

## Consolidated Interim Financial Statements

December 31, 2009

(Unaudited)

In accordance with National Instrument 51-102, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the quarter ended December 31, 2009.

**TAG Oil Ltd.**

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**Consolidated Balance Sheets**  
**Expressed in Canadian Dollars**

|   | December 31, 2009<br>Unaudited | March 31, 2009 |
|---|--------------------------------|----------------|
| <b>Assets</b>   |                                |                |
| Current   |                                |                |
| Cash and cash equivalents                               | \$ 9,443,992                   | \$ 7,385,177   |
| Amounts receivable and prepaids                         | 1,076,250                      | 192,711        |
| Inventory   | 1,108,649                      | 779,423        |
|   | 11,628,891                     | 8,357,311      |
| Property and equipment (Note 5)                         | 9,413,376                      | 4,547,879      |
| Investment (Note 7)                                     | 552,460                        | 217,521        |
|   | \$ 21,594,727                  | \$ 13,122,711  |
| <b>Liabilities and Shareholders' Equity</b>             |                                |                |
| Current   |                                |                |
| Accounts payable and accrued liabilities                | \$ 1,079,311                   | \$ 484,531     |
| Non-current   |                                |                |
| Asset retirement obligations (Note 8)                   | 2,535,572                      | 812,522        |
|   | 3,614,883                      | 1,297,053      |
| Share capital (Note 9)                                  | 76,129,735                     | 69,644,677     |
| Contributed surplus                                     | 1,019,267                      | 917,512        |
| Deficit   | (59,262,618)                   | (57,517,923)   |
|   | 17,886,384                     | 13,044,266     |
| Accumulated other comprehensive income (loss) (Note 10) | 93,460                         | (1,218,608)    |
|   | \$ 21,594,727                  | \$ 13,122,711  |

See accompanying notes.

Approved by the Board of Directors:

"Garth Johnson"  
**Garth Johnson, Director**

"John Vaccaro"  
**John Vaccaro, Director**



**Consolidated Statements of Operations and Deficit**  
**Expressed in Canadian Dollars**  
**Unaudited**

|  | Three months ended |                 | Nine months ended |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | December 31        |                 | December 31       |                 |
|  | 2009               | 2008            | 2009              | 2008            |
| <b>Revenues</b>                                      |                    |                 |                   |                 |
| Production revenue                                   | \$ 3,452,359       | \$ 728,031      | \$ 4,712,532      | \$ 4,323,228    |
| Royalties  | (1,381,643)        | (31,203)        | (1,412,773)       | (185,582)       |
|  | 2,070,716          | 696,828         | 3,299,759         | 4,137,646       |
| <b>Expenses</b>                                      |                    |                 |                   |                 |
| General and administrative                           | 607,320            | 429,179         | 1,305,450         | 1,148,754       |
| Depletion, depreciation and accretion                | 121,042            | 359,096         | 646,263           | 1,132,400       |
| Directors & officers insurance                       | 9,875              | 10,875          | 30,958            | 34,125          |
| Foreign exchange                                     | 158,153            | (573,099)       | 456,957           | (478,270)       |
| General exploration                                  | 33,063             | (140)           | 74,728            | 16,923          |
| Interest income                                      | (12,724)           | (48,183)        | (56,806)          | (127,538)       |
| Legal settlement                                     | 24,494             | (76,433)        | (28,505)          | (99,164)        |
| Production costs                                     | 626,504            | 328,912         | 1,009,991         | 1,269,522       |
| Loss on casing inventory sales                       | 377                | -               | 6,195             | -               |
| Realized loss on investment                          | -                  | -               | 1,431,979         | -               |
| Stock option compensation                            | 100,883            | 6,339           | 101,754           | 19,019          |
| Write-off of oil and gas properties                  | 63,951             | 11,365,938      | 63,951            | 11,399,083      |
| Loss on sale of fixed assets                         | 1,539              | -               | 1,539             | -               |
|  | (1,734,477)        | (11,802,484)    | (5,044,454)       | (14,314,854)    |
| <b>Net income (loss) for the period</b>              | 336,239            | (11,105,656)    | (1,744,695)       | (10,177,208)    |
| Deficit, beginning of period                         | (59,598,857)       | (37,714,910)    | (57,517,923)      | (38,643,358)    |
| <b>Deficit, end of period</b>                        | \$ (59,262,618)    | \$ (48,820,566) | \$ (59,262,618)   | \$ (48,820,566) |
| <b>Income (loss) per share -basic</b>                | \$ 0.02            | \$ (0.60)       | \$ (0.10)         | \$ (0.55)       |
| <b>-diluted</b>                                      | \$ 0.02            | \$ (0.60)       | \$ (0.10)         | \$ (0.55)       |
| <b>Weighted average number of shares outstanding</b> | 17,545,783         | 90,732,666      | 17,545,783        | 90,732,666      |

See accompanying notes.



**Consolidated Interim Statements of Comprehensive Income (Loss)**  
**Expressed in Canadian Dollars**  
**Unaudited**

|   | Three months ended<br>December 31 |                        | Nine months ended<br>December 31 |                        |
|---|-----------------------------------|------------------------|----------------------------------|------------------------|
|   | 2009                              | 2008                   | 2009                             | 2008                   |
| <b>Net income (loss) for the period</b>           | \$ 336,239                        | \$ (11,105,656)        | \$ (1,744,695)                   | \$ (10,177,208)        |
| <b>Comprehensive income (loss) in the period</b>  |                                   |                        |                                  |                        |
| Fair value adjustment to financial instruments:   |                                   |                        |                                  |                        |
| Investments (Note 7)                              | 76,987                            | (100,453)              | 93,460                           | (1,371,373)            |
| Realized loss on investment                       | -                                 | -                      | 1,219,858                        | -                      |
| <b>Comprehensive income (loss) for the period</b> | <b>\$ 413,226</b>                 | <b>\$ (11,206,109)</b> | <b>\$ (431,377)</b>              | <b>\$ (11,548,581)</b> |

See accompanying notes.

