

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2004 (with other information to September 28, 2004 except where noted)

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-22500

TAG OIL LTD.

(Exact name of Registrant specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

YUKON TERRITORY, CANADA

(Jurisdiction of incorporation or organization)

Suite 400, 534 17th Avenue SW

Calgary, Alberta, Canada, T2S 0B1

(Address of principal executive offices)

COMMON SHARES WITHOUT PAR VALUE

(Title of Class)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Each Class: **None** Name of each exchange on which registered: **Not Applicable**

Securities registered or to be registered pursuant to Section 12(g) of the Act

COMMON SHARES WITHOUT PAR VALUE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Number of outstanding shares of TAG Oil's only class of capital stock as on March 31, 2004:

7,978,061 Common Shares Without Par Value (12,534,581 outstanding at September 28, 2004)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark which financial statement item Registrant has elected to follow:

Item 17

Item 18

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of the Form 20-F of TAG Oil Ltd.

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CURRENCY, MEASUREMENT AND GLOSSARY OF INDUSTRY TERMS

Currency and Measurement

All currency amounts are stated in Canadian dollars unless otherwise indicated.

Conversion from metric into imperial units of measurement is as follows:

| Metric Units | Imperial Units |
|---------------------|--------------------------|
| hectare | 2.471 acres |
| metre (m) | 3.281 feet |
| kilometre (km) | 0.621 miles (3,281 feet) |

Industry Expressions

The following are industry expressions used in this Annual Report:

TAG, We, Our, Company or Registrant refers to TAG Oil Ltd., a corporation organized and registered under the laws of Yukon, Canada, and unless the context clearly requires, includes its subsidiaries.

Basin is a segment of the crust of the Earth which has been downwarped and in which thick layers of sediments have accumulated over a long period of time.

Depletion is the reduction in petroleum reserves due to production.

Discovery is the location by drilling of a well of an accumulation of gas, condensate or oil reserves, the size of which may be estimated but not precisely quantified and which may or may not be commercially economic, depending on a number of factors.

Entrapment is the geological structure in which hydrocarbons build up to form an oil, condensate or gas field.

Exploration Well is a well drilled in a prospect without knowledge of the underlying sedimentary rock or the contents of the underlying rock.

Farm-In or Farm-Out refers to a common form of agreement between petroleum companies where the holder of the petroleum interest agrees to assign all or part of an interest in the ownership to another party that is willing to fund agreed exploration activities which may be more or less than the proportionate interest assigned to them.

Fault is a fracture in a rock or rock formation along which there has been an observable amount of displacement.

Formation is a reference to a group of rocks of the same age extending over a substantial area of a basin.

Geology is the science relating to the history and development of the Earth, and is also used to refer to the make-up of the rocks in a particular area.

Hydrocarbons is the general term for oil, gas, condensate and other petroleum products.

Joint Venture or JV refers to a standard form of participation in petroleum exploration, via unincorporated joint arrangements between a number of industry participants, with one party operating the permit (ie managing the operations) on behalf of all the participants, and Joint Venturers has a corresponding meaning.

Participating Interest or Working Interest is an equity interest, compared with a royalty interest, in an oil and gas property whereby the participating interest holder pays its proportionate percentage share of development and operating costs and receives the equivalent share of the proceeds of hydrocarbon sales after deduction of royalties or other imposts due on gross income.

Permit or Licence is an area that is granted for a prescribed period of time for exploration, development or production under specific contractual or legislative conditions.

Preemption is the right granted to a party in a Joint Venture Operating Agreement to require another party, which party is proposing to assign its interest in a permit or licence, to assign that interest to the first party on the terms of the proposed assignment.

Prospect is a potential hydrocarbon trap which has been confirmed by geological and geophysical studies to the degree that drilling of an exploration well is warranted.

Reservoir is a porous and permeable sedimentary rock formation containing adequate pore space in the rock to provide storage space for oil, gas or water.

