



Management's
Discussion and Analysis

**For the Nine Months Ended
September 30, 2008
(Unaudited)**

Summary of Information

Financial Overview

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Oil & Gas Revenue	1,761,056	1,457,525	21	5,922,933	4,049,542	46
Royalty Income	21,391	7,952	169	41,697	23,314	79
Royalties	(170,215)	(194,789)	(13)	(440,938)	(533,285)	(17)
Interest and Other	8,496	2,807	203	13,439	8,357	61
	1,620,728	1,273,495	27	5,537,131	3,547,928	56
Operating Expense	(495,628)	(440,686)	12	(1,410,244)	(1,067,683)	32
	1,125,100	832,809	35	4,126,887	2,480,245	66
Interest less Accretion	(147,998)	(130,545)	13	(459,531)	(268,819)	71
G&A Expense	(213,462)	(101,990)	109	(647,138)	(458,925)	41
Funds from Operations (1)	763,640	600,274	27	3,020,218	1,752,501	72
Cash flow from (used in)						
Operating Activities	1,032,688	1,445,950	(29)	2,575,113	(35,788)	7,295
Net (loss) Income	(87,343)	(125,120)	(30)	55,399	(473,986)	113
Per Share-Basic and Diluted	-	-	-	-	(0.02)	(100)

Operating Overview

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008	2007	% CHANGE	2008	2007	% CHANGE
Sales Production (BOE)	27,692	30,084	(8)	84,940	84,084	1
Daily Production (BOE/D)	301	327	(8)	310	308	1
\$/BOE						
Oil & Gas Revenue	63.59	48.45	31	70.22	48.16	46
Royalty Income	0.77	0.26	196	0.49	0.28	75
Royalties	(6.15)	(6.47)	(5)	(5.19)	(6.34)	(18)
Interest and Other	0.31	0.09	244	0.16	0.10	60
	58.52	42.33	38	65.68	42.20	56
Operating Expense	(17.90)	(14.65)	22	(16.60)	(12.70)	31
Operating Netback (2)	40.62	27.68	47	49.08	29.50	66
Interest less Accretion	(5.34)	(4.34)	23	(5.41)	(3.20)	69
General & Administration	(7.71)	(3.39)	127	(7.61)	(5.46)	39
	27.57	19.95	38	36.06	20.84	73

Notes: (1) Funds from operations is a non-GAAP measure that represents cash provided from operating activities before changes in non-cash operating working capital. See further discussion under Non-GAAP Measures in the Management's Discussion and Analysis.

(2) Operating netback is a non-GAAP measure that represents specific revenue and expenses on a per unit of production basis. Natural gas has been converted to boe's at a ratio of 6 mcf: 1 BOE.

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 financial statements and notes thereto as at December 31, 2007.

This Management’s Discussion and Analysis of financial condition and results of operations (“MD&A”) was prepared by management and reviewed and approved by the Board of Directors of Solara Exploration Ltd. The MD&A is a review of Solara’s operational and financial results based on Canadian generally accepted accounting principles (“GAAP”). Its focus is primarily a discussion of the operational and financial performance for the nine months ended September 30, 2008 and should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2007. The MD&A has been prepared as of November 28, 2008.

Non-GAAP Measurements

Solara evaluates its performance using several criteria including funds from operations. Funds from operations is a non-GAAP term that represents cash provided by operating activities before changes in non-cash working capital. Funds from operations is a key measure of the Corporation. It demonstrates the Corporation’s ability to generate cash necessary to fund future growth through capital investment, and allows the Corporation to evaluate operating performance, leverage and liquidity. The following table reconciles funds from operations to cash flow from operating activities which is the most directly comparable measure calculated in accordance with GAAP:

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Cash provided from (used in) operating activities (per GAAP)	1,032,688	(1,445,950)	171	2,575,113	(35,788)	7,295
Changes in non-cash operating working capital	(269,048)	(845,676)	(68)	445,105	1,788,289	(75)
Funds from operations	763,640	600,274	27	3,020,218	1,752,501	72

Solara also assesses its performance utilizing operating and cash netbacks. Operating netbacks are the gross margin associated with the production and sale of crude oil, natural gas and natural gas liquids, and is calculated as revenues less royalties, interest and other income and operating costs on a barrel of oil equivalent basis. Cash netbacks represent the net amount retained per barrel of oil equivalent after the deduction of all cash costs, and is calculated as funds flow from operations on a barrel of oil equivalent basis. There is no GAAP measure that is reasonably comparable to netbacks.

These non-GAAP measures are not standardized and therefore may not be comparable to similar measures utilized by other entities.

BOE Presentation

Barrels of oil equivalent (BOE) 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 natural gas to one barrel of oil equivalent (6 Mcf = 1 BOE).

Forward Looking Statements

Certain information regarding Solara set forth in this 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.

Oil and Gas Revenue

Oil and gas revenues increased by 46% to \$5,922,733 during the nine months ended September 30, 2008 compared to \$4,049,542 for the comparable period in 2007 due to higher oil and natural gas selling prices. The increase in oil and gas revenues for the two fiscal periods is mainly attributable to increased oil and gas pricing for the first nine months of 2008 compared to the same period in 2007. Average selling prices per BOE increased by 46% from \$48.16/BOE for the nine months ended September 30, 2007, to \$70.22/BOE for the same period in 2008. Selling prices for oil and NGLs, and natural gas increased in the three months ended September 30, 2008 compared to the same period in 2007. Corporate natural gas production represented 58% of total oil and gas production during the first nine months of 2008. The Corporation sells all of its production on a spot market basis with the exception of a few geographical based Pan Alberta gas contracts. The Corporation had approximately forty-seven (47) days of production downtime on key operated projects during the first nine months of 2008 due to unavoidable interruptions from mechanical break downs, plant turnarounds and spring breakup which negatively impacted on production, and oil and gas revenue for the period.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008	2007	% CHANGE	2008	2007	% CHANGE
Oil & Gas Revenue (\$)	1,761,056	1,457,525	21	5,922,733	4,049,542	46
Oil & NGL Production (bbls)	11,960	15,389	(22)	35,399	41,504	(15)
Oil Price (\$/bbl)	95.08	65.47	45	98.61	60.47	63
Gas Production (Mcf)	94,392	88,170	7	297,251	255,480	16
Gas Price (\$/Mcf)	6.61	5.10	30	8.18	6.03	36
BOE Production	27,692	30,084	(8)	84,940	84,084	1
BOE/D	301	327	(8)	310	308	1

Royalties

Royalties on oil and gas production were \$440,938 (\$5.19/BOE) for the nine months ended September 30, 2008, compared to \$533,285 (\$6.34/BOE) representing a decrease of 18% on a barrel of oil equivalent basis. The royalty expense decreased in 2008 compared to the prior period resulted from the Corporation receiving \$85,000 in gas cost allowance reducing the Crown royalty expense for the period. The Corporation pays both Alberta Crown and freehold royalties on its oil, NGL and natural gas sales depending on its mineral ownership in its lands and wells.

