



SALTON SEA FUNDING CORPORATION AND GUARANTORS

Combined Financial Statements

**As of December 31, 2006 and 2005 and for each of the
Three Years in the Period Ended December 31, 2006**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined balance sheets of Salton Sea Funding Corporation and Guarantors (the "Company") as of December 31, 2006 and 2005, and the related combined statements of operations, owners' equity, and cash flows for each of the three years in the period ended December 31, 2006. The combined financial statements include the accounts of the companies disclosed in Note 1. These companies are under common ownership and management. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of Salton Sea Funding Corporation and Guarantors as of December 31, 2006 and 2005 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional combining financial statement information listed in the table of contents on page 2 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as whole.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
March 29, 2007

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED BALANCE SHEETS

(In thousands)

	As of December 31,	
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,364	\$ 14,932
Short-term investments	-	6,000
Trade accounts receivable	27,827	28,035
Trade accounts receivable from affiliate	2,417	4,244
Inventories	21,088	20,743
Deferred income taxes	3,497	4,591
Prepaid expenses and other current assets	<u>1,875</u>	<u>2,265</u>
Total current assets	<u>75,068</u>	<u>80,810</u>
Restricted cash	292	-
Property, plant and equipment, net	574,434	599,336
Goodwill	86,992	86,992
Intangible assets, net	73,000	78,738
Due from affiliates	1,201	1,387
Deferred financing costs, net	<u>2,655</u>	<u>3,556</u>
Total assets	<u><u>\$ 813,642</u></u>	<u><u>\$ 850,819</u></u>
LIABILITIES AND OWNERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,569	\$ 7,078
Accrued interest	1,565	1,734
Accrued environmental liabilities	869	7,860
Other accrued liabilities	6,405	5,921
Current portion of long-term debt	<u>25,091</u>	<u>25,916</u>
Total current liabilities	<u>42,499</u>	<u>48,509</u>
Senior secured bonds	218,750	243,841
Deferred income taxes	<u>88,250</u>	<u>98,631</u>
Total liabilities	<u>349,499</u>	<u>390,981</u>
Commitments and contingencies (Note 9)		
Owners' equity:		
Owners' equity	465,374	459,838
Accumulated other comprehensive loss, net of tax	<u>(1,231)</u>	<u>-</u>
Total owners' equity	<u>464,143</u>	<u>459,838</u>
Total liabilities and owners' equity	<u><u>\$ 813,642</u></u>	<u><u>\$ 850,819</u></u>

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

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

	Year Ended December 31,		
	2006	2005	2004
Operating revenue	<u>\$ 208,688</u>	<u>\$ 221,578</u>	<u>\$ 206,870</u>
Costs and expenses:			
Royalty, operating, general and administrative expense	102,275	96,137	107,732
Depreciation and amortization	<u>59,376</u>	<u>58,598</u>	<u>54,740</u>
Total costs and expenses	<u>161,651</u>	<u>154,735</u>	<u>162,472</u>
Operating income	<u>47,037</u>	<u>66,843</u>	<u>44,398</u>
Other income (expense):			
Interest expense	(21,041)	(22,956)	(25,666)
Interest and other income	<u>2,652</u>	<u>2,115</u>	<u>1,607</u>
Total other income (expense)	<u>(18,389)</u>	<u>(20,841)</u>	<u>(24,059)</u>
Income from continuing operations before provision (benefit) for income taxes	28,648	46,002	20,339
Provision (benefit) for income taxes	<u>(6,305)</u>	<u>2,643</u>	<u>446</u>
Income from continuing operations	34,953	43,359	19,893
Income (loss) from discontinued operations, net of tax (Note 3)	<u>1,000</u>	<u>7,634</u>	<u>(504,623)</u>
Net income (loss)	<u>\$ 35,953</u>	<u>\$ 50,993</u>	<u>\$ (484,730)</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENTS OF OWNERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 2006
(In thousands)

	Owners' Equity	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2004	\$ 994,879	\$ -	\$ 994,879
Equity contributions	198,483	-	198,483
Net loss	(484,730)	-	(484,730)
Balance, December 31, 2004	708,632	-	708,632
Equity distributions	(299,787)	-	(299,787)
Net income	50,993	-	50,993
Balance, December 31, 2005	459,838	-	459,838
Equity distributions	(30,417)	-	(30,417)
Net income	35,953	-	35,953
Adjustment for plan sponsor adoption of FASB Statement No. 158, net of tax of (\$847)	-	(1,231)	(1,231)
Balance, December 31, 2006	\$ 465,374	\$ (1,231)	\$ 464,143

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Income from continuing operations	\$ 34,953	\$ 43,359	\$ 19,893
Adjustments to reconcile income from continuing operations to net cash flows from continuing operations:			
Depreciation and amortization	59,376	58,598	54,740
Deferred income taxes	(8,440)	(4,418)	(253)
Amortization of deferred financing costs	901	1,068	1,246
Changes in other items:			
Trade accounts receivable	1,992	(1,491)	(784)
Inventories, prepaid expenses and other current assets	45	(2,014)	(1,178)
Accounts payable and other accrued liabilities	<u>(5,221)</u>	<u>(3,765)</u>	<u>3,780</u>
Net cash flows from continuing operations	83,606	91,337	77,444
Net cash flows from discontinued operations	<u>1,074</u>	<u>616</u>	<u>(12,679)</u>
Net cash flows from operating activities	<u>84,680</u>	<u>91,953</u>	<u>64,765</u>
Cash flows from investing activities:			
Capital expenditures	(27,093)	(24,819)	(19,965)
Purchases of available-for-sale securities	(214,000)	(70,000)	(210,500)
Proceeds from sales of available-for-sale securities	220,000	69,000	209,350
Increase in restricted cash	<u>(25)</u>	<u>-</u>	<u>-</u>
Net cash flows from continuing operations	(21,118)	(25,819)	(21,115)
Net cash flows from discontinued operations	<u>(341)</u>	<u>6,423</u>	<u>943</u>
Net cash flows from investing activities	<u>(21,459)</u>	<u>(19,396)</u>	<u>(20,172)</u>
Cash flows from financing activities:			
Repayment of senior secured notes and bonds	(25,916)	(28,620)	(28,831)
Increase in due from affiliates	<u>(33,258)</u>	<u>(36,788)</u>	<u>(24,549)</u>
Net cash flows from continuing operations	(59,174)	(65,408)	(53,380)
Net cash flows from discontinued operations	<u>(615)</u>	<u>(7,706)</u>	<u>13,341</u>
Net cash flows from financing activities	<u>(59,789)</u>	<u>(73,114)</u>	<u>(40,039)</u>
Net change in cash and cash equivalents	3,432	(557)	4,554
Cash and cash equivalents at beginning of year	<u>14,932</u>	<u>15,489</u>	<u>10,935</u>
Cash and cash equivalents at end of year	<u>\$ 18,364</u>	<u>\$ 14,932</u>	<u>\$ 15,489</u>
Supplemental disclosure:			
Interest paid	<u>\$ 20,309</u>	<u>\$ 22,037</u>	<u>\$ 27,166</u>
Income taxes paid	<u>\$ 2,938</u>	<u>\$ 7,386</u>	<u>\$ 1,799</u>

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

SALTON SEA FUNDING CORPORATION AND GUARANTORS NOTES TO COMBINED FINANCIAL STATEMENTS

1. Organization and Operations

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

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

<u>Operating Project</u>	<u>Facility Net Capacity (MW)⁽¹⁾</u>	<u>Location</u>	<u>Power Purchase Agreement Expiration</u>	<u>Power Purchaser⁽²⁾</u>
Salton Sea Projects:				
Salton Sea I Project	10	California	2017	Edison
Salton Sea II Project	20	California	2020	Edison
Salton Sea III Project	50	California	2019	Edison
Salton Sea IV Project	40	California	2026	Edison
Salton Sea V Project	<u>49</u>	California	Varies ⁽³⁾	Various ⁽³⁾
Total Salton Sea Projects	<u>169</u>			
Partnership Projects:				
Vulcan Project	34	California	2016	Edison
Elmore Project	38	California	2018	Edison
Leathers Project	38	California	2019	Edison
Del Ranch Project	38	California	2019	Edison
CE Turbo Project	<u>10</u>	California	2029	APS
Total Partnership Projects	<u>158</u>			
Total operating projects	<u>327</u>			

- (1) Represents the nominal net megawatt (“MW”) generating capability. Actual MW may vary depending on operating and reservoir conditions and plant design.
- (2) Southern California Edison Company (“Edison”) and Arizona Public Service (“APS”).
- (3) The Salton Sea V Project provides 20 MW to Riverside Public Utilities (“Riverside”) and up to 26 MW to TransAlta. Riverside has agreed to purchase 46 MW from the Salton Sea V Project beginning June 1, 2009.

2. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements include the accounts of Funding Corporation and the Guarantors as Funding Corporation and the Guarantors are entities under common control and management. All transactions and accounts between and among Funding Corporation and the Guarantors have been eliminated.

Reclassifications

Certain amounts in the fiscal 2005 Combined Balance Sheet and supporting note disclosures have been reclassified to conform to the fiscal 2006 presentation. Such reclassifications did not impact previously reported net income, owners’ equity or cash flows.

Use of Estimates in Preparation of Financial Statements

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

Cash Equivalents

Cash equivalents consist of funds invested in commercial paper, money market securities and in other investments with a maturity of three months or less when purchased.

Short-term Investments

As of December 31, 2006 and 2005, the Company had \$- million and \$6.0 million, respectively, of short-term investments consisting of auction rate securities. These instruments are classified as available-for-sale securities as management does not intend to hold them to maturity nor are they bought and sold with the objective of generating profits on short-term differences in price.

Inventories

Inventories consist of spare parts and supplies and are valued at the lower of cost or market. Cost for large replacement parts is determined using the specific identification method. For the remaining supplies, cost is determined using the weighted average cost method.

Property, Plant and Equipment, Net

Property, plant and equipment is recorded at historical cost. The cost of major additions and betterments are capitalized, while costs for replacements, maintenance, overhaul and well rework and repairs that do not improve or extend the lives of the respective assets are charged to plant operations. Depreciation is computed by applying the straight-line method based on estimated economic lives. The Company believes the useful lives assigned to the depreciable assets, which range from 2 to 30 years, are reasonable.

The Company recognizes legal asset retirement obligations (“ARO”), mainly related to the fair value of a liability for a legal ARO is recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to initial recognition, the liability is adjusted for any material revisions to the expected value of the retirement obligation (with corresponding adjustments to property, plant and equipment) and for accretion of the liability due to the passage of time.

Intangible Assets, Net

The Company’s intangible assets consist of acquired power purchase and royalty contracts and patented technology. These items are amortized by applying the straight-line method over the remaining contract periods, which range from 4 to 30 years.

Impairment of Long-Lived Assets

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

Goodwill

Goodwill represents the difference between purchase price and the fair value of the net assets acquired in business acquisitions. Goodwill is allocated to each reporting unit and is tested for impairment using a discounted projected future net cash flow methodology, at least annually and impairments, if any, are charged to earnings. The Company completed its annual review as of October 31. Key assumptions used in the testing include, but are not limited to, the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, the Company incorporates current market information as well as historical factors. During 2006 and 2005, the Company did not record any goodwill impairments.

Revenue Recognition and Significant Customers

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

Approximately 87%, 86% and 87% of the Company’s sales of electricity were to Edison in 2006, 2005 and 2004, respectively. The trade accounts receivable balances are primarily uncollateralized receivables from long-term power purchase contracts. At December 31, 2006 and 2005, the trade accounts receivable balance from Edison was \$26.6 million and \$27.0 million, respectively. The allowance for doubtful accounts is based on the Company’s assessment of the collectibility of specific customer accounts and the aging of its accounts receivable. Additionally, an allowance is established when disputes under power purchase agreements arise. The outcomes of these disputes are subject to significant uncertainty. The Company recognizes an estimated loss if it is probable that the disputed amounts billed will not be collected and the loss can be reasonably estimated. The Company uses judgment and evaluates, with the assistance of legal counsel, whether a loss should be disclosed or recognized as an adjustment to operating revenue. Historically, excluding contract disputes, the Company’s trade accounts receivable balances have been collectible and no significant bad debt expense has been recognized. However, if there is a deterioration of a significant customer's credit worthiness, estimates of recoverability of the trade accounts receivable balances could be adversely affected. At December 31, 2006 and 2005, there was no allowance for doubtful accounts recorded.

Income Taxes

Funding Corporation is included in the consolidated income tax returns with its parent and affiliates. The Guarantors are comprised of a combination of corporations, partnerships and limited liability companies. Those entities that are corporations are included in the consolidated income tax returns with their parent and affiliates. Income taxes for all taxable entities are provided on a separate return basis; however, these tax obligations will be remitted to the parent only to the extent cash flows are available after operating expenses and debt service. The income or loss of each partnership or limited liability company for income tax purposes, along with any associated tax credits, is the responsibility of the individual partners or members.

Deferred tax assets and liabilities are recognized based on the difference between the financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Changes in the deferred income tax assets and liabilities that are associated with components of other comprehensive income are charged or credited directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

In determining the Company’s tax liabilities, management is required to interpret complex tax laws and regulations. In preparing tax returns, the Company is subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Internal Revenue Service has closed examination of the Company’s income tax returns through 2003. Although the ultimate resolution of the Company’s federal and state tax examinations is uncertain, the Company believes it has made adequate provisions for these tax positions and the aggregate amount of any additional tax liabilities that may result from these examinations, if any, will not have a material adverse affect on the Company’s financial results. The Company’s provision for tax uncertainties is included in income tax payable and other long-term liabilities, as appropriate, in the accompanying Combined Balance Sheets.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at

initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its combined financial position and results of operations.

In September 2006, FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize in its statement of financial position the over- or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. SFAS No. 158 also requires entities to recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period, but were not recognized as components of net periodic benefit cost of the period pursuant to SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS No. 87") and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106"). The Company participates in multi-employer benefit plans sponsored by MidAmerican Energy Company ("MEC"), an affiliate company and wholly-owned subsidiary of MEHC. The portion of accumulated other comprehensive income attributable to the Company has been allocated from MEC to the Company in accordance with intercompany service agreements. SFAS No. 158 does not impact the calculation of the net periodic benefit cost allocated from MEC and the amounts recognized as accumulated other comprehensive income will be adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of SFAS No. 87 and SFAS No. 106.

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

In September 2006, the FASB issued FASB Staff Position ("FSP") No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities." This FSP addresses appropriate methods of accounting for planned major maintenance activities and specifically prohibits the use of the accrue-in-advance method. The Company currently expenses costs as incurred for major maintenance activities, which is permitted under this FSP. This FSP is effective for fiscal years beginning after December 15, 2006. The Company does not believe this FSP will have any impact on the Company's combined financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 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. The Company is required to adopt FIN 48 in the first quarter 2007. The Company is currently evaluating the impact and based upon its assessment to date does not believe the adoption of FIN 48 will have a material effect on its combined financial position.

3. Discontinued Operations - Mineral Assets and Zinc Recovery Project

The Zinc Recovery Project began limited production during December 2002 and continued limited production until September 10, 2004. On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. Based on this decision, a non-cash, after-tax impairment charge of \$481.4 million was recorded to write-off the Zinc Recovery Project, rights to quantities of extractable minerals, and allocated goodwill (collectively, the "Mineral Assets"). The charge and related activity of the Mineral Assets are classified separately as discontinued operations in the accompanying Combined Statements of Operations and include the following (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Operating revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,401</u>
Losses from discontinued operations	\$ -	\$ -	\$ (32,813)
Proceeds from (costs of) disposal activities, net	1,000	7,634	(4,134)
Asset impairment charges	-	-	(454,830)
Goodwill impairment charges	-	-	(43,125)
Income tax benefit	-	-	30,279
Income (loss) from discontinued operations, net of tax	<u>\$ 1,000</u>	<u>\$ 7,634</u>	<u>\$(504,623)</u>

The income tax benefit in 2004 was impacted by the write-off of non tax deductible goodwill and the inability to utilize the net operating loss carryforward. The income tax expense in 2006 and 2005 was zero due to prior net operating losses.