Royalty is the entitlement to a stated or determinable percentage of the proceeds received from the sale of hydrocarbons calculated as prescribed in applicable legislation or in the agreement reserving the royalty to the owner of the royalty.

Seismic refers to a geophysical technique using low frequency sound waves to determine the subsurface structure of sedimentary rocks.

Shut-in refers to a well that is suspended from production, usually for operational reasons, such as in order to build up pressure in the reservoir.

Trap is a geological structure covered by a seal in which hydrocarbons build up to form an oil or gas reservoir.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements and these forward-looking statements are not guarantees of our future operational or financial performance and are subject to risks and uncertainties. Certain statements in this Report constitute forward-looking statements. When used in this Annual Report, the words “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these statements, which speak only as of the date of this Annual Report. These statements are subject to risks and uncertainties that could cause results to differ materially from those contemplated in such forward-looking statements.

Such risks and uncertainties include, but are not limited to, those identified under the subheading "Risk Factors" in Item 3 hereof.

Actual operational and financial results may differ materially from our expectations contained in the forward-looking statements as a result of various factors, many of which are beyond the control of the Company. These factors include, but are not limited to, changes in the price of crude oil and natural gas, adverse technical factors associated with exploration, changes or disruptions in the political or fiscal regimes in our areas of activity, changes tax, energy or other laws or regulations, changes in significant capital expenditures, delays in production starting up due to an industry shortage of skilled manpower, equipment or materials.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

Selected financial data

The selected historical financial information presented in the table below for each of the years ended March 31, 2004, 2003, 2002, 2001 and 2000, is derived from the audited consolidated financial statements of the Company. The audited consolidated financial statements of the Company for the years ended March 31, 2004, 2003 and 2002 are included in this filing. The selected historical financial information for the year ended March 31, 2001 & 2000 presented in the table below are derived from audited consolidated financial statements of the Company that are not included in this filing. The selected financial information presented below should be read in conjunction with our consolidated financial statements and the notes thereto (Item 17) and the Operating and Financial Review and Prospects (Item 5) elsewhere in this filing.

The selected consolidated financial data has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The consolidated financial statements included in Item 17 in this filing are also prepared under Canadian GAAP. Included within these consolidated financial statements in Note 12 is a reconciliation between Canadian and US GAAP.

Under Canadian Generally Accepted Accounting Principles (in Cdn\$)

| | YEAR ENDED MARCH 31 | | | | |
|-----------------------------|---------------------|-------------|-------------|-------------|-------------|
| | 2004 \$ | 2003 \$ | 2002 \$ | 2001 \$ | 2000 \$ |
| Current Assets | 920,461 | 1,245,229 | 2,223,719 | 1,801,712 | 2,522,428 |
| Oil and Gas Properties..... | 645,209 | 521,041 | 457,812 | 471,634 | 326,967 |
| Property and Equipment..... | 17,470 | 400,583 | 413,841 | 31,173 | 38,477 |
| Incorporation Costs | – | – | – | – | – |
| Total Assets | 1,583,140 | 2,166,853 | 3,095,372 | 2,304,519 | 2,887,872 |
| Share Capital | 11,023,925 | 10,584,745 | 10,349,531 | 9,434,111 | 9,434,111 |
| Deficit | (9,465,038) | (8,527,037) | (7,531,784) | (7,400,648) | (6,895,740) |
| Interest Income | 15,737 | 43,470 | 83,691 | 108,360 | 163,039 |
| Rental Income | – | 23,000 | 4,000 | – | – |
| Net Loss | (938,001) | (995,253) | (131,136) | (504,908) | (793,513) |
| Net Loss per Share | (0.13) | (0.16) | (0.03) | (0.27) | (0.42) |

We have adopted the new recommendations of the CICA handbook section 3870, stock option based compensation. It is applied on a prospective basis and applies to all awards granted on or after January 1, 2002. Section 3870 established standards for the recognition, measurement and disclosure of stock option based compensation and other stock based payments made in exchange for goods and services. The standard requires that all stock option based awards made to consultants and employees, be measured and recognized using a fair value based method.

