

## Consolidated Interim Financial Statements

September 30, 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 September 30, 2009.

**TAG Oil Ltd.**

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

**Corporate Office**

2901-1050 Burrard St.  
Vancouver, BC  
V6Z 2S3 Canada  
ph 604-609-3350  
fx 604-682-1174

**Technical Headquarters**

Level 4  
32 The Terrace  
Wellington  
P.O. Box 3058  
ph 64-4-495-3731  
fx 64-4-473-7991

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

	September 30, 2009 Unaudited	March 31, 2009
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 6,562,752	\$ 7,385,177
Amounts receivable and prepaids	160,599	192,711
Inventory	876,173	779,423
	7,599,524	8,357,311
Property and equipment (Note 4)	4,411,789	4,547,879
Investment (Note 6)	90,331	217,521
	\$ 12,101,644	\$ 13,122,711
<b>Liabilities and Shareholders' Equity</b>		
Current		
Accounts payable and accrued liabilities	\$ 336,357	\$ 484,531
Non-current		
Asset retirement obligations (Note 7)	826,378	812,522
	1,162,735	1,297,053
Share capital (Note 8)	69,602,909	69,644,677
Contributed surplus	918,384	917,512
Deficit	(59,598,857)	(57,517,923)
	10,922,436	13,044,266
Accumulated other comprehensive loss (Note 6)	16,473	(1,218,608)
	\$ 12,101,644	\$ 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 September 30		Six months ended September 30	
	2009	2008	2009	2008
<b>Revenues</b>				
Production revenue	\$ 671,355	\$ 1,534,373	\$ 1,260,173	\$ 3,595,197
Royalties	(33,194)	(64,496)	(31,130)	(154,379)
	638,161	1,469,877	1,229,043	3,440,818
<b>Expenses</b>				
General and administrative	370,297	396,850	698,130	719,575
Depletion, depreciation and accretion	298,165	347,953	525,221	773,304
Directors & officers insurance	10,208	11,250	21,083	23,250
Foreign exchange	240,715	34,808	298,803	94,829
General exploration	22,949	(479)	41,665	17,063
Interest income	(20,199)	(34,414)	(44,082)	(79,355)
Legal settlement	(1,306)	(22,731)	(52,999)	(22,731)
Production costs	190,414	592,627	383,487	940,610
Loss on casing inventory sales	5,818	-	5,818	-
Realized loss on investment	1,431,979	-	1,431,979	-
Stock option compensation	-	6,341	872	12,680
Write-off of oil and gas properties	-	178	-	33,145
	(2,549,040)	(1,332,383)	(3,309,977)	(2,512,370)
<b>Net (loss) income for the period</b>	(1,910,879)	137,494	(2,080,934)	928,448
Deficit, beginning of period	(57,687,978)	(37,852,404)	(57,517,923)	(38,643,358)
<b>Deficit, end of Period</b>	\$ (59,598,857)	\$ (37,714,910)	\$ (59,598,857)	\$ (37,714,910)
<b>(Loss) income per share -basic</b>	\$ (0.11)	\$ 0.00	\$ (0.12)	\$ 0.01
<b>-diluted</b>	\$ (0.11)	\$ 0.00	\$ (0.12)	\$ 0.01
<b>Weighted average number of shares outstanding</b>	16,845,853	91,631,081	16,845,853	91,631,081

See accompanying notes.



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

	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
<b>Net (loss) income for the period</b>	\$ (1,910,879)	\$ 137,494	\$ (2,080,934)	\$ 928,448
<b>Other comprehensive income (loss) in the</b>				
Fair value adjustment to financial instruments:				
Investments (Note 6)	4,423	(884,510)	15,223	(1,270,920)
Realized loss on investment	1,219,858	-	1,219,858	-
<b>Comprehensive loss for the period</b>	<b>\$ (686,598)</b>	<b>\$ (747,016)</b>	<b>\$ (845,853)</b>	<b>\$ (342,472)</b>

See accompanying notes.

