



Management's
Discussion and Analysis

**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007
(UNAUDITED)**

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Management's Discussion and Analysis

The following analysis and discussion is provided by the management of Solara Exploration Ltd. ("Solara" or the "Corporation") and should be read in conjunction with the audited consolidated financial statements as at December 31, 2006. This commentary is based upon information up to November 28, 2007.

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.

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 operations 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 (unaudited)

	9 Months Ended September 30, 2007 \$	3 Months Ended September 30, 2007 \$	9 Months ended September 30, 2006 \$	3 Months Ended September 30, 2006 \$
Oil & Gas Revenue	4,049,542	1,457,525	1,315,476	676,016
Royalty Income	23,314	7,952	32,639	7,495
Royalties	(533,285)	(194,789)	(145,604)	(67,675)
Other Income	8,357	2,807	142,411	16,177
Net Revenue	3,547,928	1,273,495	1,344,922	632,013
Operating Expense	(1,067,683)	(440,686)	(371,605)	(199,036)
Net Operating Revenue	2,480,245	832,809	973,317	432,977
Interest Expense	(343,204)	(155,340)	(274,799)	(95,413)
General & Administration Expense	(458,925)	(101,990)	(432,876)	(173,187)
Funds From Operations	1,678,116	575,479	265,642	164,377
Funds (used) in Operations				
Per share-basic	0.07	0.02	0.02	0.01
Per share-diluted	0.07	0.02	0.02	0.01
Loss	(473,986)	(125,120)	(739,739)	(209,868)
Per share-basic	(0.02)	-	(0.05)	(0.01)
Per share-diluted	(0.02)	-	(0.04)	(0.01)

	9 Months Ended September 30, 2007 \$	3 Months Ended September 30, 2007 \$	9 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2006 \$
Production (BOE)	84,084	30,084	25,456	13,711
Daily Production (boepd)	308	327	93	149
\$/BOE				
Oil & Gas Revenue	48.16	48.45	51.68	49.30
Royalty Income	0.28	0.26	1.28	0.55
Royalties	(6.34)	(6.47)	(5.72)	(4.94)
Other Income	0.10	0.09	5.59	1.18
Net Revenue	42.20	42.33	52.83	46.09
Operating Expense	(12.70)	(14.65)	(14.60)	(14.52)
Net Operating Revenue	29.50	27.68	38.23	31.57
Interest Expense	(4.08)	(5.16)	(10.79)	(6.96)
General & Administrative	(5.46)	(3.39)	(17.00)	(12.63)
Funds From Operations	19.96	19.13	10.44	11.98

Oil and Gas Revenues

Oil and gas revenue, before royalties, for the nine months ended September 30, 2007 was \$4,049,542 compared to \$1,315,476 for the nine month period ended September 30, 2006. This increase in revenue can be attributed primarily to increased production from wells drilled in late 2006, and completed and tied-in in the first nine months of 2007.

The Corporation's daily production increased from an average of 93 BOE/day in the nine months ended September 30, 2006, to 308 BOE/day in the nine months ended September 30, 2007.

The Corporation had several days of production downtime on core projects due to workovers in the third quarter of 2007. This cessation of production during these periods of downtime lowered overall daily production and oil and gas revenues for the quarter. Certain equip and tie-in expenditures were incurred in the period for wells not placed on production until October, 2007. Accordingly, the impact of these wells on oil and gas revenues will not be realized until the fourth quarter of 2007.

	9 Months Ended September 30, 2007 \$	3 Months Ended September 30, 2007 \$	9 Months Ended September 30, 2006 \$	3 Month Ended September 30, 2006 \$
Oil & Gas Revenues, before Royalties	4,049,542	1,457,525	1,315,476	676,016
Oil & NGL Production (bbls)	41,504	15,389	14,676	7,283
Oil Price	60.47	65.47	61.86	62.15
Gas Production (Mcf)	255,480	88,170	64,685	38,570
Gas Price (\$/Mcf)	6.03	5.10	6.30	5.79
BOE Production	84,084	30,084	25,456	13,711
BOE per day	308	327	93	149

Royalties

Royalties were \$533,285 (\$6.34 per BOE) for the nine months ended September 30, 2007 compared to \$145,604 (\$5.72 per BOE) for the nine months ended September 30, 2006.