Under U.S Generally Accepted Accounting Principles (in Cdn\$)

| | YEAR ENDED MARCH 31 | | | | |
|------------------------------------|---------------------|--------------|--------------|--------------|-------------|
| | 2004 \$ | 2003 \$ | 2002 \$ | 2001 \$ | 2000 \$ |
| Current Assets | 937,261 | 1,248,829 | 2,223,719 | 1,819,212 | 2,566,098 |
| Oil and Gas Properties..... | 738,225 | 567,701 | 444,794 | 416,406 | 313,942 |
| Property and Equipment..... | 17,470 | 400,583 | 413,841 | 31,173 | 38,477 |
| Incorporation Costs | – | – | – | – | – |
| Total Assets | 1,676,156 | 2,213,513 | 3,082,354 | 2,266,790 | 2,918,517 |
| Share Capital | 14,066,783 | 13,627,603 | 13,392,389 | 12,476,969 | 12,476,969 |
| Deficit | (12,494,696) | (11,566,296) | (10,574,642) | (10,443,507) | (9,938,598) |
| Cumulative Comprehensive Adj. | 16,800 | 3,600 | – | 17,500 | 43,670 |
| Interest Income | 15,737 | 43,470 | 83,691 | 108,360 | 163,039 |
| Rental Income | – | 23,000 | 4,000 | – | – |
| Net Loss | (924,801) | (991,653) | (148,636) | (531,078) | (369,908) |
| Net Loss per Share | (0.12) | (0.16) | (0.03) | (0.30) | (0.21) |

Please refer to Note 12 of Item 17, which includes all material differences between Canadian and US GAAP that are relevant in preparation of our financial statements.

Given the nature of our operations and assets we are of the view that for the two years ended March 31, 2004 the foregoing difference in Canadian and U.S. GAAP would not have resulted in any material disclosure differences insofar as our financial results are concerned.

Exchange Rates

Our financial statements, as provided under Item 8 and 17 are presented in Canadian Dollars. On March 31, 2004 the buying rate for Canadian dollars was US \$1.00 for Cdn\$1.3113. At the close of business on July 22, 2004 the buying rate for Canadian dollars was US\$1.00 for Cdn\$1.3169. Rates of exchange are obtained from the Bank of Canada and believed by the Company to approximate closely the rates certified for customs purposes by the Federal Reserve Bank in New York.

The following table sets out the buying rate for Canadian dollars for the last six months:

| | OCT 2003 | NOV 2003 | DEC 2003 | JAN 2004 | FEB 2004 | MAR 2004 |
|---------------------------|----------|----------|----------|----------|----------|----------|
| Month End..... | 1.3186 | 1.2991 | 1.2965 | 1.3248 | 1.3357 | 1.3113 |
| Average | 1.3228 | 1.3124 | 1.3124 | 1.2967 | 1.3289 | 1.3281 |
| High ⁽²⁾ | 1.3518 | 1.3410 | 1.3420 | 1.3435 | 1.3512 | 1.3570 |
| Low ⁽²⁾ | 1.3021 | 1.2948 | 1.2839 | 1.2683 | 1.3069 | 1.3056 |

The following table sets out the buying rate for Canadian dollars for the last five fiscal years:

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|-------------------------------|--------|--------|--------|--------|--------|
| Year End ⁽¹⁾ | 1.3113 | 1.4678 | 1.5942 | 1.5763 | 1.4494 |
| Average | 1.3527 | 1.5491 | 1.5655 | 1.5041 | 1.4713 |
| High ⁽²⁾ | 1.4924 | 1.5988 | 1.6125 | 1.5763 | 1.5127 |
| Low ⁽²⁾ | 1.2683 | 1.4628 | 1.5583 | 1.4497 | 1.4353 |

Notes:

(1) Year end is March 31.

(2) The high and low buying rate figures are selected from daily high and low closing figures.

Capitalization and indebtedness

Not applicable.

Reasons for the offer and use of proceeds

Not applicable.