On October 25, 2007, the Alberta Government announced a new royalty framework ("NRF") to take effect January 1, 2009. The Corporation, has determined that there is an insignificant effect on the Corporation's engineering reserve values at September 30, 2008.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Crown Royalties	136,189	151,824	(10)	291,653	381,611	(24)
Freehold Royalties	(19,320)	26,891	(172)	50,236	113,710	(56)
Gross Overriding Royalties	53,346	16,074	232	99,049	37,964	161
Royalties	170,215	194,789	(13)	440,938	533,285	(17)
Royalties per BOE (6:1)	6.15	6.47	(5)	5.19	6.34	(18)

Operating Expense

Operating expenses increased from \$1,067,683 (\$12.70/BOE) in 2007 to \$1,410,244 (\$16.60/BOE) for the nine months ended September 30, 2008. The increase on a barrel of oil equivalent basis in operating expenses relates to an increase in the number of operated wells, higher mechanical repairs and workovers during the period.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Total	495,628	440,686	12	1,410,244	1,067,683	32
Per BOE (\$/BOE)	17.90	14.65	22	16.60	12.70	31

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion (DD&A) was \$2,750,128 for the nine months ended September 30, 2008, (\$32.38 per BOE) compared to \$2,310,599 (\$27.48 per BOE) for the nine months ended September 30, 2007. The increase in the DD&A expense relates primarily to fewer reserve additions during the period relative to the oil and gas volumes produced in the first nine months of 2008.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Depletion of oil and gas properties	825,474	704,001	17	2,632,204	2,237,021	18
Accretion of asset retirement obligations	28,657	35,297	(19)	102,186	73,578	39
Depreciation of office equipment and leasehold improvements	5,382	-	100	15,738	-	100
Total	859,513	739,298	16	2,750,128	2,310,599	19
Per BOE (\$/BOE)	31.04	24.57	26	32.38	27.48	18

The Corporation had its independent reserve evaluators perform an interim review on its oil and gas reserves at March 31, 2008 to take into account a material acquisition of reserves and to assess the results of certain other operating activities undertaken during the first quarter of 2008. The GLJ Petroleum Consultants April 1, 2008 pricing forecast was used for the interim reserve update. As a result, Solara's proven plus probable reserves increased, as did the net present value of the reserves, in comparison to an independent report completed at December 31, 2007.

General and Administrative

General and administrative expenses (G&A) for the nine months ended September 30, 2008 were \$647,138 (\$7.61/BOE) compared to \$458,925 (\$5.46/BOE) for the nine months ended September 30, 2007. The overall increase in net G&A for the comparable period relates to increased staffing levels required to support the Corporation's increased activity and a reduction in its capitalization rate for 2008.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Gross G&A	340,303	204,000	67	1,078,563	917,850	18
Capitalized Overhead	(126,841)	(102,010)	24	(431,425)	(458,925)	(6)
Net G&A	213,462	101,990	109	647,138	458,925	41
Per BOE (\$/BOE)	7.71	3.39	127	7.61	5.46	39

Stock-Based Compensation Expense

Stock-based compensation expense at September 30, 2008 was \$80,508, up from \$43,203 for the comparable period in 2007. On January 4, 2008 the Corporation issued 950,000 new stock options, and on August 9, 2008, it issued 55,000 new stock options. One third of the options at \$0.30 per Class A Share under the plan vest immediately. The balance of the expense will be amortized over the next two years.

Provision for Income Taxes

The Corporation has a future tax liability of \$3,439,433 at September 30, 2008. At December 31, 2007, future tax liability was \$2,088,420. The increased amount of \$1,351,013 relates largely to tax effecting the renouncement of expenditures for \$4,377,000 relating to flow through shares issued in 2007.

Funds from Operations

Funds from operations totalled \$3,020,218 in 2008, or \$0.09 per basic and diluted share (\$0.12 per basic Class A Share excluding the conversion of the Class B Shares to Class A Shares), up from \$1,752,501 or \$0.05 per basic and diluted for 2007, representing an 80% increase. The increase resulted primarily from higher oil and gas selling prices.

Cash Netbacks

Comparing the nine months ending September 30, 2008 to the same period in 2007, operating netbacks increased from \$29.50/BOE to \$49.08/BOE representing a 66% increase. This increase is a result of higher oil and gas prices for the comparable periods.

Capital Expenditures

For the nine months ended September 30, 2008, capital expenditures totalling \$4,043,066 were incurred on land, geophysical activities, drilling, completion and tie in of wells. During the nine months ended September 30, 2007, capital expenditures totalling \$5,922,943 were incurred on land, exploration and development activities. Capitalized G&A included was \$431,425 for the nine months ended September 30, 2008, compared to \$458,925 for the nine months ended September 30, 2007. Other assets include new office and computer equipment.

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2008 (\$)	2007 (\$)	% CHANGE	2008 (\$)	2007 (\$)	% CHANGE
Land	18,151	(103,803)	117	78,614	372,226	(79)
Seismic	131,296	34,812	277	469,621	444,556	6
Drilling and Completions	186,656	1,352,149	(86)	452,779	3,287,116	(86)
Facilities	345,588	826,401	(58)	556,773	1,734,081	(68)
Property Acquisitions	1,298,464	-	100	2,481,501	-	100
Corporate	1,209	6,013	(80)	3,778	84,964	(96)
Total	1,981,364	2,115,572	(6)	4,043,066	5,922,943	(32)

Solara completed the acquisition of various interests in oil and gas assets located in the Craighend area of northeastern Alberta. At the time of the acquisition on January 25, 2008, the properties were producing approximately 440 Mcf/d or 70 BOE/d. In addition, the Corporation acquired interests in 16,640 net undeveloped acres (6,656 net hectares) in close proximity to the producing wells and infrastructure. On September 16, 2008, Solara completed the acquisition of various producing and non-producing assets in Alberta for an adjusted closing price of \$1,192,500. At the time of closing, the assets were producing approximately 45 BOE/d of oil and gas production. The Corporation also acquired interests in 2,205 net undeveloped acres (892 net hectares) in close proximity to the producing wells and properties. In management's view, the undeveloped lands represent potential for exploration and development drilling opportunities for oil and natural gas.