**Consolidated Statements of Cash Flows**  
**Expressed in Canadian Dollars**  
**Unaudited**

|  | Three months ended<br>December 31 |                 | Nine months ended<br>December 31 |                 |
|--|-----------------------------------|-----------------|----------------------------------|-----------------|
|  | 2009                              | 2008            | 2009                             | 2008            |
| <b>Operating Activities</b>                                |                                   |                 |                                  |                 |
| Net income (loss) for the period                           | \$ 336,239                        | \$ (11,105,656) | \$ (1,744,695)                   | \$ (10,177,208) |
| Changes for non-cash operating items:                      |                                   |                 |                                  |                 |
| Depletion, depreciation and accretion                      | 121,042                           | 359,096         | 646,263                          | 1,132,400       |
| Realized loss on investment                                | -                                 | -               | 1,431,979                        | -               |
| Stock option compensation                                  | 100,883                           | 6,339           | 101,754                          | 19,019          |
| Acquisition costs  | (33,142)                          | -               | (33,142)                         | -               |
| Loss on sale of fixed assets                               | 1,539                             | -               | 1,539                            | -               |
| Write-off of oil and gas properties                        | 63,951                            | 11,365,938      | 63,951                           | 11,399,083      |
|  | 590,512                           | 625,717         | 467,649                          | 2,373,294       |
| Changes for non-cash working capital accounts:             |                                   |                 |                                  |                 |
| Amounts receivable and prepaids                            | (948,049)                         | 481,756         | (915,938)                        | 513,874         |
| Due to/from related parties                                | -                                 | -               | -                                | (21,897)        |
| Accounts payable and accrued liabilities                   | (7,272)                           | 16,537          | (53,050)                         | 43,059          |
| Acquisition of Trans-Orient Petroleum Ltd.                 | 4,842,890                         | -               | 4,842,890                        | -               |
| Inventory  | (200,077)                         | 30,801          | (296,827)                        | 342,951         |
| Cash provided by operating activities                      | 4,278,004                         | 1,154,811       | 4,044,724                        | 3,251,281       |
| <b>Financing Activity</b>                                  |                                   |                 |                                  |                 |
| Shares purchased and returned to treasury                  | -                                 | (264,855)       | (41,767)                         | (264,855)       |
| Cash used in financing activity                            | -                                 | (264,855)       | (41,767)                         | (264,855)       |
| <b>Investing Activities</b>                                |                                   |                 |                                  |                 |
| Property and equipment expenditures                        | (1,374,697)                       | (285,283)       | (1,852,367)                      | (3,006,027)     |
| Purchase of shares   | (22,067)                          | (4,150)         | (91,775)                         | (4,150)         |
| Cash used in investing activities                          | (1,396,764)                       | (289,433)       | (1,944,142)                      | (3,010,177)     |
| <b>Net increase (decrease) in cash during the period</b>   | 2,881,240                         | 600,523         | 2,058,815                        | (23,751)        |
| <b>Cash and cash equivalents - beginning of the period</b> | 6,562,752                         | 5,928,827       | 7,385,177                        | 6,553,101       |
| <b>Cash and cash equivalents – end of the period</b>       | \$ 9,443,992                      | \$ 6,529,350    | \$ 9,443,992                     | \$ 6,529,350    |

See accompanying notes.

Supplementary disclosures:

|                   |           |           |           |            |
|-------------------|-----------|-----------|-----------|------------|
| Interest received | \$ 12,724 | \$ 48,183 | \$ 56,806 | \$ 127,538 |
|-------------------|-----------|-----------|-----------|------------|

Non-cash investing activities:

The Company incurred \$1,058,532 in expenditures which amounts were in accounts payable at December 31, 2009 (September 30, 2009: \$308,306 and March 31, 2009: \$410,703).



**Notes to the Consolidated Interim Financial Statements**  
**Nine Months Ended December 31, 2009**  
**Expressed in Canadian Dollars**  
**Unaudited**

**Note 1 – Nature of Operations**

The Company is in the process of exploring, developing and producing from its oil and gas properties and has one oil and gas property that contains reserves that are economically recoverable. The success of the Company's exploration and development of its oil and gas properties is influenced by significant financial and legal risks, as well as commodity prices and the ability of the Company to discover additional economically recoverable reserves and to bring such reserves into future profitable production. In addition, the Company must continue to obtain sufficient financing to develop its properties towards planned principal operations.

On December 16, 2009, the Company completed its merger with Trans-Orient Petroleum Ltd. ("Trans-Orient"), which holds exploration and production rights covering a large, highly prospective acreage position in New Zealand's East Coast Basin. Trans-Orient and its subsidiaries, including Orient Petroleum (NZ) Limited and Eastern Petroleum (NZ) Limited, are now 100% controlled subsidiaries of TAG Oil Ltd ("TAG").

TAG Oil issued 13,053,652 common shares to Trans-Orient shareholders on the basis of 1 common share of TAG for every 2.8 common shares held of Trans-Orient. At completion TAG had 29,863,374 common shares outstanding.

**Note 2 - Accounting Policies and Basis of Presentation**

The unaudited consolidated interim financial statements of TAG and its wholly owned subsidiaries have been prepared in accordance with generally accepted accounting principles in Canada, which were the same accounting policies and methods of computation as the audited consolidated financial statements as at March 31, 2009, with the exception of the changes discussed herein. The disclosure which follows is incremental to the disclosure included in the annual consolidated financial statements. These interim financial statements to December 31, 2009 should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended March 31, 2009.

**Note 3 – Future Changes in Accounting Policies**

**International Financial Reporting Standards ("IFRS")**

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**Business Combinations**

In January 2009, the CICA issued section 1582, "Business Combinations," which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent consideration is to be recognized at fair value at the acquisition date and will generally be measured at fair value through earnings each period until settled. Currently only contingent consideration that is resolved and payable is included in the cost to acquire the business. In addition, negative goodwill (bargain purchase gain) is required to be recognized immediately in earnings, unlike the current requirement to first reduce non-current assets in the purchase price allocation with any excess being recognized as an extraordinary gain. Section 1582 is effective January 1, 2011 with prospective application and early adoption permitted.

**Consolidated Financial Statements**

In January 2009, the CICA issued section 1601, "Consolidated Financial Statements" which will replace CICA section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. These are not explicitly required under the current standards. Section 1601 is effective on January 1, 2011 with early adoption permitted. This standard is not anticipated to have a significant effect on the Company.

#### **Non-Controlling Interests**

In January 2009 the CICA issued section 1602, "Non-controlling Interests" which will replace CICA section 1600, "Consolidated Financial Statements". Minority interest is now referred to as non-controlling interest and is presented within equity. Under this new guidance, when there is a change in control there is a gain or loss recognized on the sale of the held interests whereas increases or decreases in a parent's ownership interest while retaining control is a capital transaction. Section 1602 is effective on January 1, 2011 with early adoption permitted.

#### **Financial Instruments**

In May 2009, the CICA amended Section 3862, "*Financial Instruments – Disclosures*" to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level One are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair values of assets and liabilities in Level Two include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair values in Level Three are based on inputs that are unobservable and significant to the overall fair value measurement. These disclosures will be effective for the Company on March 31, 2010.

#### **Note 4 – Trans-Orient Petroleum Limited Acquisition**

On December 16, 2009, the Company acquired all of the issued and outstanding shares of Trans-Orient. The acquisition was accounted for by the purchase method and the shares were acquired for an aggregate of \$6,526,826 by the issuance of 13,053,652 common shares of the Company priced at \$0.50 per share. The company has used CICA Section 1581 in determining the purchase price of the Trans-Orient acquisition.