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

	Three months ended September 30		Six months ended September 30	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net (loss) income for the period	\$ (1,910,879)	\$ 137,494	\$ (2,080,934)	\$ 928,448
Changes for non-cash operating items:				
Depletion, depreciation and accretion	298,165	347,953	525,221	773,304
Realized loss on investment	1,431,979	-	1,431,979	-
Stock option compensation	-	6,341	872	12,680
Write-off of oil and gas properties	-	178	-	33,145
	(180,735)	491,966	(122,862)	1,747,577
Changes for non-cash working capital accounts:				
Amounts receivable and prepaids	142,056	(233,453)	32,111	32,118
Due to/from related parties	-	-	-	(21,897)
Accounts payable and accrued liabilities	(8,462)	(9,400)	(45,779)	26,522
Inventory	(20,726)	128,059	(96,750)	312,150
Cash provided by (used in) operating activities	(67,867)	377,172	(233,280)	2,096,470
<b>Financing Activity</b>				
Shares purchased and returned to treasury	(1,175)	-	(41,767)	-
Cash used in financing activity	(1,175)	-	(41,767)	-
<b>Investing Activities</b>				
Property and equipment expenditures	(195,667)	(1,050,385)	(477,670)	(2,720,744)
Purchase of shares	(69,708)	-	(69,708)	-
Cash used in investing activities	(265,375)	(1,050,385)	(547,378)	(2,720,744)
<b>Net decrease in cash during the period</b>	(334,417)	(673,213)	(822,425)	(624,274)
<b>Cash and cash equivalents - beginning of the period</b>	6,897,169	6,602,040	7,385,177	6,553,101
<b>Cash and cash equivalents – end of the period</b>	\$ 6,562,752	\$ 5,928,827	\$ 6,562,752	\$ 5,928,827

See accompanying notes.

Supplementary disclosures:

Interest received	\$ 20,199	\$ 34,414	\$ 44,082	\$ 79,355
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Non-cash investing activities:

The Company incurred \$308,306 in exploration expenditures which amounts were in accounts payable at September 30, 2009 (June 30, 2009: \$297,766 and March 31, 2009: \$410,703).

**Notes to the Consolidated Interim Financial Statements**  
**Six Months Ended September 30, 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 September 16, 2009, the Company and Trans-Orient Petroleum Ltd. entered into an arrangement agreement to effect a business combination pursuant to a plan of arrangement under the Business Corporations Act (British Columbia). The proposed transaction to combine the companies, with TAG Oil Ltd. becoming the surviving entity, has been approved by the boards of directors of both TAG and Trans-Orient following the recommendation of their special committees. Pursuant to the arrangement agreement, TAG will acquire all of the issued and outstanding shares of Trans-Orient on the basis of one TAG share for each 2.8 Trans-Orient shares. Trans-Orient will become a wholly owned subsidiary of TAG and it is estimated that TAG will have 29,879,445 shares outstanding upon completion of the transaction. Trans-Orient's assets consist of a 100% interest in three exploration permits comprising 2.2 million-acres of conventional and unconventional oil prospects and approximately \$5.5 million in working capital.

**Note 2 - 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 September 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 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 – Property and Equipment

New Zealand	Working Interest %	Net Book Value at March 31, 2009	Additions During the Period	Depletion and Depreciation During The Period	Net Book Value At September 30, 2009
<b>Oil and Gas Properties</b>					
<b>Proved</b>					
PMP 38156-S	30.50	\$ 4,170,661	\$ 214,260	\$ (498,614)	\$ 3,886,307
<b>Unproved</b>					
PEP 38738-S	30.50	-	-	-	-
PEP 38746	16.65	253,878	3,612	-	257,490
PEP 38748	33.33	76,025	27,591	-	103,616
		4,500,564	245,463	(498,614)	4,247,413
Production equipment		1	95,864	-	95,865
Office equipment		47,314	33,947	(12,750)	68,511
<b>Total</b>		<b>\$ 4,547,879</b>	<b>\$ 375,274</b>	<b>\$ (511,364)</b>	<b>\$ 4,411,789</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.

#### 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.

Refer to Note 13

**Note 5 – 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 \$150,722 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. 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 \$30,000 in consulting fees.

Pursuant to an agreement dated June 11, 2008, the Company paid a director compensation of \$6,000.

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. The agreement was terminated on August 11, 2009.

## Note 6 – Investments

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

	September 30,		March 31,		
	Number of Common Shares Held	2009 Market Value	Percentage of Ownership	2009 Carrying Value	Percentage of Ownership
Austral Pacific	3,030,303	\$ -	5.03%	\$ 212,121	5.03%
Trans-Orient	45,000	8,550	0.12%	5,400	0.12%
Other investment	174,000	81,781	1.08%	-	1.08%
		<u>\$ 90,331</u>		<u>\$ 217,521</u>	

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.

