

(amounts 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	\$ -	\$ 478	\$ -	\$ 5,377	\$ 5,855
Short-term investments	-	-	-	6,000	6,000
Trade accounts receivable	12,637	19,324	-	-	31,961
Trade accounts receivable from affiliate	1,070	8	-	-	1,078
Inventories	-	21,135	-	-	21,135
Prepaid expenses and other current assets	1,247	1,361	-	23	2,631
Total current assets	<u>14,954</u>	<u>42,306</u>	<u>-</u>	<u>11,400</u>	<u>68,660</u>
Properties, plants and equipment, net	357,655	235,194	-	-	592,849
Intangible assets, net	20,995	44,523	10,349	-	75,867
Deferred financing charges and other assets	1,954	1,151	-	-	3,105
Goodwill	-	56,528	30,464	-	86,992
Total assets	<u>\$ 395,558</u>	<u>\$ 379,702</u>	<u>\$ 40,813</u>	<u>\$ 11,400</u>	<u>\$ 827,473</u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 4,287	\$ 4,935	\$ -	\$ -	\$ 9,222
Accrued interest	1,048	602	-	-	1,650
Accrued environmental liabilities	-	1,512	-	-	1,512
Other accrued liabilities	3,727	8,505	-	-	12,232
Current portion of secured project notes	22,376	3,128	-	(25,504)	-
Current portion of long-term debt	-	-	-	25,504	25,504
Total current liabilities	<u>31,438</u>	<u>18,682</u>	<u>-</u>	<u>-</u>	<u>50,120</u>
Secured project notes	141,634	89,662	-	(231,296)	-
Senior secured notes and bonds	-	-	-	231,296	231,296
Due to affiliates	(1,930)	5,324	-	4,171	7,565
Deferred income taxes	4,790	88,582	-	-	93,372
Total liabilities	<u>175,932</u>	<u>202,250</u>	<u>-</u>	<u>4,171</u>	<u>382,353</u>
Owners' equity	219,626	177,452	40,813	7,229	445,120
Total liabilities and owners' equity	<u>\$ 395,558</u>	<u>\$ 379,702</u>	<u>\$ 40,813</u>	<u>\$ 11,400</u>	<u>\$ 827,473</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING BALANCE SHEET
December 31, 2005

EXHIBIT A (Continued)