Risk Factors

The common shares of our company must be considered a speculative investment due to a number of factors. An investment in our common shares should only be made by persons who can afford to lose their entire investment and there can be no assurance that our common shares will increase in value. The purchase of the common shares involves a number of significant risk factors. Purchasers of common shares should consider the following:

1. Failure to Locate Commercial Quantities of Hydrocarbons and Geological Risks

Exploration for hydrocarbons is a speculative venture necessarily involving substantial risk. There is no certainty that the expenditures we incur on our exploration properties will result in discoveries of commercial quantities of hydrocarbons. In addition, even if hydrocarbons are discovered, the costs of extraction and delivering the hydrocarbons to market, and variations in the market price may render any deposit found uneconomic. Geological conditions are variable and unpredictable. Even if production is commenced from a well, the production will inevitably decline and may be affected or terminated by geological conditions that cannot be foreseen.

2. Marketability and Price of Oil and Natural Gas

The marketability and price of oil and natural gas that may be acquired or discovered may be affected by numerous factors beyond our control. We may be affected by the differential between the price paid by refiners for light, quality oil and various grades of oil produced. We are subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to the proximity of reserves to pipeline and processing facilities and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Our operations will be further affected by the remoteness of, and restrictions on access to, certain properties as well as climatic conditions.

3. Limited Financial Resources

We have limited financial resources and, if our business is not profitable, may not be able to raise sufficient funds to sustain, continue or expand our business. We currently have no operating revenues and rely principally on the issuance of common shares to raise funds to finance our business. There is no assurance that market conditions will continue to permit us to raise funds, if required.

4. History of Losses and Reliance on Certain Persons

We have a history of losses from operations from failed investments in the oil and gas business. The management of the Company and the growth of our business depends on the continued involvement of Mr. Alex Guidi, a principal shareholder who has been instrumental in securing funding for the Company. We do not have any formal agreement in place with Mr. Guidi and Mr. Guidi has other business interests, which result in him devoting only a small portion of his time to the business of the Company.

5. Dilution

Our Articles of Continuance under the laws of the Yukon Territory, Canada authorize the issuance of an unlimited number of shares of common stock. We have several types of dilutive securities outstanding. Our Board of Directors has the power to issue further shares without stockholder approval. Our Board of Directors is likely to issue some of such shares to acquire further capital in order to carry out its intended operations or expand its current operations, or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of our outstanding common shares. If we issue any such additional shares, such issuance will also cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change of control.

6. Environmental Risks

We are subject to laws and regulations that control the discharge of materials into the environment, require removal and cleanup in certain circumstances, require the proper handling and disposal of waste materials or otherwise relate to the protection of the environment. In operating and owning petroleum interests, we may be liable for damages and the costs of removing hydrocarbon spills for which we are held responsible. Laws relating to the protection of the environment have in many jurisdictions become more stringent in recent years and may, in certain circumstances, impose strict liability, rendering our company liable for environmental damage without regard to negligence or fault on the part of our company. Such laws and regulations may expose us to liability for the conduct of, or conditions caused by others or for acts our company that were in compliance with all applicable law at the time such acts were performed. The application of these requirements or the adoption of new requirements could have a material adverse effect on our business. We believe that we have conducted our business in substantial compliance with all applicable environmental laws and regulations.

7. Indemnities may be Unenforceable or Uncollectable

The operating agreements we have with participants in a property generally provide for the indemnification of the company that is the operator. We are not the operator in programs on oil and gas properties and may be requested to reimburse the company that is the operator for losses or damages caused or incurred in the course of operations.

8. Title to Properties and Consequences of Failure to Satisfy Prescribed Permit or Licence Terms and Conditions

In all cases, the terms and conditions of the permit or licence granting us, or the party from which we acquired, the right to explore for, and develop, hydrocarbons, prescribe a work program and the date or dates before which such work program must be done. Varying circumstances, including the financial resources available to the us and reliance on third party operators of permits and licenses, or circumstances beyond our control or influence may result in the failure to satisfy the terms and conditions of a permit or license and result in the complete loss of the interest in the permit or license without compensation.

