

AUDITORS' REPORT

To the Shareholders of TAG Oil Ltd. ("the Company")

We have audited the consolidated balance sheets of TAG Oil Ltd. as at March 31, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

De Visser Gray LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

July 27, 2010



Consolidated Balance Sheets
Expressed in Canadian Dollars

As at March 31	2010	2009
Assets		
Current		
Cash and cash equivalents (Note 2(f))	\$ 9,967,418	\$ 7,385,177
Amounts receivable and prepaids	357,027	192,711
Inventory (Note 2(m))	712,877	779,423
	11,037,322	8,357,311
Property and equipment (Note 6)	9,490,006	4,547,879
Investments (Note 8)	601,158	217,521
	\$ 21,128,486	\$ 13,122,711
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 1,466,941	\$ 484,531
Asset retirement obligations (Note 9)	347,800	-
	1,814,741	484,531
Non-current		
Asset retirement obligations (Note 9)	1,949,371	812,522
	3,764,112	1,297,053
Share capital (Note 10 (a))	76,228,207	69,644,677
Contributed surplus (Note 10 (a))	1,218,746	917,512
Deficit	(60,118,465)	(57,517,923)
	17,328,488	13,044,266
Accumulated other comprehensive income (loss) (Note 16)	35,886	(1,218,608)
	\$ 21,128,486	\$ 13,122,711

Nature of operations (Note 1)
Commitments and contingencies (Note 13)
Subsequent events (Note 15)

See accompanying notes

Approved by the Board of Directors:

(signed "Garth Johnson")

Garth Johnson, Director

(signed "John Vaccaro")

John Vaccaro, Director



Consolidated Statements of Operations and Deficit
Expressed in Canadian Dollars

For the Years Ended March 31	2010	2009
Revenues		
Production revenue	\$ 6,527,585	\$ 4,923,856
Royalties	(1,875,421)	(249,356)
	4,652,164	4,674,500
Expenses		
General and administrative (Note 7)	2,082,581	1,499,701
Depletion, depreciation and accretion	923,010	1,374,336
Directors & officers insurance	30,958	45,000
Foreign exchange	702,186	(355,035)
General exploration	116,724	349,256
Bad debts	26,571	-
Interest income	(67,155)	(158,559)
Legal settlement	(27,338)	(182,347)
Production costs	1,538,111	1,524,651
Loss on sale of equipment	1,539	-
Realized loss on investment (Note 8)	1,431,979	-
Stock based compensation	302,804	19,587
Revaluation of inventory	126,785	(132,241)
Write-off of oil and gas properties	63,951	19,564,716
	(7,252,706)	(23,549,065)
Net loss for the year	(2,600,542)	(18,874,565)
Deficit, beginning of year	(57,517,923)	(38,643,358)
Deficit, end of year	\$ (60,118,465)	\$ (57,517,923)
Loss per share – basic (Note 2(k))	\$ (0.13)	\$ (1.05)
Weighted average number of shares outstanding	20,624,208	17,891,266

See accompanying notes.



Consolidated Statements of Comprehensive Loss
Expressed in Canadian Dollars

For the years ended March 31,	2010	2009
Net loss for the year	\$ (2,600,542)	\$ (18,874,565)
Other comprehensive income (loss) in the year		
Fair value adjustment on available for sale financial instruments:		
Investments (Note 8)	(177,485)	(1,218,608)
Less realized loss on investment reclassified to net income	1,431,979	-
Other comprehensive income (loss) in the year	1,254,494	(1,218,608)
Comprehensive loss for the year	(1,346,048)	(20,093,173)
Accumulated comprehensive loss, beginning of the year	(20,093,173)	-
Accumulated comprehensive loss, end of the year	\$ (21,439,221)	\$ (20,093,173)

See accompanying notes.



Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

For the Years Ended March 31	2010	2009
Operating Activities		
Net loss for the year	\$ (2,600,542)	\$ (18,874,565)
Changes in non-cash operating items:		
Depletion, depreciation and accretion	923,010	1,374,336
Realized loss on investment	1,431,979	-
Stock based compensation	302,804	19,587
Loss on sale of equipment	1,539	-
Write-off of oil and gas properties	63,951	19,564,716
Revaluation of inventory	126,785	(132,241)
	249,526	1,951,833
Changes in non-cash working capital accounts:		
Amounts receivable and prepaids	(144,973)	1,344,367
Accounts payable and accrued liabilities	140,341	29,913
Inventory	(60,239)	368,704
Cash provided by operating activities	184,655	3,694,817
Financing Activities		
Share capital from exercised options	92,994	-
Shares purchased and returned to treasury	(41,768)	(334,954)
Cash provided by (used in) financing activities	51,226	(334,954)
Investing Activities		
Cash assumed on acquisition of Trans -Orient Petroleum Ltd.	4,842,890	-
Property and equipment expenditures	(2,302,633)	(2,523,637)
Purchase of shares	(193,897)	(4,150)
Cash used in investing activities	2,346,360	(2,527,787)
Net increase in cash during the year	2,582,241	832,076
Cash and cash equivalents - Beginning of year	7,385,177	6,553,101
Cash and cash equivalents - End of year (Note 2(f))	\$ 9,967,418	\$ 7,385,177

Supplementary cash flow disclosures:

Interest received	\$ 67,155	\$ 158,559
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Non-cash investing activities:

The Company incurred \$1,256,159 (2009: \$410,703) in exploration expenditures which amounts were in accounts payable at year end.

See accompanying notes.

**Notes to the Consolidated Financial Statements
For the Years Ended March 31, 2010 and 2009
Expressed in Canadian Dollars**

NOTE 1 - NATURE OF OPERATIONS

The Company was incorporated under the Business Corporations Act (British Columbia) and had continued its jurisdiction of incorporation to the Yukon Territory under the Business Corporations Act (Yukon). As approved by shareholders at the Company's annual general meeting held on September 22, 2006, the Company continued from the legal jurisdiction of the Yukon Territory back to the Province of British Columbia and adopted a new set of articles appropriate to British Columbia on October 12, 2006. Its major activity is the development and exploration of international oil and gas properties.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting Principles and Use of Estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which require the Company's management to make informed judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the fiscal year. Specific items particularly subject to management estimates are the carrying amounts of deferred property costs, potential accruals for future site reclamation costs and the determination of inputs required in the calculation of stock based compensation. Actual results could differ from these estimates.

b) Financial Instruments

All financial assets, liabilities or non-financial derivatives are initially recognized on the balance sheet at fair value and must be classified as one of the following categories: held-for-trading; held to maturity instruments; loans and receivables; available-for-sale financial assets; or other financial liabilities. Loans and receivables, held-to-maturity instruments and other financial liabilities are subsequently measured at amortized cost. Held-for-trading assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earning when derecognized or impaired.

The Company has classified cash and cash equivalents as held-for-trading, investments as available for sale and accounts receivables and accounts payable and accrued liabilities are classified as loans and receivables and other liabilities respectively.

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: TAG Oil (NZ) Limited, TAG Oil (Canterbury) Limited, Cheal Petroleum Limited, Trans-Orient Petroleum Limited, DLJ Management Corp., Eastern Petroleum (NZ) Limited & Orient Petroleum (NZ) Limited. The Company consolidates its financial statements with those of its subsidiaries in which it has a controlling interest. Should restrictions be placed on any foreign subsidiary that prevents the Company from exercising effective control, the Company's investment in that subsidiary shall be accounted for using the cost basis. All significant intercompany balances and transactions with subsidiaries have been eliminated on consolidation.

d) Joint Operations

Substantially all of the Company's activities relate to the production of, and exploration for, oil and gas. To the extent that these activities are conducted jointly with other companies, the accounts reflect only the Company's proportionate interest in these activities.