Outlook

The Corporation has plans to optimize existing projects through capital expenditures on drilling, workovers, recompletions and new equipment installations. Solara has identified a number of drilling opportunities on its undeveloped lands, some of which it may undertake in 2008 depending on the availability of capital. These optimization and drilling initiatives will be financed by discretionary cash flow from operations during 2008.

Shareholders' Equity

Share capital as at September 30, 2008 was \$16,246,057 compared to \$17,952,113 at December 31, 2007. At September 30, 2008, there were outstanding options to acquire 1,141,661 Class A Shares at \$0.35 per share, 170,000 Class A Shares at \$0.95 per share and 1,040,000 Class A Shares at \$0.30. The Corporation repurchased a 322,755 Class A Shares and 21,200 Class B Shares pursuant to its normal course issuer bid. At September 30, 2008 there were 25,001,437 Class A Shares, and 1,022,800 Class B Shares issued and outstanding. There were no warrants outstanding as at September 30, 2008.

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, 2008, the Corporation paid \$47,500 in various fees compared to \$205,190 for September 30, 2007. The Corporation also provided a demand loan in the amount of \$85,000 to the President, CEO, and Director to purchase 340,000 Class A Shares in November, 2005. The loan is secured by the Class A Shares and a demand promissory note bearing interest at the bank prime rate plus one quarter of one percent.

Consulting services were provided by a private Alberta corporation controlled by the Vice President, Engineering and Operations totalling \$45,000 for the nine months ended September 30, 2008 (\$135,000 for the nine months ended September 30, 2007). These consulting services expired on March 31, 2008 upon the resignation of the Vice President.

The Corporate Secretary of the Corporation is a counsel in a law firm that provided legal services to the Corporation in the amount of \$79,834 for the nine months ended September 30, 2008 compared to \$57,207 for the nine months ended September 30, 2007.

Commitments

The Corporation is committed to office lease payment totalling \$225,908 to March 1, 2011 based on current operating costs. These obligations are as follows: 2008 - \$23,370, 2009 - \$93,479, 2010 - \$93,479, 2011 - \$15,580.

During the nine months ended September 30, 2008 the Corporation incurred \$924,287 in qualifying expenditures covering the balance of the Corporation's flow through obligations from 2007.

Liquidity and Capital Resources

The working capital deficiency at September 30, 2008 was \$7,105,952 compared to \$5,943,808 at December 31, 2007. Bank debt of \$7,020,930 comprised the majority of the working capital deficiency at September 30, 2008. The Corporation had an unutilized operating line of \$2,979,070 on its \$10,000,000 demand revolving line of credit with its major lender at September 30, 2008. The Corporation was compliant with its major lender's debt covenants at September 30, 2008. The operating credit facility was drawn down by \$2,364,858 to finance asset acquisitions and certain capital activities during the period. On July 30, 2008, the Corporation's lender increased the credit facility to \$10,000,000

subject to the same terms and conditions of its prior revolving credit facility agreement. On an ongoing basis the Corporation will utilize three sources of funding to finance its capital expenditure program: (1) Funds from operations; (2) debt when deemed favourable; and (3) raise additional investment capital, if deemed appropriate.

Selected Quarterly Information

	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Oil & Gas Revenue	1,761,056	2,273,542	1,888,335	1,341,533	1,457,525	1,328,899	1,263,118	797,437
Royalty Income	21,391	18,278	2,028	93,155	7,952	8,882	6,480	4,008
Royalties	(170,215)	(80,910)	(189,813)	(150,247)	(194,789)	(198,734)	(139,762)	(143,249)
Other Income	8,496	4,943	-	4,687	2,807	1,682	3,868	50,662
	1,620,728	2,215,853	1,700,550	1,289,128	1,273,495	1,140,729	1,133,704	708,858
Operating Expense	(495,628)	(570,455)	(344,161)	(580,595)	(440,686)	(289,002)	(337,995)	(234,957)
	1,125,100	1,645,398	1,356,389	708,533	832,809	851,727	795,709	473,901
Interest less accretion	(147,998)	(147,929)	(163,604)	(137,686)	(130,545)	(96,103)	(42,171)	(304,580)
G&A Expense	(213,462)	(229,105)	(204,571)	(294,190)	(101,990)	(198,180)	(158,755)	(258,959)
Funds from Operations (1)	763,640	1,268,364	988,214	276,657	600,274	557,444	594,783	(89,638)
Net Income (Loss)	(87,343)	93,900	48,842	(5,124,428)	(125,120)	(238,864)	(110,002)	150,648
Per share-basic and diluted	-	-	-	(0.16)	-	(0.01)	-	0.01
Sales Production (BOE)	27,692	27,819	32,396	21,678	30,084	28,301	26,152	17,578
Daily Production (BOE/D)	301	306	356	236	327	311	291	191
\$/BOE								
Oil & Gas Revenue	63.59	81.73	58.29	61.88	48.45	46.96	48.30	45.37
Royalty Income	0.77	0.66	0.06	4.30	0.26	0.31	0.25	0.23
Royalties	(6.15)	(2.91)	(5.86)	(6.93)	(6.47)	(7.02)	(5.34)	(8.15)
Other Income	0.31	0.18	-	0.22	0.09	0.06	0.15	2.88
	58.52	79.66	52.49	59.47	42.33	40.31	43.36	40.33
Operating Expense	(17.90)	(20.51)	(10.62)	(26.78)	(14.65)	(10.21)	(12.92)	(13.37)
Operating Netback (2)	40.62	59.15	41.87	32.69	27.68	30.10	30.44	26.96
Interest less accretion	(5.34)	(5.32)	(5.05)	(6.25)	(4.34)	(3.40)	(1.61)	(17.17)
G&A Expense	(7.71)	(8.24)	(6.31)	(13.57)	(3.39)	(7.00)	(6.07)	(14.73)
Funds from Operations (1)	27.57	45.59	30.51	12.87	19.95	19.70	22.76	(4.94)

Notes: (1) Funds from operations is a non-GAAP measure that represents cash provided from operating activities before changes in non-cash operating working capital. See further discussion under Non-GAAP Measures in the Management's Discussion and Analysis

(2) Operating netback is a non-GAAP measure that represents specific revenue and expenses on a per unit of production basis. Natural gas has been converted to boe's at a ratio of 6 mcf: 1 bbl.

