



Consolidated Financial Statements

Second Quarter Interim Report For the Six Months Ended June 30, 2011 (Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED 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 consolidated financial statements they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of Solara Exploration Ltd. (the "Corporation") have been prepared by and are the responsibility of the management of the Corporation. The Corporation's independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated statements by an entity's auditor.



Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

	Note	June 30, 2011 \$	December 31, 2010 \$ (note 18)	January 1, 2010 \$ (note 18)
Assets				
Current assets				
Cash		37,918	632,840	5,405
Accounts receivable	12	3,974,380	7,661,297	1,816,094
Deposits and prepaids		69,450	132,183	82,064
		4,081,748	8,426,320	1,903,563
Property, plant and equipment	4,9,15	22,431,360	26,325,139	18,395,762
		26,513,108	34,751,459	20,299,325
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		1,883,173	11,637,011	2,135,837
Commodity price contracts	12	-	-	57,939
Convertible debentures	7	2,754,098	2,706,416	-
Bank debt	5,17	9,816,081	6,888,348	7,678,614
		14,453,352	21,231,775	9,872,390
Commodity price contracts	12	-	-	14,485
Decommissioning obligations	6	1,939,195	2,782,591	2,522,465
Convertible debentures	7	-	-	2,607,236
Convertible Class B share liability	8	-	-	9,772,000
Deferred flow through share premium	11	68,850	234,066	84,285
Deferred income taxes		1,952,479	1,581,635	1,088,763
		18,413,876	25,830,067	25,961,624
Shareholders' equity				
Capital stock	8	25,931,206	25,283,649	16,005,552
Share purchase warrants	8	66,205	689,159	145,587
Equity portion of Class B shares	8	-	-	(6,134,000)
Equity portion of convertible debentures	7	269,198	269,198	269,198
Contributed surplus	8	1,527,877	1,907,375	1,637,602
Deficit		(19,695,254)	(19,227,989)	(17,586,238)
		8,099,232	8,921,392	(5,662,299)
		26,513,108	34,751,459	20,299,325
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The notes are an integral part of these condensed interim consolidated financial statements

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Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010		Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	\$	\$	Note	\$	\$
Revenue		(note 18)			(note 18)
Petroleum and natural gas	2,046,124	1,145,516		4,664,451	2,305,859
Royalties	(243,453)	(98,313)		(423,953)	(171,471)
Commodity price contracts					
Unrealized gain	-	-		-	63,279
Interest and other income	0	8,687		311	21,569
	1,802,672	1,055,890		4,240,809	2,219,236
Expenses					
Operations	583,650	514,805		1,453,222	1,049,626
General and administrative	439,980	202,009		767,915	394,424
(Gain) Loss on sale of assets	263,715	(300,000)	4	259,505	(300,000)
Depletion and depreciation	594,136	322,838	4	1,511,378	628,685
Share based payments	(708)	66,004	9	216,498	94,175
Finance expense	180,220	341,953	10	362,778	683,872
	2,060,993	1,147,609		4,571,295	2,550,782
Loss before income taxes	(258,321)	(91,719)		(330,486)	(331,546)
Deferred income taxes (recovery)	(72,330)	(5,345)		136,778	(78,828)
Net loss and comprehensive loss for the period	(185,991)	(86,374)		(467,265)	(252,718)
Loss per share					
Basic and diluted	(0.00)	(0.00)		(0.01)	(0.00)

The notes are an integral part of these condensed interim consolidated financial statements



Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

	Note	Number of Common Shares	Share Capital Class A \$	Share Capital Class B \$	Share Purchase Warrants \$	Equity Portion of Debenture \$	Contributed Surplus \$	Deficit \$	Total Equity \$
Balance at January 1, 2010	18	41,859,637	16,005,552	(6,134,000)	145,587	269,198	1,637,602	(17,586,238)	(5,662,299)
Issue of common shares		10,100,000	910,537		268,713				1,179,250
Share issue costs, net of tax			(126,394)						(126,394)
Flow through share premium			(105,941)						(105,941)
Warrants exercised/expired			121,844		(121,844)				-
Share based payments							169,957		169,957
Income for the period								(252,718)	(252,718)
Balance at June 30, 2010	18	51,959,637	16,805,598	(6,134,000)	292,456	269,198	1,807,559	(17,838,956)	(4,798,145)
Balance at December 31, 2010	18	75,464,494	25,283,649	-	689,159	269,198	1,907,375	(19,227,989)	8,921,392
Issue of common shares	8	2,064,908	712,850						712,850
Repurchase of shares	8	(2,163,000)	(619,395)				(692,534)		(1,311,929)
Flow through share premium	11		(68,850)						(68,850)
Warrants exercised/expired	8		622,954		(622,954)				-
Share based payments	9						313,036		313,036
Loss for the period								(467,265)	(467,265)
Balance at June 30, 2011		75,366,402	25,931,206	-	66,205	269,198	1,527,877	(19,695,254)	8,099,232

The notes are an integral part of these condensed interim consolidated financial statements



Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

	Note	Six Months Ended June 30, 2011 \$	Six Months Ended June 30, 2010 \$
			(note 18)
Operating Activities			
Net loss		(467,265)	(252,718)
Items not affecting cash			
Depletion and depreciation	4	1,511,378	628,685
Accretion of decommissioning obligations	6	28,685	39,851
Share based payments	9	216,498	94,175
Accretion of convertible Class B shares			337,000
Accretion of convertible debentures	7	47,682	49,590
(Gain) Loss on disposition of oil and gas properties		259,505	(300,000)
Unrealized (gain) loss on commodity price contracts	12	-	(63,279)
Deferred income taxes		136,778	(78,828)
Decommissioning obligation expenditures		(43,902)	-
		1,689,359	454,476
Changes in non-cash working capital	13	(392,106)	1,858,941
		1,297,253	2,313,417
Financing Activities			
Proceeds on shares issued	8	712,850	1,179,250
Bank debt	4	2,927,733	(467,720)
Repurchase of shares	8	(1,311,929)	-
Buyout derivative contract			(9,145)
Share issue costs		-	(132,792)
		2,328,654	569,593
Investing Activities			
Additions to property, plant and equipment	4	(3,863,689)	(1,653,801)
Disposition of property, plant and equipment	4	5,254,943	300,549
Investment in partnerships			(104,818)
Changes in non-cash working capital	13	(5,612,082)	(217,334)
		(4,220,828)	(1,675,404)
Change in cash		(594,922)	1,207,606
Cash, beginning of period		632,840	5,405
Cash, end of period		37,918	1,213,011
Supplemental information			
Cash interest paid		286,411	257,430

The notes are an integral part of these condensed interim consolidated financial statements

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

1. REPORTING ENTITY AND FUTURE OPERATIONS

Solara Exploration Ltd. (“the “Corporation” or “Solara”) is a publicly traded Corporation incorporated under the laws of Alberta. Solara and its wholly owned subsidiaries are engaged in the exploration, development and production of crude oil and natural gas in Western Canada. The accounts of Solara Exploration Ltd. include the accounts of its wholly owned subsidiaries Marwayne Resources Inc., Pembina Cardium Operations Ltd. and Buck Lake Operations Ltd.

These financial statements have been prepared on a going concern basis which presumes that the Corporation will be able to discharge its obligations and realize its assets in the normal course of business. The Corporation had a net loss and comprehensive loss of \$0.5 million for the period ended June 30, 2011. As at June 30, 2011, the Corporation had a working capital deficiency of \$10.4 million that includes \$9.8 million in bank debt and \$2.7 million of convertible debentures due in July of 2011. The Corporation had unused credit lines of \$2.2 million at June 30, 2011. At June 30 2011, the Corporation was compliant with its lender’s covenants.

Management believes that they have the continued financial support of the Corporation’s lender (see notes 5 and 17) and will have sufficient cash flow from operations in subsequent periods to satisfy its ongoing financial obligations. The Corporation was successful in raising \$6.7 million in additional capital during 2010 and has raised an additional \$0.7 million in the first half of 2011 to fund its ongoing active drilling programs. Subsequent to the end of the period the Corporation completed a private placement of shares for gross proceeds of \$1.2 million. Consequently, management believes that the going concern assumption is appropriate for these unaudited consolidated financial statements.

2. BASIS OF PRESENTATION

Statement of Compliance

The condensed interim consolidated financial statements present Solara’s initial financial results of operations and financial position under International Financial Reporting Standards (“IFRS”) for the six months ended June 30, 2011, including 2010 comparable periods. These are the Corporation’s second IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements. IFRS 1 *First-time Adoption of IFRS* and International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* has been applied. These condensed interim Consolidated Financial Statements do not include all the necessary annual disclosures required for full annual financial statements.

The adoption of IFRS resulted in selected changes to Solara’s accounting policies as compared to those disclosed in the Corporation’s annual audited Consolidated Financial Statements for the year ended December 31, 2010 issued under Canadian GAAP. A summary of the significant changes to Solara’s accounting policies are presented in note 18 along with reconciliations outlining the impact of the transition to IFRS for the comparable periods as at January 1, 2010, as at and for the six months ended June 30 , 2010 and for the year ended December 31, 2010.

The condensed interim consolidated financial statements for the periods ended June 30, 2011 and 2010 and as at June 30, 2011, June 30, 2010, December 31, 2010 and January 1, 2010 were approved and authorized for issue by the Board of Directors on August 26, 2011.

Basis of Measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities (note 12) which are measured at fair value.

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Functional and Presentation Currency

The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries functional currency.

Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements is included in the following notes:

- Note 4 – valuation of property, plant and equipment, depletion and depreciation
- Note 6 – decommissioning liability and accretion
- Note 9 – measurement of share-based payments
- Note 13 – valuation of financial instruments

Crude oil and natural gas reserve estimates impact a number of the areas referred to above in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements, and have been applied consistently by the Corporation and its subsidiaries.

Certain comparative amounts have been reclassified to conform with the current year's presentation. The impact of the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is explained in note 18.

Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of Solara and its wholly owned subsidiaries Marwayne Resources Inc., Pembina Cardium Operations Ltd. and Buck Lake Operations Ltd. These subsidiaries are entities controlled by Solara. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the unaudited consolidated financial statements.

Assets and Property, Plant and Equipment

- a) Recognition and measurement

Exploration and evaluation expenditures

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Pre-license costs are recognized as an expense when incurred.

Exploration and evaluation costs (“E&E”), including the costs of acquiring licenses, exploratory drilling and completion costs and directly attributable general and administrative costs are initially capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. These costs are accumulated in cost centres by field or exploration area pending determination of technical feasibility and commercial viability. Ongoing carrying costs including the costs of non-producing lease rentals are capitalized to exploration and evaluation assets.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. A review of each exploration license or area is carried out, at least annually, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

Development and Production Costs

Property, plant and equipment includes crude oil and natural gas development and production assets, including costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Property, plant and equipment is measured at cost, less accumulated depletion and depreciation and accumulated impairment losses.

Gains and losses on disposal of an item of property, plant and equipment, including crude oil and natural gas interests, are determined by comparing the proceeds from disposal with the net carrying amount of property, plant and equipment and are recognized within “gain or loss on sale of assets” in income (loss).

a) Subsequent Costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

b) Depletion and Depreciation

The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
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For the period ended June 30, 2011, with comparative figures for 2010

Other assets such as leasehold improvements, office furniture, computer and other equipment are recorded at cost and depreciated based on rates ranging from 20% to 30% on a declining balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

c) Impairment

i) Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

ii) Non Financial Assets

The carrying amounts of non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

E&E assets are assessed for impairment if (i) sufficient data exists to determine the lack of technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

E&E assets are allocated to the related CGU's to test for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognized in earnings if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses previously recognized are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depletion and depreciation, if no

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

impairment loss had been recognized.

d) Financial Instruments

i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables. Upon initial recognition, all financial instruments are recognized on the balance sheet at fair value. Subsequent measurement is then based on each financial instrument being classified into one of five categories; held for trading, held to maturity, loans and receivables, available for sale, and other liabilities.