	9 Months Ended September 30, 2007 \$	3 Months Ended September 30, 2007 \$	9 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2006 \$
Crown Royalties	381,611	151,824	94,697	50,199
Freehold Royalties	113,710	26,891	37,090	14,204
Gross Overriding Royalties	37,964	16,074	13,817	3,272
Royalties	533,285	194,789	145,604	67,675
Royalties per BOE (6:1)	6.34	6.47	5.72	4.94

Operating Expenses

Operating expenses for the nine months ended September 30, 2007 were \$1,067,683 (\$12.70 per BOE) compared to \$371,605 (\$14.60 per BOE) for the nine months ended September 30, 2006. This decrease in operating expenses on a unit of production basis is a direct result of increased production from additional wells in the first nine months of 2007.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion (DD&A) was \$2,310,599 for the nine months ended September 30, 2007, which represents a provision of \$27.48 per BOE of production compared to \$528,731 (\$20.77 per BOE) for the nine months ended September 30, 2006. In the first nine months of 2007, the Corporation drilled only two wells and did not add significant proven reserves to mitigate the depletion.

General and Administrative

General and administrative expenses (G&A) for the nine months ended September 30, 2007 were \$458,925 compared to \$432,876 for the nine months ended September 30, 2006 as outlined in the following table. The overall increase in G&A can be attributed to increased staffing levels required to support the capital expenditure program and increased levels of production.

	9 Months Ended September 30, 2007 \$	3 Months Ended September 30, 2007 \$	9 Months Ended September 30, 2006 \$	3 Months Ended September 30, 2006 \$
Gross General & Administrative	917,850	204,000	618,392	281,045
Capitalized Overhead	(458,925)	(102,010)	(185,516)	(107,858)
Net General & Administrative	458,925	101,990	432,876	173,187
Per BOE	5.46	3.39	17.00	12.63

Provision for Income Taxes

The Corporation has a future tax liability of \$5,157,764 at September 30, 2007. At December 31, 2006, the Corporation had a future tax liability of \$4,806,325. The change is primarily due to tax effecting the renouncement of expenditures relating to flow through shares issued in 2006 and 2007.

The future tax recovery was \$201,700 for the nine months ended September 30, 2007 compared to an expense of \$397,974 for the nine months ended September 30, 2006.

Capital Expenditures

For the nine months ended September 30, 2007, capital expenditures totaling \$5,922,943 were incurred on geophysical activities, drilling, completion and tie-in of wells. During the nine months ended September 30, 2006, capital expenditures totaling \$8,551,761 were incurred on drilling activities. Capitalized G&A was \$458,925 for the nine months ended September 30, 2007 compared to \$185,516 for the nine months ended September 30, 2006. Other assets include new office furniture and computer equipment.

Nine Months Ended September 30, 2007

	\$
Land	372,226
Seismic and exploration	444,556
Drilling and completions	3,287,116
Facilities	1,734,081
Corporate	84,964
Total	5,922,943

Shareholders' Equity

Share capital as at September 30, 2007 was \$17,879,228 compared to \$14,889,467 at December 31, 2006. The Corporation issued 4,090,000 Class A shares for proceeds of \$4,090,000 before share issue costs of \$425,575. Also included in the share capital is an adjustment for the tax effect of renouncing expenditures on flow through shares issued in 2006 and tax effecting share issue costs.

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, 2007 the Corporation paid \$205,190 in management and related fees (\$140,691 for the nine months ended September 30, 2006). In November, 2005, the Corporation provided a loan in the amount of \$85,000 to purchase 326,923 Class A shares of the Corporation. The loan is secured by a demand promissory note and is payable upon demand or by December 31, 2007.

Consulting services were provided by a private Alberta corporation controlled by the Vice President, Engineering and Operations totaling \$135,000 for the nine months ended September 30, 2007 (\$93,716 for the nine months ended September 30, 2006).