In connection with ceasing operations, the Zinc Recovery Project's assets have been dismantled and sold and certain employees of the operator of the Zinc Recovery Project were paid one-time termination benefits. Implementation of the decommissioning plan began in September 2004 and, as of December 31, 2005, the dismantling, decommissioning, and sale of remaining assets of the Zinc Recovery Project was complete. The change in the balance of accrued disposal costs, which is included in other accrued liabilities in the accompanying combined balance sheets, for the years ended December 31 is summarized as follows (in thousands):

	2006	2005	2004
Balance, January 1	\$ 300	\$ 430	\$ -
Costs of disposal activities	3	1,512	4,552
Payments of disposal costs	<u>(303)</u>	<u>(1,642)</u>	<u>(4,122)</u>
Balance, December 31	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ 430</u>

Costs of disposal activities, which consisted of disposal costs, termination benefit costs and property taxes, were recognized in the period in which the related liability was incurred.

Proceeds from disposal activities, which consisted mainly of salvage proceeds from the sale of assets, a settlement payment from a dispute with a contractor and property tax refunds from a revaluation of the Zinc Recovery Project were recognized in the period earned.

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 timely completion of CalEnergy Minerals' Zinc Recovery Project. CalEnergy Minerals filed a lawsuit against AMEC on June 13, 2003, for declaratory judgment that would (1) prevent collection by AMEC of \$2.8 million it claimed to be due and payable and (2) recover payments made by CalEnergy Minerals to AMEC. 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. CalEnergy Minerals received the \$2.7 million AMEC settlement payment on July 6, 2005.

MEHC contributed equity to CalEnergy Minerals to fund the Zinc Recovery Project's operating losses, capital expenditures and debt service through September 10, 2004, the date the Zinc Recovery Project's operations were ceased. Equity contributions in 2004 were \$198.5 million and are included in the accompanying Combined Statements of Cash Flows as part

of net financing activity cash flows from discontinued operations. The equity contributions consist of 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 in part on March 1, 2004, and MEHC's funding of the Zinc Recovery Project's operating losses totaling \$62.1 million.

4. Property, Plant and Equipment, Net

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

	<u>Estimated Useful Lives</u>	<u>2006</u>	<u>2005</u>
Power plants	5 to 30 years	\$ 831,812	\$ 819,677
Wells and resource development	2 to 30 years	<u>230,189</u>	<u>226,357</u>
Total operating assets		1,062,001	1,046,034
Accumulated depreciation and amortization		<u>(487,567)</u>	<u>(446,698)</u>
Property, plant and equipment, net		<u>\$ 574,434</u>	<u>\$ 599,336</u>

The Company replaced certain pipes in 2006, 2005 and 2004 with a remaining net book value of \$4.7 million, \$4.2 million and \$3.8 million, respectively, which was charged to depreciation expense in the accompanying Combined Statements of Operations.

5. Intangible Assets, Net

Intangible assets comprise the following at December 31 (in thousands):

		<u>2006</u>		<u>2005</u>	
	<u>Estimated Useful Lives</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Power Purchase and Royalty					
Contracts	4 to 30 years	\$ 216,935	\$ 166,947	\$ 216,935	\$ 163,314
Patented Technology	24 years	<u>46,290</u>	<u>23,278</u>	<u>46,290</u>	<u>21,173</u>
Total		<u>\$ 263,225</u>	<u>\$ 190,225</u>	<u>\$ 263,225</u>	<u>\$ 184,487</u>

Amortization expense on acquired intangible assets was \$5.7 million, \$5.6 million and \$5.7 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company expects amortization expense on acquired intangible assets to be \$5.7 million for each of the five succeeding fiscal years.

6. Senior Secured Bonds

Funding Corporation's Securities consist of the following at December 31 as follows (in thousands):

<u>Issued Date</u>	<u>Senior Secured Series</u>	<u>Final Maturity Date</u>	<u>Rate</u>	<u>2006</u>	<u>2005</u>
July 21, 1995	C Bonds	May 30, 2010	7.84%	\$ 75,048	\$ 96,586
June 20, 1996	E Bonds	May 30, 2011	8.30%	34,072	36,572
October 13, 1998	F Bonds	November 30, 2018	7.48%	<u>134,721</u>	<u>136,599</u>
				<u>\$ 243,841</u>	<u>\$ 269,757</u>

The net revenues, equity distributions and royalties from the Imperial Valley Projects are used to pay principal and interest payments on outstanding senior secured bonds issued by Funding Corporation, the final series of which is scheduled to mature in November 2018. Funding Corporation debt is guaranteed by certain subsidiaries of Magma and secured by the capital stock of certain subsidiaries of CE Generation. The proceeds of Funding Corporation debt were loaned by Funding Corporation pursuant to loan agreements and notes (the "Imperial Valley Project Loans") to certain subsidiaries of Magma and used for construction

of certain Imperial Valley Projects, refinancing of certain indebtedness and other purposes. Debt service on the Imperial Valley Project Loans is used to repay debt service on Funding Corporation debt. The Imperial Valley Project Loans and the guarantees of Funding Corporation debt are secured by substantially all of the assets of the guarantors, including the Imperial Valley Projects, and by the equity interests in the guarantors.

Principal and interest payments are made in semi-annual installments. Annual repayments of Funding Corporation debt for the years ending December 31 are as follows (in thousands):

2007	\$ 25,091
2008	28,065
2009	26,210
2010	26,741
2011	19,990
Thereafter	<u>117,744</u>
Total	<u>\$ 243,841</u>

In support of Funding Corporation's debt service requirements, a financial institution has issued a letter of credit for the account of TransAlta and a separate financial institution has issued a letter of credit for the account of MEHC. Each of the two letters of credit was issued in the amount of \$23.1 million at December 31, 2006.

7. Income Taxes

The provision (benefit) for income tax from continuing operations consists of the following for the years ended December 31 (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current:			
Federal	\$ 2,114	\$ 5,135	\$ (49)
State	<u>21</u>	<u>1,926</u>	<u>748</u>
	<u>2,135</u>	<u>7,061</u>	<u>699</u>
Deferred:			
Federal	(8,065)	(3,381)	(24)
State	<u>(375)</u>	<u>(1,037)</u>	<u>(229)</u>
	<u>(8,440)</u>	<u>(4,418)</u>	<u>(253)</u>
Total	<u>\$ (6,305)</u>	<u>\$ 2,643</u>	<u>\$ 446</u>

A reconciliation of the federal statutory tax rate to the effective tax rate applicable to income from continuing operations before provision (benefit) for income taxes follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Federal statutory rate	35.0%	35.0%	35.0%
Percentage depletion	(22.5)	(10.8)	(13.6)
Investment and energy tax credits	(15.9)	(3.1)	(8.9)
Production activities deduction	(0.5)	(0.4)	-
State taxes, net of federal benefit	2.0	2.8	3.6
Partnership earnings	(19.7)	(17.7)	(13.9)
Other items, net	<u>(0.4)</u>	<u>(0.1)</u>	<u>-</u>
Effective tax rate	<u>(22.0)%</u>	<u>5.7%</u>	<u>2.2%</u>

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

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Accruals not currently deductible for tax purposes	\$ 1,525	\$ 3,357
Employee benefits	847	-
Net operating loss carryforwards	18,888	24,027
Energy credit carryforwards	17,156	13,923
Alternative minimum tax credit carryforwards	<u>2,554</u>	<u>2,178</u>
Total deferred tax assets	40,970	43,485
Valuation allowance	<u>(2,595)</u>	<u>(5,680)</u>
Total deferred tax assets, net	<u>38,375</u>	<u>37,805</u>
Deferred tax liabilities:		
Property, plant, contracts and equipment, net	<u>(123,128)</u>	<u>(131,845)</u>
Total deferred tax liabilities	<u>(123,128)</u>	<u>(131,845)</u>
Net deferred tax liability	<u>\$ (84,753)</u>	<u>\$ (94,040)</u>
Reflected as:		
Deferred income taxes – current asset	\$ 3,497	\$ 4,591
Deferred income taxes – non-current liability	<u>(88,250)</u>	<u>(98,631)</u>
	<u>\$ (84,753)</u>	<u>\$ (94,040)</u>

As of December 31, 2006, the Company has a deferred tax asset on a federal net operating loss carryforward of \$17.3 million that begins to expire in 2021 unless previously utilized. The Company also has a deferred tax asset (net of federal benefit) on a California net operating loss carryforward of \$1.6 million that begins to expire in 2012 unless previously utilized.