The Corporation has measured its trade and other receivables, bank debt, and trade and other payables at amortized cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

The Corporation may enter into certain financial or physical commodity price contracts for its oil and natural gas in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. All Financial derivative contracts are classified as “fair value through profit or loss” and are recorded on the balance sheet at fair value, with changes in the fair value recognized in the income statement. The Corporation accounts for forward physical delivery sales contracts, which are entered into and held for the purpose of delivery or receipt of non-financial items in accordance with expected sale or usage. Requirements as such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in petroleum and natural gas revenue.

iii) Compound Instruments

Compound instruments being the convertible Class B shares and convertible debentures, are separated into their liability and equity components using the effective interest rate method. The liability accretes up to the principal balance at maturity. The equity component will be reclassified to share capital on conversion.

e) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, common share purchase warrants and share options are recognized as a deduction from equity, net of any tax effects.

f) Revenue recognition

Revenue from the sale of crude oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time volumes are delivered to customers at contractual delivery points and rates. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

g) Decommissioning obligations

The Corporation’s operating activities give rise to a legal obligation to restore its crude oil or natural gas properties in the future, typically when a well is drilled or other equipment is put in place. The associated decommissioning obligations are measured at the present value of management’s best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the obligation due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the obligation are charged against the obligation to the extent the obligation was established.

h) Share based payments

The Corporation grants options to purchase common shares to directors, officers, employees, consultants and certain service providers under its stock option plan. Share based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a share based payment expense during a reporting period, within general and administrative expenses, is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus.

The fair value of employee stock options is measured using a Black Scholes Option Pricing Model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on short term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

i) Finance expenses

Finance expense is comprised of interest expense on loans and borrowings, accretion of the discount on the decommissioning liability, accretion of the convertible Class B shares liability, accretion on the carrying value of the convertible debenture to the original face value of the debt instrument and impairment losses recognized on financial assets. Interest income is comprised of interest earned on cash on hand and is recognized as it accrues in earnings using the effective interest method.

j) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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k) Flow through shares

Periodically the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes related to property plant and equipment activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Flow through shares are recorded in share capital at the fair value of common shares on date of issue. The premiums recorded on issuing flow through shares are initially recorded as a deferred liability. As qualifying expenditures are incurred, the premium is revised and a deferred income liability is recorded. The net amount is then recognized as deferred income tax expense.

l) Earnings per share

Basic earnings per share is calculated by dividing the income attributable to common share holders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share are determined by adjusting the income (loss) attributable to common share holders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees, consultants and outstanding common share purchase warrants. The calculation assumes the proceeds on exercise of options and warrants are used to repurchase shares at the current market price.

m) Jointly controlled operations and jointly controlled assets

In some cases, exploration and production activities of the Corporation are conducted jointly with other companies and accordingly, these consolidated financial statements reflect only the Corporation's share of these jointly controlled assets and a proportionate share of relevant revenue and related costs.

n) Operating leases

Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an initial part of the total lease expense, over the term of the lease.

o) New standards and interpretations not yet adopted

IFRS 9 Financial Instruments, as issued in November 2009 and revised in October 2010 is required to be adopted by 2013, subject to confirmation by the International Accounting Standards Board. The standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 and divides all financial assets that are currently in the scope of IAS 39 into two classifications; amortized cost and those measured at fair value.

IFRS 10 - Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Corporation.

IFRS 11 - Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 - Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	Total
Cost or Deemed cost:	
Balance at January 1, 2010	18,395,762
Additions	10,198,366
Dispositions	(359,464)
Decommissioning obligations	178,753
Balance at December 31, 2010	28,413,418
Additions	3,977,959
Dispositions	(6,874,506)
Decommissioning obligations	(17,731)
Balance at June 30, 2011	25,499,140
Accumulated depletion and depreciation	
Balance at January 1, 2010	-
Depletion and depreciation	1,888,280
Impairment loss	200,000
Balance at December 31, 2010	2,088,280
Depletion and depreciation	1,511,378
Dispositions	(531,878)
Balance at June 30, 2011	3,067,780
Carrying amounts:	
At January 1, 2010	18,395,762
At December 31, 2010	26,325,139
At June 30, 2011	22,431,360

a) Depletion and depreciation

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in earnings. At June 30, 2011, the Corporation included \$5,644,884 of future development costs (June 30, 2010 – \$2,423,448) into the net carrying value of development or production assets, subject to depletion as those costs are necessary to bring the proved and probable reserves into production.

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b) Property acquisition and disposition

The Corporation disposed of certain producing petroleum and natural gas assets for \$5,254,943 during the six months ended June 30, 2011 (June 30, 2010 – \$300,549) .

c) Capitalized general and administrative expense

During the period ended June 30, 2011, \$96,539 (2010 - \$75,782) of share based payments and \$279,639 (2010 - \$249,193) of directly attributable administrative costs were capitalized as part of property, plant and equipment.

5. BANK DEBT

As at June 30, 2011, the Corporation has a demand revolving credit facility of up to \$12.0 million with its lender. The interest rate charged on advances under the credit facility is payable monthly at the lender's prime rate plus 1.25%. In addition the Corporation has a development facility of \$4.0 million, at the lender's prime rate plus 1.75%. The effective interest rate was 4.5% for the period ended June 30, 2011, (2010 – 3.75%). The credit facilities are secured by a \$25 million fixed and floating charge debenture on the assets of the Corporation. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lender, based primarily on reserves and using commodity prices estimated by the lender, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility. Similarly, an increase in the borrowing base could result in an increase in the credit facility. Subsequent to June 30, 2011 the demand revolving facility was increased to \$13.5 million and the development facility was decreased to \$2.5 million.

6. DECOMMISSIONING LIABILITY

The decommissioning liability results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its decommissioning liability at June 30, 2011 to be approximately \$1,939,195 (December 31, 2010 – \$3,163,764) including expected annual inflation of 2.5 % (December 31, 2010 – 2.5 %). A risk-free rate of 3% (December 31, 2010 – 3%) was used to calculate the fair value of the liability. These obligations are expected to be incurred from the current year through 2019 and are expected to be funded through general corporate funds at the time of retirement.

The following table outlines a reconciliation of the decommissioning liability:

	June 30, 2011 (\$)	December 31, 2010 (\$)
Opening balance	2,782,591	2,522,792
Liabilities incurred	43,902	248,410
Accretion	28,685	81,046
Revision/Dispositions	(853,878)	(66,257)
Abandonment expenditures	(62,105)	(3,400)
Balance - end of period	1,939,195	2,782,591

(i) Revisions to the liability are a result of changes in current estimates of future abandonment costs.

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7. CONVERTIBLE DEBENTURES

In July, 2006, the Corporation raised \$2,756,000 through the issue of 8.5% fixed rate unsecured subordinated convertible debentures which mature on July 7, 2011. Each \$1,000 debenture is convertible at any time prior to July 7, 2011 (debenture expiry date) into 667 Class A Shares at a price of a \$1.50 per share. 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 exceed \$1.80 for 20 consecutive trading days prior to the notice date.

The convertible debentures were determined to be compound instruments. The fair value of the conversion feature, calculated using the effective interest method net of the related deferred income tax, was estimated to be \$269,198 and 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 debentures are subordinated to the fixed and floating debenture in favor of the Corporation's lender (see note 5).

The carrying value of the convertible debenture debt component is accreted to the original face value of the instruments over their term. Accretion expense of \$47,682 (2010 - \$49,590) has been recorded during the period ended June 30, 2011. The convertible debenture matures on July 7, 2011, and has been classified as a current liability as at June 30, 2011. The debentures were redeemed at their face amount of \$2,756,000 on July 7, 2011.

8. SHARE CAPITAL, WARRANTS, AND CONTRIBUTED SURPLUS

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. An unlimited number of Class B shares are authorized for issuance. The Class B Shares are convertible at the option of the Corporation, at any time after December 31, 2009, 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. On December 22, 2010 the Corporation provided notification to the TSX Venture Exchange of its intention to convert all existing Class B Shares were delisted and holders of Class B Shares received ten (10) Class A Shares of the Corporation for each Class B Share held, resulting in an aggregate of 9,867,000 Class A Shares being issued.

The Class B Shares were determined to be compound instruments. As the Class B Shares are convertible into Class A Shares, based on the conversion formula above, the number of Class A shares is unknown, and therefore are presented as a liability. The Class B share liability is accreted using the effective interest rate of 7% over the term of the Class B shares, such that the carrying amount of the financial liability will be equal to the principle balance of \$10,440,000 at maturity. Upon issuance of the Class B shares and at the date of transition to IFRS, the Company recognized the equity component for the convertible Class B shares as a conversion option of \$6,134,000 and \$942,000 related to the deferred income tax effect of the Class B shares. On conversion of the Class B shares to Class A shares the convertible Class B share liability of \$10,440,000 and the equity portion of Class B shares of \$6,134,000 were reclassified to share capital.

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b) Common shares issued

The Corporation completed a private placement of 7,465,896 Units for gross proceeds of \$3,359,653 on October 22, 2010. Each Unit comprised one Class A Flow Through Share at a price of \$0.45 per share and one Class A Share Purchase Warrant. Two Class A Share Purchase Warrants plus \$0.55 are exercisable into one Class A Share on or before June 30, 2011. In December, 2010, 25,000 warrants were exercised for proceeds of \$13,750. Pursuant to the October 22, 2010 private placement, the Corporation paid a finder's fee of \$140,760 to an arms length broker and issued 312,800 broker warrants exercisable on the basis of one warrant plus \$0.45 to acquire one Class A Share on or before July 31, 2011. During the six month period ended June 30, 2011, 386,691 Class A Share Purchase Warrants and 91,488 broker warrants were exercised for proceeds of \$253,850.

On August 5, 2010 the Corporation issued 4,080,000 Units for gross proceeds of \$1,020,000. Each Unit is comprised of one Class A Flow Through Share of the Corporation priced at \$0.25 per share, and one-half of a Class A Flow Through Share Purchase Warrant. One whole Warrant plus \$0.30 is exercisable into one Class A Flow Through Share until March 31, 2011. In December, 2010, 510,000 warrants were exercised for proceeds of \$153,000 and in the first half of 2011 the remainder of the warrants were exercised for proceeds of \$459,000. The Corporation paid a finder's fee to an arm's length broker in the amount of \$60,000 and issued 240,000 broker warrants. Each broker warrant is exercisable into one Class A Common Share of the Corporation at a price of \$0.25 per share on or before July 31, 2011.

On May 28, 2010 the Corporation issued 5,095,000 Units for gross proceeds of \$764,250. Each Unit is comprised of one Class A Flow Through Share of the Corporation priced at \$0.15 per share, and one-half of a Class A Flow Through Share Purchase Warrant. One whole warrant plus \$0.20 was exercisable into one Class A Flow Through Share until December 31, 2010. The warrants were all exercised for proceeds of \$509,500. The Corporation paid a finder's fee to an arm's length broker in the amount of \$56,100 and issued 374,000 broker warrants which were exercised into 374,000 Class A Shares for proceeds of \$56,100 as at December 31, 2010.

In the first quarter of 2010, the Corporation raised \$415,000 through the exercise of 4,150,000 Share Purchase Warrants on the basis of one warrant plus \$0.10 for one Flow Through Class A Share. The Share Purchase Warrants had been previously issued in July, 2009 as part of a private placement of Flow Through Class A Shares and Flow Through Share Purchase Warrants.

c) Stock options

The Corporation has a stock option plan under which it may grant options to directors, officers, employees, consultants and certain service providers. Stock options are granted at the discretion of the Board of Directors and subject to the applicable regulations, vest as to one-third upon date of grant, one-third upon the first anniversary date and the remaining one-third upon the second anniversary of the date of grant, and expire five years after the date of grant.

The following table summarizes the status of the stock option plan as at June 30, 2011, and December 31, 2010.