The acquisition was accounted for as of the closing date with the purchase price allocated to the assets and liabilities as shown below:

Calculation of purchase price:

|                             |                     |
|-----------------------------|---------------------|
| Fair value of shares issued | \$ 6,526,826        |
| Transaction costs           | 60,023              |
| <b>Total purchase price</b> | <b>\$ 6,586,849</b> |
| <br>                        |                     |
| Oil and gas properties      | \$ 1,200,500        |
| Equipment                   | 153,503             |
| Investment in shares        | 367,225             |
| Working capital             | 4,865,621           |
|                             | <b>\$ 6,586,849</b> |

Refer to Note 9.

## Note 5 – Property and Equipment

| New Zealand                   | Working Interest % | Net Book Value At March 31, 2009 | Additions During the Period | Recoveries, Writedowns, Depletion and Depreciation During the Period | Net Book Value At December 31, 2009 |
|-------------------------------|--------------------|----------------------------------|-----------------------------|--|-------------------------------------|
| <b>Oil and Gas Properties</b> |                    |                                  |                             |  |                                     |
| <b>Proved</b>                 |                    |                                  |                             |  |                                     |
| PMP 38156-S                   | 100                | \$ 4,170,661                     | \$ 4,013,429                | \$ (592,390)   | \$ 7,591,700                        |
| <b>Unproved</b>               |                    |                                  |                             |  |                                     |
| PEP 38738-S                   | 100                | -                                | -                           | -  | -                                   |
| PEP 38746                     | -                  | 253,878                          | 5,201                       | (259,079)  | -                                   |
| PEP 38748                     | 100                | 76,025                           | 152,616                     | (12,859)   | 215,782                             |
| PEP 38348                     | 100                | -                                | 483,164                     | -  | 483,164                             |
| PEP 50940                     | 100                | -                                | 22,862                      | -  | 22,862                              |
| PEP 38349                     | 100                | -                                | 694,474                     | -  | 694,474                             |
|                               |                    | 4,500,564                        | 5,371,746                   | (864,328)  | 9,007,982                           |
| Production equipment          |                    | 1                                | 191,119                     | -  | 191,120                             |
| Office equipment              |                    | 47,314                           | 202,569                     | (35,609)   | 214,274                             |
| <b>Total</b>                  |                    | <b>\$ 4,547,879</b>              | <b>\$ 5,765,434</b>         | <b>\$ (899,937)</b>  | <b>\$9,413,376</b>                  |

The Company's oil and gas properties are located in New Zealand and its interests in these properties are maintained pursuant to the terms of exploration and mining permits granted by the national government. The Company is satisfied that evidence supporting the current validity of these permits is adequate and acceptable by prevailing industry standards in respect to the current stage of exploration on these properties.

### PEP 38348, PEP 38349 and PEP 50940

On December 16, 2009, the Company acquired Trans-Orient Petroleum. Trans-Orient owns 100% interest in PEP 38348, PEP 38349 and PEP 50940 located on the East Coast Basin of New Zealand. Consideration paid for Trans-Orient was 13,053,652 common shares of the Company valued at \$6,586,849.

### PMP 38156-S

On October 26, 2009, the Company completed the transaction with the receivers of Austral Pacific Energy Limited to acquire the remaining 69.5% interest in PMP 38156-S ("Cheal") and PEP 38738-S in the Taranaki Basin, New Zealand. TAG owns 100% interest in the Cheal Oil and Gas field including the recently completed Cheal Production Station. The consideration paid by TAG for these assets includes:

- i) US\$2,000,000 in cash;
- ii) an initial 25% overriding royalty on net oil sale revenue per barrel on PMP 38156-S and PEP 38738-01 for the first 500,000 barrels of shallow oil produced (reduced to 7.5% for the life of the field after 500,000 barrels of oil have been produced);
- iii) certain permit work commitments that include optimization and drilling operations to be completed in the next 30 months;
- iv) a first ranking security interest over all oil produced and the proceeds of all oil produced from PMP 38156-S and PEP 38738-S to secure royalty payments and performance of certain permit work commitments.

The binding offer also contained certain price adjustments that relate to net operating profits earned and capital expenditures paid at Cheal between the May 31, 2009 effective date and the completion date of the transaction. The net operating profit and capital expenditures received from June 1, 2009 to October 26, 2009, totaled \$664,283 and the overriding royalty totaled \$1,284,273 for the same period. All net operating profit, capital expenditures and overriding royalties associated with the Cheal purchase were recognized in the quarter ended December 31, 2009.

**PEP 38748**

On December 10, 2009, the Company completed the transaction with the receivers of Austral Pacific Energy Limited to acquire the remaining 66.67% interest in PEP 38748 in the Taranaki Basin, New Zealand giving TAG 100% interest in the permit. The consideration paid for these assets was US\$50,000 in cash and a 5% overriding royalty on the first 200,000 barrels oil produced (reduced to 2.5% for all barrels produced thereafter).

**PEP 38746**

On October 24, 2009, the Company completed the sale with Greymouth Gas Co. Limited to sell its 16.65% interest in PEP 38746 for cash.

Refer to Notes 4, 9 and 14.

**Note 6 – Related Party Transactions**

The Company is of the view that the amounts incurred for services provided by related parties approximates what the Company would incur to arms-length parties for the same services.

Pursuant to an agreement dated October 1, 2007, the Company paid an insider of the Company \$45,000 in consulting fees.

The Company paid all directors, on a consolidated basis, compensation of \$60,500.

**Note 7 – Investments**

At December 31, 2009, the Company's ownership interests in investments accounted for under the cost method of accounting are as follows:

|                  | Number of<br>Common<br>Shares Held | December 31,<br>2009<br>Market<br>Value | Percentage<br>of<br>Ownership | March 31,<br>2009<br>Carrying<br>Value | Percentage<br>of<br>Ownership |
|------------------|------------------------------------|---|-------------------------------|--|-------------------------------|
| Austral Pacific  | 3,030,303                          | \$ -                                    | 5.03%                         | \$ 212,121                             | 5.03%                         |
| Trans-Orient     | -                                  | -                                       | -                             | 5,400                                  | 0.12%                         |
| Adira Energy     | 826,431                            | 432,460                                 | 1.32%                         | -                                      | -                             |
| Other investment | 222,000                            | 120,000                                 | 1.38%                         | -                                      | -                             |
|                  |                                    | \$ 552,460                              |                               | \$ 217,521                             |                               |

Austral Pacific Energy Ltd. ("Austral Pacific") trading has been suspended as a result of the company being in receivership and the Company does not expect trading in Austral Pacific to recommence. As a result the Company recognized a loss on this investment of \$1,431,979 during the period, \$1,219,858 of which had previously been included in comprehensive loss at March 31, 2009.

Trans-Orient Petroleum Limited was acquired 100% by TAG on December 16, 2009 and the common shares of Trans-Orient owned by the Company on completion were cancelled.

In accordance with CICA 3855 the Company's investments are recorded at market value at December 31, 2009.

