



# SALTON SEA FUNDING CORPORATION AND GUARANTORS

## **Combined Financial Statements**

**For the Quarterly Period Ended September 30, 2005**

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**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED BALANCE SHEETS**  
(Amounts in thousands)

	As of	
	September 30, 2005	December 31, 2004
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,929	\$ 15,489
Short-term investments	-	5,000
Trade accounts receivable, net	45,302	29,822
Trade accounts receivable from affiliates	1,681	1,285
Inventory	22,198	18,513
Prepaid expenses and other current assets	2,237	2,494
Total current assets	90,347	72,603
Properties, plants and equipment, net	610,158	626,656
Intangible assets, net	79,858	84,309
Deferred financing costs, net	2,870	3,273
Due from affiliates	-	259,216
Goodwill	86,992	86,992
<b>Total assets</b>	<b>\$ 870,225</b>	<b>\$ 1,133,049</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,479	\$ 2,040
Accrued interest	7,035	1,914
Accrued environmental liabilities	3,539	4,165
Other accrued liabilities	16,251	15,259
Current portion of long-term debt	16,516	28,620
Total current liabilities	48,820	51,998
Senior secured notes and bonds	256,800	269,757
Deferred income taxes	97,950	98,614
Total liabilities	403,570	420,369
Commitments and contingencies (Note 7)		
Owners' equity	466,655	712,680
<b>Total liabilities and owners' equity</b>	<b>\$ 870,225</b>	<b>\$ 1,133,049</b>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF OPERATIONS**  
(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(unaudited)			
<b>Operating revenue</b>	\$ 72,960	\$ 72,051	\$ 171,302	\$ 158,533
<b>Costs and expenses:</b>				
Royalty, operating, general and administrative expense	22,600	24,240	74,031	85,117
Depreciation and amortization	<u>13,169</u>	<u>12,270</u>	<u>43,429</u>	<u>39,842</u>
Total costs and expenses	<u>35,769</u>	<u>36,510</u>	<u>117,460</u>	<u>124,959</u>
<b>Operating income</b>	<u>37,191</u>	<u>35,541</u>	<u>53,842</u>	<u>33,574</u>
<b>Other income (expense):</b>				
Interest expense	(5,410)	(6,178)	(16,998)	(18,964)
Interest and other income	<u>567</u>	<u>383</u>	<u>1,469</u>	<u>1,218</u>
Total other income (expense)	<u>(4,843)</u>	<u>(5,795)</u>	<u>(15,529)</u>	<u>(17,746)</u>
<b>Income from continuing operations before income taxes</b>	32,348	29,746	38,313	15,828
Provision for income taxes	<u>18</u>	<u>8,977</u>	<u>671</u>	<u>2,405</u>
<b>Income from continuing operations</b>	32,330	20,769	37,642	13,423
Income (loss) from discontinued operations, net of tax (Note 3)	<u>1,828</u>	<u>(487,794)</u>	<u>4,808</u>	<u>(501,508)</u>
<b>Net income (loss)</b>	<u>\$ 34,158</u>	<u>\$ (467,025)</u>	<u>\$ 42,450</u>	<u>\$ (488,085)</u>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENT OF OWNERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005**  
(Amounts in thousands)

<b>Balance, January 1, 2005</b>	\$ 712,680
Net income	42,450
Equity distributions	(288,475)
<b>Balance, September 30, 2005</b>	<b>\$ 466,655</b>

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

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(Amounts in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Income from continuing operations	\$ 37,642	\$ 13,423
Adjustments to reconcile income from continuing operations to net cash flows from continuing operations:		
Depreciation and amortization	43,429	39,842
Deferred income taxes	(664)	463
Changes in other items:		
Trade accounts receivable, net	(16,234)	(14,754)
Inventory, prepaid expenses and other current assets	(3,439)	1,533
Accounts payable and accrued liabilities	<u>10,828</u>	<u>10,120</u>
Net cash flows from continuing operations	71,562	50,627
Net cash flows from discontinued operations	<u>(2,917)</u>	<u>(28,437)</u>
Net cash flows from operating activities	<u>68,645</u>	<u>22,190</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures related to operating projects	(22,312)	(16,388)
Purchases of available-for-sale securities	(56,000)	(149,500)
Proceeds from sales of available-for-sale securities	<u>61,000</u>	<u>143,350</u>
Net cash flows from continuing operations	(17,312)	(22,538)
Net cash flows from discontinued operations	<u>6,194</u>	<u>845</u>
Net cash flows from investing activities	<u>(11,118)</u>	<u>(21,693)</u>
<b>Cash flows from financing activities:</b>		
Repayment of senior secured notes and bonds	(25,061)	(14,416)
Decrease (increase) in due from affiliates	(25,656)	10,344
Other	<u>403</u>	<u>-</u>
Net cash flows from continuing operations	(50,314)	(4,072)
Net cash flows from discontinued operations	<u>(3,773)</u>	<u>27,592</u>
Net cash flows from financing activities	<u>(54,087)</u>	<u>23,520</u>
<b>Net increase in cash and cash equivalents</b>	3,440	24,017
<b>Cash and cash equivalents at the beginning of period</b>	<u>15,489</u>	<u>10,491</u>
<b>Cash and cash equivalents at the end of period</b>	<u>\$ 18,929</u>	<u>\$ 34,508</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” or the “Company”) and the Salton Sea Guarantors, the Partnership Guarantors and the Royalty Guarantors (each as defined below, together, the “Guarantors”), the accompanying unaudited combined financial statements of Funding Corporation and the Guarantors contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position as of September 30, 2005, the results of operations for the three-month and nine-month periods ended September 30, 2005 and 2004 and the cash flows and changes in owners equity for the nine-month periods ended September 30, 2005. The results of operations for the three-month and nine-month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

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”).