The Corporate Secretary of the Corporation is an employee of a law firm that provided legal services to the Corporation in the amount of \$57,207 for the nine months ended September 30, 2007 (\$41,597 for the nine months ended September 30, 2006).

Liquidity and Capital Resources

The Corporation has a working capital deficiency at September 30, 2007 of \$4,227,322 compared to a working capital deficiency of \$3,557,522 at December 31, 2006. The Corporation currently has a demand revolving line of credit with its banker for \$7,500,000. At September 30, 2007, the Corporation had \$3,346,331 available from the unutilized portion of its operating line.

Commodity prices and volumes have the largest impact on the Corporation's ability to generate adequate cash flow to meet obligations. A prolonged decrease in commodity prices would negatively affect cash flow and would also likely result in a reduction in the size of available bank facilities.

The Corporation may adjust its capital expenditure program depending on the outlook or actual behavior of commodity prices. The Corporation believes that internally-generated cash flow and incremental bank debt should be sufficient to finance current operations and planned capital spending in 2007.

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

Risks and Uncertainties

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 notes 1 and 2 to the unaudited financial statements at September 30, 2007. 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 ninety (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 \$301,555 until March 1, 2011 based on current operating costs.

The Corporation has an obligation to incur \$2,250,000 in qualifying expenditures by December 31, 2007 resulting from the private placement of flow through shares completed in December 2006. At September 30, 2007 the Corporation had fulfilled its obligation to incur the \$2,250,000 in qualifying expenditures. An additional \$4,090,000 in qualifying expenditures from a flow through share issue completed in the first quarter of 2007, must be expended by December 31, 2008. At September 30, 2007 the Corporation estimated that it had incurred approximately \$2,000,000 in qualifying expenditures relative to this latter obligation.

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.

Changes In Accounting Policies

Effective January 1, 2007, the Corporation adopted the new Canadian accounting standards for financial instruments – Recognition and Measurement, Financial Instruments – Presentation and Disclosures, Hedging and Comprehensive Income.

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures for the preparation of financial and other reports. As at the nine months ended September 30, 2007, 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 to provide reasonable assurance that material information relating to the Corporation would be made known to them by others. The management does not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

Financial Instrument

In 2006, Canada Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Reporting Standards over a transitional period. The Accounting Standards Board (ACSB) is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. This convergence initiative is in its early stages as of the date of these annual consolidated financial statements. Accordingly, it would be premature to assess the impact of the initiative, if any, on our financial statements at this time.

Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Corporation are responsible for disclosure controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The design of the internal control over financial reporting was assessed as of September 30, 2007. During this process, management identified certain material weaknesses in internal controls over financial reporting which are as follows: 1) due to the limited number of staff of the Corporation, it is not possible to achieve proper segregation of duties; 2) due to the limited number of staff, the Corporation does not have technical accounting expertise and knowledge to address all complex and non-routine financial transactions that may arise; and 3) due to the limited number of executive officers, the signing authorities have greater responsibility which may or may not be from time to time necessarily achieve approval of more than one signing officer, particularly with respect to amounts involving the expenditure of \$20,000 or less.

These weaknesses in the Corporation's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting by segregating duties as much as possible under the circumstances. In addition, outside third party consulting expertise is utilized to assist in dealing with complex accounting and technical issues that arise during the preparation of quarterly and annual financial statements. In spite of management's best efforts, there can be no absolute assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Outlook

The Corporation has a demand revolving operating line of \$7,500,000 with its banker of which \$3,346,331 is available at September 30, 2007, to further develop its assets. The Corporation continues to generate positive cash flow after expenses which provide it with funds for the ongoing capital expenditure programs. The Corporation is currently involved in tying-in additional oil and natural gas production which will increase its daily production and accordingly, its discretionary cash flow. In addition, the Corporation has drilling prospects on its undeveloped lands which represent future opportunities for growth. The Corporation evaluates both producing asset and corporate acquisition opportunities which may accelerate its growth in the short term.

Additional Information

Solara Exploration Ltd is a TSX Venture Exchange listed Company. 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 T2P2T8 (Phone: 403-537-0458) or by e-mail at don_solaraexploration@shaw.ca.

