



Solara Exploration Ltd.

HIGHLIGHTS

In the third quarter 2006, Solara

- Solara participated in the drilling of 7 wells resulting in six gas wells and one dry and abandoned well, for an 86% success rate
- Completed the acquisition of a private oil and gas company producing 150 BOE/d comprised mostly of oil
- Exited the quarter with approximately 280 BOE/d in net daily field production
- Positive cash flow from operations was \$265,642 for the nine months ended September 30, 2006
- Completed a \$2,756,000 convertible debenture financing in July

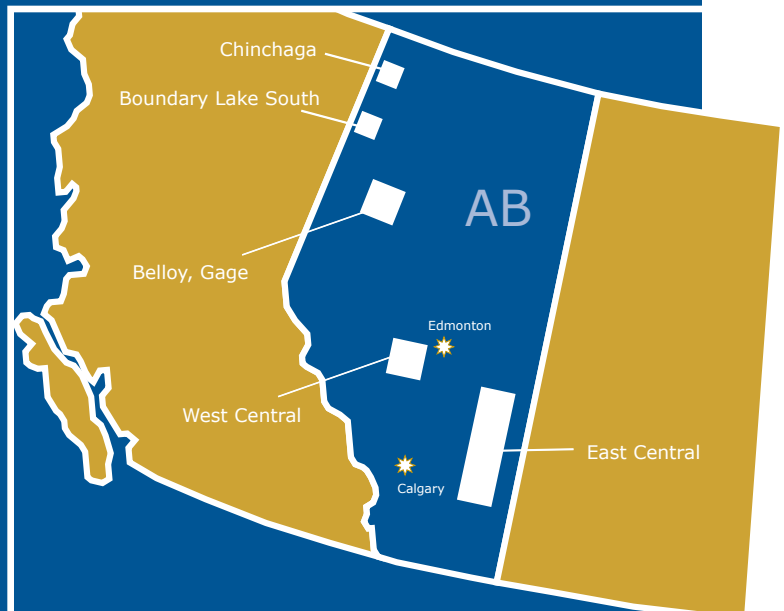


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Third Quarter Interim Report
Nine Months Ended September 30, 2006



Message To Shareholders

Overview

I am pleased to report that Solara continued to grow in key aspects of its business during the nine months ended September 30, 2006. Through a combination of drilling activities, tie in of wells and the completion of a corporate acquisition in August, the Company has increased its daily oil and gas production and reserves. Since January 1, 2006, Solara has participated in the drilling of 30 wells resulting in three oil, 23 gas and four dry and abandoned wells. The Company's production will continue to increase with ongoing completion and tie-in activities of wells drilled to date. In August, Solara completed the acquisition of privately owned oil and gas company producing approximately 30 BOE/d and with \$1,250,000 in estimated working capital. The transaction closed on August 30, 2006 with the issuance of 2,650,280 Class A Shares to the shareholders of the acquired company. Solara also completed a convertible debenture financing raising \$2,756,000 in July to partially fund the corporate acquisition previously completed in May.

Financial Review

As at September 30, 2006, Solara reported working capital of \$5,522,638. Working capital increased primarily as a result of the completion of the convertible debenture financing in July. During the period, the Company had oil and gas production revenue of \$1,348,115, cash flow of \$265,642 and a net loss (before income taxes) of \$341,765. Oil and gas revenue increased during the third quarter as a result of the acquisition of 30 BOE/d in August and production from wells tied-in during the period. Oil and gas revenue for the third quarter was \$683,511 compared to \$122,145 in the prior period in 2005. Lower selling prices for natural gas affected revenues for the period. Solara has filed its unaudited consolidated financial statements and management discussion and analysis for the nine months ended September 30, 2006 with the Canadian securities regulatory authorities on SEDAR. This information may be accessed electronically at www.sedar.com.

Operations Review

Solara participated in the drilling of 23 gas wells in the Peace River Arch, West Central, Birch Wavy and Majorville areas of Alberta during the nine month period. Several of these wells have been placed on production with more wells planned to be tied-in for production during the balance of 2006. The Company participated in the drilling of three oil wells and four dry and abandoned wells. Production for the nine month period averaged approximated 93 BOE/d increasing to an average of 149 BOE/d in the third quarter 2006. Sales production for the month of September averaged 203 BOE/d with the Company exiting the quarter with estimated daily production of 280 BOE/d. At the time of this news release, Solara had additional wells awaiting completion of tie-in activities which could increase production by up to 250 BOE/d by January 2007 based on management estimates. Additional working interest wells recently drilled and cased will be completed and tested to evaluate commercial potential over the next several weeks. Operating expenses for the nine month period were \$371,605 or \$14.60/BOE. With higher production in the third quarter, operating expenses were \$199,036 or \$14.52/BOE. Selling prices for oil and natural gas marketed during the three month period averaged \$62.15/bbl and \$5.79/mcf respectively. Natural gas prices tracked lower during August and September affecting the Company's revenues. The average selling price per barrel of oil equivalent (BOE) sold during the nine month period was \$51.68/BOE. Net operating revenues after royalties and operating expenses were \$973,317 for the nine months and \$432,977 for the third quarter ended September 30, 2006.