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 Elmore, Leathers and Del Ranch. CEOC is entitled to receive from Magma, as payment for certain data and services provided by CEOC, (1) 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 (2) Magma’s special distributions equal to 4.5% of total energy revenue from the Leathers Project. Given the assignment of these rights by Magma to CEOC, the 10% ownership interest in each of the Elmore, Leathers and Del Ranch Projects is reflected in the combined financial statements of Funding Corporation and the Guarantors.

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 MidAmerican Energy Holdings Company (“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 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 March 2005, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143” (“FIN 47”). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Guarantors are required to adopt the provisions of FIN 47 by December 2005. Adoption of FIN 47 is not expected to have a material effect on the Guarantors’ financial position, results of operations or cash flows.

## 3. Discontinued Operations - Mineral Assets and Zinc Recovery Project

The Guarantors' long-lived assets included rights to commercial quantities of certain extractable minerals from the elements in solution in the geothermal brine and fluids utilized at certain geothermal energy generation facilities located in the Imperial Valley of California and the Zinc Recovery Project installed by CalEnergy Minerals near the geothermal energy generation facilities owned by certain Guarantors that were intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash impairment charge of \$498.2 million (\$481.4 million after-tax) was recorded in September 2004 to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively the “Mineral Assets”).

The activity of the Mineral Assets is classified separately as discontinued operations in the accompanying combined statements of operations and includes the following (in thousands):

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Operating revenue	\$ -	\$ 538	\$ -	\$ 2,445
Losses from discontinued operations	-	\$ (9,546)	-	\$ (32,577)
Proceeds from (costs of) disposal activities, net	3,087	(1,019)	8,118	(1,019)
Asset impairment charges	-	(455,066)	-	(455,066)
Goodwill impairment charges	-	(43,125)	-	(43,125)
Income tax (provision) benefit	(1,259)	20,962	(3,310)	30,279
Income (loss) from discontinued operations, net of tax	<u>\$ 1,828</u>	<u>\$ (487,794)</u>	<u>\$ 4,808</u>	<u>\$ (501,508)</u>

A decommissioning plan, which began in September 2004, is expected to be completed during the fourth quarter of 2005. Substantially all costs incurred have related to disposal activities and have been offset by proceeds from sales of the Zinc Recovery Project’s assets. Costs are recognized in the period in which the related liability is incurred. Salvage proceeds are recognized in the period earned. CalEnergy Minerals does not expect to make significant additional cash expenditures.

The costs of disposal activities for the nine-month period ended September 30, 2005 are as follows (in thousands):

Accrued disposal costs at December 31, 2004	\$ 430
Costs of disposal activities	555
Payments of disposal costs	<u>(985)</u>
Accrued disposal costs at September 30, 2005	<u>\$ -</u>

On December 13, 2004, CalEnergy Minerals entered into a project decommissioning contract (the “Decommissioning Contract”) and an equipment purchase agreement (the “Equipment Purchase Agreement”) with a third party contractor. Under the terms of the Decommissioning Contract, the contractor has agreed to dismantle and remove certain Zinc Recovery Project equipment and other assets on a turnkey, date certain basis in exchange for the execution of the Equipment Purchase Agreement by CalEnergy Minerals. Under the terms of the Equipment Purchase Agreement the contractor has purchased certain Zinc Recovery Project equipment for a guaranteed purchase price of approximately \$4.1 million, which was paid in full as of April 19, 2005. Additionally, any gross proceeds the contractor receives from the sale of such equipment and other assets over approximately \$5.7 million will be shared equally with CalEnergy Minerals. CalEnergy Minerals has retained ownership of the remaining Zinc Recovery Project equipment and other assets for potential direct sale to third parties. Under the terms of the Equipment Purchase Agreement and the Decommissioning Contract, CalEnergy Minerals had an option, exercisable no later than October 1, 2005, to sell this retained equipment and other assets to the contractor for approximately \$0.1 million and have it removed by the contractor no later than December 31, 2005. Minerals did not exercise this option and is currently marketing such assets to third parties. Total asset sales proceeds to date, including the \$4.1 million from the third party contractor, are \$6.4 million.

On June 13, 2003, CalEnergy Minerals filed a lawsuit against AMEC E&C Services Inc. (“AMEC”) for declaratory judgment, breach of contract and breach of duty of fiduciary responsibility. In June 2005, AMEC and CalEnergy Minerals reached a settlement agreement, under which AMEC agreed to release a \$2.8 million claim and pay \$2.7 million to CalEnergy Minerals. CalEnergy Minerals received the \$2.7 million AMEC settlement payment on July 6, 2005, which is included in proceeds from disposal activities.

#### 4. Properties, Plants and Equipment, Net

During the three-month and nine-month periods ended September 30, 2005, the Guarantors replaced certain pipe with a remaining net book value of \$- million and \$4.0 million, respectively, which was charged to depreciation expense in the accompanying combined statements of operations. During the three-month and nine-month periods ended September 30, 2004, the Partnership Guarantors replaced plant assets with a remaining book value of \$0.3 million and \$2.0 million, respectively, which was charged to depreciation expense in the accompanying combined statements of operations.