(amounts 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	\$ -	\$ 300	\$ -	\$ 14,632	\$ 14,932
Short-term investments	-	-	-	6,000	6,000
Trade accounts receivable	13,841	14,194	-	-	28,035
Trade accounts receivable from affiliate	3,096	1,148	-	-	4,244
Inventories	-	20,743	-	-	20,743
Prepaid expenses and other current assets	1,064	1,105	-	96	2,265
Total current assets	<u>18,001</u>	<u>37,490</u>	<u>-</u>	<u>20,728</u>	<u>76,219</u>
Properties, plants and equipment, net	357,647	241,689	-	-	599,336
Intangible assets, net	21,571	46,343	10,824	-	78,738
Deferred financing charges and other assets	2,291	1,265	-	-	3,556
Due from affiliates	(3,044)	(790)	-	5,221	1,387
Goodwill	-	56,528	30,464	-	86,992
Total assets	<u>\$ 396,466</u>	<u>\$ 382,525</u>	<u>\$ 41,288</u>	<u>\$ 25,949</u>	<u>\$ 846,228</u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 1,384	\$ 5,694	\$ -	\$ -	\$ 7,078
Accrued interest	1,121	613	-	-	1,734
Accrued environmental liabilities	-	2,830	-	-	2,830
Other accrued liabilities	2,514	8,437	-	-	10,951
Current portion of secured project notes	22,621	3,295	-	(25,916)	-
Current portion of long-term debt	-	-	-	25,916	25,916
Total current liabilities	<u>27,640</u>	<u>20,869</u>	<u>-</u>	<u>-</u>	<u>48,509</u>
Secured project notes	152,700	91,141	-	(243,841)	-
Senior secured notes and bonds	-	-	-	243,841	243,841
Deferred income taxes	5,086	88,954	-	-	94,040
Total liabilities	<u>185,426</u>	<u>200,964</u>	<u>-</u>	<u>-</u>	<u>386,390</u>
Owners' equity	<u>211,040</u>	<u>181,561</u>	<u>41,288</u>	<u>25,949</u>	<u>459,838</u>
Total liabilities and owners' equity	<u>\$ 396,466</u>	<u>\$ 382,525</u>	<u>\$ 41,288</u>	<u>\$ 25,949</u>	<u>\$ 846,228</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENTS OF OPERATIONS (Unaudited)
For the Six-Month Period Ended June 30, 2006
(amounts 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	\$ 44,003	\$ 44,071	\$ 5,687	\$ (5,687)	\$ 88,074
Costs and expenses:					
Royalty, operating, general and administrative expense	28,539	35,763	1,709	(5,625)	60,386
Depreciation and amortization	16,006	13,525	475	-	30,006
Total costs and expenses	<u>44,545</u>	<u>49,288</u>	<u>2,184</u>	<u>(5,625)</u>	<u>90,392</u>
Operating income (loss)	<u>(542)</u>	<u>(5,217)</u>	<u>3,503</u>	<u>(62)</u>	<u>(2,318)</u>
Other income (expense):					
Interest expense	(6,993)	(3,783)	-	-	(10,776)
Interest and other income	-	365	-	693	1,058
Total other income (expense)	<u>(6,993)</u>	<u>(3,418)</u>	<u>-</u>	<u>693</u>	<u>(9,718)</u>
Income (loss) from continuing operations before income taxes	(7,535)	(8,635)	3,503	631	\$ (12,036)
Provision (benefit) for income taxes	455	(656)	-	259	58
Income (loss) from continuing operations	<u>(7,990)</u>	<u>(7,979)</u>	<u>3,503</u>	<u>372</u>	<u>(12,094)</u>
Income from discontinued operations	-	1,051	-	-	1,051
Net income (loss)	<u>\$ (7,990)</u>	<u>\$ (6,928)</u>	<u>\$ 3,503</u>	<u>\$ 372</u>	<u>\$ (11,043)</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENTS OF OPERATIONS (Unaudited)
For the Six-Month Period Ended June 30, 2005
(amounts 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	\$ 51,164	\$ 47,178	\$ 6,325	\$ (6,325)	\$ 98,342
Costs and expenses:					
Royalty, operating, general and administrative expense	25,839	30,039	1,497	(6,165)	51,210
Depreciation and amortization	14,525	15,420	545	-	\$ 30,490
Total costs and expenses	<u>40,364</u>	<u>45,459</u>	<u>2,042</u>	<u>(6,165)</u>	<u>81,700</u>
Operating income (loss)	<u>10,800</u>	<u>1,719</u>	<u>4,283</u>	<u>(160)</u>	<u>16,642</u>
Other income (expense):					
Interest expense	(7,859)	(3,965)	(58)	-	(11,882)
Interest and other income	2	539	-	387	928
Total other income (expense)	<u>(7,857)</u>	<u>(3,426)</u>	<u>(58)</u>	<u>387</u>	<u>(10,954)</u>
Income (loss) from continuing operations before income taxes	2,943	(1,707)	4,225	227	5,688
Provision for income taxes	626	168	-	93	887
Income (loss) from continuing operations before income taxes	<u>2,317</u>	<u>(1,875)</u>	<u>4,225</u>	<u>134</u>	<u>4,801</u>
Income from discontinued operations	-	5,031	-	-	5,031
Net income	<u>\$ 2,317</u>	<u>\$ 3,156</u>	<u>\$ 4,225</u>	<u>\$ 134</u>	<u>\$ 9,832</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS (Unaudited)

EXHIBIT A (Continued)

For the Six-Month Period Ended June 30, 2006

(amounts in thousands)