**Note 8 – Asset retirement obligations**

**The following is a continuity of asset retirement obligations ("ARO") for the nine months ended December 31, 2009:**

|                                       |    |                  |
|---------------------------------------|----|------------------|
| Balance at March 31, 2009             | \$ | 812,522          |
| Accretion Expense                     |    | 32,109           |
| Increase in ARO for Cheal Acquisition |    | 1,690,941        |
| Balance at December 31, 2009          | \$ | <u>2,535,572</u> |

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas development activity. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately \$2,612,698 which will be incurred between 2015 and 2020.

The fair value of the liability for the Company's asset retirement obligation is recorded in the period in which it is incurred, using an inflation rate of 5% and discounted to its present value using a credit adjusted risk free rate of 8% and the corresponding amount is recognized by increasing the carrying amount of the oil and gas properties. The liability is accreted each period and the capitalized cost is depreciated over the useful life of the related asset using the unit-of-production method.

## Note 9 – Share Capital

### Authorized and Issued Share Capital

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

|  | Number<br>of Shares | Stated<br>Value |
|--|---------------------|-----------------|
| Issued and fully paid:                         |                     |                 |
| Balance at March 31, 2009                      | 16,953,222          | \$ 69,644,677   |
| Normal course issuer bid                       | (143,500)           | (41,768)        |
| Issue of new shares – Trans-Orient acquisition | 13,053,652          | 6,526,826       |
| Balance at December 31, 2009                   | 29,863,374          | \$ 76,129,735   |

On December 16, 2009, pursuant to a business combination agreement completed by the Company and Trans-Orient, the Company issued 13,053,652 shares, to Trans-Orient common shareholders, valued at \$0.50 per common share issued, based on the closing share price of the Company over a reasonable period before and after the date the terms were announced to acquire Trans-Orient.

During the 2009 fiscal year, the Company launched a normal course issuer bid to purchase up to 1,516,700 of its common shares through the facilities of the TSX Venture Exchange. The Company purchased 1,516,500 common shares for cancellation and return to treasury. On October 2, 2009, the Company launched another normal course issuer bid to purchase up to 1,364,582 of its common shares through the facilities of the TSX Venture Exchange. No purchases have been made under the current issuer bid.

On May 27, 2009, the Company filed a Form 15F with the U.S. Securities and Exchange Commission ("SEC") with the intention of voluntarily terminating the registration of its common shares under section 12(g) of the Securities Exchange Act and expects that termination of registration will become effective 90 days after its filing with the SEC. As a result of this filing, TAG Oil's reporting obligations with the SEC will immediately be suspended and, once effective, the Company's shares will no longer be quoted in the United States on the Over-the-Counter Bulletin Board.

### b) Incentive Stock Options

The Company has a stock option plan for the granting of stock options to directors, employees and service providers. Under the terms of the stock option plan, the number of shares reserved for issuance as share incentive options will be equal to 10% of the Company's issued and outstanding shares at any time. The exercise price of each option equals the market price of the Company's shares the day prior to the date that the grant occurs less any applicable discount approved by the Board of Directors and per the guidelines of the TSX Venture Exchange. The options maximum term is five years and must vest over a minimum of eighteen months.

On October 28, 2009, the Company granted a total of 900,000 stock options to directors, officers and consultants pursuant to its incentive stock option plan. These new options are exercisable at \$1.25 per share until October 28, 2014 and will vest over a period of eighteen months.

Upon the acquisition of Trans-Orient on December 16, 2009, options in Trans-Orient were converted to TAG options at a ratio of 1 TAG option for every 2.8 Trans-Orient options.

The following is a continuity of outstanding stock options:

|   | Number of<br>Options | Weighted Average Exercise<br>Price |
|---|----------------------|------------------------------------|
| Balance at March 31, 2009                     | 222,000              | \$ 3.78                            |
| Granted during the period                     | 900,000              | \$ 1.25                            |
| Trans-Orient options converted to TAG options | 694,642              | \$ 1.47                            |
| Balance at December 31, 2009                  | 1,816,642            | \$ 1.64                            |

The following summarizes information about stock options that are outstanding at December 31, 2009:

| Number<br>of Shares | Price<br>per Share | Weighted Average<br>Remaining Contractual Life | Expiry<br>Date    | Options<br>Exercisable |
|---------------------|--------------------|--|-------------------|------------------------|
| 80,000              | US\$3.25           | 0.00   | January 1, 2010   | 80,000                 |
| 15,000              | US\$3.25           | 0.36   | May 10, 2010      | 15,000                 |
| 30,000              | \$6.50             | 0.89   | November 22, 2010 | 30,000                 |
| 65,000              | \$3.50             | 1.59   | August 2, 2011    | 65,000                 |
| 12,000              | \$2.60             | 1.89   | November 22, 2011 | 12,000                 |
| 437,499             | US\$1.40           | 3.20   | March 14, 2013    | 437,499                |
| 71,429              | US\$2.24           | 3.49   | June 26, 2013     | 71,429                 |
| 17,857              | US\$1.51           | 3.56   | July 21, 2013     | 11,905                 |
| 17,857              | US\$1.96           | 3.59   | August 1, 2013    | 11,905                 |
| 20,000              | \$1.25             | 3.59   | August 1, 2013    | 13,334                 |
| 150,000             | \$1.26             | 4.83   | October 28, 2014  | -                      |
| 900,000             | \$1.25             | 4.83   | October 28, 2014  | -                      |
| 1,816,642           |                    | 3.90   |                   | 748,072                |

The Company applies the Black-Scholes option pricing model using the closing market prices on the grant dates and to date the Company has calculated option benefits using a volatility ratio of 75% and a risk free interest rate of 3.5% to calculate option benefits. The fair value of the option benefit is amortized over the vesting period of the options, generally being eighteen months.

#### c) Share Purchase Warrants

The following is a continuity of outstanding TAG share purchase warrants after the acquisition of Trans-Orient:

|                              | Number of<br>Share Purchase<br>Warrants | Weighted Average<br>Exercise Price | Expiry<br>Date |
|------------------------------|---|------------------------------------|----------------|
| Balance at December 31, 2009 | 71,428                                  | US\$2.24                           | June 24, 2010  |

#### d) Income (Loss) Per Share

Basic weighted average shares outstanding for the nine months ended December 31, 2009 was 17,545,783 (2008: 90,732,666) and diluted weighted average shares outstanding for the period was 19,433,853 (2008: 91,842,666). Stock options and share purchase warrants outstanding are not included in the computation of the diluted loss per share as the inclusion of such securities would be anti-dilutive.

Refer to Note 14.

**Note 10 – Accumulated Other Comprehensive Income (Loss)**

|  | Accumulated Other<br>Comprehensive Loss |
|--|---|
| Balance at March 31, 2009                        | \$ (1,218,608)                          |
| Reclassification of realized loss on investments | 1,219,858                               |
| Unrealized gain on investments                   | 92,210                                  |
| Balance at December 31, 2009                     | \$ 93,460                               |

**Note 11 – Capital Management**

The Company's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining the future development of the business and maintaining investor, creditor and market confidence.

