

Consolidated Interim Financial Statements

For the three months ended June 30, 2009 and 2008

(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 June 30, 2009.

TAG Oil Ltd.

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Consolidated Balance Sheets
Expressed in Canadian Dollars

	June 30, 2009	March 31, 2009
	Unaudited	Audited
Assets		
Current		
Cash and cash equivalents	\$ 6,897,169	\$ 7,385,177
Amounts receivable and prepaids	302,656	192,711
Inventory	855,447	779,423
	8,055,272	8,357,311
Property and equipment (Note 3)	4,496,818	4,547,879
Investments (Note 5)	16,200	217,521
	\$ 12,568,290	\$ 13,122,711
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 334,279	\$ 484,531
Non-current		
Asset retirement obligations (Note 6)	819,450	812,522
	1,153,729	1,297,053
Share capital (Note 7)	69,604,084	69,644,677
Contributed surplus	918,384	917,512
Deficit	(58,906,586)	(57,517,923)
	11,615,882	13,044,266
Accumulated other comprehensive loss (Note 5)	(201,321)	(1,218,608)
	\$ 12,568,290	\$ 13,122,711

See accompanying notes.

Approved by the Board of Directors:

"Garth Johnson"
Garth Johnson, Director

"Dan Brown"
Dan Brown, Director



Consolidated Statements of Operations and Deficit
Expressed in Canadian Dollars
Unaudited

	Three months ended June 30	
	2009	2008
<hr/>		
Revenues		
Production revenue	\$ 588,818	\$ 2,060,824
Royalties	2,064	(89,883)
	<hr/> 590,882	<hr/> 1,970,941
Expenses		
General and administrative	327,833	322,725
Depletion, depreciation and accretion	227,056	425,351
Directors & officers insurance	10,875	12,000
Foreign exchange	58,088	60,021
General exploration	18,716	17,542
Interest income	(23,883)	(44,940)
Legal settlement	(51,693)	-
Production costs	193,073	347,983
Stock based compensation	872	6,339
Write-off of oil and gas properties	-	32,966
	<hr/> (760,937)	<hr/> (1,179,987)
Net income (loss) for the period	(170,055)	790,954
Deficit, beginning of period	(58,736,531)	(38,643,358)
Deficit, end of period	<hr/> \$ (58,906,586)	<hr/> \$ (37,852,404)
Income (loss) per share -basic	\$ (0.01)	\$ 0.04
-diluted	<hr/> \$ (0.01)	<hr/> \$ 0.04
Weighted average number of shares outstanding	<hr/> 17,820,537	<hr/> 18,326,216

See accompanying notes.



Consolidated Interim Statements of Comprehensive Income (Loss)
(Expressed in Canadian Dollars)
(Unaudited – Prepared by Management)

	Three months ended June 30	
	2009	2008
Net income (loss) for the period	\$ (170,055)	\$ 790,954
Other comprehensive loss in the period		
Fair value adjustment to financial instruments:		
Investment (Note 5)	(201,321)	(386,410)
Comprehensive income (loss) for the period	\$ (371,376)	\$ 404,544

See accompanying notes.



Consolidated Statements of Cash Flows
Expressed in Canadian Dollars
Unaudited

	Three months ended June 30	
	2009	2008
Operating Activities		
Net income (loss) for the period	\$ (170,055)	\$ 790,954
Changes for non-cash operating items:		
Depletion, depreciation and accretion	227,056	425,351
Stock based compensation	872	6,339
Write-off of oil and gas properties	-	32,967
	57,873	1,255,611
Changes for non-cash working capital		
Accounts:		
Amounts receivable and prepaids	(109,946)	243,674
Accounts payable and accrued liabilities	(37,316)	35,922
Inventory	(76,024)	184,091
Cash provided by (used) in operating activities	(165,413)	1,719,298
Financing Activities		
Shares purchased and returned to treasury	(40,592)	-
Cash used in financing activities	(40,592)	-
Investing Activities		
Property and equipment expenditures	(282,003)	(1,670,359)
Cash used in investing activities	(282,003)	(1,670,359)
Net increase (decrease) in cash during the period	(488,008)	48,939
Cash and cash equivalents - beginning of the period	7,385,177	6,553,101
Cash and cash equivalents – end of the period	\$ 6,897,169	\$ 6,602,040

See accompanying notes.