The following table summarizes the unaudited consolidated financial and operating results for the nine month period ended September 30, 2006 with comparable periods in 2005.

	Three months ended Sept 30, 2006	Three months ended Sept 30, 2005	Nine months ended Sept 30, 2006	Nine months ended Sept 30, 2005
Production - Oil bbls/d	79	5	54	2
- Gas mcf/d	419	111	237	54
- BOE/d	149	23	93	11
Revenues, net after royalties	\$ 615,836	\$ 109,368	\$ 1,202,511	\$ 135,102
Operating expenses	(199,036)	(9,960)	(371,605)	(19,249)
Cash flow from field operations	416,800	99,408	830,906	115,853
Net back \$/BOE	\$ 30.41	\$ 46.98	\$ 32.73	\$ 40.07
Interest income	16,177	39	142,411	1,282
General and administrative expenses	(173,187)	(37,489)	(432,876)	(128,871)
Interest expense and financing costs	(95,413)	(452)	(274,799)	(15,841)
Cash flow	164,377	61,506	265,642	(25,577)
Cash flow per share	0.01	0.02	0.02	(0.01)
Loss	(209,868)	(50,519)	(739,739)	(100,296)
Loss per share	(0.02)	(0.01)	(0.03)	(0.00)
Weighted average class A shares – basic (000's)	17,244	2,859	16,289	3,020

Source and Use of Funds

	Three months ended Sept 30, 2006	Three months ended Sept 30, 2005	Nine months ended Sept 30, 2006	Nine months ended Sept 30, 2005
Issuance of shares, net of costs	\$ 6,500,729	\$ 123,500	\$ 6,198,854	\$ 944,285
Funds provided (used) by operations	164,377	61,506	265,642	(25,577)
Change in non-cash working capital	(399,440)	51,917	87,983	32,223
	6,265,666	236,923	6,552,479	948,931
Additions to property and equipment	(5,496,242)	(630,394)	(8,551,761)	(880,537)
Corporate acquisitions	818,420	-	(3,484,345)	-
	(4,677,822)	(630,394)	(12,036,106)	(880,537)
Increase (decrease) in cash	1,587,844	(393,471)	(5,483,627)	68,394

Outlook

Solara has initiated an aggressive drilling program for the fourth quarter committing to drill 25 wells prior to year end. Since the beginning of October, the Company has participated in the drilling and casing of 10 potential gas wells on various projects in Alberta. Two of the wells were recently completed and tested, and the results disclosed in the news release on November 20. Solara is currently producing an estimated 280 BOE/d and expects its production to be in excess of 400 BOE/d by year end upon the completion of various tie-ins of gas wells and recompletion activities. Solara is currently operating the drilling of 10 wells and participating in an additional five wells. Any new production obtained from the wells recently drilled and wells currently being drilled will be incremental to this exit production estimate. The Company continues to evaluate strategic asset and corporate acquisitions which would increase its production and reserves in the near term.



Donald R. Holding
President & Chief Executive Officer





Management's Discussion and Analysis

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)

The following analysis and discussion is provided by the management of Solara Exploration Ltd. ("Solara" or the "Corporation") should be read in conjunction with the audited financial statements as at December 31, 2005. This commentary is based upon information up to September 30, 2006.

Basis of Presentation – The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and the measurement currency is the Canadian dollar.

Non-GAAP Measurements – The Management's Discussion and Analysis contains the term funds from operations, which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian generally accepted accounting principles as an indicator of the Corporation's performance. The Corporation's determination of funds from operations may not be comparable to that reported by other companies. The reconciliation between net earnings and funds from operations can be found in the statements of cash flows in the unaudited financial statements. The Corporation also presents cash flow from operations per unit whereby per unit amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.

The Corporation had a year end of June 30, 2005. Effective November 3, 2005 Solara changed its year end to December 31, 2005.

BOE Presentation – Barrels of oil equivalent may be misleading, particularly if used in isolation. The BOE conversion ratio used in this report is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All BOE conversions in this report are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil (6 Mcf = 1 boe)

Forward Looking Statements

Certain information regarding Solara set forth in the document, including management's assessment of Solara's future plans and operation's, contain forward looking statements that involve substantial known and unknown risks and uncertainties. These forward looking statements are subject to numerous risks and uncertainties, certain of which are beyond Solara's control, including the impact of general imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal or external sources. Solara's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits that Solara will derive therefrom.