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

## Note 7 – Asset Retirement Obligations

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

Balance at March 31, 2009	\$ 812,522
Accretion expense	<u>13,856</u>
Balance at September 30, 2009	<u>\$ 826,378</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 8 – 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	<u>(143,500)</u>	<u>(41,768)</u>
Balance at September 30, 2009	<u>16,809,722</u>	<u>\$ 69,602,909</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 September 30, 2009, the Company has purchased 1,516,500 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
Balance at March 31, 2009 and September 30, 2009	222,000	\$ 3.78

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

Number of Shares	Price per Share	Weighted Average Remaining Contractual Life	Expiry Date	Options Exercisable
80,000	US\$3.25	0.25	January 1, 2010	80,000
15,000	US\$3.25	0.61	May 10, 2010	15,000
30,000	\$6.50	1.14	November 22, 2010	30,000
65,000	\$3.50	1.83	August 2, 2011	65,000
12,000	\$2.60	2.14	November 22, 2011	12,000
20,000	\$1.25	3.83	August 1, 2013	6,667
222,000		1.29		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 six months ended September 30, 2009 was 16,845,853 (2008: 91,631,081) and diluted weighted average shares outstanding for the period was 17,067,853 (2008: 92,862,017). 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 13

**Note 9 – Accumulated Other Comprehensive Loss**

	Accumulated Other Comprehensive Loss
Balance at March 31, 2009	\$ (1,218,608)
Reclassification of realized loss on investments	1,219,858
Unrealized gain on investments	15,223
Balance at September 30, 2009	\$ 16,473

#### **Note 10 – 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 11 – 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 September 30, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended September 30, 2009. As at September 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 September 30, 2009 of \$6.5 million, the Company's liquidity risk is assessed as low. As at September 30, 2009 the Company's only financial liabilities are accounts payable and accrued liabilities of \$336,357.

### **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 half 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 September 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. However these commodity prices have strengthened during the first half of the 2010 fiscal year.

### **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 September 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 September 30, 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 September 30, 2009.

### **Note 12 – Comparative Figures**

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

### **Note 13 – Subsequent Events**

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.

On October 26, 2009, the Company has completed its acquisition of the remaining 69.5% interest in Petroleum Mining Permit 38156-S ("Cheal") and Petroleum Exploration Permit 38738-01 ("Greater Cheal") located in the Taranaki Basin, New Zealand. The Company now has 100% control over the 7,487-acre Cheal Production License, which encompasses the Cheal oil discovery, the Cheal Treatment and Production Facility, and an additional 7,988 net acres granted under exploration rights along the trend. TAG, through a wholly-owned subsidiary, purchased these interests for consideration of US\$2,000,000 in cash, a 25% net oil revenue royalty on the first 500,000 barrels produced after the effective date of June 1, 2009, then reducing to 7.5% for the life of the Cheal pool, and making certain permit work commitments, including optimization and drilling operations, within 30 months of completion.

On October 2, 2009, the Company launched a normal course issuer bid to purchase up to 1,364,582 of its common shares through the facilities of the TSX Venture Exchange. The purchase of common shares under the bid will enable the Company to acquire its shares for cancellation. The shares that may be repurchased over a twelve-month period represent approximately 10% of the Company's 16,809,722 outstanding common shares in the public float. The Company has appointed First Canada Capital Partners Inc. as the Member that will be conducting the bid on behalf of the Company with purchases under the bid being able to commence on October 2, 2009. The amount and timing of such purchases will be determined by TAG and are limited to purchasing a maximum of 2% of the Company's outstanding common shares in any thirty day period.

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

#### Note 14 – 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 Six Months Ended September 30, 2009</b>	<b>Canada</b>	<b>New Zealand</b>	<b>Total Company</b>
Production revenue	\$ -	\$ 1,260,173	\$ 1,260,173
Royalty expenses	-	(31,130)	(31,130)
		1,229,043	1,229,043
Expenses:			
General and administrative	(569,503)	(128,627)	(698,130)
General exploration	-	(41,665)	(41,665)
Production costs	-	(383,487)	(383,487)
Stock based compensation	(872)	-	(872)
Directors and officers insurance	(21,083)	-	(21,083)
Foreign exchange	(385,747)	86,944	(298,803)
Depletion, depreciation and accretion	(9,724)	(515,497)	(525,221)
Loss on casing inventory sales	-	(5,818)	(5,818)
Interest income	28,157	15,925	44,082
Legal settlement	-	52,999	52,999
Realized loss on investment	(1,431,979)	-	(1,431,979)
<b>Net (loss)income for the period</b>	<b>\$ (2,390,751)</b>	<b>\$ 309,817</b>	<b>\$ (2,080,934)</b>
Total assets	\$ 4,568,051	\$ 7,533,593	\$ 12,101,644
Capital expenditures for the period	\$ -	\$ 375,274	\$ 375,274

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is dated 27 November, 2009 for the six month period ended September 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 November 27, 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.