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	Number of Stock Options	Weighted Average Exercise Price (\$/Share)
Outstanding, December 31, 2009	3,366,661	0.28
Granted	1,755,000	0.22
Exercised	(1,111,661)	0.35
Outstanding at December 31, 2010	4,010,000	0.23
Granted	1,000,000	0.70
Outstanding at June 30, 2011	5,010,000	0.31
Exercisable at June 30, 2011	3,226,665	

The following table summarizes stock options outstanding at June 30, 2011

Weighted Average Exercise Price (\$/Share)	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life (years)	Number of Stock Options Exercisable
0.95	150,000	0.25	150,000
0.3	775,000	1.50	775,000
0.3	185,000	2.00	185,000
0.3	55,000	2.25	55,000
0.1	1,090,000	3.25	726,667
0.12	600,000	3.50	400,000
0.15	500,000	3.75	383,332
0.25	500,000	4.00	166,667
0.25	155,000	4.25	51,666
0.70	1,000,000	4.50	333,333
0.31	5,010,000	3.27	3,226,665

d) Normal course issuer bid

The Corporation has a normal course issuer bid. Under a normal course issuer bid program, the Corporation received approval commencing May 11, 2011 to purchase up to 5% of its outstanding Class A Shares until May 10, 2012. The Corporation's previous normal course issuer bid expired on May 4, 2011. During the period ended June 30, 2011, the Corporation purchased and cancelled 2,163,000 Class A Shares at a net cost of \$1,311,929 (2010 - \$NIL). The average carrying value of the Class A Shares purchased was \$619,395 (2010 - \$NIL) and was recorded to share capital with the balance of \$692,534 (2010 - \$NIL) recorded to contributed surplus.

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e) Share purchase warrants

On October 22, 2010, the Corporation issued 7,465,896 Class A Share Purchase Warrants. Two Purchase Warrants plus \$0.55 is exercisable into one (1) Class A Share until June 30, 2011. The fair value of the Class A Share Purchase Warrants was calculated at the grant date using the Black-Scholes Pricing Model and was recorded to share purchase warrants in shareholders' equity. At December 31, 2010 there were 7,415,896 Class A Purchase Warrants outstanding. During the six months ended June 30, 2011, 773,382 warrants were exercised for proceeds of \$212,680 and the remaining warrants expired. As a result of the warrant exercise share capital was increased by \$454,642 and the warrants reduced by the corresponding amount.

Pursuant to the October 22, 2010 private placement, 312,800 broker warrants were issued and are exercisable on the basis of one warrant plus \$0.45 to acquire one Class A Share on or before July 31, 2011. All of the broker warrants are outstanding at December 31, 2010. During the six months ending June 30, 2011, 91,488 broker warrants were exercised for proceeds of \$41,170. As a result of the warrant exercise share capital was increased by \$14,009 and the warrants were reduced by the corresponding amount.

On August 5, 2010, the Corporation issued 2,040,000 Class A Flow Through Share Purchase Warrants. Each Warrant plus \$0.30 is exercisable into one (1) Class A Flow Through Share until March 31, 2011. The fair value of the Class A Flow Through Purchase Warrants was calculated at the grant date using the Black-Scholes Pricing Model and was recorded to share purchase warrants in shareholders' equity. At December 31, 2010 there are 1,530,000 Class A Flow Through Purchase Warrants outstanding. During the six months ending June 30, 2011, 1,530,000 Class A Flow Through Purchase Warrants were exercised for proceeds of \$459,000 and as a result of this warrant exercise share capital was increased by \$154,303 and the warrants reduced by the same amount.

Pursuant to the August 5, 2010 private placement, 240,000 broker warrants were issued and are exercisable on the basis of one warrant plus \$0.25 to acquire one Class A Share on or before July 31, 2011. All of the broker warrants were outstanding as of December 31, 2010 and June 30, 2011.

On May 28, 2010, the Corporation issued 2,547,500 Class A Flow Through Share Purchase Warrants. Each warrant plus \$0.20 is exercisable into one (1) Class A Flow Through Share until December 31, 2010. The fair value of the Class A Share purchase warrants was calculated at the grant date using the Black-Scholes Pricing Model. The assumptions used to calculate the fair value of the warrants are noted below. The Warrants were exercised in to Class A Flow Through Shares during 2010 for gross proceeds of \$ 509,500. Pursuant to the May 28, 2010 private placement, 374,000 broker warrants were issued and were exercisable on the basis of one warrant plus \$0.20 to acquire one Class A Share on or before December 31, 2010. All of the broker warrants were exercised as of December 31, 2010.

	June 30, 2011		December 31, 2010	
	Warrants	(\$)	Warrants	(\$)
Balance beginning of period	5,790,748	689,159	4,490,000	145,587
Warrants issued during period	-	-	9,247,248	1,012,372
Warrants exercised during period	(2,008,179)	(215,725)	(7,846,500)	(465,933)
Warrants expired	(3,321,257)	(407,229)	(100,000)	(2,867)
Balance End of Period	461,312	66,205	5,790,748	689,159

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f) Per Share Information

The weighted average number of shares outstanding as at June 30, 2011, for basic and diluted, was 75,768,336 shares (2010 – 53,905,379) basic and diluted). Due to net losses for June 30, 2011 and June 30, 2010 the inclusion of stock options and warrants is anti-dilutive. The loss per share basic and diluted for the six months ended June 30, 2011 is 0.00 (2010 - 0.0). Under Canadian GAAP a deemed conversion of Class B shares was used in calculating earnings per share. For IFRS the class B shares are excluded from the basic earnings per share calculations.

9. SHARE BASED PAYMENTS

Options granted to employees and directors are accounted for using the fair value method. The fair value of \$1.0 million common share options granted during the period ended June 30, 2011 was estimated to be \$646,259. The fair value of common share options as at the grant date is determined using the Black-Scholes option pricing model with the following assumptions for options issued during the period:

	June 30, 2011	June 30, 2010
Risk free interest rate (%)	2.94	3.26
Expected life (years)	5	5
Expected volatility (%)	133	109
Forfeiture rate (%)	5	5
Weighted average fair value per share (\$)	0.23	0.12

During the six months ended June 30, 2011, the Corporation recorded share based payments of \$313,036 (June 30, 2010 – \$169,957) of which \$216,498 (June 30, 2010 - \$94,175) was recognized as an expense and \$96,538 (June 30, 2010 – \$75,782) was capitalized to property, plant and equipment.

10. FINANCE EXPENSES

	June 30, 2011 \$	June 30, 2010 \$
Interest on bank debt	169,281	140,301
Debenture interest and accretion	164,812	166,720
Accretion of decommissioning liability	28,685	39,851
Accretion on Class B Shares	-	337,000
Net Finance expenses recognized in earnings	362,778	683,872

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11. DEFERRED PRICE PREMIUM ON FLOW THROUGH SHARES

	Amount \$
Deferred price premium on Flow Through shares at date of transition - January 1, 2010	84,285
Deferred price premium on Flow Through shares issued	62,250
Flow Through share renunciation	(67,785)
Deferred price premium on Flow Through shares issued	736,893
Flow Through share renunciation	(581,577)
Balance at December 31, 2010	234,066
Deferred price premium on Flow Through shares	68,850
Flow Through share renunciation	234,066
Deferred price premium on Flow Through shares at June 30, 2011	68,850

- a) The Corporation completed three equity financings on a flow-through basis in May, August and October, 2010 and issued 5,950,000, 4,080,000, 7,465,896 Class A Shares respectively for gross proceeds of \$5,143,903. In addition, flow-through purchase warrants were exercised in 2010 for gross proceeds of \$1,077,500 and the Corporation issued 7,207,500 Class A Shares. The Corporation estimated the flow-through share premium for all financings to be \$736,893.

At December 31, 2010, the Corporation had incurred \$5,021,000 of the flow-through share proceeds on qualifying exploration and development activities resulting in the reversal of the deferred price premium related to those expenditures and recorded the related tax effect of \$576,524.

- b) Flow-through share purchase warrants outstanding on December 31, 2010 relating to the August 5, 2010 financing were exercised and the Corporation issued 1,530,000 flow-through Class A Shares for proceeds of \$459,000. The Corporation estimated the flow-through share premium for this financing to be 68,850.

At June 30, 2011 the Corporation had incurred an estimated \$1,773,000 of the flow-through share proceeds on qualifying exploration and development activities resulting in the reversal of the deferred price premium related to those expenditures and recording the relating tax effect of \$443,174.

12. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Overview

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

- Credit risk

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- 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. Solara's risk management policies are 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 June 30, 2011, included in Solara's accounts receivables is \$3,093,216 from joint interest partners, \$857,233 from petroleum and natural gas marketers and the balance of \$23,931 in other accounts receivables relating primarily royalty drilling credits. 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 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 June 30, 2011 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the year ended December 31, 2010.

As at June 30, 2011 and December 31, 2010, Solara considers its trade receivables to be aged as follows:

	March 31, 2011 \$	December 31, 2010 \$
Not past due (less than 90 days)	1,114,447	6,408,065
Past due (91 - 120 days)	2,859,933	1,253,232
	3,974,380	7,661,297

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The past due balance consists of \$227,697 in trade receivables and a \$2,494,429 receivable from Marwayne Production Limited Partnership and \$137,807 from Pembina Cardium Limited Partnership. The Corporation manages both partnerships through its wholly owned subsidiaries, and accordingly, has the ability to establish borrowing capability for the oil and gas assets and to withhold production revenue. Consequently the Corporation does not have concerns with the collectability of the outstanding amounts.

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. All of the Corporation's financial liabilities have contractual maturities of less than one year. 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 demand credit facility, as outlined in note 5, 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

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 June 30, 2011 or December 31, 2010.

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 entered into a financial commodity price contract with its lender which provided for a minimum price of \$5.21 per gigajoule (GJ) on 350 GJs per day for the period commencing on April 1, 2009 until December 31, 2009, and a ceiling price of \$7.50 per GJ commencing on January 1, 2010 and ending June 30, 2011. The Corporation entered into a second financial commodity price contract with its lender which provided for a minimum price of \$5.00 per GJ on 200 GJs per day for the period commencing on April 1, 2009 until December 31, 2009, and a ceiling price of \$6.675 per GJ commencing on January 1, 2010 and ending

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June 30, 2011. On April 15, 2010, Solara settled the two natural gas contracts with its lender by paying a settlement amount of \$9,145.

The unrealized commodity price contract gain of \$63,279 for the six months ended June 30, 2010 represents the change in fair value of the Corporation's commodity price contracts. The corporation has not entered into any new commodity price contracts as at June 30, 2011.

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 period ended June 30, 2011, if interest rates had been 1% lower with all other variables held constant the after tax net loss for the period would have been \$28,678 (2010 - \$27,313) lower, due to lower interest expense. An equal and opposite impact would have occurred to the net loss had interest rates been 1% higher. The Corporation had no interest rate swap or financial contracts in place at June 30, 2011 or during the year ended December 31, 2010.

Capital Management

The Corporation's policy is to maintain a sufficient 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, working capital and bank debt. 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 bank debt to annual funds from operations. 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 endeavor to maintain a ratio of bank debt to annual funds from operations of approximately 3.0 to 1 or lower. This ratio may increase at certain times as a result of acquisitions and/or large capital projects. As at June 30, 2011, the Corporation's ratio of bank debt to annualized funds from operations was approximately 2.9 to 1 (2010 - 7.9 to 1). The Corporation's share capital is not subject to external restrictions; however, the bank debt facility is based on petroleum and natural gas reserves (see note 4), and contains certain financial and operating covenants. The Corporation is in compliance with its lenders covenants at June 30, 2011. 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 first quarter.