#### 5. Intangible Assets, Net

The following table summarizes the acquired intangible assets as of September 30, 2005 and December 31, 2004, respectively (in thousands):

	<u>September 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Power Purchase Contracts	\$ 216,935	\$ 162,677	\$ 216,935	\$ 159,673
Patented Technology	<u>46,290</u>	<u>20,690</u>	<u>46,290</u>	<u>19,243</u>
Total	<u>\$ 263,225</u>	<u>\$ 183,367</u>	<u>\$ 263,225</u>	<u>\$ 178,916</u>

Amortization expense on acquired intangible assets was \$1.4 million and \$4.4 million for each of the three-month and nine-month periods ended September 30, 2005 and 2004, respectively. The Guarantors expect amortization expense on acquired intangible assets to be \$1.4 million for the remaining three months in 2005 and \$5.5 million each of the four succeeding fiscal years.

## 6. Related Party Transactions

Funding Corporation made equity distributions of \$288.5 million during the nine-month period ended September 30, 2005. The equity distributions represent the operating losses and capital expenditures of certain Guarantors previously funded by amounts held in the revenue account of Funding Corporation and amounts previously transferred to Magma pursuant to the terms and conditions of the debt of Funding Corporation.

MEHC contributed equity to CalEnergy Minerals to fund the Zinc Recovery Project's operating losses, capital expenditures and debt service through September 10, 2004, which was the date the Zinc Recovery Project's operations were ceased. Equity contributions for the nine-month period ended September 30, 2004 were \$191.4 million and are included in the accompanying combined statement of cash flows as part of net financing activity cash flows from discontinued operations, and include MEHC's \$136.4 million funding of its guarantee of the 7.475% Senior Secured Series F Bonds due November 30, 2018 issued by Funding Corporation which were redeemed on March 1, 2004 and MEHC's \$55.0 million funding of the Zinc Recovery Project's operating losses.

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 nine-month periods ended September 30, 2005 were \$1.8 million and \$4.4 million, respectively. The amounts expensed for the three-month and nine-month periods ended September 30, 2004 were \$1.3 million and \$3.2 million, 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 nine-month periods ended September 30, 2005 were \$0.5 million and \$1.2 million, respectively. The amounts expensed for the three-month and nine-month periods ended September 30, 2004 were \$0.5 million and \$1.1 million, respectively.

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

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed were \$2.2 million and \$6.4 million for the three-month and nine-month periods ended September 30, 2005, respectively, and \$2.5 million and \$7.1 million for the three-month and nine-month periods ended September 30, 2004, respectively.

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 the CE Turbo Project to TransAlta USA, Inc. ("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 \$4.3 million and \$10.1 million during the three-month and nine-month periods ended September 30, 2005, respectively, and \$2.8 million and \$7.0 million during the three-month and nine-month periods ended September 30, 2004, respectively. As of September 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta were \$1.5 million and \$1.3 million, respectively.

On January 21, 2004, CE Turbo and Salton Sea Power 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 at the CE Turbo Project and the Salton Sea V Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. at a market price per Green Tag. Pursuant to this

agreement, sales to TransAlta totaled \$0.5 million and \$1.6 million during the three-month and nine-month periods ended September 30, 2005, respectively, and \$0.5 million for each of the three-month and nine-month periods ended September 30, 2004. As of September 30, 2005 and December 31, 2004, accounts receivable balances from TransAlta Energy Marketing (US) Inc. were \$0.2 million and \$- million, respectively.

## **7. Commitments and Contingencies**

### Southern California Edison (“Edison”)

On July 10, 2003, the Salton Sea IV Project’s 40 megawatt turbine went out of service due to an uncontrollable force event. Such uncontrollable force event ended, and the Salton Sea IV Project’s turbine returned to service, on September 17, 2003. Edison failed to recognize the uncontrollable force event and, as such, has not paid amounts otherwise due and owing under the Salton Sea IV power purchase agreement totaling \$2.5 million. SSPG, with Fish Lake, owner of the Salton Sea IV Project, served notices of error on Edison for such unpaid amounts. As a result, the Guarantors had established an allowance for doubtful accounts of \$1.7 million for capacity payments as of December 31, 2003. In December 2004, as a result of a settlement agreement dated December 7, 2004 resolving the dispute, the allowance was released and the associated receivable was written off. Under the terms of the Settlement Agreement, the settlement would become effective 30 days after approval by the California Public Utilities Commission. On July 21, 2005, the California Public Utilities Commission approved the settlement and therefore the settlement became effective on August 20, 2005.

### The California Power Exchange

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo have not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the “PX Receivable”). Salton Sea Power and CE Turbo had 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 September 30, 2005, the California Power Exchange has made no payments in connection with the PX Receivable.

### Minerals

On May 25, 2001, CalEnergy Minerals and AMEC entered into a services agreement for engineering, procurement and construction management services (the “AMEC Agreement”) in connection with the resolution of numerous problems that affected the timely completion of CalEnergy Minerals’ Zinc Recovery Project. Under the AMEC Agreement, AMEC represented that it had certain licenses required for its services which CalEnergy Minerals ultimately determined to be false. AMEC submitted \$2.8 million of invoices to CalEnergy Minerals that AMEC claims are due and payable under the AMEC Agreement. CalEnergy Minerals filed a lawsuit against AMEC on June 13, 2003 for declaratory judgment that would (1) prevent collection by AMEC of the \$2.8 million it claimed to be due and payable and, (2) recover payments made by CalEnergy Minerals to AMEC based on AMEC’s lack of a contractor’s license in California. The lawsuit also included claims by CalEnergy Minerals against AMEC for breach of contract and breach of duty of fiduciary responsibility. In June 2005, CalEnergy Minerals and AMEC reached a settlement agreement, under which AMEC agreed to release its \$2.8 million claim and pay \$2.7 million to CalEnergy Minerals. The \$2.7 million payment was received July 6, 2005.