On September 16, 2009, the Company and Trans-Orient Petroleum Ltd. entered into an arrangement agreement to effect a business combination pursuant to a plan of arrangement under the Business Corporations Act (British Columbia). The proposed transaction to combine the companies, with TAG Oil Ltd. becoming the surviving entity, has been approved by the boards of directors of both TAG and Trans-Orient following the recommendation of their special committees. Pursuant to the arrangement agreement, TAG will acquire all of the issued and outstanding shares of Trans-Orient on the basis of one TAG share for each 2.8 Trans-Orient shares. Trans-Orient will become a wholly owned subsidiary of TAG and it is estimated that TAG will have 29,879,445 shares outstanding upon completion of the transaction. Trans-Orient's assets consist of a 100% interest in three exploration permits comprising 2.2 million-acres of conventional and unconventional oil prospects and approximately \$5.5 million in working capital.

At the date of this report there are six wells producing at the Cheal oil field (TAG: 30.5%). The Company completed the acquisition of the remaining 69.5% interest in the Cheal field from the receiver appointed to Austral Pacific Energy Limited ("Austral") and is actively seeking to reduce operating costs and 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 September 30, 2009**

The Cheal JV produced an average of approximately 342 barrels per day during the quarter ended September 30, 2009.

During the quarter ended September 30, 2009 the Company incurred \$172,260 (2008: \$684,436) worth of net expenditures on its oil and gas properties. For the six month period ending September 30, 2009 the Company has invested \$341,327 on its oil and gas properties compared to \$1,985,815 for the same period last year. The primary capital expenditures and activities during the second quarter were as follows:

**PMP 38156-S:** \$23,822 (6 months \$95,864) in costs were incurred by the Company during the quarter on the Cheal oil field production facilities and the Company spent \$125,885 (6 months \$214,260) primarily on the permanent tie-in of the A7 well to the Cheal production facilities.

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.

**PEP 38748 (TAG 33.33%):** \$18,941 (6 months \$27,591) was spent on overhead and planning for the Company's well commitment in this permit.

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.

The PEP 38748 joint venture applied to the Ministry of Economic Development ("MED") 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 it's 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 and optimization operations.

Refer to Note 4 of the accompanying unaudited consolidated interim financial statements for additional details related to PEP 38748, 38738-S and 38156-S.

**The Company has the following commitments for Capital Expenditure at September 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)	4,835,000	1,470,000	3,365,000
<b>Total Contractual Obligations (2)</b>	<b>4,835,000</b>	<b>1,470,000</b>	<b>3,365,000</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:** \$3,220,000 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 and is subject to completion of the Company's agreement to acquire the remaining 66.67% interest from the receiver of Austral as well that requires approval of the Company's change of conditions applications 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 second quarter of the 2010 fiscal year of \$1,910,879 (\$0.11 loss per share) compared to net income of \$137,494 (\$0.00 per share) for the same period last year. For the six month period ended September 30, 2009 the Company recorded a net loss of \$2,080,934 (\$0.12 per share) compared to net income of \$928,448 (\$0.01 per) for the same period last year.

The Company's net loss of \$1,910,879 (6 months: \$2,080,934) for the second quarter of the 2010 fiscal year contains a write-off to realize a loss of \$1,431,979 in non-cash losses on investments in Austral as a result of Austral being placed into receivership. \$1,219,858 of these losses were previously written-down as comprehensive loss in the 2009 fiscal year.

The Company also recorded decreased production revenue over the three and six months ended September 30, 2009 due to a decrease in oil sold from 41,660 (6 months: 93,000) gross barrels of oil in the quarter ended September 30, 2008 to 28,616 (6 months: 59,084) gross barrels of oil during the current quarter ended September 30, 2009. In addition oil prices decreased significantly from an average sale price of \$121 per barrel in the quarter ended September 2008 (6months: \$127) to \$77 per barrel in the quarter ended September 30, 2009 (6 months: \$70).