Summary of Information

Financial Overview

	3 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2005 \$	9 Months Ended September 30, 2006 \$	9 Months Ended September 30, 2005 \$
Oil & Gas Revenue	676,016	122,145	1,315,476	150,947
Royalty Income	7,495	-	32,639	432
Royalties	(67,675)	(12,777)	(145,604)	(16,277)
Other Income	16,177	39	142,411	1,282
Net Revenue	632,013	109,407	1,344,922	136,384
Operating Expense	(199,036)	(9,960)	(371,605)	(19,249)
Net Operating Revenue	432,977	99,447	973,317	117,135
Interest Expense	(95,413)	(452)	(274,799)	(15,841)
General & Administration Expense	(173,187)	(37,489)	(432,876)	(128,871)
Funds (used in) Operations	164,377	61,506	265,642	(27,577)

	3 Months Ended September 30, 2006	3 Months Ended September 30, 2005	9 Months Ended September 30, 2006	9 Months Ended September 30, 2005
Production (boe)	13,711	2,151	25,456	2,891
Daily Production (boepd)	149	23	93	20
\$/BOE				
Oil & Gas Revenue	49.30	56.79	51.68	52.21
Royalty Income	0.55	-	1.28	0.15
Royalties	(4.94)	(5.94)	(5.72)	(5.63)
Other Income	1.18	0.02	5.59	0.44
Net Revenue	46.09	50.87	52.83	47.17
Operating Expense	(14.52)	(4.63)	(14.60)	(6.65)
Net Operating Revenue	31.57	46.24	38.23	40.52
Interest Expense	(6.96)	(0.21)	(10.79)	(5.48)
General & Administrative	(12.63)	(17.43)	(17.00)	(44.58)
Funds (used in) Operations	11.98	28.60	10.44	(9.54)

Oil and Gas Revenues

Oil and gas revenue, before royalties net of ARTCs, for the nine month period ended September 30, 2006 was \$1,315,476 compared to \$150,947 for the comparable period in 2005. This increase in revenue can be attributed to the acquisition of two private corporations effective May 1, 2006 and August 31, 2006, respectively increasing production and the commencement of production from five new wells.





	3 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2006 \$	9 Months Ended September 30, 2006 \$	9 Months Ended September 30, 2005 \$
Oil & Gas Revenues, Before Royalties	676,016	122,145	1,315,476	150,947
Oil & NGL Production (bbls)	7,283	444	14,676	444
Oil Price	62.15	70.93	61.86	70.93
Gas Production (Mcf)	38,570	10,242	64,685	14,683
Gas Price (\$/Mcf)	5.79	8.85	6.30	8.14
BOE Production	13,711	2,151	25,456	2,891
BOE per day	149	23	93	20

Royalties

Total royalties, net of ARTCs, were \$145,604 (\$5.72 per BOE) for the nine month period ended September 30, 2006 compared to \$16,277 (\$5.63 per BOE) for the nine month period ended September 30, 2005. Total Royalties net of ARTC were \$67,675 (\$4.94 per BOE) for the three month period ended September 30, 2006 compared to \$12,777 (\$5.94 per BOE) for the three month period ended September 30, 2005. This increase can mainly be attributed to increased production from the acquisition of two private corporations effective May 1, 2006 and August 31, 2006. The commencement of production from new wells also impacted royalties.

	3 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2005 \$	9 Months Ended September 30, 2006 \$	9 Months Ended September 30, 2005 \$
Crown Royalties	50,199	-	94,697	-
Freehold Royalties	14,204	6,277	37,090	7,527
Gross Overriding Royalties	3,272	6,500	13,817	8,750
Royalties net of ARTCs	67,675	12,777	45,604	16,277
Royalties per BOE (6:1)	4.94	5.94	5.72	5.63

Operating Expense

Operating expenses for the nine months ended September 30, 2006 were \$371,605 (\$14.60 per BOE) compared to \$19,249 (\$6.65 per BOE) for the nine months ended September 30, 2005. Operating expenses for the three month period ended September 30, 2006 were \$199,036 (\$14.52 per BOE) compared to \$9,960 (\$4.63 per BOE). This increase in operating expenses is a direct result of the two acquisitions and increased production from additional wells.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion (D,D&A) was \$528,731 for the nine months ended September 30, 2006, which represents a provision of \$20.77 per BOE of production, compared to \$106,910 (\$36.98 per BOE) for the nine months ended September 30, 2005.

General and Administrative

Net general and administrative costs (G&A) for the nine month ended September 30, 2006 were \$432,876 compared to \$128,871 for the nine months ended September 30, 2005 as outlined in the following table. The increase in G&A can be attributed to increased staffing levels required to support the capital expenditure program and increased levels of production.

	3 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2005 \$	9 Month Ended September 30, 2006 \$	9 Months Ended September 30, 2005 \$
Gross General & Administrative	281,045	71,655	618,392	193,037
Capitalized Overhead	(107,858)	(34,166)	(185,516)	(64,166)
Net General & Administrative	173,187	37,489	432,876	128,871
Per BOE	12.63	17.43	17.00	44.58

Provision for Income Taxes

The Corporation has a future tax liability of \$6,458,614 at September 30, 2006. At December 31, 2005, the Corporation had a future tax asset of \$322,116. This change from an asset to a liability was due largely to an adjustment that was made to the three months ended March 31, 2006, to reflect that a recognition of income tax effect on renounced expenditures, relating to flow through shares.