Fair Value of Financial Instruments

Solara's financial instruments as at June 30, 2011 and December 31, 2010 include accounts receivable, accounts payable and accrued liabilities, commodity price contracts, and convertible debentures. The fair value of these amounts, excluding bank debt and convertible debentures 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. The fair value of convertible debentures approximates its carrying value based on current interest rates.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital were as follows:

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	June 30, 2011 \$	June 30, 2010 \$
Changes in non-cash working capital balances		
Accounts receivable	3,686,917	189,678
Deposits and prepaids	62,733	(573)
Accounts payable and accrued liabilities	(9,753,838)	1,452,502
	(6,004,188)	1,641,607

	March 31, 2011 \$	June 30, 2010 \$
Capital in non-cash working capital relates to		
Operating	(392,106)	1,858,941
Investing	(5,612,082)	(217,334)
	(6,004,188)	1,641,607

14. COMMITMENTS

- a) During the six months ended June 30, 2011, the Corporation raised \$459,000 from the exercise of flow-through purchase warrants. The Corporation has an obligation to incur \$459,000 in qualifying expenditures by December 31, 2012.
- b) The Corporation is committed to office lease payments to March 1, 2012 including estimated operating costs and taxes. These obligations are as follows:

	\$
2011	55,881
2012	16,417

15. INVESTMENTS

As part of its ongoing risk and capital management strategy in 2009, Solara entered into a Farmout, Option and Conveyance Agreement on June 30, 2009 (the "Farmout") with the Marwayne Production Limited Partnership (the "Marwayne LP") which provided for the farmout by the Corporation of certain interests. The Farmout provided for the Marwayne LP to fund the initial \$1,300,000 capital program involving the drilling of three wells on or before December 31, 2009 to earn a 60% working interest in the lands. In addition, prior to the end of December 2009, the partnership exercised its option to drill an additional four option wells to earn a 60% working interest in the balance of the Marwayne project. The option well program was funded by capital contributions of the limited partners totaling \$1,500,000 on March 31, 2010. The Corporation owns 46 partnership units in the Marwayne LP

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representing 3.45% of the total issued and outstanding partnership units. In addition, the officers and directors of the Corporation owned 150 units or 11.5% of the total partnership units outstanding.

Solara entered into a Farmout Agreement (the "Farmout") in June, 2010 with the Pembina Cardium Limited Partnership (the "Pembina LP") which provided for the Farmout by the Corporation of certain interests in the Pembina area of Alberta. The Farmout provided for the Pembina LP to fund a minimum of \$1,640,000 for the capital program for the drilling of a horizontal Cardium well. Upon completion of the well, the Pembina LP will earn a 20% interest in the well and the balance of the Farmout lands. The officers and directors of the Corporation together with the Corporation own 90 units or 9%. As at June 30, 2011, the Pembina LP owed the Corporation \$137,807 which is included in accounts receivable.

Solara entered into a Farmout Agreement (the "Farmout") in November, 2010 with the Buck Lake Cardium Limited Partnership (the "Buck Lake LP") which provided for the Farmout by the Corporation of certain interests in the Buck Lake area of Alberta. The Farmout provided for the Buck Lake LP to fund a minimum of \$401,000 for the capital program for the drilling of a horizontal Cardium well. Upon completion of the well, the Buck Lake LP will earn 6% interest in the well and the balance of the Farmout lands. The officers and directors of the Corporation together with the Corporation own 61 units or 15%. As at March 31, 2011, the Corporation owed Buck Lake LP \$343,918 which is included in accounts receivable.

16. RELATED PARTY TRANSACTIONS

- a) A loan to the President, CEO and director for \$85,000 for the purchase of 340,000 Class A Shares of the Corporation in November, 2005 was repaid in full on February 11, 2011. In December, 2010, the President, CEO and director of the Corporation exercised stock options which were expiring prior to December 31, 2010 and initially paid \$70,000 for a portion of the exercised stock options. The remaining balance of the exercise cost of \$100,331 for the stock options was paid in full by February 7, 2011. These amounts were recorded in accounts receivable as at December 31, 2010.
- b) The Corporate Secretary of the Corporation is Counsel to a law firm that provides legal services to the Corporation. During the period ended June 30, 2011, the Corporation paid a total of \$84,369 (2010 - \$29,896) for such services.

17. SUBSEQUENT EVENTS

On July 7, 2011, the Corporation redeemed the convertible debentures for their face amount of \$2,756,000.

In July, 2011, the Corporation's lender increased the demand revolving operating facility to \$13.5 million from \$12.0 million and revised the development facility from \$4.0 million to \$2.5 million.

In August, 2011, the Corporation completed a private placement of 3,080,000 Units for gross proceeds of \$1,232,000. Each Unit comprised one Class A Flow-Through Share at a price of \$0.40 per share and one Class A Flow-Through Share Purchase Warrant. Two Warrants plus \$0.50 are exercisable into one Class A Flow-Through Share on or before December 31, 2011.

18. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As disclosed in Note 2, these are the Corporation's first condensed interim consolidated financial statements for the period covered by the first annual consolidated financial statements to be prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the condensed interim consolidated financial

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

statements for the period ended June 30, 2011, January 1, 2010 transitional consolidated statement of financial position and the comparative financial statements for the periods ended June 30, 2010 and December 31, 2010. IFRS 1 *First-time Adoption of IFRS* and International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* have been applied to these condensed interim Consolidated Financial Statements.

As a result of applying IFRS 1, the Corporation is required to present comparative information with the application of IFRS accounting policies as at the January 1, 2010 transition date and comparative information for the six months ended June 30, 2010 and for the year ended December 31, 2010. IFRS 1 provides for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all the accounting standards under IFRS.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation’s financial position, financial performance and cash flows is set out in the following tables.

Key First-Time Adoption Exemptions Applied

IFRS 1 *First-Time Adoption of International Financial Reporting* allows first-time adopters certain exemptions from retrospective application of certain IFRS.

The following include the significant IFRS 1 exemptions taken by the Corporation at January 1, 2010;

- a) Historical cost as deemed cost:

The Corporation elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS at the amount determined under Canadian GAAP as at January 1, 2010. Cost included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of proved and probable reserves values as at January 1, 2010.

- b) Business combinations:

IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or interests in joint ventures that occurred before January 1, 2010.

- c) Decommissioning liabilities:

The Corporation elected the exemption under IFRS 1 to not restate decommissioning liabilities retrospective under IAS 37 & IFRIC 1.

- d) Share based payment transactions:

Solara elected the exemption under IFRS 1 and prospectively applied IFRS 2 to its awards that vest after transition date.

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Reconciliation of equity at January 1, 2010 (Date of Transition to IFRS)

See Explanatory Notes	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Assets				
Current assets				
Cash		5,405		5,405
Accounts receivable		1,731,094		1,731,094
Due from shareholder		85,000		85,000
Deposits and prepaids		82,064		82,064
		1,903,563		1,903,563
Investment		42,065	(42,065)	-
Property, plant and equipment	a), b), c), d), e), f)	24,049,125	(5,653,363)	18,395,762
		25,994,753	(5,695,428)	20,299,325
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		2,135,837		2,135,837
Commodity price contracts		57,939		57,939
Bank debt		7,678,614		7,678,614
		9,872,390		9,872,391
Commodity price contracts		14,485		14,485
Decommissioning obligations	e)	2,042,465	(480,000)	2,522,465
Convertible debentures	g)	2,607,236		2,607,236
Convertible Class B share liability	h)		(9,772,000)	9,772,000
Deferred Flow Through share premium	i)		(84,285)	84,285
Deferred income taxes	j)	2,247,035	1,158,272	1,088,763
		16,783,611	(9,178,013)	25,961,624
Shareholders' equity				
Capital stock		16,499,763	494,211	16,005,552
Share purchase warrants		145,587		145,587
Equity portion of Class B shares	h)		6,134,000	(6,134,000)
Equity portion of convertible debentures	g)	404,808	135,610	269,198
Contributed surplus	f)	1,628,102	(9,500)	1,637,602
Deficit	b), e), f), g), h), i)	(9,467,118)	8,119,120	(17,586,238)
		9,211,142	14,873,441	(5,662,299)
		25,994,753	5,695,428	20,299,325

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Reconciliation of equity at June 30, 2010

See Explanatory Notes	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Assets				
Current assets				
Cash		1,213,011		1,213,011
Accounts receivable		1,541,416		1,541,416
Due from shareholder		85,000		85,000
Deposits and prepaids		82,637		82,637
		2,922,064		2,922,064
Investment		146,883	(146,883)	-
Property, plant and equipment	a), b), c), d), e), f)	24,214,219	(4,501,173)	19,713,046
		27,283,166	(4,648,056)	22,635,110
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		3,588,338		3,588,338
Commodity price contracts		-		-
Bank debt		7,210,894		7,210,894
		10,779,232		10,799,232
Decommissioning obligations	e)	2,107,737	566,696	2,674,433
Convertible debentures	g)	2,656,826	-	2,656,826
Convertible Class B share liability	h)	-	10,109,000	10,109,000
Deferred Flow Through share premium	i)	-	40,594	40,594
Deferred income taxes	j)	2,274,247	(1,121,077)	1,153,170
		17,838,042	9,595,213	27,433,255
Shareholders' equity				
Capital stock		17,155,896	(350,298)	16,805,598
Share purchase warrants		292,456	-	292,456
Equity portion of Class B shares	h)	-	(6,134,000)	(6,134,000)
Equity portion of convertible debentures	g)	404,808	(135,610)	269,198
Contributed surplus	f)	1,752,055	55,504	1,807,559
Deficit		(10,160,091)	(7,678,865)	(17,838,956)
		9,445,124	(14,243,269)	(4,798,145)
		27,283,166	(4,648,056)	22,635,110

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Reconciliation of equity at December 31, 2010

See Explanatory Notes	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Assets				
Current assets				
Cash		632,840	-	632,840
Accounts receivable		7,661,297	-	7,661,297
Deposits and prepaids		132,183	-	132,183
		8,426,320	-	8,426,320
Investment		199,617	(199,617)	-
Property, plant and equipment	a), b), c), d), e), f)	30,227,062	(3,901,924)	26,325,138
		38,852,999	(4,101,541)	34,751,458
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		11,637,011	-	11,637,011
Commodity price contracts		2,706,416	-	2,706,416
Bank debt		6,888,348	-	6,888,348
		21,231,775		21,231,775
Decommissioning obligations	e)	2,223,454	559,137	2,782,591
Deferred Flow Through share premium	i)	-	234,066	234,066
Deferred income taxes	j)	1,984,886	(403,251)	1,581,635
		25,440,115	389,952	25,830,067
Shareholders' equity				
Capital stock		21,989,381	3,294,266	25,283,647
Share purchase warrants		689,159	-	689,159
Equity portion of convertible debentures	g)	404,808	(135,610)	269,198
Contributed surplus	h)	1,783,279	124,096	1,907,375
Deficit		(11,453,743)	(7,774,246)	(19,227,989)
		13,412,884	(4,491,493)	8,921,391
		38,852,999	(4,101,541)	34,751,458

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Reconciliation of consolidated statement of loss and comprehensive loss for the six months ended June 30, 2010

See Explanatory Notes	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Revenue				
Petroleum and natural gas		2,305,859		2,305,859
Royalties		(171,471)		(171,471)
Commodity price contracts				
Unrealized gain		63,279		63,279
Interest and other income		21,569		21,569
		2,219,236		2,219,236
Expenses				
Operations		1,049,626		1,049,626
General and administrative		394,424		394,424
Depletion and depreciation	d), e)	1,301,599	(672,914)	628,685
(Gain) Loss on sale of assets	b), c)		(300,000)	(300,000)
Share based payments	a), f)	75,783	18,392	94,175
Finance expenses		307,022	376,850	683,872
		3,128,454	(577,671)	2,550,783
Loss before income taxes		(909,218)	577,671	(331,547)
Deferred income tax reduction	j)	216,245	(137,417)	78,828
Net loss and comprehensive loss for the period		(692,973)	440,254	(252,719)

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Reconciliation of consolidated statement of loss and comprehensive loss for the year ended December 31, 2010

See Explanatory Notes	Note	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Revenue				
Petroleum and natural gas		5,675,663	-	5,675,663
Royalties		(380,086)	-	(380,086)
Commodity price contracts				
Realized gain (loss)		(9,145)	-	(9,145)
Unrealized gain		72,424	-	72,424
Interest and other income		62,714	-	62,714
		5,421,570	-	5,421,570
Expenses				
Operations		2,618,868	-	2,618,868
General and administrative		1,248,151	-	1,248,151
Gain on sale of assets	c)	-	(650,565)	(650,565)
Loss on sale of assets	c)	-	91,963	91,963
Depletion and depreciation	d)	3,141,878	(1,253,599)	1,888,279
Impairment loss	b)	-	200,000	200,000
Share based payments	f)	277,823	64,194	342,017
Finance expenses		627,591	749,373	1,376,964
		7,914,311	(798,634)	7,115,677
Loss before income taxes		(2,492,741)	798,634	(1,694,107)
Deferred income tax reduction	j)	506,116	(453,760)	52,356
Net loss and comprehensive loss		(1,986,625)	(344,875)	(1,641,751)

a) Property, Plant and Equipment

Under IFRS 1 the Corporation at the transition date used the method of evaluation whereby the Corporation allocated its PP&E asset base to cash generating units based on reserved values. At transition date the PP&E assets were based upon proved plus probable interest reserve cash flow values. Once the Corporation's petroleum and natural gas assets values were determined the Corporation performed an impairment test.

b) Impairment of Assets

Previously, under Canadian GAAP, the ceiling test is a two step process that is performed at the country cost centre level. If the undiscounted cash flows from proved reserves and the undeveloped properties do not exceed the carrying value of oil and gas assets; impairment exists. The impairment is measured by comparing the carrying value

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

of oil and gas assets to be discounted cash flows from proved plus probable reserves.