## Environmental Liabilities

The Guarantors are 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 and cost increases to the Guarantors' existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Guarantors' cost of waste disposal and (vi) reducing the reliability of service provided by the Guarantors and the amount of energy available from the Guarantors' facilities. Any of such items could have a substantial impact on amounts required to be expended by the Guarantors 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 accompanying combined balance sheets at their undiscounted amounts. As of September 30, 2005 and December 31, 2004, the environmental liabilities recorded on the combined balance sheets were \$3.5 million and \$4.2 million, respectively.

## **8. Securities**

The documents governing Funding Corporation's various series of senior secured notes and bonds and the related credit agreements and guarantees contain customary covenants, subject to important qualifications and limitations, that restrict Funding Corporation's and the Guarantors' ability, among other things, to pay dividends and make other restricted payments, incur additional debt, create or permit certain liens, merge, consolidate or transfer assets or enter into transactions with affiliates. The governing documents contain customary events of default and also contain certain cross default provisions with the terms of Funding Corporation's and the Guarantors' other debt. Non-compliance with these provisions or the existence of events of default, including cross defaults, can result in all obligations due under the governing documents becoming due and payable and allow exercise of other remedies including foreclosure of collateral as provided in such documents and applicable law.

The Guarantors are obligated under intercompany credit agreements with Funding Corporation to make payments to Funding Corporation as and when required to make payments on the Securities. Such payments are made through the disbursement of funds from accounts pledged for the benefit of the holders of the Securities. The ability of the Guarantors to make other distributions and disbursements from such accounts is limited by the Securities Indenture and other documents described above.

## **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 Salton Sea Brine Processing, L.P., Salton Sea Power Generation L.P. ("SSPG"), Salton Sea Power L.L.C. ("Salton Sea Power"), and Fish Lake Power LLC ("Fish Lake"), which own 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. (together with the owners of the Salton Sea Projects, the "Salton Sea 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" and together with the Salton Sea Projects, the "Imperial Valley Projects"), CalEnergy Minerals LLC ("CalEnergy Minerals"), 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, (collectively, the "Partnership Guarantors"), and Salton Sea Royalty LLC (the "Royalty Guarantor", together with the Salton Sea Guarantors and the Partnership Guarantors, the "Guarantors"), during the periods included in the accompanying statements of operations. This discussion should be read in conjunction with Funding Corporation's and the Guarantors' historical financial statements and the notes to those statements. Actual results in the future could differ significantly from the historical results.

### **Forward-Looking Statements**

From time to time, Funding Corporation and the Guarantors may make forward-looking statements that involve judgments, assumptions and other uncertainties beyond their control. 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 Funding Corporation's or the Guarantors' 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 to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statements. Funding Corporation and the Guarantors have 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. Neither Funding Corporation nor the Guarantors assume any responsibility to update forward-looking information contained herein.

### **Executive Summary**

The following significant events and changes, as discussed in more detail herein, highlight the factors that affect the comparability of our financial results for the three-month and nine-month periods ended September 30, 2005 and 2004:

- On September 10, 2004, management made the decision to cease operations of the facilities installed near the geothermal energy generation facilities located in the Imperial Valley of California that were intended to recover zinc from the geothermal brine through an ion exchange, solvent extraction, electrowinning and casting process (the "Zinc Recovery Project"). Based on this decision, the Partnership Guarantors and Salton Sea Guarantors recognized an impairment charge to write-off the Zinc Recovery Project, rights to quantities of extractable minerals (the "Mineral Reserves") and allocated goodwill (collectively, the "Mineral Assets").
- On March 1, 2004, Funding Corporation completed the redemption of \$136.4 million of its 7.475% Senior Secured Series F Bonds ("Series F Bonds") due on November 30, 2018. Funding Corporation made a demand on MidAmerican Energy Holdings Company ("MEHC") and MEHC performed under that demand in order to fund the redemption.

- There were more major brine system and turbine overhaul outages during the three-month and nine-month periods ended September 30, 2004 compared to more mini-brine system and minor turbine overhaul outages during the same periods in 2005. The major overhauls are longer in duration and have higher associated repair and maintenance costs. The overhaul schedules vary from year to year and are scheduled at intervals based on plant operating hours.

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 period. At September 30, 2005, the capacity factors for the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project, and Salton Sea V Project plants are based on capacity amounts of approximately 10, 20, 50, 40, and 49 net megawatts ("MW"), respectively. At September 30, 2005, the capacity factors for the Vulcan Project, Elmore Project, Leathers Project, Del Ranch Project, and CE Turbo Project plants are based on capacity amounts of approximately 34, 38, 38, 38 and 10 net MW, respectively. Each plant possesses an operating margin, which allows for production in excess of the amount listed above. 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 these 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 these projects.