The Company considers its capital structure to include shareholders' equity and working capital. Management is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas industry. In the event that adjustments to the capital structure are necessary, the Company may consider issuing additional equity, raising debt or revising its capital investment programs.

The Company's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any currently contemplated. There have been no changes to the Company's approach to capital management during the period.

**Note 12 – Financial Instruments**

The nature of the Company's operations expose the Company to credit risk, liquidity risk and market risk, and changes in commodity prices, foreign exchange rates and interest rates may have a material effect on cash flows, net income and comprehensive income.

This note provides information about the Company's exposure to each of the above risks as well as the Company's objectives, policies and processes for measuring and managing these risks.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

**a) Credit Risk**

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; the majority of all of the Company's production is sold directly to one company by the operator of the permit on behalf of the Cheal joint venture. The Company is paid its share of oil sales, by the operator, immediately upon receipt of sale proceeds. The Company has assessed the risk of non-collection from the operator as a significant risk due to the operator's financial condition.

Cash and cash equivalents consist of cash bank balances and short-term deposits. The Company's short-term investments are held with a Canadian chartered bank and are monitored to ensure a stable return. The Company's short-term investments currently consist of term deposits as it is not the Company's policy to utilize complex, higher-risk investment vehicles.

The carrying amount of amounts receivable and prepaids and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at December 31, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended December 31, 2009. As at December 31, 2009 there were no significant amounts past due or impaired.

#### **b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its work commitments and other financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon maintaining its current working capital balances, operating cash flows and ability to raise funds. To forecast and monitor liquidity the Company prepares operating and capital expenditure budgets which are monitored and updated as considered necessary. Expected future cash flow from the Cheal oil field currently exceeds operating costs and future capital expenditures. Considering these circumstances and the cash balance at December 31, 2009 of \$9.4 million, the Company's liquidity risk is assessed as low. As at December 31, 2009 the Company's only financial liabilities are accounts payable and accrued liabilities of \$1,079,311.

#### **c) Market Risk**

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. Changes to commodity prices materially affected the Company's cash flow and net income, during the 2009 fiscal year however these commodity prices have strengthened during the 2010 fiscal year to date.

#### **d) Foreign Currency Exchange Rate Risk**

Foreign currency exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum sales are denominated in United States dollars and operational and capital activities related to our properties are transacted primarily in New Zealand dollars and/or United States dollars with some costs also being incurred in Canadian dollars.

The Company currently does not have significant exposure to other currencies and this is not expected to change in the foreseeable future as the work commitments in New Zealand are expected to be carried out in New Zealand and to a lesser extent, in United States dollars.

#### **e) Commodity Price Risk**

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of the Company's oil production is sold at spot rates exposing the Company to the risk of price movements.

The Company did not have any commodity price contracts in place as at or during the period ended December 31, 2009, however changes in commodity prices did affect the Company's results of operations in fiscal 2009. These commodity price decreases during fiscal 2009 negatively affected the value of the Company's development property. However these commodity prices have strengthened during the 2010 fiscal year to date.

#### **f) Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and cash equivalents which bear a floating rate of interest. The risk is not considered significant as the Company's interest revenue is approximately 2% of total revenue.

The Company did not have any interest rate swaps or financial contracts in place as at or during the year ended December 31, 2009 and any variations in interest rates would not have materially affected net income.

#### **g) Fair Value of Financial Instruments**

The Company's financial instruments as at December 31, 2009, included cash and cash equivalents, amounts receivable and prepaids, investments and accounts payable and accrued liabilities. The fair value of the financial instruments with exception of the Company's investments, approximate their carrying amounts due to their short terms to maturity. The fair value of the Company's investments approximate their carrying value as they are recorded at market value at December 31, 2009.

### Note 13 – Comparative Figures

Certain of the prior period's figures may have been reclassified in conformity with the current period's financial statement presentation.

### Note 14 – Subsequent Events

#### a) Oil and gas properties

On January 15, 2010, PEP 38738-S expired after reaching the end of the permits second 5 year term. In January 21, 2010, the Company made an application to extend the area of PMP 38156-S by 4.92sq-km to retain exploration rights on certain acreage of the former PEP 38738-S.

On January 26, 2010, the Company was awarded a 100% interest in a 61,900-acre permit extension to the Company's PEP 38349 permit, located in the southern portion of the onshore East Coast Basin, New Zealand.

#### a) Share capital

On February 9, 2010, the Company granted 175,000 stock options to consultants. These options are exercisable at \$2.90 per share until February 9, 2015 and will vest over a period of eighteen months.

### Note 15 – Segmented Information

The Company operates in one industry: petroleum exploration and production. It operates in two geographical regions, therefore information on country segments is provided as follows:

| <b>For the Nine Months Ended December 31, 2009</b> | <b>Canada</b>         | <b>New Zealand</b>  | <b>Total Company</b>  |
|--|-----------------------|---------------------|-----------------------|
| Production revenue                                 | \$ -                  | \$ 4,712,532        | \$ 4,712,532          |
| Royalties  | -                     | (1,412,773)         | (1,412,773)           |
|  | -                     | 3,299,759           | 3,299,759             |
| Expenses:  |                       |                     |                       |
| General and administrative                         | (946,644)             | (358,806)           | (1,305,450)           |
| General exploration                                | -                     | (74,728)            | (74,728)              |
| Production costs                                   | -                     | (1,009,991)         | (1,009,991)           |
| Stock based compensation                           | (101,754)             | -                   | (101,754)             |
| Directors and officers insurance                   | (30,958)              | -                   | (30,958)              |
| Foreign exchange                                   | (408,664)             | (48,293)            | (456,957)             |
| Depletion, depreciation and accretion              | (49,321)              | (596,942)           | (646,263)             |
| Loss on casing inventory sales                     | -                     | (6,195)             | (6,195)               |
| Interest income                                    | 36,643                | 20,163              | 56,806                |
| Legal settlement                                   | -                     | 28,505              | 28,505                |
| Realized loss on investment                        | (1,431,979)           | -                   | (1,431,979)           |
| Write-off of oil and gas properties                | -                     | (63,951)            | (63,951)              |
| Loss on sale of fixed assets                       | -                     | (1,539)             | (1,539)               |
| <b>Net (loss) income for the period</b>            | <b>\$ (2,932,677)</b> | <b>\$ 1,187,982</b> | <b>\$ (1,744,695)</b> |
| Total assets                                       | \$ 5,367,378          | \$ 16,227,349       | \$ 21,594,727         |
| Capital expenditures for the period                | \$ -                  | \$ 5,765,434        | \$ 5,765,434          |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is dated 26 February, 2010 for the nine month period ended December 31, 2009 and should be read in conjunction with the Company's accompanying unaudited consolidated interim financial statements, the audited consolidated financial statements and the MD&A for the year ended March 31, 2009.