As of December 31, 2006, the Company has a federal energy tax credit carryforward of \$17.2 million that begins to expire in 2020 unless previously utilized. The Company also has a federal alternative minimum tax credit carryforward of \$2.6 million that does not expire and will carryforward indefinitely until utilized.

8. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, receivables, payables and accrued liabilities approximates fair value because of the short-term maturity or frequent remarketing of these instruments.

The fair value of the Company's senior secured bonds has been estimated based upon quoted market prices as supplied by third-party broker dealers. The following table presents the carrying amount and estimated fair value of the Company's senior secured bonds, including the current portion, as of December 31 (in thousands):

	<u>2006</u>		<u>2005</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Senior secured bonds	<u>\$ 243,841</u>	<u>\$ 254,658</u>	<u>\$ 269,757</u>	<u>\$ 292,458</u>

9. 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 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 December 31, 2006, EPME had not made any payments in connection with the PX Receivable.

Environmental Matters

The Company is subject to federal, state and local laws and regulations regarding water quality, hazardous and solid waste disposal and other environmental matters and believes it is in material compliance with current environmental requirements.

Accrued Environmental Costs

The Company is fully or partly responsible for environmental remediation that results from other than normal operations at various contaminated sites, including sites that are or were part of the Company's operations and sites owned by third parties. The Company accrues environmental remediation expenses when the expense is believed to be probable and can be reasonably estimated. The quantification of environmental exposures is based on many factors, including changing laws and regulations, advancements in environmental technologies, the quality of available site-specific information, site investigation results, expected remediation or settlement timelines, the Company's proportionate responsibility, contractual indemnities and coverage provided by insurance policies. As of December 31, 2006 and December 31, 2005, the environmental liabilities recorded in the accompanying Combined Balance Sheets as current liabilities were \$0.9 million and \$7.9 million, respectively.

On August 22, 2006, the California governor signed Senate Bill 1294 - Geothermal Waste Exemption ("SB 1294"). With the enactment of SB 1294, the Imperial Valley Projects' brine ponds are not subject to regulation by the California Department of Toxic Substances Control ("DTSC") as hazardous waste treatment, storage and disposal facilities. Accordingly, a \$3.6 million reduction in hazardous brine pond waste liability was recognized during the year ended December 31, 2006.

10. Related Party Transactions

Funding Corporation made (received) equity distributions (contributions) of \$30.4 million, \$299.8 million and \$(198.5) million in 2006, 2005 and 2004, respectively. The equity distributions represent the operating losses and capital expenditures of certain Guarantors previously funded by amounts held in the revenue account of Funding Corporation and amounts previously transferred to Magma pursuant to the terms and conditions of the debt of Funding Corporation.

Pursuant to the Amended and Restated Easement Grant Deed and Agreement Regarding Rights for Geothermal Development dated February 23, 1994, as amended, the Salton Sea Guarantors acquired from Magma Land I, a wholly-owned subsidiary of Magma, rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Salton Sea Guarantors' power generation facilities in return for 5% of all electricity revenue received by the Salton Sea Guarantors. The amounts expensed in 2006, 2005 and 2004 were \$5.3 million, \$5.8 million and \$5.3 million, respectively.

Pursuant to the Easement Grant Deeds and Agreements Regarding Rights for Geothermal Development dated March 14, 1988 and August 15, 1988, the Partnership Guarantors acquired from Magma rights to extract geothermal brine from the geothermal lease rights property which is necessary to operate the Leathers, Del Ranch and Elmore Projects in return for 17.333%, on a pro rata basis, of all energy revenue received by each project. The amounts expensed in 2006, 2005 and 2004 were \$9.1 million, \$9.7 million and \$9.1 million, respectively.

The Company participates in multi-employer pension plans sponsored by MEC, an indirect wholly-owned subsidiary of MEHC. The Company's contribution to the various plans was \$2.0 million, \$1.9 million and \$2.1 million in 2006, 2005 and 2004, 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 Project and the Salton Sea V Project. Fees payable to Magma amount to 3% of all electricity revenue. The amounts expensed in 2006, 2005 and 2004 were \$1.5 million, \$1.5 million and \$1.4 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 financial 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 \$11.1 million, \$16.4 million and \$10.5 million in 2006, 2005 and 2004, respectively. As of December 31, 2006 and 2005, accounts receivable balances from TransAlta were \$2.2 million and \$4.1 million, respectively. Effective August 7, 2006, through May 31, 2009, up to 26 MW of available power from 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 MWh of generation, a "Green Tag") associated with up to 931,800 MWh of available generation of the Salton Sea V Project and the CE Turbo Project through December 31, 2008 to TransAlta Energy Marketing (US) Inc. ("TransAlta Marketing") at a market price per Green Tag. Pursuant to this agreement, sales to TransAlta Marketing totaled \$2.2 million, \$2.2 million and \$0.5 million in 2006, 2005 and 2004, respectively. As of December 31, 2006 and 2005, accounts receivable balances from TransAlta Marketing were \$0.2 million and \$0.2 million, respectively.

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

The following is management's discussion and analysis of certain significant factors which have affected the financial condition and results of operations during the periods included in the accompanying Combined Statements of Operations. This discussion should be read in conjunction with Salton Sea Funding Corporation's ("Funding Corporation") and the Guarantors' (collectively, the "Company") historical Combined Financial Statements and the related notes thereto. The Company's actual results in the future could differ significantly from the historical results.

The Guarantors' consist of the following legal entities:

- *Salton Sea Guarantors* - Salton Sea Brine Processing, L.P., Salton Sea Power Generation L.P., Salton Sea Power L.L.C., and Fish Lake Power LLC, each of which have an ownership interest in one or more of five operating geothermal power plants in the Imperial Valley of California commonly known as the Salton Sea I Project, Salton Sea II Project, Salton Sea III Project, Salton Sea IV Project and Salton Sea V Project (collectively, the "Salton Sea Projects"), and CE Salton Sea Inc.
- *Partnership Guarantors* - Vulcan/BN Geothermal Power Company, 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 and changes occurred during 2006, 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:

- On May 30, 2006, the Imperial Valley Projects receiving the avoided cost of energy from Edison 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 California Public Utilities Commission ("CPUC"). Edison filed an advice letter with the CPUC on July 28, 2006 seeking approval of the amendments. The amendments were approved by the CPUC and such approval became final on October 19, 2006. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kWh, escalated 1% annually

beginning May 1, 2008. The current energy price of 5.37 cents per kWh will remain in effect through April 30, 2007.

- On August 2, 2006, Salton Sea Power and CE Turbo entered into a transaction under the TransAlta Transaction Agreement which provides for a fixed energy price commencing on August 7, 2006, and ending on May 31, 2009. The energy price under this transaction will be 6.05 cents per kWh.
- The Company's Imperial Valley Projects had more extensive brine system and turbine overhauls in 2006 compared to less extensive brine system overhauls and turbine overhauls in 2005. The more extensive 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.

Results of Operations

Operating Revenue

The capacity factor for a particular project is determined by dividing the total quantity of electricity sold by the product of the project's capacity and the total hours in the year. Refer to Note 1 of Notes to Combined Financial Statements for the net capacity of each facility. Each plant possesses an operating margin, which allows for production in excess of a 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:

	Year Ended December 31,		
	2006	2005	2004
Overall capacity factor	92.7%	96.0%	91.6%
MWh produced	2,651,200	2,745,900	2,625,100
Capacity (net MW) (weighted average)	326.4	326.4	326.4

The \$12.9 million, or 5.8%, decrease in operating revenue in 2006 primarily reflects \$5.4 million of lower revenue from a 3.4% decrease in energy production and a \$7.5 million decrease due to lower energy rates from lower index pricing mainly at the Salton Sea IV and V Projects. The energy production decrease primarily results from more extensive 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. This wind storm event caused forced downtime of approximately 3 days at certain Imperial Valley Projects.