Future tax expense totaled \$397,974 for the nine months ended September 30, 2006 compared to a recovery of \$83,628 for the nine months ended September 30, 2005. The difference reflects the reversal of a tax recovery recorded at year end and the effect of changes to the estimated future tax liability.

Capital Expenditures

For the nine months ended September 30, 2006, capital expenditures totaling \$8,551,761 were incurred on geophysical activities, exploratory drilling, completion and tie in of wells. During the nine months ended September 30, 2005, capital expenditures totaling \$880,537 were incurred on drilling activities. Capitalized G&A included was \$185,516 for the nine months ended September 30, 2006 compared to \$64,166 for the comparable period in 2005. Other assets include new office and computer equipment.

Shareholders' Equity

Share capital as at September 30, 2006 was \$12,804,785 compared to \$13,616,770 at December 31, 2005. The reduction relates to the tax effect of the renunciation of expenditures associated with the flow through shares issued in 2005, offset by additional Class A shares issued for the acquisition of two private corporations during the year.

Related Party Transactions

The President, CEO and Director of the Corporation is the President of a private Alberta Corporation that provides management consulting services to the Corporation. During the nine months ended September 30, 2006 the Corporation paid \$140,691 in management and related fees compared to \$90,000 for the nine months ended September 30, 2005. The Corporation also provided an interest free loan in the amount of \$85,000 to the President, CEO, and Director to purchase 340,000 Class A shares in November 2005. This loan is due on or before December 31, 2006.





Consulting services were provided by a private Alberta corporation controlled by the Vice President, Engineering and Operations totaling \$93,716 for the nine months ended September 30, 2006 (\$Nil for the nine months ended September 30, 2005).

The Corporate Secretary of the Corporation is a partner in a law firm that provided legal services to the Corporation in the amount of \$41,597 for the nine months ended September 30, 2006 compared to \$2,317 for the nine months ended September 30, 2005.

Liquidity and Capital Resources

Working capital at September 30, 2006 was \$5,522,638 compared to \$11,292,859 at December 31, 2005. The Corporation currently has a revolving reducing line of credit with the National Bank of Canada.

On an ongoing basis Solara will utilize four resources of funding to finance its capital expenditure program: (I) cash on hand (II) cash flow from operations; (III) debt when deemed favorable; and (IV) raise additional investment capital if appropriate.

Business Risks

The marketability and price of products owned or that may be acquired or discovered by Solara, will be affected by numerous factors beyond the Corporation's control. Solara must compete in all aspects of its operations with a number of other corporations that have equal or greater technical or financial resources. The ability of the Corporation to market any hydrocarbons produced may depend on its ability to acquire space in pipelines that deliver product to commercial markets, or on its ability to otherwise access alternative transportation for its production. The Corporation is also subject to market fluctuations in the prices of products, exchange rates, uncertainties related to the proximity of its reserves to pipelines and processing facilities and extensive government regulation.

Application of Critical Accounting Estimates

The significant accounting policies used by Solara are disclosed in note 1 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Corporation and the likelihood of materially different results being reported. Solara's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimate amounts that differ materially from current estimates.

The following assessment of significant accounting policies is not meant to be exhaustive. The Corporation might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Oil and Gas Reserves

Under National Instrument 51-101 ("NI 51-101"), "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves). In accordance with this definition, the level of certainty targeted by the reporting corporation should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. There was no such consideration of probability under the Canadian Securities Administrators' National Policy 2-B ("NP-2B"), which governed the reporting of oil and gas reserves prior to the implementation of NI 51-101. In the case of "Probable" reserves, which are obviously less certain to be recovered than Proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proved plus Probable, the reporting company must believe that there is at least a 50 percent probability that the quantities actually recovered will

equal or exceed the sum of the estimated Proved plus Probable reserves. The implementation of NI 51-101 has resulted in a more rigorous and uniform standardization of reserve evaluation.

The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Corporation's plans. The effect of changes in Proved oil and gas reserves on the financial results and position of the Corporation is described under the heading "Full Cost Accounting for Oil and Gas Activities".

Proved plus Probable (or "2P") reserves as defined in NI 51-101 are viewed by many industry participants as being comparable to the "Established" reserves definition that was used historically. The 2P reserves form the basis for calculation of reserve life indices and are considered as the more accurate estimate of the actual reserves quantities.

Full Cost Accounting for Oil and Gas Activities

Depletion Expense

The Corporation uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and developments are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the unit-of-production method based on estimated proved oil and gas reserves.

An increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. A decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Full Cost Accounting Ceiling Test and Impairment of Long – Lived Assets

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rate, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense. The Corporation is required to review the carrying value of all property, plant and equipment, including the carrying value of oil and gas assets, for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

Asset Retirement Obligations

The Corporation is required to provide for future removal and site restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts or other policies. These estimated costs are charged to earnings and the appropriate liability account over the expected service life of the asset. When the future removal and site restoration costs cannot be reasonably determined, a contingent liability may exist. Contingent liabilities are charged to earnings when management is able to determine the amount and the likelihood of the future obligation.





Income Tax Accounting

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Contractual Obligations

The Corporation is committed to office lease payments totaling \$384,837 until March 1, 2011 based on current operating costs.

By September 30, 2006, the Corporation had committed approximately \$8,280,000 in qualifying expenditures of which \$4,430,000 had been incurred during the period. Accordingly, the Corporation has a remaining commitment to incur approximately \$3,720,000 in qualifying expenditures by December 31, 2006.

Subsequent to September 30, 2006 and at the time of this report, the Corporation had committed to expend an additional \$2,500,000 in qualifying expenditures for the fourth quarter.

Legal, Environmental Remediation and Other Contingent Matters

The Corporation is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Corporation's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

Disclosure Controls and Procedures

As at the nine months ended September 30, 2006, an evaluation was carried out under the supervision of and with the participation of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as at March 31, 2006 to provide reasonable assurance that material information relating to the Corporation would be made known to them by others.

Additional Information

Additional information regarding the Corporation and its business and operations is available on the Corporation's company profile at www.sedar.com. Copies of the information can also be obtained by contacting the Corporation at Solara Exploration Ltd., #1800, 444 – 5th Avenue S.W., Calgary, Alberta T2P 2T8 (Phone: 403-537-0458) or by e-mail at don_solaraexploration@shaw.ca.

Financial Statements



Consolidated Balance Sheet (Unaudited)

	As at September 30, 2006	As at December 31, 2005
Assets	\$	\$
Current assets		
Cash and cash equivalents	5,741,632	11,225,259
Accounts receivable	3,959,970	491,464
Advances and prepaids	279,568	29,320
Intercompany	107,252	-
Inventory	173,117	-
	10,261,539	11,746,043
Property, plant and equipment (Note 2 and 3)	15,325,488	1,913,268
Deferred charge (Note 5)	70,839	
Future income tax asset (Note 6)	-	332,116
	25,657,866	13,991,427
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,738,901	453,184
Asset retirement obligation (Note 4)	368,709	170,645
Long Term Debt (Note 5)	2,545,804	-
Future income taxes (Note 6)	6,458,614	-
	14,112,028	623,829
Shareholders' equity		
Capital stock (Note 7)	12,804,785	13,616,770
Contributed surplus (Note 8)	93,269	18,759
Deficit	(1,352,216)	(267,931)
	11,545,838	13,367,598
	25,657,866	13,991,427

See accompanying notes to the financial statements



Statements of Operations and Deficit (Unaudited)

	Three Months Ended September 30 2006 \$	Three Months Ended September 30 2005 \$	Nine Months Ended September 30 2006 \$	Nine Months Ended September 30 2005 \$
Revenue				
Oil and gas production	683,511	122,145	1,348,115	151,379
Royalties, net of ARTC	(67,675)	(12,777)	(145,604)	(16,277)
	615,836	109,368	1,202,511	135,102
Interest and other income	16,177	39	142,411	1,282
	632,013	109,407	1,344,922	136,384
Expenses				
Operations	199,036	9,960	371,605	19,249
General and administrative	173,187	37,489	432,876	128,871
Depletion, depreciation and accretion expense	203,931	67,466	528,731	106,910
Stock based compensation (Note 7)	46,372	49,437	74,510	49,437
Deferred expense (Note 5)	4,166	-	4,166	-
Interest expense (Note 9)	95,413	452	274,799	15,841
	722,105	164,804	1,686,687	320,308
Loss before income tax	(90,092)	(55,397)	(341,765)	(183,924)
	(119,776)	4,878	(397,974)	83,628
Future tax (expense) recovery (Note 6)				
Loss after income taxes	(209,868)	(50,519)	(739,739)	(100,296)
Deficit - beginning of period	(1,021,240)	(420,342)	(267,932)	(370,565)
Adjustment for share redemption (Note 6)	(121,108)	-	(344,545)	-
Deficit - end of period	(1,352,216)	(470,861)	(1,352,216)	(470,861)

See accompanying notes to the financial statements

Loss per share

-Basic	(0.01)	(0.02)	(0.05)	(0.03)
-Diluted	(0.01)	(0.02)	(0.04)	(0.03)

Weighted average

-Basic	17,244,549	2,859,276	16,289,039	3,020,009
-Diluted	18,084,635	2,896,776	17,129,125	3,057,509



Statements of Cash Flows (Unaudited)