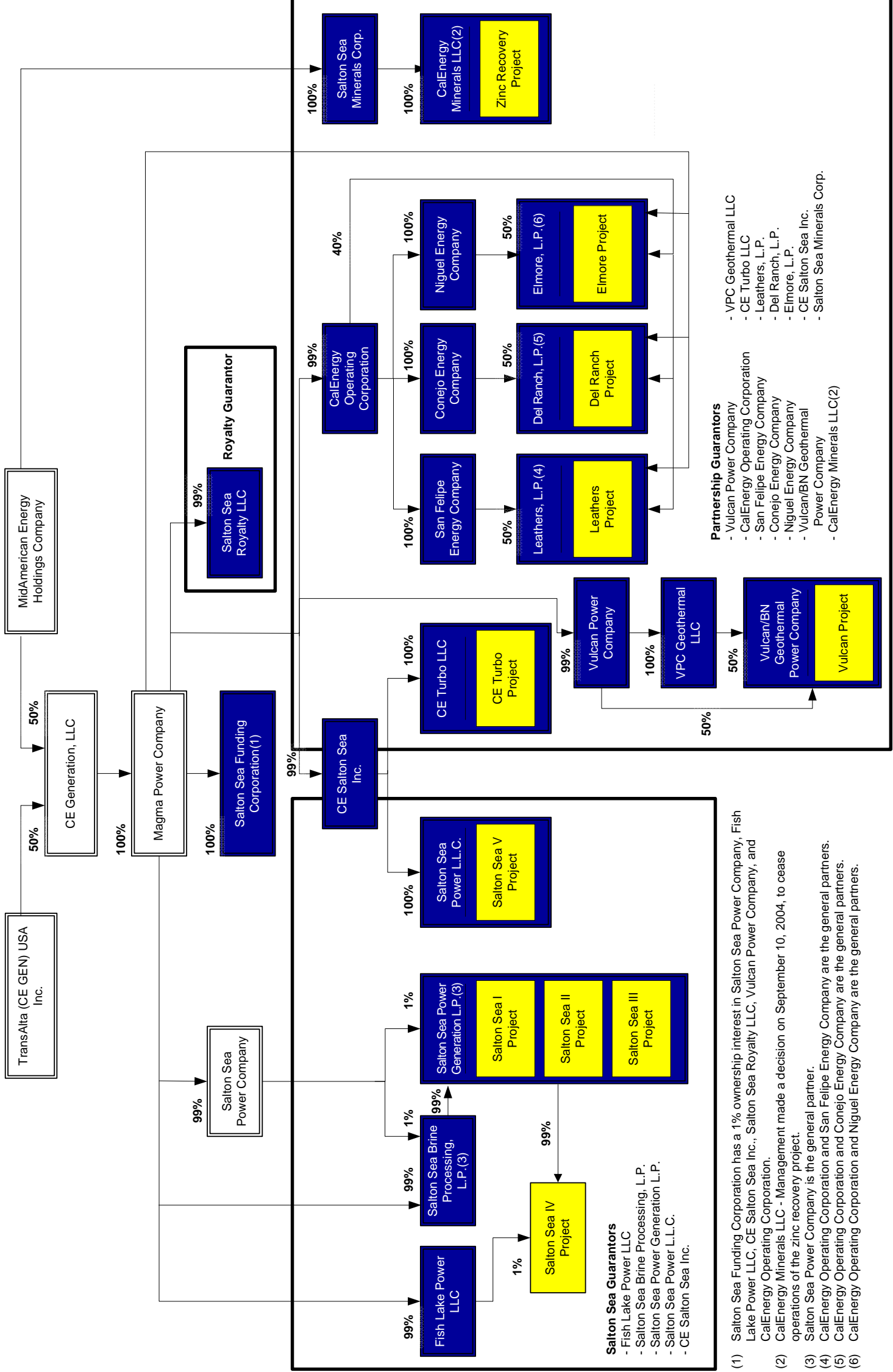
	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Income (loss) from continuing operations	\$ (7,990)	\$ (7,979)	\$ 3,503	\$ 372	\$ (12,094)
Adjustments to reconcile income (loss) from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	16,006	13,525	475	-	30,006
Deferred income taxes	(296)	(372)	-	-	(668)
Amortization of deferred financing costs	337	114	-	-	451
Changes in other items:					
Trade accounts receivable	3,230	(4,033)	-	-	(803)
Inventories, prepaid expenses and other current assets	(183)	(646)	-	73	(756)
Accounts payable and accrued liabilities	1,726	(2,235)	-	-	(509)
Net cash flows from continuing operations	<u>12,830</u>	<u>(1,626)</u>	<u>3,978</u>	<u>445</u>	<u>15,627</u>
Net cash flows from discontinued operations	-	682	-	-	682
Net cash from operating activities	<u>12,830</u>	<u>(944)</u>	<u>3,978</u>	<u>445</u>	<u>16,309</u>
Cash flows from investing activities:					
Capital expenditures	(11,832)	(4,835)	-	-	(16,667)
Purchases of available-for-sale securities	-	-	-	(84,000)	(84,000)
Proceeds from sales of available-for-sale securities	-	-	-	84,000	84,000
Net cash flows from continuing operations	<u>(11,832)</u>	<u>(4,835)</u>	<u>-</u>	<u>-</u>	<u>(16,667)</u>
Net cash flows from discontinued operations	-	(74)	-	-	(74)
Net cash from investing activities	<u>(11,832)</u>	<u>(4,909)</u>	<u>-</u>	<u>-</u>	<u>(16,741)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(11,311)	(1,646)	-	-	(12,957)
(Increase) decrease in due from affiliates	10,313	7,677	(3,978)	(9,700)	4,312
Net cash flows from continuing operations	<u>(998)</u>	<u>6,031</u>	<u>(3,978)</u>	<u>(9,700)</u>	<u>(8,645)</u>
Net cash flows from discontinued operations	-	-	-	-	-
Net cash from financing activities	<u>(998)</u>	<u>6,031</u>	<u>(3,978)</u>	<u>(9,700)</u>	<u>(8,645)</u>
Net change in cash and cash equivalents	-	178	-	(9,255)	(9,077)
Cash and cash equivalents at the beginning of period	-	300	-	14,632	14,932
Cash and cash equivalents at the end of period	<u>\$ -</u>	<u>\$ 478</u>	<u>\$ -</u>	<u>\$ 5,377</u>	<u>\$ 5,855</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS (Unaudited)
For the Six-Month Period Ended June 30, 2005
(amounts 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>
Cash flows from operating activities:					