SOLARA EXPLORATION LTD.

UNAUDITED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of Solara Exploration Ltd. (the "Company") have been prepared by and are the responsibility of the management of the Company. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.



Balance Sheets

(Unaudited)

	As at September 30, 2007 \$	As at December 31, 2006 \$
Assets		
Current Assets		
Cash and cash equivalents	-	846,420
Accounts receivable	1,607,645	2,841,164
Inventory	202,367	-
Advances and prepaids	101,815	274,946
	1,911,827	3,962,530
Property, plant and equipment (Note 3)	29,894,066	26,129,059
	31,805,893	30,091,589
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	1,985,480	7,520,052
Bank debt (Note 8 and 11)	4,153,669	-
	6,139,149	7,520,052
Asset retirement obligation (Note 4)	1,088,099	935,434
Long term debt (Note 12)	2,384,081	2,309,696
Future income taxes (Note 5)	5,157,764	4,806,325
	14,769,093	15,571,507
Shareholders' equity		
Capital stock (Note 6)	17,879,228	14,889,467
Warrants (Note 6)	91,086	91,086
Contributed surplus (Note 7)	524,374	481,171
Deficit	(1,457,888)	(941,642)
	17,036,800	14,520,082
	31,805,893	30,091,589

See accompanying notes to the financial statements



Statements of Operations and Deficit

(Unaudited)

	Nine months ended September 30, 2007	Three months ended September 30, 2007	Nine months ended September 30, 2006	Three months ended September 30, 2006
	\$	\$	\$	\$
Revenue				
Oil and gas production	4,072,856	1,465,477	1,348,115	683,511
Royalties, net of ARTC	(533,285)	(194,789)	(145,604)	(67,675)
	3,539,571	1,270,688	1,202,511	615,836
Interest and other income	8,357	2,807	142,411	16,177
	3,547,928	1,273,495	1,344,922	632,013
Expenses				
Operations	1,067,683	440,686	371,605	199,036
General and administrative	458,925	101,990	432,876	173,187
Depletion, depreciation and accretion expense	2,310,599	739,298	528,731	203,931
Stock based compensation (Note 7)	43,203	14,401	74,510	46,372
Deferred expense	-	-	4,166	4,166
Interest expense	343,204	155,340	274,799	95,413
	4,223,614	1,451,715	1,686,687	722,105
Loss before income tax	(675,686)	(178,220)	(341,765)	(90,092)
Future tax recovery (expense) (Note 5)	201,700	53,100	(397,974)	(119,776)
Loss after income taxes	(473,986)	(125,120)	(739,739)	(209,868)
Deficit - beginning of period	(941,642)	(1,307,375)	(267,932)	(1,021,240)
Adjustment for share redemption	(42,260)	(25,393)	(344,545)	(121,108)
Deficit - end of period	(1,457,888)	(1,457,888)	(1,352,216)	(1,352,216)
Loss per share				
Basic	(0.02)	-	(0.05)	(0.01)
Diluted	(0.02)	-	(0.04)	(0.01)
Weighted average				
Basic	24,439,641	25,845,931	16,289,039	17,244,549
Diluted	24,971,446	25,878,086	17,129,125	18,084,635