Financial Risk Management

Overview

Solara has exposure to the following risks from its use of financial instruments:

- Credit risk, liquidity risk and market risk.

This note presents information about Solara's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board is in the process of implementing risk management policies. Solara's risk management policies will be designed to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation's activities.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Solara's receivables from joint venture partners and petroleum and natural gas marketers. As at September 30, 2008, Solara's receivables consisted of \$659,895 from joint venture partners, \$533,124 of receivables from petroleum and natural gas marketers. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Solara's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Corporation historically has not experienced any collection issues with its petroleum and natural gas marketers, and currently has no such collection issues. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. Solara attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure, and obtaining cash call funds on operated projects. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors, such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. Solara does not typically obtain collateral from petroleum and natural gas marketers. Solara has the ability to withhold production from joint venture partners in the event of non-payment and to take its share of production in kind. The carrying amount of accounts receivable represents the maximum credit exposure. Solara did not have an allowance for doubtful accounts as at September 30, 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the nine months ended September 30, 2008 and 2007.

As at September 30, 2008 and December 31, 2007, Solara considers its trade receivables to be aged as follows:

	September 30, 2008	December 31, 2007
Not passed due (less than 90 days)	\$ 1,079,262	\$ 699,905
Past due (91 - 120 days)	113,757	141,351
	\$ 1,193,019	\$ 841,256

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. Solara's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without

incurring unacceptable losses or risking harm to the Corporation's reputation. Solara prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures, and cash call partners for their share of capital activities on operated projects. To facilitate the capital expenditure program, Solara has a revolving reserves based credit facility that is reviewed at least annually by the lender.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates, will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation may utilize both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

(a) Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of Solara's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Corporation had no forward exchange rate contracts in place as at or during the nine months ended September 30, 2008.

(b) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand.

(c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Solara is exposed to interest rate fluctuations on its bank debt, which bears a floating rate of interest. For the nine months ended September 30, 2008, if interest rates had been 1 % lower with all other variables held constant, after tax net earnings for the period would have been \$36,476 higher, due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The Corporation had no interest rate swap or financial contracts in place as at or during the nine months ended September 30, 2008.

Current Market Conditions

General adverse economic conditions globally, including the possibility of a recession in Canada and a worldwide economic slowdown, recent disruptions to the credit and financial markets in Canada and worldwide and local economic turmoil may adversely affect the value of the Corporation's business and value of its securities.

Capital Management

The Corporation's policy is to maintain a strong capital base to sustain the future development of the business and to maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its

capital structure to include shareholders' equity, debt and working capital. In order to maintain or adjust the capital structure, the Corporation may, from time to time, issue shares and adjust its capital spending to manage current and projected debt levels. The Corporation monitors capital based on the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, defined as outstanding bank debt, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). Funds from operations is calculated based on cash provided by operating activities before changes in non-cash working capital and expenditures on asset retirement obligations. The Corporation's strategy is to maintain a ratio of net debt to annualized funds from operations of 2.5 to 1 or lower. This ratio may increase at certain times as a result of acquisitions and/or large capital projects. As at September 30, 2008, the Corporation's ratio of net debt to annualized cash flow was 2.3 to 1, which is within the range established by the Corporation. Note that the convertible debenture debt under long term liabilities has been excluded from the net debt to cash flow calculation since it is not due and payable until July, 2011. If it had been included, the net debt to cash flow ratio would have been 3.1 to 1. The Corporation anticipates that the ratio will remain within or close to the target range through 2008. The Corporation's share capital is not subject to external restrictions; however, the bank debt facility is based on oil and natural gas reserves. The Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Corporation's approach to capital management during the nine months ended September 30, 2008.

Fair Value of Financial Instruments

Solar's financial instruments as at September 30, 2008 and December 31, 2007 include accounts receivable, an amount due from share holder, accounts payable and accrued liabilities, and bank debt. The fair value of these amounts excluding bank debt approximate their carrying amounts due to their short terms to maturity. Bank debt is payable on demand and bears interest at a floating market rate, and accordingly, the fair market value approximates the carrying value.

Changes in Accounting Policies

Financial Instruments - Disclosures and Presentation

In December 2006, new standards for, "Financial Instruments – Disclosure and Presentation," were introduced which outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, it requires disclosure of the significance of financial instruments for a company's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments (see note 12).

Capital Disclosures

In December 2006, new standards were issued on, "Capital Disclosures" requiring disclosures regarding an entity's objectives, policies and processes for managing capital. These disclosures include a description of what the Corporation manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Corporation's management of capital, whether the requirements have been complied with, or consequences of non-compliance and an explanation of how the Corporation is meeting its objective for managing capital. In addition, quantitative data about capital and whether the Corporation has complied with all capital requirements are also required (see note 12).

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board (AcSB) will require public companies in Canada to adopt International Financial Reporting Standards ("IFRS") in 2011. Specific requirements of the transition

continue to be under review by the AcSB and the International Accounting Standards Board. The Corporation continues to monitor developments and has not yet assessed the impact of these prospective changes on the financial statements of the Corporation, but will begin to evaluate these proposed changes prior to year ended 2008. The Corporation will implement a strategic plan in 2009 to provide for the proposed IFRS changes in 2011.

Critical Accounting Estimates and Policies

The Corporation's significant accounting policies are outlined in note 1 to the audited financial statements at December 31, 2007. The following summarizes certain accounting estimates that are integral to the determination of reported financial results.

Proved Petroleum and Natural Gas Reserves

Proved reserves, the estimated quantities of natural gas, crude oil and natural gas liquids that can be recovered in future years under future economic and operating conditions, are critical to many aspects of the Corporation's financial statements. These estimates are made with reasonable certainty using all available geological and reservoir data as well as historical production data and are subject to revisions based on changes in reservoir performance and the pricing environment.