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

The Company's revenue for the second quarter consisted of oil and gas sales from the Cheal Oil Field, totalling \$671,355 (6 months: \$1,260,173) and interest income of \$20,199 (6 months: \$44,082) compared to \$1,534,373 (6 months: \$3,595,197) of production revenue and \$34,414 (6 months: \$79,355) 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 September 30, 2009, the Cheal oil field produced 31,499 (6 months: 64,125) gross barrels of oil and 28,616 (6 months: 59,084) 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 9,607 (6 months: 19,558) and 8,728 (6 months: 18,021), respectively. The Company's share of production costs for the second quarter of the 2010 fiscal year amounted to \$190,414 (6 months: \$383,487) while depletion and royalties amounted to \$284,254 (6 months: \$498,615) and \$33,194 (6 months: \$31,130), respectively.

Since the Company acquired its interest in PMP 38156-S in June 2006, the Cheal oil field has produced 441,310 barrels of oil to September 30, 2009. From November 2004 to September 30, 2009, however, the Cheal oil field has produced 534,364 barrels of oil.



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

	3 months ended September 30		6 months ended September 30	
	2009	2008	2009	2008
Consulting fees	\$ 35,000	\$ 69,216	\$ 76,550	\$ 99,276
Directors fees	2,000	3,000	6,000	19,000
Filing, listing and transfer agent	16,446	16,251	24,002	24,524
Reports	5,868	31,062	28,899	31,062
Office and administration	4,419	36,751	37,501	68,825
Professional fees	47,012	24,265	71,648	40,449
Rent	13,509	11,881	25,902	19,314
Shareholder relations and communications	20,914	21,245	20,914	52,508
Travel	49,640	21,371	88,529	51,512
Wages	197,081	176,174	345,734	353,569
Overhead recoveries	(21,592)	(14,366)	(27,549)	(40,464)
	\$ 370,297	\$ 396,850	\$ 698,130	\$ 719,575

#### Summary of Quarterly Information

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	671,355	588,818	600,628	728,031	1,534,373	2,060,824	1,181,981	1,238,819
General and administrative	(370,297)	(327,833)	(350,947)	(429,179)	(396,850)	(322,725)	(735,459)	(421,921)
Foreign Exchange	(240,715)	(58,088)	(123,235)	573,099	(34,808)	(60,021)	(509,337)	(188,290)
Stock option compensation	-	(872)	(13,246)	6,339	(6,341)	(6,339)	(11,382)	(22,817)
Other	(1,971,222)	(372,080)	(8,810,557)	(11,983,946)	(958,880)	(880,785)	276,812	(7,202,724)
Net income (loss)	(1,910,879)	(170,055)	(8,697,357)	(11,105,656)	137,494	790,954	202,615	(6,596,933)
Basic income (loss) per share	(0.11)	(0.01)	(0.50)	(0.60)	0.00	0.04	0.00	(0.35)
Diluted income (loss) per share	(0.11)	(0.01)	(0.50)	(0.60)	0.00	0.04	0.00	(0.35)

#### Liquidity and Capital Resources

The Company ended the second quarter with \$6,562,752 (September 30, 2008: \$5,928,827) in cash and cash equivalents and \$7,263,167 (2008: \$7,504,083) 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 September 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 13 of the accompanying unaudited consolidated interim financial statements.

**Share Capital**

Please refer to Notes 8 and 13 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, CFO and Director  
Vancouver, British Columbia

John Vaccaro  
Director  
Vancouver, British Columbia

Dan Brown  
Director  
Vancouver, British Columbia

Giuseppe (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**

Stratford, New Zealand

### **SUBSIDIARIES**

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

### **SHAREHOLDER RELATIONS**

Telephone: 604-609-3350  
Email: [ir@tagoil.com](mailto:ir@tagoil.com)

### **SHARE CAPITAL**

At November 27, 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, 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 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, B.C. V7X 1L3

### **SHARE LISTING**

*TSX Venture Exchange*  
Trading Symbol: TAO

### **WEBSITE**

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

Filename: TAG\_Q2\_2010  
Directory: C:\Users\Ingels\Desktop\MCorp  
Template: C:\Documents and Settings\dbrown\Local Settings\Temporary  
Internet Files\OLK10\TAG\_Letterhead\_12-8-08.dot  
Title:  
Subject:  
Author: dbrown  
Keywords:  
Comments:  
Creation Date: 12/7/2009 2:31:00 PM  
Change Number: 13  
Last Saved On: 12/7/2009 5:28:00 PM  
Last Saved By: Lannette Ingels  
Total Editing Time: 130 Minutes  
Last Printed On: 12/7/2009 5:28:00 PM  
As of Last Complete Printing  
Number of Pages: 19  
Number of Words: 8,661 (approx.)  
Number of Characters: 49,370 (approx.)