See accompanying notes to the financial statements



Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Three Months Ended September 30, 2006
	\$	\$	\$	\$
Operating Activities				
Loss for the period	(473,986)	(125,120)	(739,739)	(209,868)
Items not affecting cash				
Depletion, depreciation and accretion expense	2,310,599	739,298	528,731	203,931
Stock based compensation	43,203	14,401	74,510	46,372
Deferred charge	-	-	4,166	4,166
Interest and accretion on convertible debentures	74,385	24,795	-	-
Future income tax (recovery)	(201,700)	(53,100)	397,974	119,776
Cash flows generated from operations	1,752,501	600,274	265,642	164,377
Changes in non-cash working capital	(176,620)	1,461,975	87,983	(399,440)
	1,575,881	2,062,249	353,625	(235,063)
Financing Activities				
Issue of common shares	4,090,000	-	117	117
Repurchase of shares	(163,783)	(51,830)	(582,947)	(254,185)
Warrants	-	-	41,028	10,815
Issue of convertible debenture	-	-	2,545,804	2,545,804
Issue costs and commissions	(425,575)	(53,360)	(3,326)	-
Change in non cash working capital	-	-	4,198,178	4,198,178
	3,500,642	(105,190)	6,198,854	6,500,729
Investing Activities				
Corporate acquisition	-	-	(3,484,345)	818,420
Additions to property, plant and equipment	(5,922,943)	(1,957,059)	(8,551,761)	(5,496,242)
	(5,922,943)	(1,957,059)	(12,036,106)	(4,677,822)
(Decrease) increase in cash during the period	(846,420)	-	(5,483,627)	1,587,844
Cash - beginning of period	846,420	-	11,225,259	4,153,788
Cash - end of period	-	-	5,741,632	5,741,632
Supplemental information				
Cash interest paid	343,205	262,693	274,799	95,413
Cash taxes paid	88,131	-	-	-

See accompanying notes to the financial statements



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

Effective January 1, 2007, Solara Exploration Ltd., (the "Corporation") amalgamated its wholly owned subsidiary companies Dagur Resources Inc. and Solara Holdings Inc., formally Dyno Energy Ltd., into Solara Exploration Ltd.

1. Summary of Significant Accounting Policies

The interim unaudited financial statements of Solara Exploration Ltd. have been prepared following the same accounting policies set forth in Note 2 and accordingly, are not consistent with the accounting policies and methods of computation as the audited financial statements of the Corporation for twelve months ended December 31, 2006. The disclosures below are incremental to those included with the financial statements at December 31, 2006. The unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Corporation's annual report for the twelve months ended December 31, 2006.

2. Changes in Accounting Policies

On January 1, 2007, the Corporation adopted the new Canadian accounting standards for Financial Instruments - Recognition and Measurement and Financial Instruments – Presentations and Disclosures, Hedging and Comprehensive Income. Prior periods have not been restated. The Corporation's auditors were not consulted with respect to the implementation of this change in accounting policy and provide no assurance that the change was implemented correctly.

Financial Instruments – Recognition and Measurement

This new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at a fair value. Subsequent measurement of all financial assets and liabilities, except those held-for-trading and available for sale, are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earning when derecognized or impaired.

Derivatives

The Corporation may decide to utilize financial derivatives and non-financial derivatives, such as commodity sales contracts requiring physical delivery, to manage the price risk attributable to anticipated sale of petroleum and natural gas production. No derivatives of this kind have been utilized to date.

Embedded Derivatives

On adoption, the Corporation elected to recognize, as separate assets and liabilities, for those embedded derivatives in hybrid instruments issued, acquired or substantively modified since inception. The Corporation did not identify any material embedded derivatives that required separate recognition and measurement.

Other Comprehensive Income

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income that, for the Corporation, relates to changes in gains or losses on derivatives designated as cash flow hedges.

New Canadian accounting standards have been issued, which will require additional disclosure in the Corporation's financial statements commencing January 1, 2007 about the Corporation's financial instruments as well as its capital and how it is managed.



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

3. Property, Plant and Equipment

	September 30, 2007 \$	December 31, 2006 \$
Petroleum and natural gas properties - at cost	33,891,825	27,883,106
Office equipment and other assets	137,012	136,254
Accumulated depletion and depreciation	(4,134,771)	(1,890,301)
Net book value	29,894,066	26,129,059

As at September 30, 2007, all petroleum and natural gas property costs related to undeveloped properties are excluded from depletion calculations. At September 30, 2007, this amount was \$4,782,056 compared to \$1,950,094 at September 30, 2006.

General and administrative expenses totaling \$458,925 for the nine months ended September 30, 2007 (September 30, 2006 - \$185,516) directly related to exploration and development projects were capitalized.