Depletion and Depreciation Expense

Solara uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion and depreciation expense. Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

Full Cost Accounting Ceiling Test

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying amount of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of costs and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate. 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.

Stock-Based Compensation

The Corporation follows the fair value method of accounting for stock options granted to employees, directors and certain service providers. Stock-based compensation expense is recorded for all options granted with the corresponding amount recorded as contributed surplus. Stock based compensation expense for employees is based on the estimated fair value of the related stock option at the time of the grant and is expensed on a straight line basis over the vesting period of the option. The stock based

compensation expense for certain service providers is based on the estimated fair value of the related stock option at the end of each reporting period and the appropriate amount expensed in that period. In determining fair value of the stock options granted, the Black-Scholes model is used and assumptions regarding interest rates. Underlying validity of the Corporation's shares and the expected life of the options are made. When options are exercised, the amounts previously accumulated as contributed surplus and the consideration received are recorded as an increase to share capital.

Asset Retirement Obligations

Solara records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost. The total future asset retirement obligation is an estimate based on Solara's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is an estimate that is subject to measurement uncertainty and any change would impact the liability.

Income Taxes

The determination of Solara's income and other tax liabilities require 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.

Share Capital

As of November 29, 2008, the Corporation's issued and outstanding share's was 24,571,137 Class A common shares and 987,500 Class B common shares. The issued and outstanding stock options were 2,351,661.

Disclosure Controls and Procedures

For the nine months ended September 30, 2008 there have been no changes in the disclosure controls and procedures and the internal controls over financial reporting as described in the Management's Discussion and Analysis for the year ended December 31, 2007.

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 Unaudited

**For the Nine Months Ended
September 30, 2008 and 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, 2008 \$	As at December 31, 2007 \$
Assets		
Current Assets		
Accounts receivable	1,193,019	841,256
Due from shareholder (Note 4)	85,000	85,000
Advances and prepaids	99,516	116,802
	1,377,535	1,043,058
Property, plant and equipment (Notes 3 and 5)	25,679,913	23,960,126
	27,057,448	25,003,184
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	1,462,557	1,952,982
Bank debt (Note 6)	7,020,930	5,033,884
	8,483,487	6,986,866
Asset retirement obligations (Note 7)	1,805,992	1,379,141
Convertible debenture (Note 8)	2,483,261	2,408,876
Future income taxes (Note 9)	3,439,433	2,088,420
	16,212,173	12,863,303
Shareholders' Equity		
Capital stock (Note 10)	16,246,057	17,952,113
Equity portion of convertible debenture (Note 8)	404,808	404,808
Contributed surplus (Note 11)	679,067	323,016
Deficit	(6,484,657)	(6,540,056)
	10,845,275	12,139,881
	27,057,448	25,003,184

Basis of presentation and future operations
Commitments (Note 13)

See accompanying notes to the financial statements.



Statements of Operations , Comprehensive Income and Deficit

(Unaudited)

	Three months ended September 30, 2008 \$	Three months ended September 30, 2007 \$	Nine months ended September 30, 2008 \$	Nine months ended September 30, 2007 \$
Revenue				
Oil and gas	1,782,447	1,465,477	5,964,630	4,072,856
Royalties	(170,215)	(194,789)	(440,938)	(533,285)
	1,612,232	1,270,688	5,523,692	3,539,571
Interest and other income	8,496	2,807	13,439	8,357
	1,620,728	1,273,495	5,537,131	3,547,928
Expenses				
Operations	495,628	440,686	1,410,244	1,067,683
General and administrative	213,462	101,990	647,138	458,925
Depletion, depreciation and accretion	859,513	739,298	2,750,128	2,310,599
Stock based compensation (Note 11)	-	14,401	80,508	43,203
Interest	172,793	155,340	533,916	343,204
	1,741,396	1,451,715	5,421,934	4,223,614
Income (Loss) before income taxes	(120,668)	(178,220)	115,197	(675,686)
Future income tax reduction (expense) (Note 9)	33,325	53,100	(59,798)	201,700
Net income (loss) and comprehensive income (loss)	(87,343)	(125,120)	55,399	(473,986)
Deficit - beginning of period	(6,397,314)	(1,307,375)	(6,540,056)	(941,642)
Share redemption (Note 10)	-	(25,393)	-	(42,260)
Deficit - end of period	(6,484,657)	(1,457,888)	(6,484,657)	(1,457,888)
Net income (loss) per share				
Basic and diluted (Note 10 (d))	-	-	-	(0.02)

See accompanying notes to the financial statements.



Statements of Cash Flows
(Unaudited)

	Three months ended September 30, 2008 \$	Three months ended September 30, 2007 \$	Nine months ended September 30, 2008 \$	Nine months ended September 30, 2007 \$
Operating Activities				
Net (loss) income	(87,343)	(125,120)	55,399	(473,986)
Items not affecting cash				
Depletion, depreciation and accretion	859,513	739,298	2,750,128	2,310,599
Stock based compensation	-	14,401	80,508	43,203
Accretion on convertible debentures	24,795	24,795	74,385	74,385
Future income tax (reduction) expense	(33,325)	(53,100)	59,798	(201,700)
	763,640	600,274	3,020,218	1,752,501
Changes in non-cash working capital	269,048	845,676	(445,105)	(1,788,289)
	1,032,688	1,445,950	2,575,113	(35,788)
Financing Activities				
Issue of common shares	-	-	-	4,090,000
Bank debt	611,857	339,049	1,987,046	4,153,669
Repurchase of shares	(37,493)	(51,830)	(112,155)	(163,783)
Issue costs and commissions	(7,000)	(53,360)	(27,143)	(425,575)
	567,364	233,859	1,847,748	7,654,311
Investing Activities				
Property acquisitions (Note 3)	(1,181,821)	-	(2,364,858)	-
Additions to property, plant and equipment	(799,543)	(1,957,059)	(1,678,208)	(5,922,943)
Changes in non-cash working capital	381,312	277,250	(379,795)	(2,542,000)
	(1,600,052)	(1,679,809)	(4,422,861)	(8,464,943)
Decrease in cash and cash equivalents during the period	-	-	-	(846,420)
Cash and cash equivalents beginning of period	-	-	-	846,420
Cash and cash equivalents end of period	-	-	-	-
Supplemental information				
Cash interest paid	85,919	262,693	380,564	343,205
Cash taxes interest paid	-	-	-	88,131

See accompanying notes to the financial statements.