### Forward Looking Statements

The MD&A contains forward-looking statements within the meaning of securities laws, including the "safe harbour" provisions of Canadian securities legislation. Forward-looking statements and information concerning anticipated financial performance are based on management's assumptions using information currently available. Material factors or assumptions used to develop forward-looking information include potential business prospects, growth strategies, the ability to add production and reserves through development and exploration activities, the ability to reduce costs and extend commitments, projected capital costs, government legislation, well performance, the ability to market production, the commodity price environment and quality differentials and exchange rates. Although management considers its assumptions to be reasonable based on these factors, they may prove to be incorrect.

Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "assume", "believe", "estimate", "expect", "forecast", "guidance", "may", "plan", "predict", "project", "should", "will", or similar words suggesting future outcomes. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to reserves, future production volumes, cash flow, royalty and tax obligations, production expenses, general and administrative expenses, future income taxes, and future exploration and development activities and the related expenditures.

Because forward-looking information addresses future events and conditions, it involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties include, but are not limited to: commodity price volatility; well performance and marketability of production; transportation and refining availability and costs; exploration and development costs; the recoverability of reserves; reserves estimates and valuations; the Company's ability to add reserves through development and exploration activities; fluctuations in currency exchange rates; and changes in government legislation and regulations.

The forward-looking statements contained herein are as of February 26, 2010 and are subject to change after this date. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive and as such undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, with the exception of events or circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking information for a period that is not yet complete that was previously disclosed to the public, the Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

### Business

TAG Oil Ltd. is a Canadian-based oil and gas producer and explorer with assets in the onshore Taranaki and East Coast Basin's of New Zealand. TAG is poised to grow through profitable operations, acquisition, development and exploration. TAG remains in a strong financial position, with sufficient working capital to fund operations and meet all commitments for the foreseeable future.

On December 16, 2009, the Company completed its merger with Trans-Orient Petroleum Ltd. ("Trans-Orient"), which holds exploration and production rights covering a large, prospective acreage position in New Zealand's East Coast Basin. Trans-Orient Petroleum Ltd. and its subsidiaries, including DLJ Management Corp, Orient Petroleum (NZ) Limited and Eastern Petroleum (NZ) Limited, are now 100% controlled subsidiaries of TAG. TAG issued 13,053,652 common shares to Trans-Orient shareholders on the basis of 1 common share of TAG for every 2.8 common shares held of Trans-Orient. Please also refer to Notes 4 and 9 of the accompanying unaudited consolidated interim financial statements.

On October 26, 2009, the Company completed the acquisition of 69.5% interests in PMP 38156-S, containing the Cheal oil and gas field, and PEP 38738-S from the receiver appointed to Austral Pacific Energy Limited ("Austral"). Since TAG acquired 100% of the Cheal field, and operatorship, operating costs have been significantly reduced and TAG is implementing a plan to work over and optimize the Cheal wells to increase production rates, recovery factors and reserves at Cheal. Please also refer to notes 4 and 5 of the accompanying unaudited consolidated interim financial statements.

At the date of this report there are six wells producing at the Cheal oil field. TAG believes that a properly executed development plan at Cheal will allow for an increase in reserve values through optimization and further drilling. Our short-term plan will continue to focus on maximizing value at Cheal so that oil revenues can fund our development and exploration programs going forward and the Company is identifying other opportunities for growth through acquisitions and through the provision of funding for suitable development opportunities.

### **Petroleum Property Activities, Production and Capital Expenditures for the Quarter Ended December 31, 2009**

The Cheal JV produced an average of approximately 317 barrels per day during the quarter ended December 31, 2009.

During the quarter ended December 31, 2009, the Company incurred \$5,221,538 (2008: \$149,747) worth of net expenditures on its oil and gas properties. For the nine month period ending December 31, 2009 the Company has invested \$5,562,865 on its oil and gas properties compared to \$2,135,562 for the same period last year. The primary capital expenditures and activities during the third quarter were as follows:

**PMP 38156-S (TAG 100%):** \$3,799,169 (9 months: \$4,013,429) in costs were incurred by the Company during the quarter primarily on the acquisition of the 69.5% interest from Austral as discussed above and inclusive of asset retirement obligations of \$1,690,941 assumed by the Company. The Company also spent \$95,255 (9 months: \$191,119) related primarily to the permanent tie-in of the A7 well to the Cheal production station.

**PEP 38748 (TAG 100%):** \$125,025 (9 months: \$152,616) was spent on securing land access agreements and on planning for the Company's well commitment in this permit. The Company also paid US\$50,000 to the receiver of Austral Pacific as part of the acquisition cost of the remaining 66.67% interest in the permit.

On December 3, 2009, the Company's request for a change of conditions was granted by the Ministry of Economic Development ("MED") extending the drilling requirement on the permit from August 2009 to March 2011.

On December 10, 2009, the Company completed a transaction with the receivers of Austral Pacific Energy Limited to acquire the remaining 66.67% interest in PEP 38748 in the Taranaki Basin, New Zealand for US\$50,000 cash and a royalty, giving TAG 100% interest in the permit.

**PEP 38348 (TAG 100%):** On December 16, 2009, the Company acquired this permit through the acquisition of Trans-Orient. Existing exploration expenditure totaling \$483,164 was recognized on acquisition.

During the quarter a land access agreement was signed and a rig contract has been awarded for the drilling of the Waitangi Hill-1 stratigraphic well.

**PEP 50940 (TAG 100%):** On December 16, 2009, the Company acquired this permit through the acquisition of Trans-Orient. Existing exploration expenditure totaling \$22,862 was recognized on acquisition.

During the quarter the Company re-processed existing 2D seismic data and completed a field mapping project targeting specific areas of this permit. Outcrop and geochemical samples were also collected for analysis.

**PEP 38349 (TAG 100%):** On December 16, 2009, the Company acquired this permit through the acquisition of Trans-Orient. Existing exploration expenditure totaling \$694,474 was recognized on acquisition.

Subsequent to December 31, 2009, the Company was awarded a 100% interest in a 61,900-acre extension to the Company's PEP 38349 permit covering the Kawakawa anticline in the southern portion of the onshore East Coast Basin, New Zealand. When combined with the original PEP 38349, this extension creates a combined 1,695,266-acre exploration area and a total 100% controlled position of 2,399,714 acres within the basin.

**PEP 38746:** On October 24, 2009, the Company completed an agreement with Greymouth Gas Co. Limited to sell the Company's 16.65% interest in PEP 38746 to Greymouth for cash.

Refer to Notes 4 and 5 of the accompanying unaudited consolidated interim financial statements for additional details.