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

The price forecast used in the reserve evaluation prepared by the independent engineering firm retained by the Corporation at December 31, 2006 is outlined in the table below:

	Price Forecast	
	CDN\$/Bbl	AECO-C CDN\$/mmbtu
2007	66.75	7.20
2008	63.25	7.75
2009	60.75	7.80
2010	59.50	7.85
2011	58.75	8.13

The prices escalate at 2% thereafter.



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

4. Asset Retirement Obligation

	September 30, 2007 \$	December 31, 2006 \$
Balance - beginning of year	935,434	170,645
Increase in obligation during the period	79,087	785,841
Accretion expense	73,578	32,976
Revision in estimate	-	(54,028)
	1,088,099	935,434

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 are consistent with the 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, 2007, the undiscounted cash flow of the asset retirement obligation was \$1,417,808 (December 31, 2006 – \$1,495,961). The Corporation expects the obligation to occur over five years at a credit adjusted risk free rate of 8.5% which has been used to calculate the net present value of asset retirement obligation with an inflation rate of 2.0%.

5. 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, 2007 \$	December 31, 2006 \$
Corporate income tax rate	32.1%	34.49%
Loss before income tax	(675,686)	(1,202,209)
Expected income tax (recovery)	(216,895)	(414,642)
Non-deductible Crown payments, net	-	25,832
Stock based compensation	13,868	19,868
Resource allowance	-	(12,452)
Rate change effect	-	35,171
Change in prior year estimates	-	(385,241)
Valuation allowance on successor pools	-	91,774
Other	1,327	26,573
Recovery	(201,700)	(613,117)



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

The future income tax asset (liability) is composed of temporary differences which result in future taxable (deductible) amounts. The following table shows the tax-affected amounts of those items. Non-capital losses expire at various dates up to 2016.

	September 30, 2007 \$	December 31, 2006 \$
Net book value of property and equipment greater than tax basis	(6,450,951)	(6,286,238)
Non-Capital loss	371,944	678,957
Share issue costs	583,932	508,460
Asset retirement obligation	337,311	290,604
Other	-	1,892
Future income tax	(5,157,764)	(4,806,325)

6. 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, 2007		As at December 31, 2006	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Common Shares (Class A)				
Balance - opening	20,795,181	9,827,989	14,722,612	4,186,814
Issued for cash - flow through	4,090,000	4,090,000	2,250,000	2,250,000
Issued for acquisition	-	-	3,535,236	3,782,794
Options exercised	-	-	3,333	1,167
Warrants exercised	-	-	1,020,000	265,200
Repurchase of shares	(281,489)	(121,523)	(736,000)	(657,986)
	24,603,692	13,796,466	20,795,181	9,827,989
Common Shares (Class B)				
Balance - opening	1,044,000	10,440,000	1,044,000	10,440,000
Issued for cash	-	-	-	-
	1,044,000	10,440,000	1,044,000	10,440,000
Tax effect - flow through shares	-	(4,314,438)	-	(3,639,438)
Share issue costs, net of tax effect	-	(2,042,800)	-	(1,739,084)
	1,044,000	(6,357,238)	1,044,000	(5,378,522)
Balance - closing	25,647,692	17,879,228	21,839,181	14,889,467



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

On March 1, 2007, the Corporation completed a private placement of flow through shares issuing 4,090,000 Class A shares for \$ 1.00 per share.

Stock Options

The Corporation has a stock option plan under which it may grant options to directors, officers, employees and 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, 2007, there were outstanding options to acquire 1,316,661 Class A shares at \$0.35 per share and 180,000 Class A shares at \$0.95 per share.

The following table summarizes the status of the stock option plan as of September 30, 2007, and December 31, 2006, and changes during the period ending on that date.

	As at September 30, 2007		As at December 31, 2006	
	Number of Shares Under option	Weighted-average exercise price \$	Number of Shares Under option	Weighted-average exercise price \$
Outstanding - Beginning	1,496,661	0.42	1,476,661	0.35
Options exercised	-	-	(3,333)	(0.35)
Granted	-	-	180,000	0.95
Cancelled	-	-	(156,667)	(0.35)
Outstanding - end of period	1,496,661	0.42	1,496,661	0.42

Warrants

The Corporation has 1,378,000 warrants outstanding entitling the holder to purchase one Class A share for each warrant. Each warrant plus \$1.80 entitles the holder to acquire one Class A share until December 31, 2007.