	Three Months Ended September 30 2006 \$	Three Months Ended September 30 2005 \$	Nine Months Ended September 30 2006 \$	Nine Months Ended September 30 2005 \$
Operating activities				
Loss for the period	(209,868)	(50,519)	(739,739)	(100,296)
Items not affecting cash				
Depletion, depreciation and accretion expense	203,931	67,466	528,731	106,910
Stock based compensation (Note 7)	46,372	49,437	74,510	49,437
Deferred Charge	4,166	-	4,166	-
Future income tax expense (recovery)	119,776	(4,878)	397,974	(83,628)
Cash flows (used in) generated from operations	164,377	61,506	265,642	(27,577)
Changes in non-cash operating working capital	(399,440)	51,917	87,983	32,223
	(235,063)	113,423	353,625	4,646
Financing activities				
Issue of common shares	117	130,000	117	1,001,950
Repurchase of shares	(254,185)	-	(582,947)	-
Warrants	10,815	-	41,028	-
Issue of convertible debenture	2,545,804	-	2,545,804	-
Share issue costs and commissions	-	(6,500)	(3,326)	(57,665)
Change in non-cash working capital	4,198,178	-	4,198,178	-
	6,500,729	123,500	6,198,854	944,285
Investing activities				
Corporate acquisitions	818,420	-	(3,484,345)	-
Additions to property, plant and equipment	(5,496,242)	(630,394)	(8,551,761)	(880,537)
	(4,677,822)	(630,394)	(12,036,106)	(880,537)
Increase (decrease) in cash during the period	1,587,844	(393,471)	(5,483,627)	68,394
Cash - beginning of period	4,153,788	532,488	11,225,259	70,623
Cash - end of period	5,741,632	139,017	5,741,632	139,017
Supplemental information				
Cash interest paid	95,413	452	274,799	15,841

See accompanying notes to the financial statements



Notes to the Financial Statements

1. Significant Accounting Policies

The interim unaudited consolidated financial statements of Solara Exploration Ltd. (the "Corporation") include the accounts of its wholly owned subsidiaries Dagur Resources Inc. (the "Corporation") and Solara Holdings Inc. (the "Corporation"). These consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of the Corporation for the six months ended December 31, 2005. The disclosures below are incremental to those included with the financial statements at December 31, 2005. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporations annual report for the six months ended December 31, 2005.

Solara Exploration Ltd. was incorporated under the Business Corporations Act (Alberta) and is currently involved in the exploration, development and production of petroleum and natural gas in Western Canada. The interim financial statements of the Corporation are stated in Canadian dollars and have been prepared by management in accordance with generally accepted accounting principles in Canada. ("GAAP").

2. (a) Acquisition of Dagur Resources Inc.

Effective May 1, 2006, the Corporation acquired all of the issued and outstanding shares of Dagur Resources Inc. a private company engaged in the exploration for and production of natural gas and crude oil in Western Canada. The transaction was accounted for using the purchase method with the results of operations being included from the date of acquisition.

Consideration Given	
Cash	\$ 4,667,149
Non-Cash issue of 884,956 Class A Common Shares at \$1.13	1,000,000
Transaction costs	106,578
	\$ 5,773,727
Allocation of Purchase Price	
Working Capital including cash of \$470,961	822,319
Property and equipment	7,083,060
Asset retirement obligation	(133,092)
Future tax liability	(1,998,560)
	\$ 5,773,727

(b) Acquisition of Dyno Energy Ltd. (Now Solara Holdings Inc.)

Effective August 31, 2006, the Corporation acquired all of the issued and outstanding shares of Dyno Energy Ltd. a private company engaged in the exploration for and production of natural gas and crude oil in Western Canada. The transaction was accounted for using the purchase method with the results of operations being included from the date of acquisition. By certificate of amalgamation effective August 31, 2006, Dyno Energy Ltd., was amalgamated into Solara Holdings Inc, a wholly owned subsidiary of Solara Exploration Ltd.



Consideration Given		
Cash	\$	-
Non-Cash issue of 2,650,280 Class A Common Shares at \$1.05		2,782,794
Transaction costs		82,162
	\$	2,864,956
Allocation of Purchase Price		
Working Capital including cash of \$900,583		1,228,212
Property and equipment		1,702,263
Asset retirement obligation		(65,519)
	\$	2,864,956

3. Property, Plant and Equipment

	September 30, 2006 \$	December 31, 2005 \$
Petroleum and natural gas properties - at cost	16,310,807	2,142,439
Office equipment and other assets	134,959	29,398
Accumulated depletion and depreciation	(1,120,278)	(258,569)
	15,325,488	1,913,268

As at September 30, 2006 all petroleum and natural gas property costs related to non-producing and undeveloped properties are excluded from the depletion calculation. At September 30, 2006 this amount was \$1,950,094 compared with \$Nil at September 30, 2005.

General and administrative expenses totaling \$185,516 for the nine months ended September 30, 2006 (September 30, 2005 - \$64,166) directly related to exploration and development activities were capitalized.