The following operating data represents the aggregate capacity and electricity production of the Imperial Valley Projects:

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Overall capacity factor	97.3%	96.9%	94.8%	88.3%
Megawatt hour ("MWh") produced	701,000	698,400	2,027,800	1,895,900
Capacity (net MW) (weighted average)	326.4	326.4	326.4	326.4

The increases in the overall capacity factor and MWh produced in the three-month and nine-month periods ended September 30, 2005, as compared to the same periods in 2004, resulted from more scheduled major brine system and turbine overhaul outages in 2004 compared to mini-brine system overhauls and minor turbine overhauls in 2005. The major overhauls consist of more extensive repairs and are longer in duration. The overhaul schedules vary from year to year and are generally scheduled at intervals based on plant operating hours.

#### **Results of Operations for the Three-Month Periods Ended September 30, 2005 and 2004**

Operating revenue increased \$0.9 million, or 1.2%, to \$73.0 million for the three-month period ended September 30, 2005, from \$72.1 million for the same period in 2004. The increase included \$2.3 million of favorable energy pricing, partially offset by a reduction of \$1.4 million due to the expiration of AB1890 revenue at the Salton Sea Unit V Project.

Operating expenses, which include royalty, operating, general and administrative expense, decreased \$1.6 million, or 6.6%, to \$22.6 million for the three-month period ended September 30, 2005, from \$24.2 million for the same period in 2004. The decrease was due to a reduction of maintenance and well workover costs.

Depreciation and amortization increased \$0.9 million to \$13.2 million for the three-month period ended September 30, 2005, from \$12.3 million for the same period in 2004.

Interest expense decreased \$0.8 million to \$5.4 million for the three-month period ended September 30, 2005, from \$6.2 million for the same period in 2004. The decrease is due to lower outstanding debt balances.

Certain entities included in the combined financial statements are partnerships or limited liability companies and, therefore, any associated income tax obligations are the responsibility of the partners or members of these entities. Accordingly, the combined financial statements do not include any provision for income taxes related to these entities. These pass-through entities, along with permanent differences consisting primarily of energy tax credits and percentage depletion at entities that are not pass-through entities, can cause the effective tax rate of the combined group to be different than the federal statutory tax rate.

The provision for income taxes decreased \$9.0 million to \$- for the three-month period ended September 30, 2005, from \$9.0 million for the same period in 2004. The effective tax rate decreased from 30.2% in 2004 to 0.1% in 2005. Changes in the effective tax rate are due primarily to the generation of energy tax credits and changes to depletion deductions. The permanent depletion and energy tax credits represented a larger percentage of the income before income taxes for the three-month period ended September 30, 2005, compared to the same period in 2004.

Income from discontinued operations for the three-month period ended September 30, 2005 was \$1.8 million, compared with a loss of \$487.8 million for the same period in 2004. CalEnergy Minerals ceased operations of and began decommissioning its Zinc Recovery Project during September 2004. The 2004 results include a non-cash after tax impairment charge of \$481.4 million recognized in connection with ceasing operations of the Zinc Recovery Project. The 2005 results reflect proceeds from the sales of assets in 2005.

### **Results of Operations for the Nine-Month Periods Ended September 30, 2005 and 2004**

Operating revenue increased \$12.8 million, or 8.1%, to \$171.3 million for the nine-month period ended September 30, 2005, from \$158.5 million for the same period in 2004. The increase reflects \$9.4 million of higher revenue resulting from increased production due to the timing and length of scheduled outages and favorable energy pricing of \$3.4 million.

Operating expenses, which include royalty, operating, general and administrative expense, decreased \$11.1 million, or 13.0%, to \$74.0 million for the nine-month period ended September 30, 2005, from \$85.1 million for the same period in 2004. The decrease was due to a \$15.7 reduction in maintenance expense due to the timing and scope of scheduled outages, which included less extensive maintenance repairs in 2005. The decrease was partially offset by a \$3.1 million increase in well workover expense in 2005 and increased royalty expense.

Depreciation and amortization increased \$3.6 million to \$43.4 million for the nine-month period ended September 30, 2005, from \$39.8 million for the same period in 2004. The increase was due to increased disposal of certain replaced pipe in 2005 with a remaining net book value of \$4.2 million compared with disposal of pipe in 2004 with a remaining net book value of \$2.0 million and increased depreciation associated with capital additions.

Interest expense decreased \$2.0 million to \$17.0 million for the nine-month period ended September 30, 2005, from \$19.0 million for the same period in 2004. The decrease is due to lower outstanding debt balances.

The provision for income taxes decreased \$1.7 million to \$0.7 million for the nine-month period ended September 30, 2005, from \$2.4 million for the same period in 2004. The effective tax rate decreased from 15.2% in 2004 to 1.8% in 2005. Changes in the effective tax rate are due primarily to the generation of energy tax credits and changes to depletion deductions. The permanent depletion and energy tax credits represented a larger percentage of the income before income taxes for the three-month period ended September 30, 2005, compared to the same period in 2004.

Income from discontinued operations for the nine-months ended September 30, 2005 was \$4.8 million, compared with a loss of \$501.5 million for the same period in 2004. CalEnergy Minerals ceased operations of and began decommissioning its Zinc Recovery Project during September 2004. The 2004 results include a non-cash after tax impairment charge of \$481.4 million recognized in connection with ceasing operations of the Zinc Recovery Project. The 2005 results reflect proceeds from the sales of assets in 2005.