e) Translation of Foreign Currencies

The Company's foreign operations, conducted through its subsidiaries, are of an integrated nature and, accordingly, the temporal method of foreign currency translation is used for conversion of foreign-denominated amounts into Canadian dollars. Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the balance sheet date. Other assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Revenues and expenses arising from foreign currency transactions are translated into Canadian dollars at the average rate for the year. Exchange gains and losses are recorded as income or expense in the year in which they occur.

f) Cash and Cash Equivalents

Cash and cash equivalents include term investments with maturities of twelve months or less, together with accrued interest thereon, which are readily convertible to known amounts of cash. At March 31, 2010 the Company's cash and equivalents consisted of term deposits of \$Nil (2009: \$4,655,653 bearing interest rates ranging 1.1% to 10.69%)

g) Property and equipment

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the acquisition, exploration, and development of oil and gas properties and equipment are capitalized and accumulated in cost centres by country. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals, seismic and costs of drilling productive and non-productive wells, together with overhead expenses related to acquisition, exploration, development activities. The costs in cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. Depletion is calculated using costs of acquisition, exploration, development, estimated future development as well as dismantlement and abandonment costs, net of salvage values using the unit-of production method. An assessment is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost centre are recoverable. Costs which are unlikely to be recovered are written-off. Oil and gas properties for which there has been commercial production, are subject to a ceiling test in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying values of the oil and gas properties. If the carrying value of the oil and gas properties is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds an estimated fair value. The fair value estimate is normally based on the sum of the discounted cash flows expected from production of proved and probable reserves at a discount rate of 10% and the lower of cost and market of unproved properties. The cash flows are estimated using forecast product prices and costs with the forecast product pricing being a constant price utilizing the actual oil price posted at March 31, 2010 and discounted using a risk-free interest rate of 10%.

Sales of oil and gas properties, whether or not being amortized currently, shall be accounted for as adjustments of capitalized costs, with no gain or loss recognized unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to a cost centre. Abandonments of oil and gas properties shall be accounted for as adjustments of capital cost with the costs of abandoned properties being charged to the cost centre and amortized.

Furniture, office and computer equipment is recorded at cost less accumulated amortization. Amortization is provided for over its estimated useful life on a declining-balance basis at rates between 20% and 48%.

h) Income Taxes

The Company accounts for and measures future tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely to occur than not to occur, a valuation allowance in the amount of potential future benefit is taken and no asset is recognized. Such an allowance would apply fully to all potential income tax assets of the Company.

i) Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the TSX Venture Exchange on the measurement date. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty's performance is complete.

j) Stock-based Compensation

The Company has a stock based compensation program for officers, directors, employees and consultants.

All stock option based grants are measured and recognized in the consolidated financial statements using a fair value based method. Fair value is created using the Black-Scholes option-pricing model and the compensation cost is amortized over the vesting period. The Company re-measures compensation expense if the options are changed or modified. Consideration received upon the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus is recorded as share capital.

k) Loss per share

Loss per share is calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is not presented, as it is anti-dilutive. For the purpose of calculating the weighted-average number of shares outstanding, stock consolidations are deemed to occur at the beginning of the period and are applied retroactively to the preceding periods.

l) Asset retirement obligation

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value is determined through a review of engineering studies, industry guidelines and managements estimate on a site-by-site basis. The fair value of the ARO is recorded as a liability, with a corresponding increase in the amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proven and probable reserves. The liability amount of accretion is expensed in the period. Actual costs incurred upon the settlement of the ARO are charged against the liability.

m) Inventory

Inventory is valued at the lower of cost and net realizable value with cost being determined using a first-in first-out basis. Inventory consists of oil stocks and field operation consumables.

n) Oil and gas revenue recognition

Sales revenues represent invoiced sales of oil and gas products. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or where there is continuing management involvement with the goods.

o) Acquisitions

Acquisitions are accounted for using the purchase method. Where an entity becomes part of the Company during the year, the results of the entity are included in the consolidated results from the date that control commenced. When an entity is acquired, all identifiable assets and liabilities are recognized at their fair value at the acquisition date. The fair value does not take into consideration any future intentions by the Company.