**The Company has the following commitments for Capital Expenditure at December 31, 2009:**

| Contractual Obligations                  | Total \$         | Less than One Year \$ | More than One Year \$ |
|--|------------------|-----------------------|-----------------------|
| Long term debt                           | -                | -                     | -                     |
| Operating leases                         | -                | -                     | -                     |
| Purchase obligations                     | -                | -                     | -                     |
| Other long-term obligations (1)          | 5,550,000        | 1,150,000             | 4,400,000             |
| <b>Total Contractual Obligations (2)</b> | <b>5,550,000</b> | <b>1,150,000</b>      | <b>4,400,000</b>      |

- (1) The Other Long Term Obligations that the Company has are in respect to the Company's share of expected exploration and development permit obligations and/or commitments at the date of this report. The Company may choose to alter the program, request extensions, relinquish certain permits or farm-out its interest in permits where practical.
- (2) The Company's total commitments include those that are required to be incurred to maintain its permits in good standing during the current permit term, prior to the Company committing to the next stage of the permit term where additional expenditures would be required. In addition costs are also included that relate to commitments the Company has made that are in addition to what is required to maintain the permit in good standing.

The details of the Company's commitments shown above are as follows:

**PMP 38156-S:** \$3,500,000 relates to optimization, workover and drilling operations that are defined under the Company's agreement with Austral's receiver.

**PEP 38748:** \$1,500,000 relates to the drilling of a well on PEP 38748 by March 2011.

**PEP 38348:** \$250,000 relates to the drilling of one shallow core well to 250 meters by March 2010.

**PEP 50940:** \$300,000 relates to the acquisition of 10km of 2D seismic data required to be shot by July 2010.

The Company may also have an obligation to pay its joint venture interest share of costs to plug and abandon the unsuccessful SuppleJack and Kahili wells previously drilled. The Company expects to use working capital on hand as well as cash flow from oil sales to meet these commitments.

Commitments and work programs are subject to change.

### Results of Operations

The Company recorded net income for the third quarter of the 2010 fiscal year of \$336,239 (\$0.02 profit per share) compared to a net loss of \$11,105,656 (\$0.12 per share) for the same period last year. For the nine month period ended December 31, 2009, the company recorded a net loss of \$1,744,695 (\$0.10 per share) compared to a net loss of \$10,177,208 (\$0.11 per) for the same period last year, primarily as a result of a non-cash write-down of \$1.43 million related to shares of Austral Pacific the Company acquired to settle a prior joint venture dispute.

The net income for the quarter was a result of increased oil and gas sales after completing our acquisition of the remaining 69.5% interest in Cheal combined with a net operating profit adjustment of \$664,283 that related to Cheal net accounting profits recorded between the effective date of our Cheal acquisition agreement of June 1, 2009 and the closing date of October 26, 2009. Please also refer to the accompanying unaudited consolidated interim financial statements.

The Company's revenue for the third quarter, including the net operating profit adjustment mentioned above, consisted of oil and gas sales from the Cheal Oil Field, totalling \$3,452,359 (9 months: \$4,712,532) while interest income of \$12,724 (9 months: \$56,806) was also recorded. This compares to \$728,031 (9 months: \$4,323,228) of production revenue and \$48,183 (9 months: \$127,538) of interest income being recorded for the same period last year. Interest income decreased for the year when compared to the same period last year as a result of the Company's lower working capital balances.

During the quarter ended December 31, 2009, 33,023 gross barrels of oil were sold (9 months: 92,107) compared to 42,687 (9 months: 135,687) gross barrels of oil being sold during the comparable period last year. Oil prices for the current quarter averaged \$84 per barrel (9 months: \$79 per barrel) compared to \$56 per barrel (9 months: \$104 per barrel) for the comparable period last year.

During the quarter ended December 31, 2009, the Cheal oil field produced 29,202 (9 months: 93,327) gross barrels of oil with associated gas produced being used to generate electricity on-site. This compares to 42,740 barrels of oil produced in the quarter ended December 31, 2008 (9 months: 124,163).

The Company's share of production costs for the third quarter of the 2010 fiscal year amounted to \$626,504 (9 months: \$1,009,991). Gross production costs for the year, prior to TAG taking over operatorship, averaged \$267,000 per month decreasing to an average of \$221,000 for the remainder of the reporting period.



The Company recorded \$1,381,643 (9 months: \$1,412,773) in royalty costs for the period ending December 31, 2009. Royalty costs incurred relate to crown royalty payments of 5% on net oil and gas proceeds received during the period ending December 31, 2009 and a 25% royalty paid on net oil and gas proceeds from Cheal as part of the Company's agreement to acquire Austral's 69.5% interest in the Cheal oil and gas field. Royalties recorded for the quarter ended December 31, 2009, as part of our Cheal acquisition completed during the quarter, include royalties for the period June 1, 2009 to 31 December, 2009.

The Company also recorded depletion, depreciation and accretion of \$121,042 (9 months: \$646,263) for the period ending December 31, 2009.

Since the Company acquired its original interest in PMP 38156-S in June 2006, the Cheal oil field has produced 470,512 barrels of oil to December 31, 2009. From November 2004 to December 31, 2009, however, the Cheal oil field has produced 563,566 barrels of oil.

A comparative summary of the Company's G&A costs over the three and nine months ending December 31, 2009 is as follows:

|  | 3 months ended December 31 |                   | 9 months ended December 31 |                     |
|--|----------------------------|-------------------|----------------------------|---------------------|
|  | 2009                       | 2008              | 2009                       | 2008                |
| Consulting fees                          | \$ 54,597                  | \$ 125,925        | \$ 131,147                 | \$ 225,201          |
| Directors fees                           | 9,500                      | 3,000             | 15,500                     | 22,000              |
| Filing, listing and transfer agent       | 17,277                     | 13,096            | 41,279                     | 37,620              |
| Reports                                  | -                          | -                 | 28,899                     | 31,062              |
| Office and administration                | 84,247                     | 41,249            | 121,748                    | 110,074             |
| Professional fees                        | 1,207                      | 82,517            | 72,855                     | 122,966             |
| Rent                                     | 14,066                     | 15,009            | 39,968                     | 34,323              |
| Shareholder relations and communications | 123,898                    | 12,471            | 144,812                    | 64,979              |
| Travel                                   | 56,236                     | 21,499            | 144,765                    | 73,011              |
| Wages                                    | 249,996                    | 116,276           | 595,730                    | 469,845             |
| Overhead recoveries                      | (3,704)                    | (1,863)           | (31,253)                   | (42,327)            |
|  | <u>\$ 607,320</u>          | <u>\$ 429,179</u> | <u>\$ 1,305,450</u>        | <u>\$ 1,148,754</u> |