### **Liquidity and Capital Resources**

The Guarantors' primary source of revenue is derived from payments received pursuant to long term power sales agreements with Southern California Edison Company ("Edison"). Because of the Guarantor's dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Guarantors 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. After April 30, 2007, the Imperial Valley Projects subject to these amendments will revert to Edison's avoided cost of energy. Proceedings are currently pending before the California Public Utilities Commission to review, and potentially modify or change, the current methodology used to determine Edison's avoided cost of energy that will be applicable to sales of energy after April 30, 2007. There can be no assurances that such new Edison avoided cost of energy will result in revenues equivalent to the current fixed energy payments being received.

Cash flows from continuing operations increased to \$71.6 million for the nine-month period ended September 30, 2005, compared with \$50.6 million for the same period in 2004. The increase was largely due to increased operating income in 2005. Cash flows used in discontinued operations was \$2.9 million for the nine-month period ended September 30, 2005, compared with \$28.4 million for the same period in 2004. The decrease in cash used in discontinued operations relates to decreased operating expenditures in 2005 as a result of CalEnergy Minerals ceasing operations of its Zinc Recovery Project during September 2004.

Cash flows used in continuing investing activities decreased to \$17.3 million for the nine-month period ended September 30, 2005, compared with \$22.5 million for the same period in 2004. The decrease was due to higher net sales of available-for-sale securities in 2005, partially offset by an increase in capital expenditures in 2005 due to the purchase of pipe. Cash flows from discontinued investing activities was \$6.2 million for the nine-month period ended September 30, 2005, compared with \$0.8 million for the same period in 2004. The increase is due to proceeds received from asset sales in 2005.

Cash flows used in continuing financing activities was \$50.3 million for the nine-month period ended September 30, 2005, compared with \$4.1 million for the same period in 2004. The increase is due to increased operating cash flows and excess cash distributed to affiliates in 2005.

Cash flows used in discontinued financing activities was \$3.8 million for the nine-month period ended September 30, 2005, compared with cash flows generated of \$27.6 million for the same period in 2004. Cash flows generated from financing activities from discontinued operations in 2004 reflect the redemption of the Series F Bonds offset by MEHC's equity contributions to fund the Zinc Recovery Project's operating losses and capital expenditures and MEHC's funding of its guarantee of the Series F Bonds which were redeemed on March 1, 2004.

### Edison

On July 10, 2003, the Salton Sea IV Project's 40 MW turbine went out of service due to an uncontrollable force event. Such uncontrollable force event ended, and the Salton Sea IV Project's turbine returned to service, on September 17, 2003. Edison failed to recognize the uncontrollable force event and, as such, has not paid amounts otherwise due and owing under the Salton Sea IV power purchase agreement totaling \$2.5 million. SSPG, with Fish Lake, owner of the Salton Sea IV Project, served notices of error on Edison for such unpaid amounts. As a result, the Guarantors had established an allowance for doubtful accounts of \$1.7 million for capacity payments as of December 31, 2003. In December 2004, as a result of a settlement agreement dated December 7, 2004 resolving the dispute, the allowance was released and the associated receivable was written off. Under the terms of the Settlement Agreement, the settlement would become effective 30 days after approval by the California Public Utilities Commission. On July 21, 2005, the California Public Utilities Commission approved the settlement and therefore the settlement became effective on August 20, 2005.

### The California Power Exchange

In January 2001, the California Power Exchange declared bankruptcy. As a result, Salton Sea Power and CE Turbo have not received payment for power sold to El Paso Merchant Energy Company under certain transaction agreements during December 2000 and January 2001 of \$3.8 million (the "PX Receivable"). Salton Sea Power and CE Turbo had 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 September 30, 2005, the California Power Exchange has made no payments in connection with the PX Receivable.

## Environmental Liabilities

The Guarantors are 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 Guarantors' existing facilities, (iv) increasing the risk of delay on construction projects, (v) increasing the Guarantors' cost of waste disposal and (vi) reducing the reliability of service provided by the Guarantors and the amount of energy available from the Guarantors' facilities. Any of such items could have a substantial impact on amounts required to be expended by the Guarantors 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 accompanying combined balance sheets at their undiscounted amounts. As of September 30, 2005 and December 31, 2004, the environmental liabilities recorded on the combined balance sheets were \$3.5 million and \$4.2 million, respectively.

## Zinc Recovery Project and Minerals Assets

On May 25, 2001, CalEnergy Minerals and AMEC E&C Services, Inc. ("AMEC") entered into a services agreement for engineering, procurement and construction management services (the "AMEC Agreement") in connection with the resolution of numerous problems that affected the construction of CalEnergy Minerals' Zinc Recovery Project. Under the AMEC Agreement, AMEC represented that it had certain licenses required for its services, which CalEnergy Minerals ultimately determined to be false. AMEC submitted \$2.8 million of invoices to CalEnergy Minerals that AMEC claims are due and payable under the AMEC Agreement. CalEnergy Minerals filed a lawsuit against AMEC on June 13, 2003 for a declaratory judgment that would (1) prevent collection by AMEC of the \$2.8 million it claimed to be due and payable and, (2) recover payments made by CalEnergy Minerals to AMEC based on AMEC's lack of a contractor's license in California. The lawsuit also included claims by CalEnergy Minerals against AMEC for breach of contract and breach of duty of fiduciary responsibility. In June 2005, CalEnergy Minerals and AMEC reached a settlement agreement, under which AMEC agreed to release its \$2.8 million claim and pay \$2.7 million to CalEnergy Minerals. The \$2.7 million payment was received July 6, 2005.