Supplementary disclosures:

Interest received	\$ 23,883	\$ 44,940
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Non-cash investing activities:

The Company incurred \$297,766 in exploration expenditures which amounts were in accounts payable at June 30, 2009 (March 31, 2009: \$410,703).

Notes to the Consolidated Interim Financial Statements
Three Months Ended June 30, 2009
Expressed in Canadian Dollars
Unaudited

Note 1 – Accounting Policies and Basis of Presentation

The unaudited consolidated interim financial statements of TAG Oil Ltd. 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 June 30, 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 2 – 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.

Note 3 – Property and Equipment

New Zealand	Working Interest %	Net Book Value at March 31, 2009	Additions During the Period	Recoveries, Write-offs, Depletion and Depreciation During The Period	Net Book Value At June 30, 2009
Oil and Gas Properties					
Proved					
PMP 38156-S	30.50	\$ 4,170,661	\$ 88,375	\$ (214,361)	\$ 4,044,675
Unproved					
PEP 38738-S	30.50	-	-	-	-
PEP 38746	16.65	253,878	-	-	253,878
PEP 38748	33.33	76,025	8,650	-	84,675
		4,500,564	97,025	(214,361)	4,383,228
Production equipment		1	72,042	-	72,043
Office equipment		47,314	-	(5,767)	41,547
Total		\$ 4,547,879	\$ 169,067	\$ (220,128)	\$ 4,496,818

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.

PMP 38156-S

On June 17, 2009, the Company executed a binding agreement with the receivers of Austral Pacific Energy Limited to acquire the remaining 69.5% interest in PMP 38156-S ("Cheal") and PEP 38738-S ("Greater Cheal") in the Taranaki Basin, New Zealand. Upon completion of this transaction TAG will own 100% interest in the Cheal Oil and

Gas field including the recently completed Cheal Production Station. The consideration to be 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) at completion TAG will grant 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 contains 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.

PEP 38748

On June 30, 2009, the Company executed a binding agreement with the receivers of Austral Pacific Energy Limited to acquire the remaining 66.67% interest in PEP 38748 in the Taranaki Basin, New Zealand. Upon completion of this transaction TAG will own 100% interest in the permit. The consideration to be paid by TAG for these assets includes 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

In April 2009, the Company signed an agreement for purchase and sale with Greymouth Gas Co. Limited to sell its 16.65% interest in PEP 38746 for cash. The agreement is conditional to receipt of necessary consents required under the joint venture operating agreement and from the Ministry of Economic Development in New Zealand.

Note 4 – 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.

The Company incurred \$75,461 of its general and administrative expenses through DLJ Management Corp. (“DLJ”), a subsidiary of Trans-Orient Petroleum Ltd. (“Trans-Orient”). DLJ incurs certain general and administrative costs on behalf of the Company, Trans-Orient and AMG Oil Ltd. (“AMG”). Included in these general and administrative costs DLJ pays rent to a private company owned by an insider of TAG. Two directors of the Company are also employees of DLJ.

Trans-Orient is related to the Company through a common director and officer.

Pursuant to an agreement dated October 1, 2007, and as revised on July 1, 2008, the Company paid an insider of the Company \$15,000 in consulting fees.

Pursuant to an agreement dated June 11, 2008, the Company paid a director compensation of \$4,000.

Pursuant to an agreement with Trans-Orient dated January 1, 2008, the Company agreed to utilize Trans-Orient’s Chief Operating Officer as the Company’s technical consultant on an ongoing basis, by paying one-half of the \$20,000 monthly compensation paid to Trans-Orient’s Chief Operating Officer.

Note 5 – Investments

At June 30, 2009, the Company's ownership interests in investments accounted for under the cost method of accounting are as follows:

	Number of Common Shares Held	March 31, 2009 Carrying Value	Additions During the Period	Comprehensive Loss	June 30, 2009 Market Value
Austral Pacific Energy Ltd.	3,030,303	\$ 212,121	\$ -	\$ (212,121)	\$ -
Trans-Orient Petroleum Ltd.	45,000	5,400	-	10,800	16,200
		<u>\$ 217,521</u>	<u>\$ -</u>	<u>\$ (201,321)</u>	<u>\$ 16,200</u>

Austral Pacific Energy Ltd. 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.