NOTE 3 – ACCOUNTING POLICIES ADOPTED IN 2010

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. Refer to note 12.

NOTE 4 – 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 for the Company of April 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2012. 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.

NOTE 5 – TRANS-ORIENT PETROLEUM LIMITED ACQUISITION

On December 16, 2009, the Company acquired all of the issued and outstanding shares of Trans-Orient. The acquisition was accounted for by the purchase method and the shares were acquired for an aggregate of \$6,530,734 by the issuance of 13,053,696 common shares of the Company priced at \$0.50 per share. The company has used CICA Section 1581 in determining the purchase price of the Trans-Orient acquisition.

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

Calculation of purchase price:

Fair value of shares issued	\$ 6,530,734
Transaction costs	68,960
<u>Total purchase price</u>	<u>\$ 6,599,694</u>
Oil and gas properties	\$ 1,213,345
Equipment	153,503
Investment in shares	367,225
Working capital	4,865,621
<u></u>	<u>\$ 6,599,694</u>

Refer to Notes 6 and 10

NOTE 6 – PROPERTY AND EQUIPMENT

	Working Interest at March 31 2009/2010 %	Net Book Value at March 31, 2008	Additions During the 2009 Fiscal Year	Depletion Recoveries Write-offs	Net Book Value at March 31, 2009	Additions During the 2010 Fiscal Year	Depletion Recoveries Write-offs	Net Book Value at March 31, 2010
Oil and Gas Properties								
New Zealand								
Proved:								
PMP 38156-S	30.5/100	\$ 21,769,272	\$ 1,107,703	\$(18,706,314)	\$ 4,170,661	\$ 4,133,489	\$(824,945)	\$ 7,479,205
Unproved:								
New Zealand:								
PMP 38153	-/-	32,911	4,877	(37,788)	-	-	-	-
PMP 38156-D	-/-	195,572	-	(195,572)	-	-	-	-
PEP 38741	-/-	-	13,005	(13,005)	-	-	-	-
PEP 38746	16.65/-	187,040	66,838	-	253,878	5,201	(259,079)	-
PEP 38748	33.33/100	24,839	51,186	-	76,025	165,924	(12,332)	229,617
PEP 38757	-/-	-	262	(262)	-	-	-	-
PEP 38758	-/-	-	27,834	(27,834)	-	-	-	-
PEP 38765	-/-	-	11,078	(11,078)	-	-	-	-
PEP 38348	-/100	-	-	-	-	550,808	-	550,808
PEP 50940	-/100	-	-	-	-	49,122	-	49,122
PEP 38349	-/100	-	-	-	-	790,550	-	790,550
New interests	-/-	-	-	-	-	-	-	-
		22,209,634	1,282,783	(18,991,853)	4,500,564	5,695,094	(1,096,356)	9,099,302
		Net Book Value at March 31, 2008	Additions During the Year	Amortization / Write-offs	Net Book Value at March 31, 2009	Additions During the Year	Amortization / Write-offs	Net Book Value at March 31, 2010
Equipment								
Production equipment	30.5/100	7,144,016	804,849	(7,948,864)	1	178,627	-	178,628
Office equipment / leasehold improvements	100/100	28,299	41,158	(22,143)	47,314	227,764	(63,002)	212,076
		7,172,315	846,007	(7,971,007)	47,315	406,391	(63,002)	390,704
Total		\$ 29,381,949	\$ 2,128,790	\$(26,962,860)	\$ 4,547,879	\$ 6,101,485	\$(1,159,358)	\$ 9,490,006

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

PEP 38348, PEP 38349 and PEP 50940

On December 16, 2009, the Company acquired Trans-Orient Petroleum. Trans-Orient owns 100% interest in PEP 38348, PEP 38349 and PEP 50940 located on the East Coast Basin of New Zealand. Consideration paid for Trans-Orient is outlined in Note 5.

PMP 38156-S

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

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

PEP 38748

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

PEP 38746

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

Refer to Notes 5 and 9.