### Summary of Quarterly Information

|                                 | 2010        |             |           | 2009        |              |           | 2008      |           |
|---------------------------------|-------------|-------------|-----------|-------------|--------------|-----------|-----------|-----------|
|                                 | Q3<br>\$    | Q2<br>\$    | Q1<br>\$  | Q4<br>\$    | Q3<br>\$     | Q2<br>\$  | Q1<br>\$  | Q4<br>\$  |
| Total revenue                   | 3,452,359   | 671,355     | 588,818   | 600,628     | 728,031      | 1,534,373 | 2,060,824 | 1,181,981 |
| General and administrative      | (607,320)   | (370,297)   | (327,833) | (350,947)   | (429,179)    | (396,850) | (322,725) | (735,459) |
| Foreign Exchange                | (158,153)   | (240,715)   | (58,088)  | (123,235)   | 573,099      | (34,808)  | (60,021)  | (509,337) |
| Stock option compensation       | (100,883)   | -           | (872)     | (13,246)    | 6,339        | (6,341)   | (6,339)   | (11,382)  |
| Other                           | (2,249,764) | (1,971,222) | (372,080) | (8,810,557) | (11,983,946) | (958,880) | (880,785) | 276,812   |
| Net income (loss)               | 336,239     | (1,910,879) | (170,055) | (8,697,357) | (11,105,656) | 137,494   | 790,954   | 202,615   |
| Basic income (loss) per share   | 0.02        | (0.11)      | (0.01)    | (0.50)      | (0.60)       | 0.00      | 0.04      | 0.00      |
| Diluted income (loss) per share | 0.02        | (0.11)      | (0.01)    | (0.50)      | (0.60)       | 0.00      | 0.04      | 0.00      |

#### Liquidity and Capital Resources

The Company ended the third quarter with \$9,443,992 (December 31, 2008: \$6,529,350) in cash and cash equivalents and \$10,549,580 (2008: \$7,696,811) in working capital compared to \$7,385,177 in cash and cash equivalents and \$7,872,780 in working capital at March 31, 2009. As of the date of this report the Company is adequately funded to meet its capital and ongoing requirements for the next twelve months based on the current exploration and development programs and anticipated revenue from the Cheal oil field. Additional material commitments, changes to production estimates or any acquisitions by the Company may require a source of additional financing. Alternatively certain permits may be farmed-out, revised, sold or relinquished.

#### Off-Balance Sheet Arrangements and Proposed Transactions

The Company has no off-balance sheet arrangements or proposed transactions.

#### Related Party Transaction

The Company was not involved in any related party transaction during the period ended December 31, 2009, outside of paying wages and certain other general and administrative expenses as disclosed in this report and in the accompanying unaudited consolidated interim financial statements.

#### Director and Officer Movements

On December 2, 2009, the Company appointed Mr. Blair Johnson as Chief Financial Officer and Mr. Drew Cadenhead as Chief Operating Officer.

On December 16, 2009, Mr. Alex Guidi joined the Board of Directors and as a result of the Company acquiring Trans-Orient in accordance of the terms of the Arrangement agreement, Mr. Dan Brown and Mr. Pino Perone resigned as Directors of the Company and were replaced by Trans-Orient's nominees Mr. Ronald Bertuzzi and Mr. Michael Hart.

#### Subsequent Events

Please refer to Note 14 of the accompanying unaudited consolidated interim financial statements.

#### Share Capital

Please refer to Notes 9 and 14 of the accompanying unaudited consolidated interim financial statements for share capital information to the date of this report.

**Business Risks and Uncertainties**

The Company, like all companies in the international oil and gas sector, is exposed to a variety of risks which include title to oil and gas interests, the uncertainty of finding and acquiring reserves, funding and developing those reserves and finding storage and markets for them. In addition there are commodity price fluctuations, interest and exchange rate changes and changes in government regulations. The oil and gas industry is intensely competitive and the Company must compete against companies that have larger technical and financial resources. The Company works to mitigate these risks by evaluating opportunities for acceptable funding, considering farm-out opportunities that are available to the Company, operating in politically stable countries, aligning itself with joint venture partners with significant international experience and by employing highly skilled personnel. The Company also maintains a corporate insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts and other operating accidents and disruptions. The oil and gas industry is subject to extensive and varying environmental regulations imposed by governments relating to the protection of the environment and the Company is committed to operate safely and in an environmentally sensitive manner in all operations. Please also refer to Forward Looking Statements.

**Changes in Accounting Policies**

Please refer to Notes 2 and 3 of the accompanying unaudited consolidated interim financial statements.

Additional information relating to the Company is available on Sedar at [www.sedar.com](http://www.sedar.com).



## **CORPORATE INFORMATION**

### **DIRECTORS AND OFFICERS**

Garth Johnson  
President, CEO, and Director  
Vancouver, British Columbia

Alex Guidi  
Director  
Vancouver, British Columbia

John Vaccaro  
Director  
Vancouver, British Columbia

Ronald Bertuzzi  
Director  
Vancouver, British Columbia

Michael Hart  
Director  
Vancouver, British Columbia

Blair Johnson  
CFO  
Auckland, New Zealand

Drew Cadenhead  
COO  
New Plymouth, New Zealand

### **CORPORATE OFFICE**

Suite 2901, 1050 Burrard Street  
Vancouver, British Columbia  
Canada V6Z 2S3  
Telephone: 1-604-682-6496  
Facsimile: 1-604-682-1174

### **REGIONAL OFFICE**

New Plymouth, New Zealand

### **SUBSIDIARIES**

TAG Oil (NZ) Limited  
TAG Oil (Canterbury) Limited  
Cheal Petroleum Limited  
Trans-Orient Petroleum Limited  
Orient Petroleum (NZ) Limited  
Eastern Petroleum (NZ) Limited  
DLJ Management Corp.

### **SHARE CAPITAL**

At February 26, 2010, there were  
29,894,564 shares issued and outstanding.  
Fully diluted: 31,846,444 shares

### **BANKER**

Bank of Montreal  
Vancouver, British Columbia

### **LEGAL COUNSEL**

Blake, Cassels & Graydon  
Vancouver, British Columbia

Bell Gully  
Wellington, New Zealand

### **AUDITORS**

De Visser Gray LLP  
Chartered Accountants  
Vancouver, British Columbia

### **REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc.  
100 University Avenue, 9<sup>th</sup> Floor  
Toronto, Ontario  
Canada M5J 2Y1  
Telephone: 1-800-564-6253  
Facsimile: 1-866-249-7775

### **ANNUAL GENERAL MEETING**

The Annual General Meeting was held  
on December 19, 2009 at 10:00am at the  
offices of Blake, Cassels & Graydon located at  
Suite 2600, 595 Burrard Street  
Vancouver, B.C. V7X 1L3

### **SHARE LISTING**

*TSX Venture Exchange*  
Trading Symbol: TAO

### **SHAREHOLDER RELATIONS**

Telephone: 1-604-682-6496  
Email: [ir@tagoil.com](mailto:ir@tagoil.com)

### **WEBSITE**

[www.tagoil.com](http://www.tagoil.com)