Solara Exploration Ltd.
Notes to the Financial Statements
For the Nine Months ended September 30, 2008 and 2007
Unaudited

Basis of Presentation and Future Operations

Solara Exploration Ltd., (the "Corporation" or "Solara"), is involved in the exploration, development and production of petroleum and natural gas in Canada.

These financial statements have been prepared on the basis that the Corporation will be able to discharge its obligations and realize its assets in the normal course of business. As at September 30, 2008, the Corporation had a working capital deficiency of \$7,105,952 of which \$7,020,930 was bank debt. The Corporation had net income of \$55,399 and funds from operations of \$3,020,218 for the nine months ended September 30, 2008.

As at September 30, 2008, the Corporation is compliant with its lenders covenants. Management believes that they have the continued financial support of the Corporation's lender as described in note 6, and will have sufficient cash flow from operations in subsequent periods to satisfy its ongoing financial obligations. Consequently, management believes that the going concern assumption is appropriate for these financial statements. If this assumption was not appropriate, adjustments to the carrying amounts of the assets and liabilities, revenues and expenses and the balance sheet classifications used may have been necessary.

1. Significant Accounting Policies

The unaudited interim financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") using the same accounting policies as those set out in note 1 to the audited financial statements for the year ended December 31, 2007, except as described in note 2 below. The unaudited interim financial statements contain disclosures that are supplemental to the Corporation's December 31, 2007 audited financial statements. Certain disclosures, which are normally required to be included in the notes to the audited annual financial statements, have been condensed or omitted. In the opinion of management, these unaudited interim financial statements present fairly the Corporation's financial position as at September 30, 2008 and the results of its operations for the nine months ended September 30, 2008. The unaudited interim financial statements should be read in conjunction with the Corporation's audited financial statements and notes for the year ended December 31, 2007.

2. Changes in Accounting Policies

Financial Instruments - Disclosures and Presentation

In December 2006, new standards for "Financial Instruments – Disclosure and Presentation" were introduced which outline the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, it requires disclosure of the significance of financial instruments for a company's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments (see note 12).

Capital Disclosures

In December 2006, new standards were issued on "Capital Disclosures" requiring disclosures regarding an entity's objectives, policies and processes for managing capital. These disclosures

Solara Exploration Ltd.
Notes to the Financial Statements
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include a description of what the Corporation manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Corporation's management of capital, whether the requirements have been complied with, or consequences of non-compliance and an explanation of how the Corporation is meeting its objective for managing capital. In addition, quantitative data about capital and whether the Corporation has complied with all capital requirements are also required (see note 12).

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board (AcSB) will require public companies in Canada to adopt International Financial Reporting Standards ("IFRS") in 2011. Specific requirements of the transition continue to be under review by the AcSB and the International Accounting Standards Board. The Corporation continues to monitor developments and has not yet assessed the impact of these prospective changes on the financial statements of the Corporation, but will begin to evaluate these proposed changes prior to year end 2008.

3. Property Acquisitions

For the nine months ended September 30, 2008, Solara purchased producing and non producing oil and natural gas assets in Alberta for \$2,364,858.

4. Due from Shareholder

The Corporation loaned an officer \$85,000 for the purchase of 340,000 Class A Shares of the Corporation in November, 2005. The loan is interest bearing at the bank prime rate plus one quarter percent and is secured by the Class A Shares purchased, and personally guaranteed. The note is due for repayment on or before December 31, 2008 (see note 14).

5. Property, Plant and Equipment

	September 30, 2008	December 31, 2007
	\$	\$
Petroleum and natural gas properties - at cost	40,656,086	36,292,132
Office equipment and other assets – at cost	140,790	137,012
Accumulated depletion and depreciation	(15,116,963)	(12,469,018)
	25,679,913	23,960,126

As at September 30, 2008, costs of unproved properties of \$400,000 (September 30, 2007 - \$3,200,000) and salvage values of \$1,554,310 (September 30, 2007 - \$1,260,000) have been excluded from the depletion calculation. Future development costs of \$847,000 (September 30, 2007 - \$175,000) have been included in costs subject to depletion.

General and administrative expenses totalling \$431,425 (September 30, 2007 - \$458,925) directly related to exploration and development projects were capitalized.

Solara Exploration Ltd.
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6. Bank Debt

The Corporation has a demand revolving credit facility of up to \$10,000,000. The interest rate charged on the revolving credit facility is payable monthly at the bank prime rate plus three quarters of one percent as at September 30, 2008. The effective interest rate was 5.2 %. The credit facility is secured by a \$10,000,000 fixed and floating charge debenture on the assets of the Corporation.

7. Asset Retirement Obligations

	Nine months ended September 30, 2008 \$	Year ended December 31, 2007 \$
Balance – beginning of period	1,379,141	935,434
Increase in obligations		
From acquisitions	525,913	335,919
From operations	(201,245)	-
Accretion expense	102,183	107,788
Balance – end of period	1,805,992	1,379,141

The total future asset retirement obligation was estimated by management based on the Corporation's net ownership interest in its 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 by the Corporations management using the Alberta Energy Utilities Board guidelines for certain areas and actual well abandonment costs.

At September 30, 2008, the undiscounted cash flow of the asset retirement obligation was \$2,443,331 (December 31, 2007 – \$1,379,141). The Corporation expects the obligation to occur over 5 years beginning in 2009 and will be funded from general corporate resources at the time of abandonment. The Corporation does not anticipate any abandonment obligations in 2008. The present value of the obligation has been calculated using a discounted credit adjusted risk free rate of 8.5%, and an inflation rate of 2%.

8. Convertible Debentures

In July, 2006, the Corporation raised \$2,756,000 through the issue of an 8.5% fixed rate subordinated convertible debenture which matures on July 7, 2011. The fair value of the conversion feature, calculated using the effective interest method, which is estimated to be \$404,808, has been classified as equity. The debt component is classified as a liability and recorded as the present value of the obligation to make future interest payments in cash. The convertible debenture is subordinated to the fixed and floating debenture in favour of the Corporation's lender (see note 6).