The Company performed a ceiling test calculation at September 30, 2006 for the Canadian cost centre resulting in the undiscounted cash flows from proved and probable reserves properties exceeding the carrying value of Petroleum and Natural Gas assets. The following table summarizes the future benchmark prices the Company used in the ceiling test for the Canadian cost centre, adjusted for the Company's differentials:

The price forecast used in the reserve evaluation prepared by the independent engineering firm retained by the Corporation at December 31, 2005 is outlined in the table below:

Price Forecast		
	CDN\$/Bbl	AECO-C CDN\$/mmbtu
2006	66.25	10.60
2007	64.00	9.25
2008	59.25	8.00
2009	55.75	7.50
2010	54.00	7.20

The prices escalate at 2% thereafter.

Future events, such as deteriorating operating performance, third party evaluations and/or reductions in commodity prices could lead to ceiling test write-downs. There is no guarantee that these Petroleum and Natural gas properties will generate revenues in future periods.



4. Asset Retirement Obligations

	September 30, 2006	December 31, 2005
	\$	\$
Balance - beginning of year	170,645	57,066
Increase in obligations during the period	185,189	105,680
Accretion expense	12,875	4,987
Revision to cash flow	-	2,912
	368,709	170,645

The total future asset retirement obligation was estimated by management based on the Corporation's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The expected cost of site reclamations was estimated using the Alberta Energy Utilities Board guidelines for certain areas and actual well abandonment costs are based on the estimates of the Corporation's management.

At September 30, 2006, the undiscounted cash flow of the asset retirement ("ARO") obligation was \$408,389 (December 31, 2005 - \$ 258,967). The Corporation expects the obligation to occur over 6.15 years at a credit adjusted risk free rate of 7.0% which has been used to calculate the net present value of the ARO with an inflation rate of 2.80%.

5. Long Term Debt

On July 25, 2006 the Corporation raised \$2,756,000 through the issue of an 8.5% fixed rate convertible debenture. Each \$1,000 debenture is convertible at any time prior to July 7, 2011 (renewable rate) into 667 Class A common shares at a price of \$1.50 per share. Each \$1,000 debenture includes 500 detached bonus warrants. Each warrant plus \$1.80 entitles the holder to acquire one Class A common share until December 31, 2007. The debentures are redeemable at the office of the Corporation at any time after July 6, 2007 at \$1,050 per debenture provided that the average trading price of the Class A common shares exceed \$1.80 for twenty consecutive trading days prior to the notice date. Costs associated with the issuance of the debenture have been deferred. The Corporation will amortize deferred costs over 3 years.

6. Income Taxes

The provision for income taxes is different from the amount computed by applying the combined Canadian Federal and Provincial tax rates to net income before income tax. The reasons for the difference are as follows:

	September 30, 2006	September 30, 2005
	\$	\$
Corporate income tax rate	33.62%	38.12%
Loss before income tax	(533,335)	(183,924)
Expected income tax (expense) recovery	179,307	70,112
Non-deductible crown payments, net	(11,224)	2,316
Stock based compensation	(25,050)	-
Resource allowance	8,976	-
Change to estimate of recorded tax basis	(549,983)	11,200
	(397,974)	83,628

The future income tax asset is composed of temporary differences which result in future taxable amounts.

The following table shows the tax-affected amounts of these items.

	September 30, 2006	December 31, 2005
	\$	\$
Net book value of property and equipment greater than tax basis	(3,348,940)	(331,457)
Non-Capital loss	244,870	79,989
Flow through share renunciation	(3,975,425)	-
Share issue costs	516,461	526,213
Asset retirement obligation	104,420	57,371
Future income tax (liability) asset	(6,458,614)	332,116

7. Capital Stock

Authorized

Unlimited number of common Class A shares with no par value

Unlimited number of common Class B shares with no par value

Unlimited number of preferred shares with no par value

	As at September 30, 2006		As at December 31, 2005	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Common Shares (Class A)				
Balance - opening	14,722,612	4,186,814	4,160,112	1,396,814
Issued for cash	-	-	121,875	32,500
Issued for cash - flow through	-	-	40,625	97,500
Issued for cash - private placement	-	-	4,400,000	1,100,000
Issued for cash - flow through	-	-	6,000,000	1,560,000
Issued for acquisition	3,535,569	3,782,911	-	-
Warrants exercised	157,800	41,027	-	-
Repurchase of shares	(542,500)	(238,402)	-	-
	17,873,481	7,772,350	14,722,612	4,186,814

Common Shares (Class B)				
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance - opening	1,044,000	10,440,000	-	-
Issued for cash	-	-	1,044,000	10,440,000
	1,044,000	10,440,000	1,044,000	10,440,000
Tax effect - flow through shares and share issue costs	-	(3,975,425)	-	418,771
Share issue costs	-	(1,432,140)	-	(1,428,815)
	1,044,000	(5,407,565)	1,044,000	(1,010,044)
Balance - closing	18,917,481	12,804,785	15,766,612	13,616,770





Stock Options

The Corporation has a stock option plan under which it may grant options to directors, officers, employees or consultants. Options are granted at the discretion of the Board of Directors, vest over three years and expire five years after the date of grant.