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash impairment charge was recorded in September 2004 to write-off the Minerals Assets. A decommissioning plan, which began in September 2004, is expected to be completed during the fourth quarter of 2005. Substantially all costs incurred have related to disposal activities and have been offset by proceeds from sales of the Zinc Recovery Project's assets. Costs are recognized in the period in which the related liability is incurred. Salvage proceeds are recognized in the period earned. CalEnergy Minerals does not expect to make significant additional cash expenditures. The activity of the Minerals Assets is classified separately as discontinued operations in the combined statements of operations and cash flows for the Guarantors.

On December 13, 2004, CalEnergy Minerals entered into a project decommissioning contract (the "Decommissioning Contract") and an equipment purchase agreement (the "Equipment Purchase Agreement") with a third party contractor. Under the terms of the Decommissioning Contract, the contractor has agreed to dismantle and remove certain Zinc Recovery Project equipment and other assets on a turnkey, date certain basis in exchange for the execution of the Equipment Purchase Agreement by CalEnergy Minerals. Under the terms of the Equipment Purchase Agreement the contractor has purchased certain Zinc Recovery Project equipment for a guaranteed purchase price of approximately \$4.1 million, which was paid in full as of April 19, 2005. Additionally, any gross proceeds the contractor receives from the sale of such equipment and other assets over approximately \$5.7 million will be shared equally with CalEnergy Minerals. CalEnergy Minerals has retained ownership of the remaining Zinc Recovery Project equipment and other assets for potential direct sale to third parties. Under the terms of the Equipment Purchase Agreement and the Decommissioning Contract, CalEnergy Minerals had an option, exercisable no later than October 1, 2005, to sell this retained equipment and other assets to the contractor for approximately

\$0.1 million and have it removed by the contractor no later than December 31, 2005. CalEnergy Minerals did not elect this option and is currently marketing such assets to third parties. Total asset sales proceeds to date, including the \$4.1 million from the third party contractor, are \$6.4 million.

On August 12, 2005, the Company filed a Form 15 with the U.S. Securities and Exchange Commission and immediately ceased its public filings of financial reports. On September 22, 2005, the Company obtained the requisite approval of the holders of the Securities to amend the reporting requirements in the indenture pursuant to which the Securities were issued (the "Indenture") to eliminate the historical requirement for the Company to present multiple financial statements and replace such requirement with one requiring only one combined financial statement for the Company and the Guarantors. Following the receipt of such approval, the Company and the trustee for the Securities effected such amendment. Combining financial statements that include the Company and the Guarantors are included in Exhibit A.

## CERTIFICATION

I, Stefan A. Bird, certify that:

1. I have reviewed this quarterly report of Salton Sea Funding Corporation and the Guarantors;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ Stefan A. Bird  
Stefan A. Bird  
President  
(chief executive officer)

## CERTIFICATION

I, Andrea R. Scheidel, certify that:

1. I have reviewed this quarterly report of Salton Sea Funding Corporation and the Guarantors;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: November 14, 2005

/s/ Andrea R. Scheidel  
Andrea R. Scheidel  
Vice President and Controller  
(chief accounting officer)

**EXHIBIT A**

**SALTON SEA FUNDING CORPORATION AND GUARANTORS  
COMBINING BALANCE SHEET**

**September 30, 2005**

(amounts in thousands)

	<b>Salton Sea Guarantors</b>	<b>Partnership Guarantors</b>	<b>Royalty Guarantor</b>	<b>Funding Corporation &amp; Eliminations</b>	<b>Combined</b>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 469	\$ -	\$ 18,460	\$ 18,929
Trade accounts receivable, net	21,764	23,538	-	-	45,302
Trade accounts receivable from affiliates	1,245	436	-	-	1,681
Inventory	-	22,198	-	-	22,198
Prepaid expenses and other current assets	1,043	1,112	-	82	2,237
Total current assets	<u>24,052</u>	<u>47,753</u>	<u>-</u>	<u>18,542</u>	<u>90,347</u>
Property, plants and equipment, net	362,467	247,691	-	-	610,158
Intangible assets, net	21,517	47,237	11,104	-	79,858
Deferred financing costs, net	2,352	518	-	-	2,870
Goodwill	-	56,528	30,464	-	86,992
<b>Total assets</b>	<u>\$ 410,388</u>	<u>\$ 399,727</u>	<u>\$ 41,568</u>	<u>\$ 18,542</u>	<u>\$ 870,225</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 111	\$ 5,368	\$ -	\$ -	\$ 5,479
Accrued interest	4,523	2,512	-	-	7,035
Accrued environmental liabilities	-	3,539	-	-	3,539
Other accrued liabilities	6,335	9,916	-	-	16,251
Current portion of secured project notes	12,736	3,780	-	(16,516)	-
Current portion of long-term debt	-	-	-	16,516	16,516
Total current liabilities	<u>23,705</u>	<u>25,115</u>	<u>-</u>	<u>-</u>	<u>48,820</u>
Senior project notes	164,010	92,790	-	(256,800)	-
Senior secured notes and bonds	-	-	-	256,800	256,800
Deferred income taxes	4,181	93,769	-	-	97,950
Total liabilities	<u>191,896</u>	<u>211,674</u>	<u>-</u>	<u>-</u>	<u>403,570</u>
Owners' equity	218,492	188,053	41,568	18,542	466,655
<b>Total liabilities and owners' equity</b>	<u>\$ 410,388</u>	<u>\$ 399,727</u>	<u>\$ 41,568</u>	<u>\$ 18,542</u>	<u>\$ 870,225</u>

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENTS OF OPERATIONS**  
**For the Nine Months Ended September 30, 2005 and 2004**  
(amounts in thousands)