Under IFRS, the impairment tests of property plant and equipment are performed at the CGU level. The CGU's carrying value is compared to the higher of: value-in-use and fair value less costs to sell. Solara performed its impairment test based on value in use. Value was measured as the present value of future cash flows expected to be derived from the asset or CGU.

The Corporation is required to perform an impairment test on the transition date to IFRS and in each subsequent reporting periods when indicators suggest the possibility of an impairment. The Corporation has calculated an impairment to its PP&E in certain non-core properties on transition to IFRS as at January 1, 2010 with an offsetting charge to the January 1, 2010 deficit. At December 31, 2010, the Corporation after reviewing its CGU's for impairment provided for an additional impairment.

Consolidated Statement of Financial Position:

	January 1, 2010	June 30, 2010	December 31, 2010
Property, plant and equipment impairment	(5,695,428)	(5,695,428)	(5,895,428)
Impact on deficit	5,695,428	5,695,428	5,895,428

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Impairment Loss	--	200,000
Impact on income	--	200,000

c) Divestitures of property, plant and equipment

Under Canadian GAAP, proceeds from the sale of crude oil and natural gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would change the rate of depletion and depreciation by 20 % or more, in which case a gain or loss is recorded. Under IFRS, the gains or losses are recorded on the sale of crude oil and natural gas properties. The gain or loss is calculated as the difference between the proceeds and the net book value of the asset disposed. The impact of this change in accounting policy resulted in the following net gain/loss recorded in the consolidated financial position and consolidated statement of income for the year ended December 31, 2010 as follows;

Consolidated Statement of Financial Positions:

	January 1, 2010	June 30, 2010	December 31, 2010
Property, plant and equipment	-	300,000	(558,602)
Impact on total assets	-	300,000	(558,602)

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Gain on sale of properties	300,000	650,565
Loss on sale of properties	-	(91,963)
Impact on income	300,000	558,602

d) Depletion policy

Upon transition to IFRS, the Corporation adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. Under this method, future development costs are added to the net book value of assets to be depleted. IFRS requires depletion and depreciation to be calculated based on individual components as determined by the corporation.

Under Canadian GAAP, the Corporation depleted total development and producing assets on a unit of production basis over total proved reserves. In addition, depletion was calculated using the Canadian cost centre.

As a result of the change in the policy of depleting oil and natural gas interests on a proved plus probable basis the impact on the consolidated statements of financial position and consolidated statements of income for the periods ended January 1, 2010, June 30, 2010 and December 31, 2010 are as follows:

Consolidated Statement of Financial Position:

	January 1, 2010	June 30, 2010	December 31, 2010
Property, plant and equipment	-	582,148	1,070,012
Impact on total assets	-	582,148	1,070,012

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Depletion expense	(582,148)	(1,070,012)
Impact on income	582,148	1,070,012

e) Decommissioning obligations

Under Canadian GAAP decommissioning obligations were discounted at a credit adjusted risk free rate of 8 %. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at a risk free rate of 3 %. Upon transition to IFRS this resulted in a \$480,000 increase in the decommissioning obligations with a corresponding increase in the deficit. As a result of the lower discount rate, the Corporation recorded additional decommissioning obligation additions to

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

PP&E and lower related accretion costs. In addition, under Canadian GAAP accretion of the discount was included in depletion and depreciation. Under IFRS it is included in finance expense.

As a result of the change in the decommissioning obligation, the impact on the consolidated statement of financial position and consolidated statement of income for the period ended January 1, 2010, June 30, 2010 and December 31, 2010 are as follows:

Consolidated Statement of Financial Positions:

	January 1, 2010	June 30, 2010	December 31, 2010
Property, plant and equipment	-	137,611	181,352
Decommissioning liability	480,000	566,696	558,810
Impact on deficit	(480,000)	(429,085)	(377,458)

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Finance expense	39,850	81,373
Impact on income	(39,850)	(81,373)

f) Share based payments

Under Canadian GAAP, the Corporation recognized an expense related to their share based payments on a straight-line basis through the date of full vesting. Under IFRS, the Corporation is required to recognize the expense over the individual vesting periods for the graded vesting awards including an estimated forfeiture rate. Upon transition, the impact of estimating a forfeiture rate resulted in the following impact on the consolidated statements of financial position and consolidated statements of income for the periods ended January 1, 2010, June 30, 2010 and December 31, 2010 are as follows:

Consolidated Statement of Financial Positions:

	January 1, 2010	June, 2010	December 31, 2010
Property, plant and equipment	-	27,611	50,402
Contributed surplus	9,500	55,504	124,096
Impact on deficit	(9,500)	27,893	(73,694)

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
General and administrative	18,392	64,194
Impact on income	(18,392)	(64,194)

g) Convertible debentures

A transitional deferred income tax adjustment will be required for the Corporation's convertible debentures. Convertible debentures have both a debt and equity component. The allocation of deferred tax on the convertible debentures differs under Canadian GAAP and IFRS. Under Canadian GAAP, the tax basis of the liability is considered to be the same as its carrying amount; therefore, no temporary difference exists. IFRS does not contain this special exemption and requires the temporary difference to be recognized. The deferred tax expense is charged directly to the carrying amount of the equity component of the convertible debentures. The Corporation recorded a deferred tax liability, with an offsetting debit to the equity component of its 8.5% Debentures. Subsequent changes in the deferred tax liability are recognized in profit or loss.

Consolidated Statement of Financial Positions:

	January 1, 2010	June 30, 2010	December 31, 2010
Equity portion of convertible debentures	(135,610)	(135,610)	(135,610)
Deferred income taxes	135,610	135,610	135,610
	-	-	-

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Deferred tax expense	(6,943)	(27,772)
Impact on income	6,943	27,772

h) Convertible Class B shares

Under Canadian GAAP, the Corporation's convertible Class B shares were presented as share capital. Under IFRS, the Class B shares do not qualify for equity presentation and must be presented as a liability due to the number of Class A shares issued on conversion, based on the conversion formula (note 8) being variable until the Corporation or shareholders exercise conversion rights. The value of the Class A shares on issuance was determined to be \$1,560,000 (\$0.26 per Class A share). It was also determined that the face value of the Convertible Class B shares is

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

\$10,444,000 (\$10.00 per class B share). Using a 7% discount rate and a term of 5 years, the Corporation calculated a present value of approximately \$7,400,000 on issuance, which will accrete to the \$10,440,000 face value on December 31, 2010, the expiration date of the shareholders conversion option. A deferred tax liability of \$942,000 was recognized on issuance relating to the difference between the face value and present value of the Class B shares. The deferred tax liability is reversed proportionately to the accretion expense on the convertible Class B share liability.

The flow through share premium of \$1,800,000 was recognized for the Class A and B shares issued. The Flow Through share premium reduced share capital, and as expenditures were incurred, the premium was recorded through income. The amount recorded for the Class B equity component relates to the conversion feature of \$6,134,000, recognizing the value of the Corporations lower limit of \$1.00 per Class A share in the Class B to Class A conversion formula, along with the deferred income tax effect of the Class B shares of \$942,000.

i) Flow-Through Shares

Under Canadian GAAP, the accounting treatment for Flow Through shares is to record the full amount of the proceeds in share capital. When expenditures are incurred, the related tax effect is recorded to share capital and the future tax liability. Under IFRS, the amount initially recorded in share capital is limited to the value of common shares that would have been issued on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a deferred price premium on Flow Through shares. When the expenditures are incurred, the related deferred price premium on Flow Through shares is reversed and the related tax affect is recorded to the future tax liability. The impact of this change on accounting policy resulted in recording a transitional adjustment to share capital and retained earnings of \$1,908,607. This adjustment reversed previous flow through renunciation adjustments made through share capital and recorded the related tax effect.

During the six months ended June 30, 2010, under GAAP the corporation recorded the related tax effect of \$286,250 to share capital. Therefore the corporation adjusted the \$286,250 to share capital and deferred income tax.

During the balance of 2010 the Corporation completed two equity financings on a Flow Through basis in August and October, 2010 and issued 4,080,000 and 7,465,896 Class A Shares respectively for gross proceeds of \$4,379,653. In addition, Flow Through purchase warrants were exercised in 2010 for gross proceeds of \$1,077,500 and the Corporation issued 7,207,500 Class A Shares. The Corporation estimated the Flow Through share premium for all financings to be \$736,893.

At December 31, 2010, the Corporation had incurred \$5,021,000 of the Flow Through share proceeds on qualifying exploration and development activities resulting in the reversal of the deferred price premium related to those expenditures and recorded the related tax effect of \$576,524.

Consolidated Statement of Financial Positions:

	January 1, 2010	June 30, 2010	December 31, 2010
Deferred price premium on Flow Through shares	84,285	40,594	234,066
Deferred income tax liability	145,750	51,813	984,851
Share capital	(149,818)	143,913	(662,711)
Impact on deficit	80,217	236,320	556,206

Solara Exploration Ltd.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the period ended June 30, 2011, with comparative figures for 2010

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Deferred income taxes	152,035	621,739
Impact on income	152,035	621,739

j) Income tax

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and Canadian GAAP. The application of the IFRS adjustments for note 18 (a) through to (j) resulted in the following impact for the periods ended January 1, 2010, June 30, 2010 and December 31, 2010 as follows;

Consolidated Statement of Financial Positions:

	January 1, 2010	June 30, 2010	December 31, 2010
Deferred income tax liability	(1,158,272)	(1,121,077)	(403,251)
Impact on deficit	(1,158,272)	(1,121,077)	(403,251)

Consolidated Statement of Loss and Comprehensive Loss:

	June 30, 2010	December 31, 2010
Deferred income taxes	137,417	453,760
Impact on income	(137,417)	453,760



Management's
Discussion & Analysis

**Second Quarter Interim Report
For the Six Months Ended
June 30, 2011
(Unaudited)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion is an analysis by management of Solara Exploration Ltd.'s ("Solara" or the "Corporation") unaudited operating and financial data for the three and six months ended June 30, 2011, and prior periods, as well as estimates of future operating and financial performance based on information currently available. It should be read in conjunction with the audited financial statements and notes for the Corporation for the year ended December 31, 2010. This Management's Discussion and Analysis ("MD&A") was prepared as of August 29, 2011.