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 shares until March 6, 2007.

On March 29, 2007, the Corporation obtained approval from the TSX Venture Exchange to commence involvement in a normal course issuer bid program. The program has duration of one year from March 29, 2007 to March 28, 2008. The Corporation can purchase up to a maximum of 2% of each of the outstanding class of shares in any 30 day period. A total of 281,489 Class A shares at a cost of \$163,783 were purchased during the nine months ended September 30, 2007.



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

7. Contributed Surplus

The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model, using a risk free interest rate of 3.88% expected life of three years, expected average volatility factor of 55% and no dividends. The convertible debentures are convertible into Class A shares of the Corporation at a price of \$1.50.

	September 30, 2007 \$	December 31, 2006 \$
Balance - beginning of year	481,171	18,759
Fair value of debentures conversion option	-	404,808
Stock based compensation expense	43,203	57,604
Balance - end of year	524,374	481,171

8. Financial Instruments

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

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. The convertible debenture has been restated to reflect the conversion feature of the warrants.

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.

Interest Rate Risk

The Corporation is subject to interest risk due to the indexed rate of interest associated with bank indebtedness.

9. Commitments and Contingencies

The Corporation is committed to office lease payments totaling \$301,555 to March 1, 2011 based on current operating costs. These obligations are as follows:

2007	\$ 22,065
2008	\$ 88,260
2009	\$ 88,260
2010	\$ 88,260
2011	\$ 14,710
Total	\$301,555



Notes to the Unaudited Financial Statements For the nine month period ended September 30, 2007

The Corporation has an obligation to incur \$2,250,000 in qualifying expenditures by December 31, 2007 resulting from the private placement of flow through shares completed in December 2006. At September 30, 2007 the Corporation had fulfilled its obligation to incur the \$2,250,000 in qualifying expenditures. The Corporation has an obligation to incur an additional \$4,090,000 in qualifying expenditures by December 31, 2008, resulting from a private placement of flow through shares completed in March 2007. At September 30, 2007 the Corporation had incurred approximately \$2,000,000 in qualifying expenditures relative to this latter obligation.

In October, 2006, the Corporation served a statement of claim upon a joint venture partner in respect to a farmin agreement which resulted in two producing natural gas wells. The Corporation's legal counsel has reviewed the matter and is of the view that it is a valid claim and that the Corporation will succeed in obtaining a successful judgement in favor of the Corporation. The defendant company has filed a statement of defense with respect to claim. The claim may be material to the business of the Corporation.

10. Related Party Transactions

The President and C.E.O., and a director of the Corporation is the president of a private Alberta company that provides management consulting services to the Corporation. During the nine months ended September 30, 2007 the Corporation paid a total of \$205,190 in management and related fees (\$140,691 for the nine months ended September 30, 2006). In November, 2005, the Corporation provided a loan in the amount of \$85,000 to purchase 326,923 Class A shares of the Corporation. The loan is secured by a demand promissory note and is payable upon demand or by December 31, 2007.

Consulting services were provided by a private Alberta corporation controlled by the Vice President, Engineering and Operations totalling \$135,000 for the nine months ended September 30, 2007 (\$93,716 for the nine months ended September 30, 2006).

The Corporate Secretary of the Corporation lawyer with a law firm that provides legal services to the Corporation. During the nine months ended September 30, 2007, the Corporation paid a total of \$57,207 in fees (\$41,597 for the nine months ended September 30, 2006).

These transactions have been recorded at the exchange amount.

11. Bank Debt

During the six months ended June 30, 2007, the Corporation's demand revolving loan was increased from \$3,250,000 to \$7,500,000. At September 30, 2007, the unused portion of the bank operating line was \$3,346,331.

12. 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 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 share until December 31, 2007. The debentures are redeemable at the option 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 shares exceeds \$1.80 for twenty consecutive trading days prior to the notice date. The fair value of the convertible debenture conversion option is \$404,808.