In accordance with CICA 3855 the Company's investments are recorded at market value at June 30, 2009.

Note 6 – Asset Retirement Obligations

The following is a continuity of asset retirement obligations for the three months ended June 30, 2008:

Balance at March 31, 2009	\$ 812,522
Accretion expense	6,928
Balance at June 30, 2009	<u>\$ 819,450</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 \$984,501 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 7 – Share Capital

a) Authorized and Issued Share Capital

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

	Number of Shares	Stated Value
Issued and fully paid:		
Balance at March 31, 2009	16,953,222	\$ 69,644,677
Normal course issuer bid	(141,000)	(40,593)
Balance at June 30, 2009	<u>16,812,222</u>	<u>\$ 69,604,084</u>

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. As of June 30, 2009, the Company has purchased 1,514,000 common shares for cancellation and return to treasury.

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.

The following is a continuity of outstanding stock options:

	Number of Options	Weighted Average Exercise Price (1)
Balance at March 31, 2009 and June 30, 2009	222,000	3.78

The following summarizes information about stock options that are outstanding at June 30, 2009:

Number of Shares	Price per Share	Weighted Average Remaining Contractual Life	Expiry Date	Options Exercisable
80,000	US\$3.25	0.50	January 1, 2010	80,000
15,000	US\$3.25	.86	May 10, 2010	15,000
30,000	\$6.50	1.40	November 22, 2010	30,000
65,000	\$3.50	2.09	August 2, 2011	65,000
12,000	\$2.60	2.40	November 22, 2011	12,000
20,000	\$1.25	4.08	August 1, 2013	6,667
222,000		1.54		208,667

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 42% 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) Income Per Share

Basic weighted average shares outstanding for the three months ended June 30, 2009 was 17,820,537 (2008: 18,326,216) and diluted weighted average shares outstanding for the period was 18,042,537 (2008: 18,558,216). 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.

NOTE 8 – 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 9 – 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 accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at June 30, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended June 30, 2009. As at June 30, 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 June 30, 2009 of \$6.9 million, the Company's liquidity risk is assessed as low. As at June 30, 2009 the Company's only financial liabilities are accounts payable and accrued liabilities of \$334,279.

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 first quarter of the 2010 fiscal year.

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 June 30, 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.

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 4% of total revenue.

The Company did not have any interest rate swaps or financial contracts in place as at or during the year ended June 30, 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 June 30, 2009 included cash and cash equivalents, accounts receivable, 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 June 30, 2009.

Note 10 – Comparative Figures

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

Note 11 – Subsequent Events

Share Capital

On July 9, 2009, the Company's normal course issuer bid announced in September 2008 to purchase up to 1,516,700 common shares has been completed through the facilities of the TSX Venture Exchange. As a result of the purchase and cancellation of 1,516,500 common shares there will be 16,809,722 shares issued and outstanding.



Note 12 – 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:

For the Three Months Ended June 30, 2009	Canada	New Zealand	Total Company
Production revenue	\$ -	\$ 588,818	\$ 588,818
Royalty expenses	-	2,064	2,064
		590,882	590,882
Expenses:			
General and administrative	253,559	74,274	327,833
General exploration	-	18,716	18,716
Production costs	-	193,073	193,073
Stock based compensation	872	-	872
Directors and officers insurance	10,875	-	10,875
Foreign exchange	209,893	(151,805)	58,088
Depletion, depreciation and accretion	4,186	222,870	227,056
Interest income	(14,267)	(9,616)	(23,883)
Legal settlement	-	(51,693)	(51,693)
Net income (loss) for the period	\$ (465,118)	\$ 295,063	\$ (170,055)
Total assets	\$ 5,066,919	\$ 7,501,371	\$ 12,568,290
Capital expenditures for the period	\$ -	\$ 169,067	\$ 169,067

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is dated August 28, 2009 for the three month period ended June 30, 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 August 28, 2009 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 Basin 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.

At the date of this report there are six wells producing at the Cheal oil field (TAG: 30.5%). The Company is focused on completing the acquisition of the remaining 69.5% interest in the Cheal field from the receiver appointed to Austral Pacific Energy Limited ("Austral") and upon completion, TAG will reduce operating costs, increase production at Cheal through optimization and high-grading our exploration prospects while continuing to mitigate the risk of our prospects through technical evaluation and strict cost control. The Company believes that a properly executed development plan at Cheal will allow the Company to increase reserve value through optimization and further drilling with a goal of increasing production and recovery factors. 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 June 30, 2009

The Cheal JV produced an average of approximately 360 barrels per day during the quarter ended June 30, 2009.