The \$14.7 million, or 7.1%, increase in operating revenue in 2005 primarily reflects \$8.8 million of higher revenue from a 4.6% increase in energy production and a \$5.9 million increase due to favorable energy rates mainly at the Salton Sea IV and V Projects. The improvement in the overall capacity factor and MWh production 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.

Royalty, Operating, General and Administrative Expense

Royalty, operating, general and administrative expense increased \$6.2 million, or 6.5%, to \$102.3 million for the year ended December 31, 2006 from \$96.1 million for the same period in 2005. The increase was primarily due to an \$8.1 million increase in maintenance expense due to more extensive brine system, turbine overhauls and associated maintenance repairs at the Imperial Valley Projects in 2006 and smaller increases relating to higher chemical costs, partially offset by a \$3.6 million decrease in hazardous waste expense due to the enactment of SB 1294.

Royalty, operating, general and administrative expense decreased \$11.6 million, or 10.8%, to \$96.1 million for the year ended December 31, 2005 from \$107.7 million for the same period in 2004. The decrease was primarily due to an \$11.6 million reduction in maintenance expense due to the timing and scope of scheduled outages, which included less extensive maintenance repairs at the projects in 2005. That decrease was partially offset by a \$2.0 million increase in well workover expense in 2005, a \$1.0 million increase in royalty expense due to higher 2005 revenues, and smaller increases relating to brine disposal costs, acid costs and other chemical costs all due to increased plant operations due to less extensive scheduled maintenance in 2005.

Depreciation and Amortization

Depreciation and amortization increased \$0.8 million to \$59.4 million for the year ended December 31, 2006 from \$58.6 million for the same period in 2005. The increase is primarily due to a change in useful lives on brine production pipelines and an increase in disposals of certain replaced pipe and equipment. These increases were partially offset by the amortization of a purchase accounting fair value adjustment at the Salton Sea Guarantors.

Depreciation and amortization increased \$3.9 million to \$58.6 million for the year ended December 31, 2005, from \$54.7 million for the same period in 2004. The increase was primarily due to the brine production pipeline replacement plan and an increase in disposals of certain replaced pipe at the projects in 2005.

Interest Expense

Interest expense decreased \$2.0 million to \$21.0 million for the year ended December 31, 2006, and \$2.7 million to \$23.0 million for the year ended December 31, 2005. The decreases were due to lower outstanding debt balances.

Provision (Benefit) for Income Taxes

The income tax benefit increased \$8.9 million to \$6.3 million for the year ended December 31, 2006, from a provision of \$2.6 million for the same period in 2005. The effective tax rates were (22.0)% and 5.7% in 2006 and 2005, respectively. The lower effective tax rate in 2006 was due primarily to the effects of permanent depletion and energy tax credits representing a larger percentage of the income before income taxes for 2006 compared to the same period in 2005.

The provision for income taxes increased \$2.2 million to \$2.6 million for the year ended December 31, 2005, from \$0.4 million for the same period in 2004. The effective tax rates were 5.7% and 2.2% in 2005 and 2004, respectively. The higher effective tax rate in 2005 was due primarily to the effects of permanent depletion and energy tax credits representing a smaller percentage of the income before income taxes for 2005 compared to the same period in 2004.

Discontinued Operations

On September 10, 2004, management made the decision to cease operations of the Zinc Recovery Project. In connection with ceasing operations, the Zinc Recovery Project's assets have been dismantled and sold and certain employees of the operator of the Zinc Recovery Project were paid one-time termination benefits. Implementation of the decommissioning plan began in September 2004 and, as of December 31, 2005, the dismantling, decommissioning, and sale of remaining assets of the Zinc Recovery Project was completed. The income tax benefit in 2004 was impacted by the write-off of non tax deductible goodwill and the inability to utilize the net operating loss carryforward. The income tax expense in 2005 was zero due to recognition of net operating losses.

The income from discontinued operations, net of income tax, of \$1.0 million for the year ended December 31, 2006, reflects the proceeds received from property tax refunds related to the Zinc Recovery Project. The income from discontinued operations, net of income tax, of \$7.6 million for the year ended December 31, 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. The loss from discontinued operations, net of income tax, of \$504.6 million for the year ended December 31, 2004, consists primarily of an after-tax impairment charge of \$481.4 million recognized in connection with ceasing the operations of the Zinc Recovery Project.

Liquidity and Capital Resources

The Company generated cash flows from operations of \$84.78 million for the year ended December 31, 2006, compared with \$92.0 million for the same period in 2005. The decrease was due primarily to more extensive Region 1 brine system and turbine overhaul outages during 2006.

Cash flows used in investing activities were \$21.5 million for the year ended December 31, 2006, compared with \$19.4 million for the same period in 2005 due to higher equipment sales in 2005 from the Zinc Recovery Project discontinued operations and increased capital expenditures as described below partially offset by the timing of purchases and sales of available-for-sale securities generated in the Company's cash management program.

Capital expenditures increased to \$27.1 million for the year ended December 31, 2006, from \$24.8 million for the same period in 2005. Capital expenditures increased in 2006 due to the purchase of two Salton Sea I Project rotors and increased capital pipe replacements in 2006. Forecasted capital expenditures for 2007 are \$35.0 million. Capital expenditure needs are reviewed regularly by management and may change significantly as a result of such reviews. The Company has decided to purchase pipeline replacement materials which are expected to have a longer useful life than the material currently used. The new material would result in higher capital expenditures in 2007 through 2009 than historical expenditures. The Company expects to meet these capital expenditures with cash flows from operations.

Cash flows used in financing activities were \$59.8 million for the year ended December 31, 2006, compared with \$73.1 million for the same period in 2005. The decrease is due to the final principal payment made in 2005 on the Series "B" Senior Secured Bonds, activity associated with the Zinc Recovery Project's discontinued operations and lower equity distributions in 2006.

Environmental Matters

The Company is subject to federal, state and local laws and regulations regarding water quality, hazardous and solid waste disposal and other environmental matters and believes it is in material compliance with current environmental requirements.

Refer to Note 9 of the Notes to the Combined Financial Statements for additional information regarding commitments and litigation related to environmental remediation for contaminated sites.

Inflation

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

Obligations and Commitments

The Company has contractual obligations and commercial commitments that may affect its financial condition. Contractual obligations to make future payments arise from long-term debt. Material obligations and commitments as of December 31, 2006, are as follows (in thousands):

	Payments Due by Period				
	Total	< 1 Year	2-3 Years	4-5 Years	>5 Years
Contractual Cash Obligations:					
Long-term debt	\$ 243,841	\$ 25,091	\$ 54,275	\$ 46,731	\$ 117,744
Interest payments on long-term debt	<u>102,713</u>	<u>18,288</u>	<u>30,339</u>	<u>21,567</u>	<u>32,519</u>
Total contractual cash obligations	<u>\$ 346,554</u>	<u>\$ 43,379</u>	<u>\$ 84,614</u>	<u>\$ 68,298</u>	<u>\$ 150,263</u>

Off Balance Sheet Arrangements

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

Critical Accounting Policies

Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled in the future. Amounts recognized in the financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in the financial statements will likely increase or decrease in the future as additional information becomes available. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Combined Financial Statements.

Impairment of Long-Lived Assets and Goodwill

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

The estimate of cash flows arising from the future use of the asset that are used in the impairment analysis requires judgment regarding what the Company would expect to recover from the future use of the asset. Changes in judgment that could significantly alter the calculation of the fair value or the recoverable amount of the asset may result from, but are not limited to, significant changes in the market price of the asset, the use of the asset, management's plans, legal factors, the business climate or the physical condition of the asset. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. Any resulting impairment loss is highly dependent on those underlying assumptions and could significantly affect the Company's results of operations.

The Company's Combined Balance Sheet as of December 31, 2006 includes goodwill of acquired businesses of \$87.0 million. Goodwill is allocated to each reporting unit and is tested for impairment using a variety of methods, principally discounted projected future net cash flows, at least annually and impairments, if any, are charged to earnings. The Company completed its annual review as of October 31. A significant amount of judgment is required in performing goodwill impairment tests. Key assumptions used in the testing include, but are not limited to, the use of an appropriate discount rate and estimated future cash flows. Estimated future cash flows are impacted by, among other factors, growth rates, changes in regulations and rates, ability to renew contracts and estimates of future commodity prices. In estimating cash flows, the Company incorporates current market information as well as historical factors.