The unaudited condensed interim financial statements and comparative information have been prepared in accordance with International Financial Reporting Standard ("IFRS") 1 "First – time Adoption of International Financial Reporting Standards" and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously the Corporation prepared its interim and annual financial statements in accordance with Generally Accepted Accounting Principals ("Canadian GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. Canadian GAAP now comprises IFRS. The adoption of IFRS has not had an impact on the Corporation's operations, strategic discussions and cash flow. The most significant area of impact was the adoption of the IFRS upstream oil and gas accounting principals. Further information on the IFRS impacts is provided in the Accounting Policies and Estimates Section of this MD&A.

Overall Performance Summary

During the second quarter of 2011, there was improvement in both oil and gas prices compared to the same quarter in 2010. The Corporation was producing an average of 431 boepd for the first six months of the year compared to an average of 284 boepd for the same period in the prior period. As a result, net oil and gas revenues in the first six months of 2011 increased by 102% to \$4.6 million when compared to the \$2.3 million for the same period in 2010.

The production declines in the second quarter of 2011 were primarily the result of extensive downtime on wells due to spring breakup, production interruptions at Buck Lake due to compression issues and the sale of approximately 120 boe/d during the period. The Corporation did not undertake any drilling activity during the second quarter, but did participate in the completion of a Cardium horizontal well at Buck Lake which came on production in late June. Solara has a 20.667% interest in the Cardium horizontal well which initially produced approximately 1,260 boepd. During the second quarter, the Corporation reflected positive funds flow from operations primarily as a result of strong oil prices and increased production over the prior period in 2010. The Corporation raised approximately \$700,000 through the exercise of common share purchase warrants which was used to fund some of its workovers at the Dewberry heavy oil project in eastern Alberta. The Corporation's positive cash flow from operating activities allowed the Corporation to continue with its development plans in Dewberry and Buck Lake. At June 30, 2011, the Corporation has drawn \$9.8 million under its credit facilities with a total of unused credit facility of \$6.2 million.

Operating Summary

Production during the second quarter of 2011 averaged 331 boepd, net of production dispositions, compared to 292 boepd in the second quarter of 2010. The fourth horizontal oil well in Buck Lake commenced production in late June, 2011 and had little impact on the average production for the second quarter. Average daily production declined in the second quarter compared to the first quarter of 2011 primarily due to the impact of selling non-core properties producing approximately 120 boepd, and extended periods of downtime on wells on key projects due to interruptions caused by spring breakup and road bans, and transmission line compression issues.

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 flow from 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011 (\$)	2010 (\$)	2011 (\$)	2010 (\$)
Cash flows from operating activities	(2,420,701)	1,598,351	1,297,253	2,313,417
Changes in non-cash operating working capital	3,050,743	(1,385,782)	392,106	(1,858,941)
Funds from (used in) operations	630,042	212,569	1,689,359	454,476

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 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 from operations on a barrel of oil equivalent basis. 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

The information in this MD&A contains forward looking statements and assumptions, relating but not limited to, risks associated with the oil and gas industry in general such as operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserves estimates; the uncertainty of estimates and projections relating to production, costs and expenses; and health, safety and environmental risks, commodity prices, financing sources and exchange rate fluctuations. By their nature, forward looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future, and accordingly, actual results may differ materially from those predicted. Some of the risks and other factors that could cause results to differ materially from those expressed in the forward looking statements contained in this MD&A include, but are not limited to, the lack of precision around estimates of reserves, performance of the Corporation's oil and gas properties, volatility in market prices for oil and gas, estimations of future costs, geological, technical, drilling and

processing problems, changes in income tax laws and incentive programs relating to the oil and gas industry, and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by the Corporation. The material assumptions in making these forward looking statements are disclosed in this analysis under the headings “Royalties”, “Operating Expenses”, “Ceiling Test”, “Capital Expenditures”, and “Liquidity and Capital Resources”. Readers are cautioned that the foregoing list of important factors is not comprehensive. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise, and as such, undue reliance should not be placed on forward looking statements. These statements are relevant only as of the date of this MD&A. Unless required by law, the Corporation does not undertake any intention or obligation to update or revise these forward looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Financial Strategy in Current Economic Environment

The current economic environment is challenging and uncertain amidst a global economic uncertainty, lower natural gas prices, unsettled financial markets and limited access to capital markets. In this environment, the Corporation is highly focused on the key business objectives of maintaining financial strength, generating funds from operations and optimizing capital investments. This measured capital deployment approach is sustained by unused available lines of credit. In addition, the Corporation has planned its capital deployment approach in conjunction with equity financings. The Corporation will continue to monitor expenses and capital programs. In light of the current market situation, the Corporation has planned a measured, flexible approach to 2011 investments, with a program that has the ability to be quickly adjusted depending on how economic circumstances evolve during the year.

The following tables outline the financial and operating overview of the Corporation for the three and six months ended June 30, 2011, compared to the same period in 2010 along with the other costs of the Corporation for the periods.

Financial Overview

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011 (\$)	2010 (\$)	% CHANGE	2011 (\$)	2010 (\$)	% CHANGE
Oil and gas revenue	2,046,124	1,145,516	79	4,664,451	2,305,859	102
Royalties	(243,453)	(98,313)	148	(423,953)	(171,471)	147
Commodity derivatives – realized gain	-	-	0	-	-	0
Interest and other	-	8,687	(100)	311	21,569	(99)
	1,802,671	1,055,890	71	4,240,809	2,155,957	97
Operating expense	(583,650)	(514,805)	13	(1,453,222)	(1,049,626)	38
Net operating	1,219,021	541,085	125	2,787,587	1,106,331	152
Funds from operations	630,042	212,569	196	1,689,359	454,476	272
Net loss and comprehensive loss	(185,991)	(86,374)	115	(467,265)	(252,718)	85
Per share-basic and diluted	0.00	0.00	0	(0.01)	0.00	0

Operating Overview

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011 (\$)	2010 (\$)	% CHANGE	2011 (\$)	2010 (\$)	% CHANGE
Sales production (BOE)	30,107	26,606	13	78,071	51,471	52
Daily production (BOE)	331	292	13	431	284	52
	\$/BOE	\$/BOE		\$/BOE	\$/BOE	
Oil and gas revenue	67.96	43.05	58	59.75	44.80	33
Royalties	(8.09)	(3.70)	119	(5.43)	(3.33)	63
Commodity derivatives – realized gain	-	-	100	-	-	100
Interest and other	-	0.33	(100)	-	0.42	(100)
	59.87	39.68	51	54.32	41.89	30
Operating expense	(19.39)	(19.35)	0	(18.61)	(20.39)	(9)
Net Operating	40.49	20.33	99	35.71	21.50	66
Interest	(4.81)	(4.75)	1	(3.67)	(5.00)	(27)
General and administration	(14.61)	(7.59)	92	(9.84)	(7.66)	28
Funds from operations	21.07	7.99	164	22.20	8.84	151

Oil and Gas Revenue

In the first six months of 2011, the Corporation's average production increased by 52% to 431 BOE/d compared to 284 BOE/d in 2010. Solara's selling prices for oil and natural gas increased by 33% relative to the same period in 2010. The increase in crude oil prices resulted in the increase in revenues, funds generated from operations and cash flow from operating activities compared to 2010. For the three months ended June 30, 2011 production increased to 331/BOE/d compared to 292/BOE/d for the same period in 2010 as a result of production additions in the fourth quarter of 2010 and first quarter of 2011. The sale on non-core production comprising approximately 120 BOE/d and unavoidable production interruptions during the period impacted on revenues for the period.

Oil and gas revenue increased by 102% to \$4,664,451 for the six months end June 30, 2011 compared to \$2,305,859 for the same period in 2010. The increase in oil and gas revenue between the two fiscal periods is attributable to higher crude oil prices and increased production for the six months end June 30, 2011 compared to 2010. Oil and gas revenue per BOE increased by 58% from \$44.80/BOE for the period ended June 30, 2010 to \$59.75/BOE for 2011. The Corporation sells all of its oil and natural gas production on a spot market basis with the exception of the commodity derivative contracts and a few geographical based Pan Alberta physical delivery gas contracts. The Corporation continued to shut-in a number of its operated lower productivity natural gas wells which were uneconomic under the current gas pricing environment during the period. Similarly, the joint venture operators have continued to shut-in several marginally economic and uneconomic gas wells in which Solara owns an interest. These activities resulted in lower production in 2011 relative to the prior quarter. The Corporation had approximately 316 well days of production downtime on its Dewberry heavy oil project, and 122 well days of downtime on its Buck Lake Cardium well during the second quarter of 2011. Due to wells being shut-in as a result of unavoidable interruptions from mechanical break downs, compression issues and spring breakup, the daily production for the period was significantly impacted as was gross revenue during the second quarter, 2011.

For the three months ended June 30, 2011 oil and gas revenue increased by 79% to \$2,046,124 compared to \$1,145,516 in 2010. The increase in oil and gas revenue between the two fiscal periods is mainly attributable

to higher oil selling prices. Average selling prices per BOE increased by 58% from \$43.05/BOE for the three months ended June 30, 2010 to \$67.96/BOE for the same period in 2011.

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011	2010	% CHANGE	2011	2010	% CHANGE
Oil and gas revenue (\$)	2,046,124	1,145,516	79	4,664,451	2,305,859	102
Oil and NGL production (bbls) (1)	19,116	13,661	40	51,626	25,503	102
Oil price (\$/bbl)	93.32	62.43	49	78.32	65.53	20
Gas production (Mcf) (1)	65,952	77,662	(15)	158,669	155,808	2
Gas price (\$/Mcf)	3.90	3.80	3	3.91	4.23	(7)
BOE production	30,107	26,606	13	78,071	51,471	52
BOE/D	331	292	13	431	284	52

Commodity Price Risk Management

The Corporation entered into a commodity price contract with its lender in April 2009 which provided for a minimum price of \$5.21 per gigajoule (GJ) on 350 GJs per day for the period commencing on April 1, 2009 until December 31, 2009, and a ceiling price of \$7.50 per GJ commencing on January 1, 2010 and ending March 31, 2011. A second commodity price contract provides for a minimum price of \$5.00 per GJ on 200 GJs per day for the period commencing on April 1, 2009 until December 31, 2009, and a ceiling price of \$6.675 per GJ commencing on January 1, 2010 and ending March 31, 2011. In April, 2010, Solara bought out the two commodity price contracts resulting in a \$9,145 loss on settlement. The Corporation currently has no other commodity price contracts.

Unrealized Commodity Derivative Gain (loss)

The Corporation did not have any unrealized commodity gain as at June 30, 2011 (June 30, 2010 – \$63,279).

	June 30, 2010 \$	June 30, 2011 \$
Balance, beginning of period	-	(72,424)
Change in fair value of derivative instrument contracts	-	63,279
Cash buyout of commodity price contracts	-	9,145
Balance, end of period	-	-

Royalties

Royalties on oil and gas production were \$423,953 (\$5.43/BOE) for the six months ended June 30, 2011, compared to \$171,471 (\$3.33/BOE) representing an increase of 147% on a barrel of oil equivalent basis primarily as a result of receiving higher oil and liquid prices than in the prior period. For the three months ended June 30, 2011, royalty expense was \$243,453 (\$8.09/BOE) compared to a \$98,313 (\$3.70/BOE) recovery for the three months end June 30, 2010. 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. The Alberta Government's new royalty framework ("NRF") became effective January 1, 2009 and a portion of the program involving royalty drilling credits expired on March 31, 2011. As a result, the Corporation's Crown royalty burden increased in the second quarter of 2011.