Income (loss) from continuing operations	\$ 2,317	\$ (1,875)	\$ 4,225	\$ 134	\$ 4,801
Adjustments to reconcile income (loss) from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	14,525	15,420	545	-	30,490
Deferred income taxes	626	(591)	-	-	35
Amortization of deferred financing costs	404	121	9	-	534
Changes in other items:					
Trade accounts receivable	(5,101)	(4,655)	-	-	(9,756)
Inventories, prepaid expenses and other current assets	17	(2,197)	-	10	(2,170)
Accounts payable and accrued liabilities	(2,030)	(1,855)	(10)	-	(3,895)
Net cash flows from continuing operations	<u>10,758</u>	<u>4,368</u>	<u>4,769</u>	<u>144</u>	<u>20,039</u>
Net cash flows from discontinued operations	-	(1,782)	-	-	(1,782)
Net cash from operating activities	<u>10,758</u>	<u>2,586</u>	<u>4,769</u>	<u>144</u>	<u>18,257</u>
Cash flows from investing activities:					
Capital expenditures	(8,501)	(11,309)	-	-	(19,810)
Purchases of available-for-sale securities	-	-	-	(40,000)	(40,000)
Proceeds from sales of available-for-sale securities	-	-	-	45,000	45,000
Net cash flows from continuing operations	<u>(8,501)</u>	<u>(11,309)</u>	<u>-</u>	<u>5,000</u>	<u>\$ (14,810)</u>
Net cash flows from discontinued operations	-	5,436	-	-	5,436
Net cash from investing activities	<u>(8,501)</u>	<u>(5,873)</u>	<u>-</u>	<u>5,000</u>	<u>(9,374)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(21,360)	(2,134)	(1,568)	-	(25,062)
(Increase) decrease in due from affiliates	19,103	7,025	(3,201)	(18,240)	4,687
Net cash flows from continuing operations	<u>(2,257)</u>	<u>4,891</u>	<u>(4,769)</u>	<u>(18,240)</u>	<u>(20,375)</u>
Net cash flows from discontinued operations	-	(842)	-	-	(842)
Net cash from financing activities	<u>(2,257)</u>	<u>4,049</u>	<u>(4,769)</u>	<u>(18,240)</u>	<u>(21,217)</u>
Net change in cash and cash equivalents	<u>-</u>	<u>762</u>	<u>-</u>	<u>(13,096)</u>	<u>(12,334)</u>
Cash and cash equivalents at the beginning of period	<u>-</u>	<u>966</u>	<u>-</u>	<u>14,523</u>	<u>15,489</u>
Cash and cash equivalents at the end of period	<u>\$ -</u>	<u>\$ 1,728</u>	<u>\$ -</u>	<u>\$ 1,427</u>	<u>\$ 3,155</u>

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



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

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

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

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