The carrying amount of the debentures is accreted to the original face value of the instruments over their life. Accretion expense of \$74,385 (September 30, 2007 - \$74,385) has been recorded during the nine months ended September 30, 2008 and is included in interest expense.

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9. Income Taxes

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

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	\$	\$
Corporate income tax rate	29.5%	32.1%
Income (loss) before income taxes	115,197	(675,686)
Expected income tax (reduction)	33,983	(216,895)
Add (deduct)		
Stock based compensation	23,750	13,868
Other	2,065	1,327
Future income tax expense (reduction)	59,798	(201,700)

The net future income tax liability is composed of temporary differences and the following table shows the tax-effected amounts of those items.

	September 30, 2008	December 31, 2007
	\$	\$
Property, plant and equipment	(4,424,763)	(3,378,662)
Non-capital losses	219,207	485,325
Share issue costs	296,565	444,703
Asset retirement obligations	469,558	358,577
Other	-	1,637
Future income tax liability	(3,439,433)	(2,088,420)

10. Capital Stock

a) Authorized and Issued

Unlimited number of Class A Shares with no par value

Unlimited number of Class B Shares with no par value

Unlimited number of preferred shares with no par value, of which none have been issued.

The Corporation may issue an unlimited number of Class A Shares and Class B Shares both of which are voting shares. The Class B Shares are convertible at the option of the Corporation, at any time after December 31, 2008, into Class A Shares on the basis of \$10.00 for each Class B Share, divided by the greater of \$1.00 or the market price of Class A Shares at the time of conversion. Any Class B Shares

Solara Exploration Ltd.
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not converted by December 31, 2010 will automatically be converted pursuant to the same conversion formula.

	For the nine months ended September 30, 2008		For the year ended December 31, 2007	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Class A Shares				
Balance – opening	25,324,192	13,935,414	20,795,181	9,827,989
Issued for cash – flow through	-	-	4,090,000	4,090,000
Issued for cash – flow through	-	-	820,000	287,000
Share purchase financing	-	-	-	(55,237)
Repurchase of shares	(322,755)	(178,792)	(380,989)	(214,338)
Balance – closing	25,001,437	13,756,622	25,324,192	13,935,414
Class B Shares				
Balance - opening	1,044,000	10,440,000	1,044,000	10,440,000
Repurchase of Shares	(21,200)	(208,907)	-	-
Balance – closing	1,022,800	10,231,093	1,044,000	10,440,000
Tax effect adjustment				
Flow-through shares	-	(5,690,876)	-	(4,359,438)
Share issue costs	-	(2,090,876)	-	(2,063,863)
	-	(7,741,658)	-	(6,423,301)
Balance - closing	26,024,237	16,246,057	26,368,192	17,952,113

b) 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 and subject to the applicable regulations, vest over two years and expire five years after the date of grant.

As at September 30, 2008, there were outstanding options to acquire 1,141,661 Class A Shares at \$0.35 per share, net of 175,000 Class A Shares forfeited, 170,000 Class A Shares at \$0.95 per share and 800,000 Class A Shares at \$0.30 per share, net of a 150,000 Class A Shares forfeited, 185,000 Class A Shares at \$0.30 per share and 55,000 Class A Shares at \$0.30 per share.

The following table summarizes the status of the stock option plan as of September 30, 2008, and December 31, 2007.

Solara Exploration Ltd.
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Unaudited

September 30, 2008		Options outstanding			Options exercisable	
Exercise Price \$ Per Class A Share	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$/share)	Number Exercisable	Weighted Average Exercise Price (\$/share)	
0.35	1,141,661	2.25	0.35	1,141,661	0.35	
0.95	170,000	3.00	0.95	170,000	0.95	
0.30	800,000	4.25	0.30	266,667	0.30	
0.30	185,000	4.75	0.30	66,667	0.30	
0.30	55,000	5.00	0.30	18,333	0.30	
	2,351,661	4.17	0.37	1,663,328	0.40	

December 31, 2007		Options outstanding			Options exercisable	
Exercise Price \$ Per Class A Share	Number Outstanding	Weighted - Average Remaining Contractual Life (years)	Weighted - Average Exercise Price (\$/share)	Number Exercisable	Weighted - Average Exercise Price (\$/share)	
0.35	1,316,661	3.00	0.35	1,316,661	0.35	
0.95	170,000	3.75	0.95	113,333	0.95	
	1,486,661	3.40	0.42	1,429,994	0.40	

c) Normal Course Issuer Bid

Under the normal course issuer bid, the Corporation received regulatory approval commencing April 15, 2008 to purchase up to 5% of its outstanding Class A Shares and Class B Shares until April 15, 2009. During the nine months ended September 30, 2008, 322,755 Class A Shares (September 30, 2007-281,489) at a deemed cost of \$178,792, which includes the actual cost plus the adjustment to contributed surplus (September 30, 2007-\$163,783) were purchased and cancelled by the Corporation. The Corporation during the nine months ended September 30, 2008 purchased 21,200 Class B Shares at a deemed cost of \$ 208,907, which includes the actual cost plus the adjustment to contributed surplus (September 30, 2007 – \$NIL).

d) Per Share Information

Weighted average number of shares outstanding as at September 30, 2008, for basic and diluted was 34,137,864 Class A Shares on the basis that the 1,022,800 Class B Shares are convertible into 10,228,000 Class A Shares as at September 30, 2008 (September 30, 2007 – 34,879,964 basic and 35,411,446 diluted).

The inclusion of options was anti-dilutive at September 30, 2008.

Solara Exploration Ltd.
Notes to the Financial Statements
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11. Contributed Surplus

Stock based compensation expense was calculated using the Black-Scholes option pricing model, using a risk free interest rate of 3.88% (2007-3.88%) expected life of five years, expected average volatility factor of 87% (2007-55%) and no dividends. The convertible debentures are convertible into Class A Shares of the Corporation at a price of \$1.50 (2007-\$1.50).

	Nine months ended September 30, 2008	Year ended December 31, 2007
	\$	\$
Balance – beginning of period	323,016	76,363
Stock based compensation expense	80,508	134,402
Adjustment for Share Redemption	275,543	21,165
Expired Warrants	-	91,086
Balance – end of period	679,067	323,016

12. Financial Risk Management

Overview

Solara has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about Solara’s exposure to each of the above risks, the Corporation’s objectives, policies and processes for measuring and managing risk, and the Corporation’s management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation’s risk management framework. The Board is in the process of implementing risk management policies. Solara’s risk management policies will be designed to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Corporation’s activities.