For the year ended March 31, 2009, the Company received the results from an independent reserves assessment on its 100% interest in PMP 38156-S (Cheal Oil Field, onshore Taranaki Basin, New Zealand). As a result of the report findings on the property, the Company wrote-down the property value by approximately \$21.2 million and in doing so also reversed previously recorded future income tax liabilities to the acquisition of the property in the amount of \$4,144,883.

During the 2009 fiscal year, the Company and Austral Pacific Energy Ltd. ("Austral") resolved a dispute related to the construction of the Cheal Production Station located on PMP 38156-S. The agreement to resolve the dispute required Austral to issue 2,273,000 common shares to the Company valued at the time of issuance at NZ\$2,000,240 and to pay the Company NZ\$300,000 which was recorded as a recovery of capital expenditures at Cheal. The issuance of Austral common shares also included six-month anti-dilution protection for the Company whereby the Company was issued 757,303 additional Austral common shares when Austral completed a common share financing on June 23, 2008 at a price less than NZ\$0.88 per share. In addition, because the Cheal A7 well was completed successfully for production, Austral was required to pay the Company an additional US\$250,000 in twelve equal monthly amounts commencing September 2008. During the year ended March 31, 2009, the Company received US\$145,831 from Austral for the first seven payments. To date the Company has not received the balance of \$104,169 and it is unlikely that the Company will receive the balance remaining due to Austral's financial condition.

On February 7, 2009, and March 6, 2009 the Company relinquished its interest in PEP 38758 and PMP 38153 and has written-off the net costs associated with each permit.

On January 27, 2009, the Company received the consent of the Ministry of Economic Development in New Zealand and completed the agreement with a subsidiary of New Zealand based Genesis Energy Limited to sell its 15.1% interest in PEP 38738-D and PMP 38156-D containing the Cardiff deep gas prospect for a combination of cash and a 1% royalty on any future production from both permits.

In April 2008, the Company received the consent of the Ministry of Economic Development in New Zealand and complete the December 2007 agreement with Discovery Geo Corporation to sell the Company's 35.5% interest in PEP 38342 for a combination of cash and a 1.11% royalty on future production on the permit.

NOTE 7 – RELATED PARTY TRANSACTIONS

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

Pursuant to an agreement dated October 1, 2007, the Company paid an insider of the Company \$60,000 (2009: \$72,500) in consulting fees.

The Company paid all directors, on a consolidated basis, compensation of \$79,000 (2009: \$35,000).

During the year ended March 31, 2009, the Company incurred \$329,521 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.

NOTE 8 – INVESTMENTS

At March 31, 2010, the Company’s ownership interests in investments accounted for under the cost method of accounting are as follows:

	March 31, 2010			March 31, 2009		
	Number of Common Shares Held	Market Value	Percentage of Ownership	Number of Common Shares Held	Market Value	Percentage of Ownership
Austral Pacific	3,030,303	\$ -	5.03%	3,030,303	\$ 212,121	5.03%
Trans-Orient	-	-	0.00%	45,000	5,400	0.00%
Adira Energy	826,431	360,523	1.32%	-	-	-
Other investments	1,117,000	240,635	0.73% - 1.38%	-	-	-
		\$ 601,158			\$ 217,521	

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

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

Refer to Note 5

NOTE 9 – ASSET RETIREMENT OBLIGATIONS

The following is a continuity of asset retirement obligations for the year ended March 31, 2010:

Balance at March 31, 2009	\$ 812,522
Revision in estimated obligations	1,436,245
Accretion expense	48,404
Balance at March 31, 2010	<u>\$ 2,297,171</u>

The Company’s asset retirement obligations result from net ownership interests in petroleum and natural gas development activity and, during the year ended March 31, 2010, the Company recorded an additional liability of \$1,436,245 resulting from a revision in estimated asset retirement obligations during the year and the completion of the Cheal acquisition. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately \$3,157,306.

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 3% and discounted to its present value using a credit adjusted risk free rate of 5% and the corresponding amount is recognized by increasing the carrying amount of the oil and gas properties.