On March 3, 2009, the Alberta Government released an incentive program designed to stimulate oil and gas activity in the province. The first part of the plan includes a one year drilling royalty credit of \$200 per meter drilled based on a sliding scale dependent on 2008 corporate production in Alberta. Part two of the plan includes a one year new well royalty incentive that is capped at 5% for the first year to a maximum of 50,000 barrels for oil wells and 500 million cubic feet for gas wells. Thirdly, to encourage the cleanup of inactive oil and gas wells, the province will invest \$30 million in a fund committed to abandoning and reclaiming well sites. As at June 30, 2011 Solara had qualified for estimated drilling credits of \$237,000.

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011 (\$)	2010 (\$)	% CHANGE	2011 (\$)	2010 (\$)	% CHANGE
Crown Royalties	126,304	50,813	149	246,470	84,181	193
Freehold Royalties	63,461	22,264	185	103,753	44,506	133
Gross Overriding Royalties	53,688	25,236	113	73,730	42,784	72
Total Royalties	243,453	98,313	148	423,953	171,471	147
\$/BOE	8.09	3.70	119	5.43	3.33	63

Operating Expense

Operating expenses increased to \$1,453,222 (\$18.61/BOE) for the six months ended June 30, 2011 from \$1,049,626 (\$20.39/BOE) for the same period in 2010. For the three months ended June 30, 2011, operating expenses decreased to \$583,650 (\$19.39/BOE) from \$514,805 (\$19.35/BOE) for the same period in 2010. The decrease on a barrel of oil equivalent basis in operating expenses relates to lower operating costs on new producing oil properties, and the reduction of operating costs by shutting-in uneconomic natural gas wells during the period.

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011 (\$)	2010 (\$)	% CHANGE	2011 (\$)	2010 (\$)	% CHANGE
Total Operating Expenses	583,650	514,805	13	1,453,222	1,049,626	38
\$/BOE	19.39	19.35	0	18.61	20.39	(9)

Depletion, Depreciation and Accretion

Depletion and depreciation was \$1,511,378 for the six months ended June 30, 2011 (\$19.36/BOE) compared to \$628,685 (\$12.21/BOE) for the six months ended June 30, 2010. For the three months ended June 30, 2011 DD&A increased to \$594,136 (\$19.73/BOE) from \$322,838 (\$12.13/BOE) for the same period in 2010.

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011	2010	%	2011	2010	%
	(\$)	(\$)	CHANGE	(\$)	(\$)	CHANGE
Depletion of oil and gas properties	590,872	319,208	85	1,505,324	626,021	140
Depreciation of office equipment and leasehold improvements	3,264	3,630	(10)	6,054	2,664	127
Total	594,136	322,838	84	1,511,378	628,685	140
\$/BOE	19.73	12.13	63	19.36	12.21	58

General and Administrative

Net general and administrative expenses (G&A) for the six months ended June 30, 2011 were \$767,915 (\$9.84/BOE) compared to \$394,424 (\$7.66/BOE) for the period ended June 30, 2010. This increase in net G&A as compared to the same 2010 period is due to additional costs to implement IFRS and the hiring of additional consultants and staff as a result of increased activity. For the three months ended June 30, 2011 net G&A increased to \$439,972 (\$14.61/BOE) from \$202,009 (\$7.59/BOE) for the same period in 2010 due the impact of lower production during the period and higher administrative costs than usual associated with the IFRS conversion.

	THREE MONTHS ENDED JUNE 30,			SIX MONTHS ENDED JUNE 30,		
	2011	2010	%	2010	2009	%
	(\$)	(\$)	CHANGE	(\$)	(\$)	CHANGE
Gross G&A	570,114	335,692	70	1,047,554	643,617	63
Capitalized Overhead	(130,142)	(133,683)	(3)	(279,639)	(249,193)	12
Net G&A	439,972	202,009	118	767,915	394,424	95
\$/BOE	14.61	7.59	92	9.84	7.66	28

Share Based Payments

Current employee compensation includes salary, management fees and stock options. The purpose of the stock option plan is to retain and attract employees, consultants and other service providers, to reward and encourage performance, and to focus employees and consultants on operating and financial performance that results in higher shareholder return. On January 29, 2010, the Corporation issued 600,000 stock options at \$0.12 per Class A Share. One-third of these options vested immediately. The balance of the expense is amortized over the following two years. On May 3, 2010 the Corporation issued 500,000 stock options at \$0.15 per Class A Share. One-third of these options vested immediately. The balance of the expense is amortized over the following two years. On August 9, 2010 the Corporation issued 500,000 stock options at \$0.25 per Class A Share. One-third of these options vested immediately. The balance of the expense is amortized over the following two years. On September 1, 2010 the Corporation issued 155,000 stock options at \$0.25. One third of these options vest immediately. The balance of the expense is amortized over the following two years. On January 26, 2011 the Corporation issued 1,000,000 stock options at \$0.70. One third of these options vest immediately. The balance of the expense is amortized over the following two years.

Deferred Income Tax Reduction and Deferred Tax Liability

The Corporation has a deferred tax liability of \$1,952,479 at June 30, 2011 (December 31, 2010 - \$1,581,635). The increase to the deferred tax liability during the year reflects the impact of current year losses and adjustments for the effects of using flow-through shares.

Funds Flow from Operations

Funds from operations were \$1,689,359 at June 30, 2011 or \$0.02 per basic and diluted share up from \$454,475 or NIL per basic and diluted share for 2010, representing a 272% increase. This increase resulted primarily from higher crude oil prices partially offset by higher royalties, operating costs and G&A during the current period.

Cash Netbacks

Comparing the period ended June 30, 2011 to the same period in 2010; field netbacks increased 69% from \$21.08/BOE to \$35.71/BOE. This increase is primarily a result of higher crude oil prices offset partially by higher royalties in the first six months of 2011 compared to the prior period in 2010.

2011 Capital Projects

The Corporation undertook drilling operations on four horizontal wells in late 2010 which required completion and tie-in operations during 2011. Solara operated the drilling of two horizontal wells at Buck Lake in the Pembina area of western Alberta to evaluate the oil potential of the Cardium formation. The Corporation operated both wells with a 20.67% interest in one of the wells and a 20% interest in the second well. Upon being completed and stimulated with oil fracs, both wells tested at initial rates of 1,700 boe/d and 1,400 boe/d respectively. These initial rates are not generally indicative of longer term stabilized production rates based on the results of other wells drilled on the play in the Pembina area. Both wells were tied-in for production in late February, 2011. In addition to its own interests, Solara manages the interests of two separate limited partnerships through its wholly owned subsidiary companies which act as the general partner on behalf of the limited partners. The Pembina Cardium Limited Partnership owns a 20% interest in one of the above-referred wells, and the Buck Lake Limited Partnership owns a 6% interest in the other well. The Corporation is paid a 10% management fee based on net operating income generated from the wells. None of the insiders individually or collectively have a controlling interest in either of the two limited partnerships. There remain up to four more drilling locations on these lands. One well was drilled in February, 2011 and was not completed or stimulated for production until late June. Solara and its partners commenced the drilling of another horizontal well to evaluate the Cardium oil potential in section 9-45-5 W5M in late August. The Pembina Buck Lake project represents a core area for the Corporation.

In December, 2010, the Corporation drilled two horizontal wells into the Dina formation on 100% working interest lands located in the Dewberry area of eastern Alberta. Both of the wells were completed for oil production in late February of 2011. The combined initial rate of oil production from the two wells was 100 bbls/d of heavy oil. Solara has plans to drill up to two additional horizontal wells to further evaluate the Dina and Sparky formations in the balance of 2011. In addition, the Corporation has plans to drill two conventional wells to evaluate the Sparky formation in Dewberry. All of the wells are scheduled to be drilled on its 100% working interest lands. As a result of the approval of a primary depletion scheme by the ERCB with respect to the Dewberry lands, Solara estimates that it has in excess of 70 potential infill drilling locations on the Dewberry lands in which the Corporation owns an average 74% working interest.

The Corporation entered into a farmout and option agreement in the Borradaile area of eastern Alberta in February of 2011. It drilled the first well in March to evaluate the oil potential of the Lloydminster formation. The well was completed in May as an oil well and placed on production in June. Solara has exercised its option to drill another well on the option lands and it was drilled and completed as a potential

Sparky oil well in July.

In late June, the Corporation entered into a farmin arrangement to drill two test wells in the Sylvan Lake area of central Alberta to evaluate the oil potential of separate Leduc D3 reef anomalies which have been identified utilizing 3D seismic. The first well is expected to be commenced before the end of August.

Convertible Debentures

In July, 2006, the Corporation raised \$2,756,000 through the issue of 8.5% fixed rate unsecured subordinated convertible debentures which mature on July 7, 2011. Each \$1,000 debenture is convertible at any time prior to July 7, 2011 (debenture expiry date) into 667 Class A Shares at a price of a \$1.50 per share. 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 exceed \$1.80 for 20 consecutive trading days prior to the notice date. The fair value of the conversion feature, calculated using the effective interest method, was estimated to be \$269,198 and included in shareholders' equity. The convertible debenture 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 debentures are subordinated to the fixed and floating debenture in favor of the Corporation's lender. The carrying value of the convertible debenture debt component is accreted to the original face value of the instruments over their useful life. Accretion expense of \$47,862 (2010 - \$49,590) has been recorded during the period ended June 30, 2011. The debentures were redeemed at face value with cash on July 7, 2011.

Shareholders' Equity

Capital stock as at June 30, 2011 was \$25,931,206 compared to \$25,283,649 at December 31, 2010.

The Corporation completed a private placement of 7,465,896 Units for gross proceeds of \$3,359,653 on October 22, 2010. Each Unit comprised one Class A Flow Through Share at a price of \$0.45 per share and one Class A Share Purchase Warrant. Two Class A Share Purchase Warrants plus \$0.55 are exercisable into one Class A Share on or before June 30, 2011. In December, 2010, 25,000 warrants were exercised for proceeds of \$13,750. Pursuant to the October 22, 2010 private placement, the Corporation paid a finder's fee of \$140,760 to an arms length broker and issued 312,800 broker warrants exercisable on the basis of one warrant plus \$0.45 to acquire one Class A Share on or before July 31, 2011. During the six month period ended June 30, 2011, 386,691 Class A Share Purchase Warrants and 91,488 broker warrants were exercised for proceeds of \$253,850.

On August 5, 2010 the Corporation issued 4,080,000 Units for gross proceeds of \$1,020,000. Each Unit is comprised of one Class A Flow Through Share of the Corporation priced at \$0.25 per share, and one-half of a Class A Flow Through Share Purchase Warrant. One whole Warrant plus \$0.30 is exercisable into one Class A Flow Through Share until March 31, 2011. In December, 2010, 510,000 warrants were exercised for proceeds of \$153,000 and in the first half of 2011 the remainders of the warrants were exercised for proceeds of \$459,000. The Corporation paid a finder's fee to an arm's length broker in the amount of \$60,000 and issued 240,000 broker warrants. Each broker warrant is exercisable into one Class A Common Share of the Corporation at a price of \$0.25 per share on or before July 31, 2011.

On May 28, 2010 the Corporation issued 5,095,000 Units for gross proceeds of \$764,250. Each Unit is comprised of one Class A Flow Through Share of the Corporation priced at \$0.15 per share, and one-half of a Class A Flow Through Share Purchase Warrant. One whole warrant plus \$0.20 was exercisable into one Class A Flow Through Share until December 31, 2010. The warrants were all exercised for proceeds of \$509,500. The Corporation paid a finder's fee to an arm's length broker in the amount of \$56,100 and issued 374,000 broker warrants which were exercised into 374,000 Class A Shares for proceeds of \$56,100 as at December 31, 2010.

Off Balance Sheet Arrangements

No off balance sheet arrangements existed as at June 30, 2011.

Related Party Transactions

A loan to the President, CEO and director for \$85,000 for the purchase of 340,000 Class A Shares of the Corporation in November, 2005 was repaid in full on February 11, 2011. In December, 2010, the President, CEO and director of the Corporation exercised stock options which were expiring prior to December 31, 2010 and initially paid \$70,000 for a portion of the exercised stock options. The remaining balance of the exercise cost of \$100,331 for the stock options was paid in full by February 7, 2011. These amounts were recorded in accounts receivable as at December 31, 2010.