As at September 30, 2006 there were outstanding options to acquire 1,472,261 Class A common shares at \$ 0.35 per share and 180,000 Class A common shares at \$0.95 per share.

Warrants

The Corporation granted warrants to the agent exercisable for a period of 12 months from Closing until December 22, 2006 to purchase 85 Class A Shares for each Unit sold at a price of \$0.26 per share.

Normal Course Issuer Bid:

Under the normal course issuer bid, the corporation received approval commencing March 7, 2006 to purchase up to 5% of its outstanding Class A common shares until March 6, 2007. A total of 542,500 Class A common shares at a cost of \$582,947 were purchased since March 7, 2006.

8. Contributed Surplus

Stock Based Compensation:

This amount was calculated using the Black-Scholes option, using a risk free interest rate of 3.88% expected life of three years, expected average volatility factor of nil and no dividends.

	September 30, 2006	December 31, 2005
	\$	\$
Balance - beginning of period	18,759	15,000
Stock based compensation (recovery)	-	(15,000)
Stock based compensation expense	74,510	18,759
Balance - end of period	93,269	18,759

9. Financial Instruments

The Corporation's financial instruments that are included in the balance sheet are comprised of cash, cash equivalents, prepaids, accounts receivable and accounts payable.

Fair Values Of Financial Assets

The fair values of financial instruments that are in the balance sheet approximate their carrying amount due to short-term maturity of the instruments.

Credit Risk

A substantial portion of the Corporation's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk.



10. Commitments and Contingencies

The Corporation is committed to office lease payments totalling \$384,837 to March 1, 2011 based on current operating costs. These obligations are as follows:

2006	\$ 34,877
2007	\$ 83,992
2008	\$ 83,992
2009	\$ 83,992
2010	\$ 83,992
2011	\$ 13,992
Total	\$ 384,837

By September 30, 2006, the Corporation had committed approximately \$8,280,000 in qualifying flow through expenditures of which \$4,430,000 had been incurred during the period. Accordingly, the Corporation has a remaining obligation to incur approximately \$3,720,000 in qualifying expenditures by December 31, 2006. Subsequent to September 30, 2006 and at the time of this report, the Corporation had committed to expend an additional \$2,500,000 in qualifying expenditures for the fourth quarter.

11. Related Party Transactions

The President, CEO and Director of the Corporation is the President of a private Alberta Corporation that provides management consulting services to the Corporation. During the nine months ended September 30, 2006 the Corporation paid \$140,691 in management and related fees compared to \$90,000 for the nine months ended September 30, 2005. The Corporation also provided an interest free loan in the amount of \$85,000 to the President, CEO, and Director to purchase 340,000 Class A shares in November 2005. This loan is due on or before December 31, 2006.

Consulting services were provided by a private Alberta corporation controlled by the Vice President, Engineering and Operations totalling \$93,716 for the nine months ended September 30, 2006 (\$Nil for the nine months ended September 30, 2005).

The Corporate Secretary of the Corporation is a partner in a law firm that provided legal services to the Corporation in the amount of \$41,597 for the nine months ended September 30, 2006 compared to \$2,317 for the nine months ended September 30, 2005.

These transactions have been recorded at the fair value.

12. Subsequent Events

On November 10, 2006, the Corporation entered into various credit facilities with the National Bank of Canada for a non-revolving line of \$3,350,000 secured by a fixed and floating \$10,000,000 debenture against the Corporation's assets.



Corporate Information

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Alfred F. Fischer, * P.Geol.
Donald R. Holding
John D. Boyd, * P.Geoph.

OFFICERS

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W. Kevin Dickson, P.Eng., Vice President,
Operations & Engineering
Alfred F. Fischer, P.Geol., Vice President,
Exploration
James E. Lawson, CA, Chief Financial Officer
Ross O. Drysdale, LLB., Corporate Secretary

*Members of, Reserves, Audit, and
Compensation Committees

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

EVALUATION ENGINEERS

GLJ Petroleum Consultants
Calgary, Alberta

LEGAL COUNSEL

Burstall Winger LLP
Calgary, Alberta

REGISTRAR & TRANSFER AGENT

Olympia Trust Company
Calgary, Alberta

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Trading Symbols: SAA.A and SAA.B
Calgary, Alberta

ABBREVIATIONS

bbls	barrels	stb	standard stock tank barrel
bbls/d	barrels per day	mcf	thousand cubic feet
mbbls	thousand barrels	mcf/d	thousand cubic feet per day
boe	barrels of oil equivalent of natural gas (on the basis of 1 boe for 6	mmcf	million cubic feet
boe/d	barrels of oil equivalent per day	mmcf/d	million cubic feet per day
mboe	thousand barrels of oil equivalent	NGL	Natural Gas Liquids
NGLs	natural gas liquids	bcf	billion cubic feet
mmbtu	million British thermal units	Gj	gigajoules
mstb	thousand stock tank barrels		