NOTE 10 - SHARE CAPITAL

a) Authorized and Issued Share Capital

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

Issued and fully paid:	Number of Shares	Amount	Contributed Surplus
Balance at March 31, 2008	91,631,081	\$ 69,979,631	\$ 897,925
Shares purchased and returned to treasury	(5,689,000)	(288,485)	-
	85,942,081	69,691,146	897,925
February 4, 2009 share consolidation	(68,753,659)	-	-
	17,188,422	69,691,146	897,925
Shares purchased and returned to treasury	(235,200)	(46,469)	-
Stock based compensation	-	-	19,587
Balance at March 31, 2009	16,953,222	\$ 69,644,677	\$ 917,512
Shares purchased and returned to treasury	(143,500)	(41,768)	-
Issue of new shares – Trans-Orient acquisition	13,053,696	6,530,734	-
Exercise of stock options	49,857	92,994	-
Fair value of stock options exercised	-	1,570	(1,570)
Stock based compensation	-	-	302,804
Balance at March 31, 2010	29,913,275	\$ 76,228,207	\$ 1,218,746

On December 16, 2009, pursuant to a business combination agreement completed by the Company and Trans-Orient, the Company issued 13,053,696 shares, to Trans-Orient common shareholders, valued at \$0.50 per common share issued, based on the closing share price of the Company over a reasonable period before and after the date the terms were announced to acquire Trans-Orient.

During the 2009 fiscal year, the Company launched a normal course issuer bid to purchase up to 1,516,700 of its common shares (post consolidation) through the facilities of the TSX Venture Exchange. In 2009 the Company purchased 1,373,000 common shares for cancellation and return to treasury and in 2010 the Company purchased an additional 143,500 common shares.

On May 27, 2009, the Company filed a Form 15F with the U.S. Securities and Exchange Commission ("SEC") and terminated the registration of its common shares under section 12(g) of the Securities Exchange Act. As a result of this filing, TAG Oil's reporting obligations with the SEC will no longer be quoted in the United States on the Over-the-Counter Bulletin Board.

Effective February 4, 2009, the Company's common shares began trading on a consolidated basis. Shareholders approved the consolidation of the Company's common shares on the basis of five common shares being consolidated into one common share.

Refer to Notes 2, 5 and 15

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, 2008	1,260,000	\$ 0.77
Expired during the year	(375,000)	(0.42)
Granted during the year	225,000	0.25
	1,110,000	0.76
February 4, 2009 share consolidation	(888,000)	-
Balance at March 31, 2009	222,000	\$ 3.78
Granted during the year	1,075,000	1.52
Trans-Orient options converted to TAG options	694,642	1.47
Expired during the year	(80,000)	3.25
Exercised during the year	(49,857)	1.85
Balance at March 31, 2010	1,861,785	1.66

(1) Certain outstanding options are denominated in US dollars and have been converted to Canadian dollars using the year-end closing exchange rate of the year of grant.

The following summarizes information about stock options that are outstanding at March 31, 2010:

Number of Options	Price per Share	Weighted Average Remaining Contractual Life	Expiry Date	Options Exercisable
15,000	US\$3.25	0.19	May 10, 2010	15,000
30,000	\$6.50	0.65	November 22, 2010	30,000
65,000	\$3.50	1.34	August 2, 2011	65,000
437,499	US\$1.40	2.95	March 14, 2013	437,499
71,429	US\$2.24	3.22	June 26, 2013	71,429
17,857	US\$1.51	3.29	July 21, 2013	17,857
150,000	\$1.26	4.56	October 28, 2014	-
900,000	\$1.25	4.56	October 28, 2014	-
175,000	\$2.90	4.85	February 9, 2015	-
1,861,785		3.94		636,785

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 February 10, 2010, the Company granted a total of 175,000 stock options to consultants pursuant to its incentive stock option plan. These new options are exercisable at \$2.90 per share until February 9, 2015 and will vest over a period of eighteen months.

During the year ended March 31, 2010, 49,857 stock options were exercised for \$92,994.