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
<b>September 30, 2005:</b>					
<b>Operating revenue</b>	\$ 87,669	\$ 83,633	\$ 9,605	\$ (9,605)	\$ 171,302
<b>Costs and expenses:</b>					
Royalty, operating, general and administrative expense	38,514	42,299	2,301	(9,083)	74,031
Depreciation and amortization	20,781	21,839	809	-	43,429
Total costs and expenses	59,295	64,138	3,110	(9,083)	117,460
<b>Operating income</b>	28,374	19,495	6,495	(522)	53,842
<b>Other income (expense):</b>					
Interest expense	(11,213)	(5,772)	(13)	-	(16,998)
Interest and other income	84	873	-	512	1,469
Total other income (expense)	(11,129)	(4,899)	(13)	512	(15,529)
<b>Income (loss) from continuing operations before income taxes</b>	17,245	14,596	6,482	(10)	38,313
Provision (benefit) for income taxes	1,090	(481)	-	62	671
<b>Income (loss) from continuing operations</b>	16,155	15,077	6,482	(72)	37,642
Income from discontinued operations	-	4,808	-	-	4,808
<b>Net income (loss)</b>	\$ 16,155	\$ 19,885	\$ 6,482	\$ (72)	\$ 42,450

	Salton Sea Guarantors	Partnership Guarantors	Royalty Guarantor	Funding Corporation & Eliminations	Combined
<b>September 30, 2004:</b>					
<b>Operating revenue</b>	\$ 79,448	\$ 79,085	\$ 8,773	\$ (8,773)	\$ 158,533
<b>Costs and expenses:</b>					
Royalty, operating, general and administrative expense	42,367	49,005	2,312	(8,567)	85,117
Depreciation and amortization	18,489	20,536	817	-	39,842
Total costs and expenses	60,856	69,541	3,129	(8,567)	124,959
<b>Operating income</b>	18,592	9,544	5,644	(206)	33,574
<b>Other income (expense):</b>					
Interest expense	(12,885)	(6,032)	(47)	-	(18,964)
Interest and other income	130	897	-	191	1,218
Total other income (expense)	(12,755)	(5,135)	(47)	191	(17,746)
<b>Income (loss) from continuing operations before income taxes</b>	5,837	4,409	5,597	(15)	15,828
Provision for income taxes	1,791	564	-	50	2,405
<b>Income (loss) from continuing operations</b>	4,046	3,845	5,597	(65)	13,423
Loss from discontinued operations	(91,634)	(409,874)	-	-	(501,508)
<b>Net income (loss)</b>	\$ (87,588)	\$ (406,029)	\$ 5,597	\$ (65)	\$ (488,085)

**SALTON SEA FUNDING CORPORATION AND GUARANTORS**  
**COMBINING STATEMENTS OF CASH FLOWS**

**For the Nine Months Ended September 30, 2005**

(amounts in thousands)

	<b>Salton Sea</b>	<b>Partnership</b>	<b>Royalty</b>	<b>Funding</b>	<b>Combined</b>
	<b>Guarantors</b>	<b>Guarantors</b>	<b>Guarantor</b>	<b>Corporation &amp;</b>	
				<b>Eliminations</b>	
<b>Cash flows from operating activities:</b>					
Income from continuing operations	\$ 16,155	\$ 15,077	\$ 6,482	\$ (72)	\$ 37,642
Adjustments to reconcile net income from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	20,781	21,839	809	-	43,429
Deferred income taxes	938	(1,602)	-	-	(664)
Changes in other items:					
Trade accounts receivables, net	(7,205)	(9,029)	-	-	(16,234)
Inventory, prepaid expenses and other current assets	292	(3,664)	-	(67)	(3,439)
Accounts payable and accrued liabilities	5,162	5,669	(3)	-	10,828
Net cash flows from continuing operations	36,123	28,290	7,288	(139)	71,562
Net cash flows from discontinued operations	-	(2,917)	-	-	(2,917)
Net cash from operating activities	36,123	25,373	7,288	(139)	68,645
<b>Cash flows from investing activities:</b>					
Capital expenditures related to operating projects	(9,326)	(12,986)	-	-	(22,312)
Purchases of available-for-sale securities	-	-	-	(56,000)	(56,000)
Proceeds from sales of available-for-sale securities	-	-	-	61,000	61,000
Net cash flows from continuing operations	(9,326)	(12,986)	-	5,000	(17,312)
Net cash flows from discontinued operations	-	6,194	-	-	6,194
Net cash from investing activities	(9,326)	(6,792)	-	5,000	(11,118)
<b>Cash flows from financing activities:</b>					
Increase in due from affiliates	(4,650)	(13,229)	(6,851)	(926)	(25,656)
Repayment of senior secured notes and bonds	(22,492)	(2,132)	(437)	-	(25,061)
Other	345	57	-	1	403
Net cash flows from continuing operations	(26,797)	(15,304)	(7,288)	(925)	(50,314)
Net cash flows from discontinued operations	-	(3,773)	-	-	(3,773)
Net cash from financing activities	(26,797)	(19,077)	(7,288)	(925)	(54,087)
<b>Net increase in cash and cash equivalents</b>	-	(496)	-	3,936	3,440
<b>Cash and cash equivalents at the beginning of period</b>	-	965	-	14,524	15,489
<b>Cash and cash equivalents at the end of period</b>	\$ -	\$ 469	\$ -	\$ 18,460	\$ 18,929