During the quarter ended June 30, 2009 the Company incurred \$169,067 (2008: \$1,301,379) worth of net expenditures on its oil and gas properties. The primary capital expenditures and activities during the quarter were as follows:

PMP 38156-S: \$72,042 (2008: \$598,749) in costs were incurred by the Company during the quarter on the Cheal oil field production facilities and the Company spent \$88,375 (2008: \$651,006) primarily on the permanent tie-in of the A7 well to the Cheal production facilities.

PEP 38748 (TAG 33.33%): \$8,650 (2008: Nil) was spent on overhead and planning for the Company's well commitment in this permit. The PEP 38748 joint venture applied for an extension to the permit conditions in July 2009 to amend the drilling deadline from August 2009 to March 2011 to allow for the change of operatorship to transition in an organized manner, to allow the Company the time necessary to complete its acquisition of the remaining 66.67% of the permit from the receiver appointed to Austral and to allow the Company to review technical data, obtain the necessary resource consents and to properly plan for drilling operations.

The Company has the following commitments for Capital Expenditure at June 30, 2009:

Contractual Obligations	Total \$	Less than One Year \$	More than One Year \$
Long term debt	-	-	-
Operating leases	-	-	-
Purchase obligations	-	-	-
Other long-term obligations (1)	4,300,000	945,000	3,355,000
Total Contractual Obligations (2)	4,300,000	945,000	3,355,000

- (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.
- (3) \$2,695,000 of the costs above are conditional upon completion of the Company's acquisition of the 69.5% interest in the Cheal oil field.

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

PMP 38156-S:

\$2,695,000 relates to optimization, workover and drilling operations that are defined under the Company's agreement with Austral's receiver to acquire the remaining 69.5% interest in the Cheal oil field.

PEP 38748:

\$1,400,000 relates to the drilling of one well on PEP 38748 by March 2011 upon approval of the Company's change of conditions that was submitted in July 2009.

The Company also has 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 a net loss for the first quarter of the 2010 fiscal year of \$170,055 (\$0.01 loss per share-basic and fully diluted) compared to net income of \$790,954 (\$0.04 per share) for the same period last year. The net loss for the quarter essentially resulted from the decrease in oil sold from 51,340 gross barrels of oil in the quarter ended June 30, 2008 to 30,468 gross barrels of oil during the current quarter ended June 30, 2009. In addition oil prices decreased significantly from an average sale price of \$131 per barrel in the quarter ended June 2008 to \$64 per barrel in the quarter ended June 30, 2009.

Please also refer to the accompanying unaudited consolidated interim financial statements.

The Company's revenue for the first quarter consisted of oil sales from the Cheal Oil Field, totalling \$588,818 (June 30, 2008: \$2,060,824). The Company also received interest income of \$23,883 compared to \$44,940 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 June 30, 2009, the Cheal oil field produced 32,626 (June 30, 2008: 43,707) gross barrels of oil and 30,468 (June 30, 2008: 51,340) gross barrels of oil were sold with associated gas produced being used to generate electricity on-site. The Company's 30.5% share of oil produced and sold for the quarter was 9,951 (June 30, 2008: 13,330) and 9,293 (June 30, 2008: 15,659), respectively. The Company's share of production costs for the first quarter of the 2010 fiscal year amounted to \$193,073 (2008: \$347,983) while depletion amounted to \$214,361 (2008: \$405,672). The Company recovered \$2,064 in royalty costs during the first quarter of the 2010 fiscal year compared to incurring \$89,883 in royalty costs for the same period last year.

Since the Company acquired its interest in PMP 38156-S in June 2006, the Cheal oil field has produced 409,811 barrels of oil to June 30, 2009. From November 2004 to March 31, 2009, however, the Cheal oil field has produced 502,865 barrels of oil.