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

During the 2009 fiscal year, the Company granted options to two employees to purchase 45,000 common shares of the Company (post consolidation) at \$1.25 per share vesting over eighteen months with an expiry date of August 1, 2013.

The Company applied the Black-Scholes option pricing model using the closing market prices on the grant dates and during 2010 and 2009 the Company has calculated option benefits using a volatility ratio of 75% (2009: 42%) and a risk free interest rate of 3.5% (2009: 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. During the 2010 fiscal year the Company recorded a total option benefit of \$302,804 (2009: \$19,587).

c) Share Purchase Warrants

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

	Number of Share Purchase Warrants	Weighted Average Exercise Price	Expiry Date
Balance at March 31, 2010	71,428	US\$2.24	June 24, 2010

Refer to Note 15

NOTE 11 – CAPITAL MANAGEMENT

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

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

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

NOTE 12 – FINANCIAL INSTRUMENTS

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

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

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

a) Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; all of the Company's production is sold directly to an oil super major. The Company is paid for its oil sales within 30 days of shipment. The Company has assessed the risk of non-collection from the buyer as low due to the buyers 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 March 31, 2010 and did not provide for any doubtful accounts. During the fiscal year ended March 31, 2010 the Company was required to write-off \$26,571 (2009 – nil) of receivables for services deemed uncollectable due to the party entering receivership. As at March 31, 2010 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 March 31, 2010 of \$9.967 million, the Company's liquidity risk is assessed as low. As at March 31, 2010 the Company's only financial liabilities are accounts payable and accrued liabilities of \$1,466,941.

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 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 year ended March 31, 2010, however changes in commodity prices did affect the Company's results of operations. These commodity price decreases have 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 1% of total revenue.

The Company did not have any interest rate swaps or financial contracts in place as at or during the year ended March 31, 2010 and any variations in interest rates would not have materially affected net income.

g) Fair Value of Financial Instruments

During 2009, CICA handbook section 3862 "Financial Instruments – Disclosures" was amended to require enhanced disclosure of financial instrument fair value measurements and liquidity risks. Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data

The Company's financial instruments carrying amounts and fair values by categories and levels per the fair value hierarchy are as follows:

	Fair Value Level	2010		2009	
		Available for sale at fair value	Receivables/ other financial liabilities at amortized cost	Available for sale at fair value	Receivables/ other financial liabilities at amortized cost
Financial assets:					
Cash and cash equivalents	1	\$ 9,967,418	\$ -	\$ 7,385,177	\$ -
Amounts receivable		-	260,982	-	113,048
Investments	1	601,158	-	217,521	-
		\$ 10,568,576	\$ 260,982	\$ 7,602,698	\$ 113,048
Financial liabilities:					
Accounts payable and accrued liabilities		\$ -	\$ 1,466,941	\$ -	\$ 484,531
		\$ -	\$ 1,466,941	\$ -	\$ 484,531

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Company participates in oil and gas exploration operations with independent third and related parties and is contractually committed under agreements to complete certain exploration programs. The Company's management estimates that the total commitments for fiscal 2011 under various agreements relating to permits held at March 31, 2010 are as follows:

Oil and Gas Property	Working Interest %	Work Commitment or Obligation to March 31, 2011
PMP 38156-S	100	3,150,000
PEP 38748	100	1,750,000
PEP 38348	100	315,000
PEP 50940	100	630,000
PEP 38349	100	329,000
Total		\$ 6,174,000

NOTE 14 - INCOME TAXES

	2010	2009
Net loss for the year	\$ (2,600,542)	\$ (18,874,565)
Expected income tax recovery	(765,698)	(5,666,420)
Net adjustment for amortization, deductible and non-deductible amounts	(498,076)	4,647,874
Valuation allowance	1,263,774	1,018,546
Total income taxes	\$ -	\$ -

A reconciliation of income taxes at statutory rates and the significant components of the Company's future income tax assets are as follows:

	2010	2009
Future income tax assets (liabilities):		
Net property and equipment carrying amounts in excess of tax pools	\$ (869,516)	\$ (214,251)
Non-capital loss carryforwards and share issue costs	10,477,750	10,011,181
	9,608,234	9,796,930
Valuation allowance	(9,608,234)	(9,796,930)
	-	-
Purchase of Cheal	-	4,144,883
Reassessment of future income tax liability	-	(4,144,883)
Net future tax liabilities	\$ -	\$ -

During the 2007 fiscal year the Company recorded a future income tax liability on an acquisition due to an excess of the allocated cost of the property for consolidated accounting purposes over the tax pools applicable to these assets in the corporate entity acquired. In the acquisition the Company's carrying cost of the Cheal assets for consolidated accounting purposes, as otherwise determined, was increased by this notional \$5,329,492 future tax liability assumed. During the 2009 and 2008 fiscal years the excess costs allocated to the cost of the property over tax pools were reassessed and this notional future tax liability was reduced to \$Nil.

The Company has Canadian non-capital losses of approximately \$10.3 million (2009 - \$7.25 million), which are available to reduce future taxable income. These expire between 2010 and 2030. Subject to certain restrictions the Company also has mineral property expenditures of approximately \$4.08 million (2008 - \$4.08 million) available to reduce taxable income in future years.

At March 31, 2010, the Company also has losses and deductions of approximately NZ\$33.6 million (March 31, 2009 - NZ\$36.2 million) available to offset future taxable income earned in New Zealand. These tax losses are available to be carried forward indefinitely as long as shareholder continuity is maintained.

NOTE 15 – SUBSEQUENT EVENTS

Share Capital:

a.) On May 5, 2010 the Company closed an equity offering with a total of 7,700,000 units and 231,000 broker warrants sold for net proceeds of \$18,711,150. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will be exercisable at \$3.60 and will entitle the holder thereof to acquire one common share for a period of 18 months.

b.) Subsequent to the year ended March 31, 2010, 33,333 options were exercised for proceeds of \$41,666, 25,000 options were granted on April 1, 2010, 15,000 options expired on May 10, 2010 and 71,429 warrants expired on June 24, 2010.

NOTE 16 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2010	2009
Accumulated other comprehensive income (loss), beginning of year	\$ (1,218,608)	\$ -
Other comprehensive income (loss) in the year	1,254,494	(1,218,608)
Accumulated other comprehensive (loss), end of year	\$ (35,886)	\$ (1,218,608)

Components of accumulated other comprehensive income (loss), March 31

	-	
Unrealized gains (losses) on temporary investments	\$ 35,886	\$ (1,218,608)
	\$ 35,886	\$ (1,218,608)

NOTE 17 – 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:

2010	Canada	New Zealand	Total Company
Production revenue	\$ -	\$ 6,527,585	\$ 6,527,585
Royalty expenses	-	(1,875,421)	(1,875,421)
	-	4,652,164	4,652,164
Expenses:			
General and administrative	(1,580,132)	(502,449)	(2,082,581)
Depletion, depreciation and accretion	(49,661)	(873,349)	(923,010)
Directors and officers insurance	(30,958)	-	(30,958)
Foreign exchange	(499,218)	(202,968)	(702,186)
General exploration	-	(116,724)	(116,724)
Bad debts	-	(26,571)	(26,571)
Interest income	44,978	22,177	67,155
Legal settlement	-	27,338	27,338
Production costs	-	(1,538,111)	(1,538,111)
Loss on sale of equipment	-	(1,539)	(1,539)
Realized loss on investment	(1,431,979)	-	(1,431,979)
Stock based compensation	(302,804)	-	(302,804)
Revaluation of inventory	-	(126,785)	(126,785)
Write-off of oil and gas properties	-	(63,951)	(63,951)
Net loss for the year	\$ (3,849,774)	\$ 1,249,232	\$ (2,600,542)
Total assets	\$ 7,784,681	\$ 13,343,805	\$ 21,128,486
Capital expenditures for the year	\$ -	\$ 2,302,633	\$ 2,302,633