The Corporate Secretary of the Corporation is Counsel to a law firm that provides legal services to the Corporation. During the period ended June 30, 2011, the Corporation paid a total of \$84,369 (2010 - \$29,896) for such services.

Commitments

At June 30, 2011 the Corporation has an obligation to incur approximately \$390,000 in qualifying expenditures by December 31, 2012 resulting from flow-through shares being issued in the first six months of 2011.

The Corporation is committed to office lease payments totalling \$72,298 to March 1, 2012 and includes current operating costs. These obligations are as follows: 2011 - \$55,881, 2012 - \$16,417.

Liquidity and Capital Resources

The working capital deficiency at June 30, 2011 was \$10,371,604 compared to \$12,805,455 at December 31, 2010. Bank debt of \$9,816,081 and the convertible debenture of \$2,754,098 comprise the majority of the working capital deficiency at June 30, 2011. The Corporation had an unutilized operating line of \$2,183,919 on its \$12,000,000 demand revolving line of credit with its major lender at June 30, 2011 (subsequent to June 30, 2011 the operating line was increased to \$13.5 million). The Corporation was compliant with its lender's covenants at June 30, 2011. On an ongoing basis the Corporation will utilize four sources of funding to finance its capital expenditure program: (1) funds from operations; (2) debt when deemed favorable; (3) sale of non-core properties; and (4) raise additional investment capital, if deemed appropriate.

Subsequent Events

On July 7, 2011, the Corporation redeemed the convertible debentures for their face amount of \$2,756,000.

In July, 2011, the Corporation's lender increased the demand revolving operating facility to \$13.5 million from \$12.0 million and revised the development facility from \$4.0 million to \$2.5 million.

In August, 2011, the Corporation completed a private placement of 3,080,000 Units for gross proceeds of \$1,232,000. Each Unit comprised one Class A Flow-Through Share at a price of \$0.40 per share and one Class A Flow-Through Share Purchase Warrant. Two Warrants plus \$0.50 are exercisable into one Class A Flow-Through Share on or before December 31, 2011.

Changes in Accounting Policies

Explanation of transition to IFRS

In January 2006, the Canadian Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards (IFRS), which will replace Canadian GAAP for years beginning on or after January 1, 2011. Accordingly, the condensed interim financial statements for the six months ended June 30, 2011, including required comparative information, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Standards, and with IAS34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”).

The adoption of IFRS has not had a material impact on the Corporation’s operations, strategic decisions or internal controls. The most significant area of impact was the accounting treatment of full cost oil and gas assets, depletion, flow-through shares, share-based payment transactions and decommissioning liabilities.

IFRS 1 - allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Corporation has taken the following exemptions:

IFRS 3 - Business Combinations (“IFRS 3”)

The Corporation has elected to apply the exemption for retrospective application of IFRS 3 to business combinations that took place before the transition date.

IFRS 6 - Exploration for and Evaluation of Mineral Resources

The Corporation has elected to apply the exemption from full retrospective application of IFRS 6. As such the Corporation has at January 1, 2010, measured the exploration and evaluation assets at the amount determined under Canadian GAAP and measured the development and production assets by allocating the amount determined under Canadian GAAP to the underlying assets on a pro rata basis using reserve values at that date. As a result of using the IFRS 1 optional exemption, the exploration and evaluation assets and the development and production assets have been subjected to an impairment test.

IAS 23 – Borrowing Costs

IAS 23 has not been applied retrospectively. As at the transition date, the Corporation did not have any qualifying assets.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)

The Corporation has elected to apply the exemption from full retrospective application of decommissioning liabilities as allowed under IFRS 1. As such, the Corporation has re-measured the provisions as at January 1, 2010 under IAS 37 and recognized the difference between the amount determined under IAS 37 and the carrying amount of the provisions at January 1, 2010, directly in retained earnings.

IFRIC 4 - Determining whether an Arrangement contains a Lease (“IFRIC 4”)

This IFRIC has not been applied retrospectively. The Corporation made an assessment as to whether an arrangement, existing at the Transition Date, contains a lease on the basis of the facts and circumstances existing at that date. The assessment was made in accordance with the requirements IFRIC 4. The Corporation did not identify any arrangements containing a lease on the transition date.

A more detailed explanation of the impact of the adoption of IFRS can be found in note 18 to the condensed interim financial statements at March 31, 2011.

New Standards and Interpretations Not Yet Adopted

IFRS 9 - Financial Instruments, as issued in November 2009 and revised in October 2010 is required to be adopted by 2013, subject to confirmation by the International Accounting Standards Board. The standard addresses classification and measurement of financial assets and replaces the multiple category and

measurement models in IAS 39 and divides all financial assets that are currently in the scope of IAS 39 into two classifications; amortized cost and those measured at fair value.

IFRS 10 - Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Corporation.

IFRS 11 - Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 - Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 27 - Separate Financial Statements revised the existing standard which addresses the presentation of parent Corporation financial statements that are not consolidated financial statements.

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Corporation has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

Business Risks and Uncertainties

The Corporation's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin where activity is highly competitive and includes companies ranging from smaller junior producers to the much larger integrated petroleum companies. The Corporation is subject to various types of business risks and uncertainties, including:

- Finding and developing oil and natural gas reserves at economic costs
- Production of oil and natural gas in commercial quantities
- Marketability of oil and natural gas produced
- Substantial capital requirements and access to capital markets
- Environmental risks
- Insurance
- Reliance on operators and key employees
- Third party credit risk
- Changes in legislation and incentive programs

In order to reduce exploration risk, the Corporation strives to employ highly qualified and motivated professional employees with a demonstrated ability to generate quality proprietary geological and geophysical prospects. To help maximize drilling success, the Corporation combines exploration in areas that afford multi-zone prospect potential, targeting a range of low to moderate risk prospects with some exposure to select high risk, high reward opportunities. The Corporation also explores in areas where it has significant drilling experience.

The Corporation mitigates its risk related to producing hydrocarbons through the utilization of the most appropriate technology and information systems. In addition, the Corporation seeks to maintain operational control of the majority of its prospects.

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risk, the Corporation conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Corporation maintains current insurance coverage for general and comprehensive liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements as well as industry standards and government regulations. The Corporation may periodically use financial or physical delivery commodity price contracts to reduce its exposure against the potential adverse impact of commodity price volatility, as governed by formal policies approved by senior management subject to controls established by the Board of Directors. During the first quarter of 2009 the Corporation entered into two contracts (see the discussion under “Commodity Price Risk Management”).

Critical Accounting Estimates and Policies

The Corporation’s significant accounting policies are outlined in note 3 to the condensed interim consolidated financial statements at June 30, 2011. The following summarizes certain accounting estimates that are integral to the determination of reported financial results.

Proved Petroleum and Natural Gas Reserves

Proved plus probable 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

The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Changes in estimated proved plus probable reserves or future development costs have a direct impact on depletion and depreciation expense.

Impairment

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit” or “CGU”). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. . By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material

Share Based Payments

The Corporation follows the fair value method of accounting for stock options granted to employees, directors and certain service providers. Share based payment expense is recorded for all options granted with the corresponding amount recorded as contributed surplus. Share based payment 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 share based payment 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, forfeiture rates, underlying volatility 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.

Decommissioning 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 decommissioning obligation cost. The total future decommissioning 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 decommissioning 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.

Outlook

As a result of an aggressive drilling program undertaken in 2010 and during the first three months of 2011, the Corporation has an excellent inventory of both development and exploratory drilling opportunities on low to moderate risk projects. At Pembina Buck Lake, Solara operated and participated in the drilling of four horizontal wells to evaluate and produce oil and gas from the Cardium formation. Initial test rates of production from the four wells have ranged from 1,400 BOE/d to 1,700 BOE/d. These initial test rates may not be indicative of longer term production rates based on the production histories of comparable horizontal wells in the general Pembina area of Alberta. There are a total of four additional drilling locations for the Cardium which are planned to be drilled in 2011. The Corporation has a 35% working interest in two sections of land located in the Crystal area of Pembina which are prospective for the Cardium oil play. The operator of these lands is proposing that a horizontal well be drilled in 2011. Solara is evaluating the economic and technical merits of the proposed well at Crystal. In June, 2011, the Corporation entered into a joint venture farmin agreement to drill a horizontal well into the Cardium formation to evaluate certain lands within five miles of its main Pembina Buck Lake project. Solara plans to commence the drilling of this well on or before September 30, 2011. The Corporation commenced the drilling of a third Cardium horizontal well in section 9-45-5 W5M in late August.

At its Dewberry Heavy Oil Project located in eastern Alberta, Solara plans to drill two more horizontal wells and two conventional vertical wells to evaluate the oil potential of the Sparky and Dina formations on its 100% working interest lands. There are in excess of 70 infill drilling locations for the Sparky and Dina zones based on the geological and geophysical mapping of the two heavy oil pools. The Corporation is currently addressing the production downtime issues associated with the relatively new project, as well as working

toward reducing higher than forecasted operating costs. The internal assessment of the management of Solara for the Dewberry Project is optimistic given the performance of analogous producing heavy oil pools in the immediate geographical area. Drilling of new wells on the project may be accelerated if field production performance warrants the increased activity and availability of drilling funds. Management believes that if it can significantly reduce the number of well days of downtime, there is a material opportunity to increase daily oil production for the project. The Corporation is currently addressing this opportunity through various operational activities. Solara is also addressing the compression issues at the Buck Lake Cardium project to reduce the number of down days of its wells.

The Corporation drilled a new oil pool in the Borradaile area of eastern Alberta in March, 2011. This well was subsequently completed and equipped for production and is capable of producing heavy oil at an initial rate of approximately 30 bbls/d. Solara has exercised an option to drill another well on this property which was drilled and completed as a potential Sparky oil well in July.. The Borradaile oil pool is located approximately eight miles south of the Dewberry Project. Additional infill wells may be drilled on the project over time.

In June, 2011, the Corporation entered into a joint venture arrangement which provides for the drilling of two exploratory wells to evaluate the Leduc D 3 oil potential of two reef plays located in the Sylvan Lake area of central Alberta. These two reef plays were delineated utilizing 3D geophysical data and geological mapping techniques. The first of these wells was commenced in late August and is expected to be finished drilling in mid-September.

Solara has plans to drill new wells on other oil projects it operates during the balance of 2011. The Corporation has established a preliminary net capital budget of \$11 million to finance its drilling activities during the year funded from undrawn bank lines, cash flow, funds generated by sale of minor properties and equity financings.

In the first part of 2011, the Corporation sold various non-core assets comprising approximately 120 BOE/d for total aggregate proceeds of \$5,492,000 as part of its rationalization of non-strategic assets program. It plans to sell additional non-core properties in 2011 for the purpose of creating increased operating and general and administrative efficiencies, and to reduce bank debt.

The overall focus of the Corporation in 2011 will be to optimize core oil projects and to identify new drilling opportunities which will provide additional growth in production and reserves.

Additional Information

Additional information regarding the Corporation and its business and operations is available on the Corporation's profile at www.sedar.com and on the Corporation's website at www.solaraexploration.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.

Form 52-109FV2
Certification of Interim Filings - Venture Issuer Basic Certificate

I, Willie Dawidowski, Chief Financial Officer of Solara Exploration Ltd., certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of Solara Exploration Ltd. (the “issuer”) for the interim period ended June 30, 2011.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: August 29, 2011

“Willie Dawidowski”

Willie Dawidowski
Chief Financial Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Form 52-109FV2
Certification of Interim Filings - Venture Issuer Basic Certificate

I, Donald R. Holding, President and Chief Executive Officer of Solara Exploration Ltd., certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the “interim filings”) of Solara Exploration Ltd. (the “issuer”) for the interim period ended June 30, 2011.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: August 29, 2011

“Donald R. Holding”

Donald R. Holding

President and Chief Executive Officer

NOTE TO READER

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

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