A comparative summary of the Company's G&A costs over the three months ending June 30, 2009 is as follows:

	3 Months Ended June 30	
	2009	2008
Consulting fees	\$ 41,550	\$ 30,060
Directors fees	4,000	16,000
Filing, listing and transfer agent	7,556	8,273
Reports	23,031	-
Office and administration	20,106	32,074
Professional fees	24,636	16,184
Rent	12,393	7,433
Shareholder relations and communications	12,976	31,263
Travel	38,889	30,141
Wages	148,653	177,395
Overhead recoveries	(5,957)	(26,098)
	<u>\$ 327,833</u>	<u>\$ 322,725</u>

In addition to the G&A costs above:

a. The Company recorded a foreign exchange loss for the year quarter ended June 30, 2009 amounting to \$58,088 compared to a foreign exchange loss of \$60,021 last year. The foreign exchange loss for the period was caused by fluctuations of both the U.S. and New Zealand dollar in comparison to the Canadian dollar.

b. The Company received \$51,693 from Austral as part of the agreement to resolve the dispute related to the construction of the Cheal facility. It is unlikely the Company will receive any additional payments due to the appointment of a receiver to Austral.

Please also refer to Note 3 of the accompanying unaudited consolidated interim financial statements for information relating to the Company's assets.

Summary of Quarterly Information

	2010		2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
	\$	\$	\$	\$	\$	\$	\$	\$	
Total revenue	588,818	600,628	728,031	1,534,373	2,060,824	1,181,981	1,238,819	789,655	
General and administrative	(327,833)	(350,947)	(429,179)	(396,850)	(322,725)	(735,459)	(421,921)	(779,753)	
Foreign Exchange	(58,088)	(123,235)	573,099	(34,808)	(60,021)	(509,337)	(188,290)	(633,645)	
Stock option compensation	(872)	(13,246)	6,339	(6,341)	(6,339)	(11,382)	(22,817)	(22,817)	
Other	(372,080)	(8,810,557)	(11,983,946)	(958,880)	(880,785)	276,812	(7,202,724)	(27,274)	
Net income (loss)	(170,055)	(8,697,357)	(11,105,656)	137,494	790,954	202,615	(6,596,933)	(673,834)	
Basic income (loss) per share	(0.01)	(0.50)	(0.60)	0.00	0.04	0.00	(0.35)	(0.05)	
Diluted income (loss) per share	(0.01)	(0.50)	(0.60)	0.00	0.04	0.00	(0.35)	(0.05)	

Liquidity and Capital Resources

At June 30, 2009 the Company had \$6,897,169 (2008: \$6,602,040) in cash and cash equivalents and \$7,720,993 (2008: \$7,696,552) 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, 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 June 30, 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.

Subsequent Events

Please refer to Note 11 of the accompanying unaudited consolidated interim financial statements.

Share Capital

Please refer to Notes 7 and 11 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 1 and 2 of the accompanying unaudited consolidated interim financial statements.

Additional information relating to the Company is available on Sedar at www.sedar.com.

CORPORATE INFORMATION

DIRECTORS AND OFFICERS

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

John Vaccaro
Director
Vancouver, British Columbia

Dan Brown
Director
Vancouver, British Columbia

Guisepppe (Pino) Perone
Director
Vancouver, British Columbia

CORPORATE OFFICE

Suite 2901, 1050 Burrard Street
Vancouver, British Columbia
Canada V6Z 2S3
Telephone: 1-604-609-3350
Facsimile: 1-604-682-1174

REGIONAL EXPLORATION OFFICE

Wellington, New Zealand

SUBSIDIARIES

TAG Oil (NZ) Limited
TAG Oil (Canterbury) Limited
Cheal Petroleum Limited

SHAREHOLDER RELATIONS

Telephone: 604-609-3350
Email: ir@tagoil.com

SHARE CAPITAL

At August 28, 2009, there were
16,809,722 shares issued and outstanding.
Fully diluted: 17,031,722 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
Chartered Accountants
Vancouver, British Columbia

REGISTRAR AND TRANSFER AGENT

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

ANNUAL GENERAL MEETING

The Annual General Meeting will be held
on December 19, 2009 at 10:00am at the
offices of Blake, Cassels & Graydon located at
Suite 2600, 595 Burrard Street
Vancouver, British Columbia
Canada V7X 1L3

SHARE LISTING

TSX Venture Exchange
Trading Symbol: TAO

WEBSITE

www.tagoil.com