During 2004, the Company recognized impairments on certain of its long-lived assets and goodwill. For additional discussion of these impairments, refer to Note 3 of Notes to Combined Financial Statements.

Income Taxes

In determining the Company's tax liabilities, management is required to interpret complex tax laws and regulations. In preparing tax returns, the Company is subject to continuous examinations by federal, state and local tax authorities that may give rise to different interpretations of these complex laws and regulations. Due to the nature of the examination process, it generally takes years before these examinations are completed and these matters are resolved. The Internal Revenue Service has closed examinations of the Company's income tax returns through 2003. Although the ultimate resolution of the Company's federal and state tax examinations is uncertain, the Company believes it has made adequate provisions for these tax positions and the aggregate amount of any additional tax liabilities that may result from these examinations, if any, will not have a material adverse affect on the Company financial results. The Company's provision for tax uncertainties is included in the other accrued current liabilities and other long-term liabilities, as appropriate, in the accompanying Combined Balance Sheets.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At December 31, 2006 and 2005, the Company had fixed-rate long-term debt of \$243.8 million and \$269.8 million, respectively, with a total fair value of \$254.7 million and \$292.5 million, respectively. Because of their fixed interest rates, these instruments do not expose the Company to the risk of earnings loss due to changes in market interest rates. However, the fair value of these instruments would decrease by \$6.9 million and \$6.1 million, respectively, if interest rates were to increase by 10% from their levels at December 31, 2006 and 2005. In general, a decrease in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments prior to their maturity.

Commodity and Credit Risks

The Imperial Valley Projects' primary source of electricity revenue is derived from payments received pursuant to long-term power sales agreements with Edison. Because of the Imperial Valley Projects' dependence on Edison, if Edison fails to fulfill its obligations to the Imperial Valley Projects, it could significantly impair the ability of the Imperial Valley Projects to fund operating and maintenance expenses, payments of interest and principal on the debt securities, projected capital expenditures and debt service reserve fund requirements. Approximately 87% of the Company's sales of electricity were to Edison in 2006.

In June and November 2001, Salton Sea II, Salton Sea III, Vulcan, Elmore, Leathers and Del Ranch Projects which were then receiving Edison's avoided cost of energy, entered into agreements that provided for amended energy payments. The amendments provided for fixed energy payments per kWh in lieu of Edison's avoided cost of energy. The fixed energy price was 3.25 cents per kWh from December 1, 2001, to April 30, 2002, and increased to 5.37 cents per kWh commencing May 1, 2002, through April 30, 2007. On May 30, 2006, the Imperial Valley Projects that receive Edison's avoided cost of energy entered into amendments to their respective power purchase agreements with Edison which provide for a fixed energy price commencing May 1, 2007, and ending April 30, 2012. The amendments were approved by the CPUC and such approval became final on October 19, 2006. The energy price under the respective amended power purchase agreements during the fixed price period will be 6.15 cents per kWh, escalated 1% annually beginning May 1, 2008. Beginning May 1, 2012, the Projects subject to these amendments will revert back to Edison's avoided cost of energy. There can be no assurances that the new Edison avoided cost of energy will result in revenues equivalent to the current fixed energy payments being received. For the years ended December 31, 2006, 2005 and 2004, Edison's average avoided cost of energy was 6.9 cents per kWh, 7.7 cents per kWh and 5.9 cents per kWh, respectively. Estimates of Edison's future avoided cost of energy vary substantially from year to year primarily based on the future cost of natural gas and may be impacted by regulatory proceedings and other commodity factors.

CERTIFICATION

I, Stephen A. Larsen, certify that:

1. I have reviewed this annual report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 29, 2007

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

CERTIFICATION

I, Stephen D. Dickas, certify that:

1. I have reviewed this annual report of Salton Sea Funding Corporation and the Guarantors (collectively, the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures for Salton Sea Funding Corporation and the Guarantors and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of Company’s board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: March 29, 2007

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



SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING BALANCE SHEET

EXHIBIT A

December 31, 2006

(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	\$ -	\$ 55	\$ -	\$ 18,309	\$ 18,364
Trade accounts receivable	13,561	14,266	-	-	27,827
Trade accounts receivable from affiliate	2,417	-	-	-	2,417
Inventories	-	21,088	-	-	21,088
Deferred income taxes	2,898	599	-	-	3,497
Prepaid expenses and other current assets	859	908	-	108	1,875
Total current assets	<u>19,735</u>	<u>36,916</u>	<u>-</u>	<u>18,417</u>	<u>75,068</u>
Restricted cash	-	292	-	-	292
Property, plant and equipment, net	347,464	226,970	-	-	574,434
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	20,420	42,705	9,875	-	73,000
Due from affiliates	(3,044)	(2,869)	-	7,114	1,201
Deferred financing costs, net	1,617	1,038	-	-	2,655
Total assets	<u>\$ 386,192</u>	<u>\$ 361,580</u>	<u>\$ 40,339</u>	<u>\$ 25,531</u>	<u>\$ 813,642</u>
LIABILITIES AND OWNERS' EQUITY					
Current liabilities:					
Accounts payable	\$ 2,778	\$ 5,791	\$ -	\$ -	\$ 8,569
Accrued interest	974	591	-	-	1,565
Accrued environmental liabilities	-	869	-	-	869
Other accrued liabilities	1,797	4,608	-	-	6,405
Current portion of secured project notes	22,131	2,960	-	(25,091)	-
Current portion of long-term debt	-	-	-	25,091	25,091
Total current liabilities	<u>27,680</u>	<u>14,819</u>	<u>-</u>	<u>-</u>	<u>42,499</u>
Secured project notes	130,568	88,182	-	(218,750)	-
Senior secured notes and bonds	-	-	-	218,750	218,750
Deferred income taxes	5,248	83,002	-	-	88,250
Total liabilities	<u>163,496</u>	<u>186,003</u>	<u>-</u>	<u>-</u>	<u>349,499</u>
Owners' equity:					
Owners' equity	222,696	176,808	40,339	25,531	465,374
Accumulated other comprehensive loss, net of tax	-	(1,231)	-	-	(1,231)
Total Owners' Equity	<u>222,696</u>	<u>175,577</u>	<u>40,339</u>	<u>25,531</u>	<u>464,143</u>
Total liabilities and owners' equity	<u>\$ 386,192</u>	<u>\$ 361,580</u>	<u>\$ 40,339</u>	<u>\$ 25,531</u>	<u>\$ 813,642</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING BALANCE SHEET

EXHIBIT A (Continued)

December 31, 2005

(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
Deferred income taxes	3,264	1,327	-	-	4,591
Prepaid expenses and other current assets	1,064	1,105	-	96	2,265
Total current assets	<u>21,265</u>	<u>38,817</u>	<u>-</u>	<u>20,728</u>	<u>80,810</u>
Property, plant and equipment, net	357,647	241,689	-	-	599,336
Goodwill	-	56,528	30,464	-	86,992
Intangible assets, net	21,571	46,343	10,824	-	78,738
Due from affiliates	(3,044)	(790)	-	5,221	1,387
Deferred financing costs, net	2,232	1,265	59	-	3,556
Total assets	<u>\$ 399,671</u>	<u>\$ 383,852</u>	<u>\$ 41,347</u>	<u>\$ 25,949</u>	<u>\$ 850,819</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	1,287	6,573	-	-	7,860
Other accrued liabilities	1,227	4,694	-	-	5,921
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	8,350	90,281	-	-	98,631
Total liabilities	<u>188,690</u>	<u>202,291</u>	<u>-</u>	<u>-</u>	<u>390,981</u>
Owners' equity	<u>210,981</u>	<u>181,561</u>	<u>41,347</u>	<u>25,949</u>	<u>459,838</u>
Total liabilities and owners' equity	<u>\$ 399,671</u>	<u>\$ 383,852</u>	<u>\$ 41,347</u>	<u>\$ 25,949</u>	<u>\$ 850,819</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2006
(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	\$ 106,421	\$ 102,267	\$ 12,115	\$ (12,115)	\$ 208,688
Costs and expenses:					
Royalty, operating, general and administrative expense	51,528	59,346	3,409	(12,008)	102,275
Depreciation and amortization	30,142	28,285	949	-	59,376
Total costs and expenses	<u>81,670</u>	<u>87,631</u>	<u>4,358</u>	<u>(12,008)</u>	<u>161,651</u>
Operating income (loss)	<u>24,751</u>	<u>14,636</u>	<u>7,757</u>	<u>(107)</u>	<u>47,037</u>
Other income (expense):					
Interest expense	(13,542)	(7,499)	-	-	(21,041)
Interest and other income	-	1,247	-	1,405	2,652
Total other income (expense)	<u>(13,542)</u>	<u>(6,252)</u>	<u>-</u>	<u>1,405</u>	<u>(18,389)</u>
Income from continuing operations before income taxes	11,209	8,384	7,757	1,298	28,648
Provision (benefit) for income taxes	(2,441)	(4,396)	-	532	(6,305)
Income from continuing operations	<u>13,650</u>	<u>12,780</u>	<u>7,757</u>	<u>766</u>	<u>34,953</u>
Income from discontinued operations	-	1,000	-	-	1,000
Net income	<u>\$ 13,650</u>	<u>\$ 13,780</u>	<u>\$ 7,757</u>	<u>\$ 766</u>	<u>\$ 35,953</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS

EXHIBIT A (Continued)

For the Year Ended December 31, 2005

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 115,004	\$ 106,574	\$ 12,840	\$ (12,840)	\$ 221,578
Costs and expenses:					
Royalty, operating, general and administrative expense	49,982	55,270	3,073	(12,188)	96,137
Depreciation and amortization	28,050	29,459	1,089	-	58,598
Total costs and expenses	<u>78,032</u>	<u>84,729</u>	<u>4,162</u>	<u>(12,188)</u>	<u>154,735</u>
Operating income	<u>36,972</u>	<u>21,845</u>	<u>8,678</u>	<u>(652)</u>	<u>66,843</u>
Other income (expense):					
Interest expense	(15,032)	(7,847)	(77)	-	(22,956)
Interest and other income	102	1,219	-	794	2,115
Total other income (expense)	<u>(14,930)</u>	<u>(6,628)</u>	<u>(77)</u>	<u>794</u>	<u>(20,841)</u>
Income from continuing operations before income taxes	22,042	15,217	8,601	142	46,002
Provision for income taxes	2,237	347	-	59	2,643
Income from continuing operations	19,805	14,870	8,601	83	43,359
Income from discontinued operations	-	7,634	-	-	7,634
Net income	<u>\$ 19,805</u>	<u>\$ 22,504</u>	<u>\$ 8,601</u>	<u>\$ 83</u>	<u>\$ 50,993</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2004

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Operating revenue	\$ 104,953	\$ 101,917	\$ 12,045	\$ (12,045)	\$ 206,870
Costs and expenses:					
Royalty, operating, general and administrative expense	54,936	61,374	3,144	(11,722)	107,732
Depreciation and amortization	25,518	28,133	1,089	-	54,740
Total costs and expenses	<u>80,454</u>	<u>89,507</u>	<u>4,233</u>	<u>(11,722)</u>	<u>162,472</u>
Operating income (loss)	<u>24,499</u>	<u>12,410</u>	<u>7,812</u>	<u>(323)</u>	<u>44,398</u>
Other income (expense):					
Interest expense	(17,244)	(8,199)	(223)	-	(25,666)
Interest and other income	130	1,101	-	376	1,607
Total other income (expense)	<u>(17,114)</u>	<u>(7,098)</u>	<u>(223)</u>	<u>376</u>	<u>(24,059)</u>
Income from continuing operations before income taxes	7,385	5,312	7,589	53	20,339
Provision (benefit) for income taxes	2,762	(2,338)	-	22	446
Income from continuing operations	4,623	7,650	7,589	31	19,893
Loss from discontinued operations	(91,634)	(412,989)	-	-	(504,623)
Net income (loss)	<u>\$ (87,011)</u>	<u>\$ (405,339)</u>	<u>\$ 7,589</u>	<u>\$ 31</u>	<u>\$ (484,730)</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Income from continuing operations	\$ 13,650	\$ 12,780	\$ 7,757	\$ 766	\$ 34,953
Adjustments to reconcile income from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	30,142	28,285	949	-	59,376
Deferred income taxes	(2,736)	(5,704)	-	-	(8,440)
Amortization of deferred financing costs	674	227	-	-	901
Changes in other items:					
Trade accounts receivable	959	1,033	-	-	1,992
Inventories, prepaid expenses and other current assets	205	(148)	-	(12)	45
Accounts payable and accrued liabilities	492	(5,713)	-	-	(5,221)
Net cash flows from continuing operations	<u>43,386</u>	<u>30,760</u>	<u>8,706</u>	<u>754</u>	<u>83,606</u>
Net cash flows from discontinued operations	-	1,074	-	-	1,074
Net cash from operating activities	<u>43,386</u>	<u>31,834</u>	<u>8,706</u>	<u>754</u>	<u>84,680</u>
Cash flows from investing activities:					
Capital expenditures	(17,425)	(9,668)	-	-	(27,093)
Purchases of available-for-sale securities	-	-	-	(214,000)	(214,000)
Proceeds from sales of available-for-sale securities	-	-	-	220,000	220,000
Increase in restricted cash	-	(25)	-	-	(25)
Net cash flows from continuing operations	<u>(17,425)</u>	<u>(9,693)</u>	<u>-</u>	<u>6,000</u>	<u>(21,118)</u>
Net cash flows from discontinued operations	-	(341)	-	-	(341)
Net cash from investing activities	<u>(17,425)</u>	<u>(10,034)</u>	<u>-</u>	<u>6,000</u>	<u>(21,459)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(22,622)	(3,294)	-	-	(25,916)
(Increase) decrease in due from affiliates	(3,339)	(18,136)	(8,706)	(3,077)	(33,258)
Net cash flows from continuing operations	<u>(25,961)</u>	<u>(21,430)</u>	<u>(8,706)</u>	<u>(3,077)</u>	<u>(59,174)</u>
Net cash flows from discontinued operations	-	(615)	-	-	(615)
Net cash from financing activities	<u>(25,961)</u>	<u>(22,045)</u>	<u>(8,706)</u>	<u>(3,077)</u>	<u>(59,789)</u>
Net change in cash and cash equivalents	<u>-</u>	<u>(245)</u>	<u>-</u>	<u>3,677</u>	<u>3,432</u>
Cash and cash equivalents at the beginning of period	<u>-</u>	<u>300</u>	<u>-</u>	<u>14,632</u>	<u>14,932</u>
Cash and cash equivalents at the end of period	<u>\$ -</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 18,309</u>	<u>\$ 18,364</u>

SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea Guarantors</u>	<u>Partnership Guarantors</u>	<u>Royalty Guarantor</u>	<u>Funding Corporation & Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Income from continuing operations	\$ 19,805	\$ 14,870	\$ 8,601	\$ 83	\$ 43,359
Adjustments to reconcile income from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	28,050	29,459	1,089	-	58,598
Deferred income taxes	2,177	(6,595)	-	-	(4,418)
Amortization of deferred financing costs	798	241	29	-	1,068
Changes in other items:					
Trade accounts receivable	(1,133)	(358)	-	-	(1,491)
Inventories, prepaid expenses and other current assets	271	(2,202)	-	(83)	(2,014)
Accounts payable and accrued liabilities	(1,845)	(1,910)	(10)	-	(3,765)
Net cash flows from continuing operations	<u>48,123</u>	<u>33,505</u>	<u>9,709</u>	<u>-</u>	<u>91,337</u>
Net cash flows from discontinued operations	-	616	-	-	616
Net cash from operating activities	<u>48,123</u>	<u>34,121</u>	<u>9,709</u>	<u>-</u>	<u>91,953</u>
Cash flows from investing activities:					
Capital expenditures	(10,594)	(14,225)	-	-	(24,819)
Purchases of available-for-sale securities	-	-	-	(70,000)	(70,000)
Proceeds from sales of available-for-sale securities	-	-	-	69,000	69,000
Net cash flows from continuing operations	<u>(10,594)</u>	<u>(14,225)</u>	<u>-</u>	<u>(1,000)</u>	<u>(25,819)</u>
Net cash flows from discontinued operations	-	6,423	-	-	6,423
Net cash from investing activities	<u>(10,594)</u>	<u>(7,802)</u>	<u>-</u>	<u>(1,000)</u>	<u>(19,396)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(22,785)	(4,267)	(1,568)	-	(28,620)
(Increase) decrease in due from affiliates	(14,744)	(15,012)	(8,141)	1,109	(36,788)
Net cash flows from continuing operations	<u>(37,529)</u>	<u>(19,279)</u>	<u>(9,709)</u>	<u>1,109</u>	<u>(65,408)</u>
Net cash flows from discontinued operations	-	(7,706)	-	-	(7,706)
Net cash from financing activities	<u>(37,529)</u>	<u>(26,985)</u>	<u>(9,709)</u>	<u>1,109</u>	<u>(73,114)</u>
Net change in cash and cash equivalents	<u>-</u>	<u>(666)</u>	<u>-</u>	<u>109</u>	<u>(557)</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>\$ 300</u>	<u>\$ -</u>	<u>\$ 14,632</u>	<u>\$ 14,932</u>