Credit Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Solara’s accounts receivables from joint interest partners and petroleum and natural gas marketers. As at September 30, 2008, Solara’s accounts receivables consisted of \$659,895 from joint interest partners, and \$533,124 of receivables from petroleum and natural gas marketers. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Solara’s policy to mitigate credit risk associated with these balances is to establish marketing relationships with established purchasers. The Corporation historically has not experienced any collection issues with its petroleum and natural gas marketers, and currently has no such collection issues. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to

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the partner. Solara attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors, such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint interest partners as disagreements occasionally arise that increases the potential for non-collection. Solara does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, Solara does have the ability to withhold production from joint interest partners in the event of non-payment, to take its share of production in kind and cash call partners for their share of capital expenditures. The carrying amount of accounts receivable represents the maximum credit exposure. Solara did not have an allowance for doubtful accounts as at September 30, 2008 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the nine months ended September 30, 2008.

As at September 30, 2008 and December 31, 2007, Solara considers its trade receivables to be aged as follows:

	September 30, 2008	December 31, 2007
	\$	\$
Not passed due (less than 90 days)	1,079,262	699,905
Past due (91 - 120 days)	113,757	141,351
	1,193,019	841,256

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. Solara's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Corporation's reputation. Solara prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, Solara has a revolving reserves based credit facility, as outlined in note 6, which is reviewed at least annually by its lender.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates, will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Corporation may from time to time utilize both financial derivatives and physical delivery sales contracts to manage market risks. The Corporation had no such contracts at September 30, 2008.

(a) Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of Solara's oil and natural gas

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sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Corporation had no forward exchange rate contracts in place as at or during the nine months ended September 30, 2008.

(b) Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. The Corporation has not participated in any hedging and or counter party transactions.

(c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Solara is exposed to interest rate fluctuations on its bank debt, which bears a floating rate of interest. For the nine months ended September 30, 2008, if interest rates had been 1 % lower with all other variables held constant, after tax net earnings for the period would have been \$36,476 higher, due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The Corporation had no interest rate swap or financial contracts in place as at or during the nine months ended September 30, 2008.

Current Market Conditions

General adverse economic conditions globally, including the possibility of a recession in Canada and a worldwide economic slowdown, recent disruptions to the credit and financial markets in Canada and worldwide and local economic turmoil may adversely affect the value of the Company's business and value of its securities.

Capital Management

The Corporation's policy is to maintain a strong capital base to sustain the future development of the business and to maintain investor, creditor and market confidence. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Corporation considers its capital structure to include shareholders' equity, debt and working capital. In order to maintain or adjust the capital structure, the Corporation may, from time to time, issue shares and adjust its capital spending to manage current and projected debt levels. The Corporation monitors capital based on the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, defined as outstanding bank debt, divided by funds from operations for the most recent calendar quarter, annualized (multiplied by four). Funds from operations is calculated based on cash provided by operating activities before changes in non-cash working capital and expenditures on asset retirement obligations. The Corporation's strategy is to maintain a ratio of net debt to annualized funds from

operations of 2.5 to 1 or lower. This ratio may increase at certain times as a result of acquisitions and/or large capital projects. As at September 30, 2008, the Corporation's ratio of net debt to annualized cash flow was 2.3 to 1, which is within the range established by the Corporation. Note that the convertible debenture debt under long term liabilities has been excluded from the net debt to cash flow calculation since it is not due and payable until July, 2011. If it had been included, the net debt to

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cash flow ratio would have been 3.1 to 1. The Corporation anticipates that the ratio will remain within or close to the target range through 2008. The Corporation's share capital is not subject to external restrictions; however, the bank debt facility is based on oil and natural gas reserves (see note 6). The

Corporation has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. There were no changes in the Corporation's approach to capital management during the nine months ended September 30, 2008.

Fair Value of Financial Instruments

Solara's financial instruments as at September 30, 2008 and December 31, 2007 include accounts receivable, an amount due from shareholder, accounts payable and accrued liabilities, bank debt and debenture debt. The fair value of these amounts excluding bank debt approximate their carrying amounts due to their short terms to maturity. Bank debt is payable on demand and bears interest at a floating market rate, and accordingly, the fair market value approximates the carrying amount.

Cash Flow Information

Changes in non-cash working capital were as follows:

	2008	2007
Nine Months Ended September 30,	\$	\$
Changes in non-cash working capital balances		
Accounts receivable	(351,761)	1,233,519
Advances and prepaids	17,286	173,131
Inventory	-	(202,367)
Accounts payable and accrued liabilities	(490,425)	(5,534,572)
	(824,900)	(4,330,289)

13. Commitments

- a) The Corporation is committed to office lease payments totalling \$225,908 to March 1, 2011 based on current operating costs. These obligations are as follows:

	\$
2008	23,370
2009	93,479
2010	93,479
2011	15,580

- b) During the nine months ended September 30 of 2008, the Corporation incurred \$924,287 in qualifying expenditures covering the Corporation's flow through obligation from 2007.

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14. Related Party Transactions

The President, C.E.O. and a director of the Corporation is a major shareholder of a private Alberta company that provides management consulting services to the Corporation. During the nine months ended September 30, 2008, the Corporation paid a total of \$47,500 for various fees (September 30, 2007 - \$205,190). The Corporation has provided a loan in the amount of \$85,000 to purchase 340,000 Class A Shares of the Corporation to the President and C.E.O. in November, 2005. The loan is secured by the Class A Shares and a demand promissory note bearing interest at bank prime plus one quarter of one percent. The note is due on or before December 31, 2008.

The Corporate Secretary of the Corporation is counsel with a law firm that provides legal services to the Corporation. During the nine months ended September 30, 2008, the Corporation paid a total of \$79,834 (September 30, 2007 - \$57,207) for such services.

For the nine months ended September 30, 2008, consulting services were provided by a private Alberta Corporation controlled by the Vice President, Engineering and Operations for \$45,000 (September 30, 2007 - \$135,000). These consulting services expired on March 31, 2008 upon the resignation of the Vice President.

These transactions have been recorded at the exchange amount of the consideration which is the amount agreed upon between the parties.