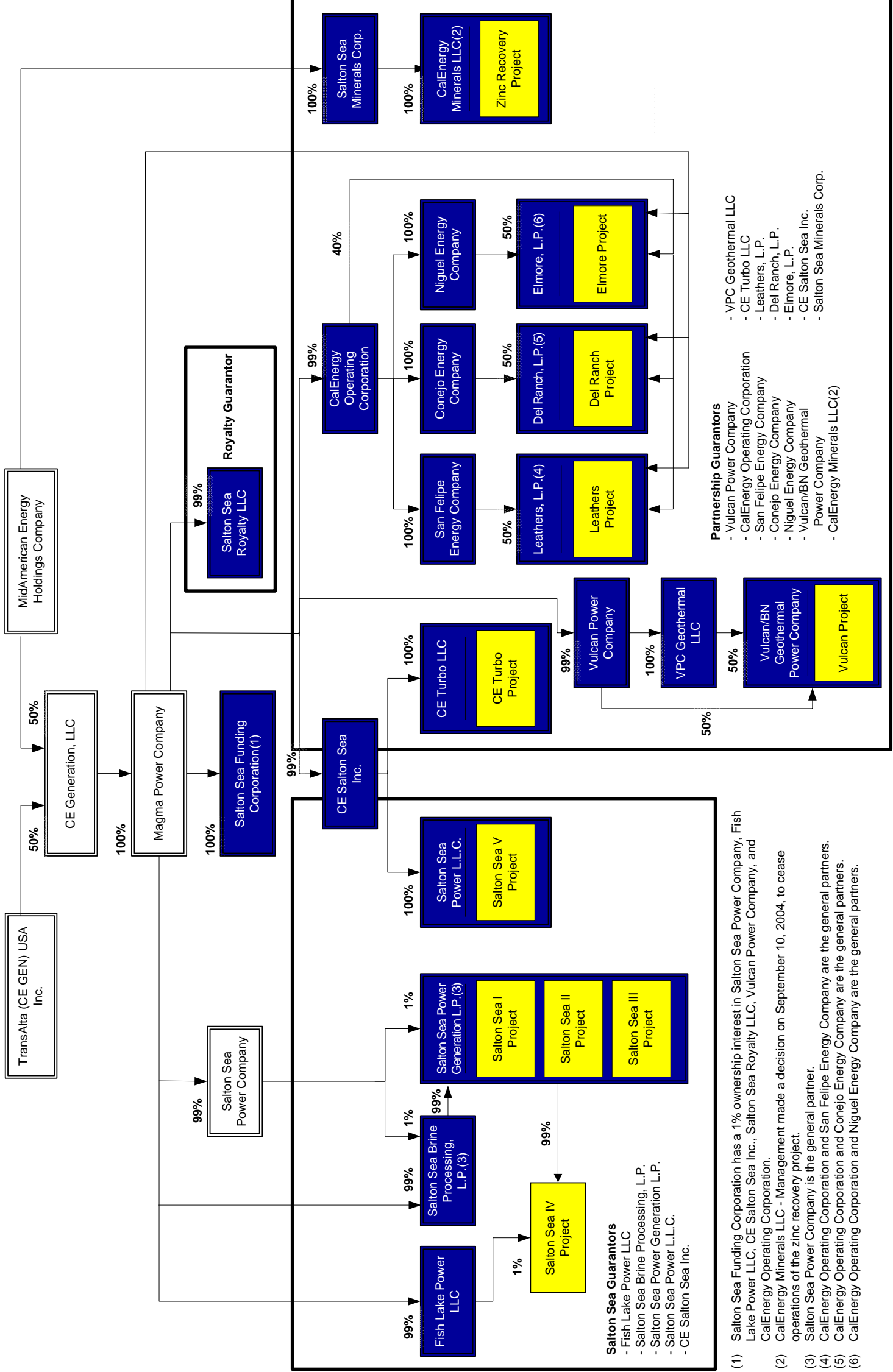
SALTON SEA FUNDING CORPORATION AND GUARANTORS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

EXHIBIT A (Continued)

(in thousands)

	<u>Salton Sea</u> <u>Guarantors</u>	<u>Partnership</u> <u>Guarantors</u>	<u>Royalty</u> <u>Guarantor</u>	<u>Funding</u> <u>Corporation &</u> <u>Eliminations</u>	<u>Combined</u>
Cash flows from operating activities:					
Income from continuing operations	\$ 4,623	\$ 7,650	\$ 7,589	\$ 31	\$ 19,893
Adjustments to reconcile income from continuing operations to net cash flows from continuing operations:					
Depreciation and amortization	25,518	28,133	1,089	-	54,740
Deferred income taxes	2,762	(3,015)	-	-	(253)
Amortization of deferred financing costs	952	258	36	-	1,246
Changes in other items:					
Trade accounts receivable	(603)	(181)	-	-	(784)
Inventories, prepaid expenses and other current assets	(262)	(908)	-	(8)	(1,178)
Accounts payable and accrued liabilities	(1,963)	5,752	(9)	-	3,780
Net cash flows from continuing operations	<u>31,027</u>	<u>37,689</u>	<u>8,705</u>	<u>23</u>	<u>77,444</u>
Net cash flows from discontinued operations	-	(12,679)	-	-	(12,679)
Net cash from operating activities	<u>31,027</u>	<u>25,010</u>	<u>8,705</u>	<u>23</u>	<u>64,765</u>
Cash flows from investing activities:					
Capital expenditures	(4,421)	(15,544)	-	-	(19,965)
Purchases of available-for-sale securities	-	-	-	(210,500)	(210,500)
Proceeds from sales of available-for-sale securities	-	-	-	209,350	209,350
Net cash flows from continuing operations	<u>(4,421)</u>	<u>(15,544)</u>	<u>-</u>	<u>(1,150)</u>	<u>(21,115)</u>
Net cash flows from discontinued operations	-	943	-	-	943
Net cash from investing activities	<u>(4,421)</u>	<u>(14,601)</u>	<u>-</u>	<u>(1,150)</u>	<u>(20,172)</u>
Cash flows from financing activities:					
Repayment of senior secured notes and bonds	(23,346)	(4,016)	(1,469)	-	(28,831)
(Increase) decrease in due from affiliates	(3,260)	(19,212)	(7,236)	5,159	(24,549)
Net cash flows from continuing operations	<u>(26,606)</u>	<u>(23,228)</u>	<u>(8,705)</u>	<u>5,159</u>	<u>(53,380)</u>
Net cash flows from discontinued operations	-	13,341	-	-	13,341
Net cash from financing activities	<u>(26,606)</u>	<u>(9,887)</u>	<u>(8,705)</u>	<u>5,159</u>	<u>(40,039)</u>
Net change in cash and cash equivalents	-	522	-	4,032	4,554
Cash and cash equivalents at the beginning of period	-	444	-	10,491	10,935
Cash and cash equivalents at the end of period	<u>\$ -</u>	<u>\$ 966</u>	<u>\$ -</u>	<u>\$ 14,523</u>	<u>\$ 15,489</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.