Such terms and conditions may be renegotiated with applicable regulatory authorities, but there is no assurance that if a term or condition of a license or permit that is required to be satisfied has not been met, that such term or condition will be renegotiated with the applicable authority.

We participate in permits or licences with industry partners with access to greater resources from which to meet their joint venture capital commitments.

If we are unable to meet our commitments, the other joint venture participants may assume some or all of our deficiency and thereby assume a pro-rata portion of the our interest in any production from the joint venture area. We are not a majority interest owner in any of our properties and we do not have sole control over the future course of development in those properties. Property interests may be subject to joint venture and other like agreements, which can give rise to interpretive disputes with other parties who are financially interested in the property.

We do not maintain title insurance over our properties. See also Risk Factor 12 regarding title assurance.

9. Possible Lack of or Inadequacy of Insurance

The operator of each permit maintains insurance against certain public liability, operational and environmental risks on behalf of the respective joint venture, but there is no assurance that an event causing loss will be covered by such insurance, that such insurance will continue to be available to our company, or that the benefits of such insurance will be adequate to cover our liability.

10. Effect of Different Currencies

We hold cash reserves in CDN and US dollars, but incur the majority of our petroleum property expenditures in New Zealand dollars. Subsequent to the reporting date, the value of the New Zealand currency has appreciated against the value of the CDN and US currency to our detriment. An increase in value of the New Zealand dollar versus the CDN or US dollar would have a detrimental effect to us as our expenses incurred would, in turn, increase in CDN and US dollars.

11. Penny Stock Regulation and Difficulties in Selling Shares

The Securities and Exchange Commission (the "SEC") has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 per share (other than securities registered on certain national securities exchanges or quoted on the NASDAQ National Market System, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from such rules, the broker-dealer must make a special written determination that a penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements often have the effect of reducing the level of trading activity in any secondary market for a stock that becomes subject to the penny stock rules. Our common stock is currently subject to the penny stock rules, and accordingly, investors may find it difficult to sell their shares, if at all.

12. No Title Assurance

The possibility exists that title to one or more properties may be lost due to an omission in the claim of title. We do not maintain title insurance and there is no guarantee of title. The properties may be subject to prior unregistered agreements or transfers or native land claims, and title may be affected by undetected defects.

13. Dealings With Associated Companies

We are associated through common directors, common officers and common shareholdings with four other public hydrocarbon companies. In certain cases, we have been assigned interests from associated companies in compliance with applicable corporate law.

We may also make application for interests in petroleum properties with associated companies. Persons who are not willing to rely on the discretion and judgment of management and the boards of directors of our company and the associated companies should not consider a purchase of our securities.

See Item 7 – Major Shareholders and Related Transactions

14. Competition

We encounter strong competition from other independent operators and from major oil companies in acquiring properties suitable for development, in contracting for drilling equipment and in securing trained personnel. Many of these competitors have financial resources and staffs substantially larger than our own. The availability of a ready market for any oil and gas that may be discovered by the Company depends on numerous factors beyond our control, including the proximity and capacity of natural gas pipelines and the effect of regional or national regulations.

15. Foreign Jurisdiction Risks; Governmental Laws and Local Conditions

Claims of aboriginal peoples in New Zealand may adversely affect the rights or operations of our company and there is no assurance that governmental regulation will not vary, including regulations relating to prices, royalties, allowable production, environmental matters, import and export of hydrocarbons and protection of water resources and agricultural lands. We have exploration interests in New Zealand and Papua New Guinea and are therefore subject to their respective regulations that relate directly and indirectly to our operations, including title to the petroleum interests, production, marketing and sale of hydrocarbons, taxation, environmental matters, restriction on the withdrawal of capital from a country and other factors. There is no assurance that the laws relating to the ownership of petroleum interests and the operation of our business in the jurisdictions in which we currently operate will not change in a manner that may materially and adversely affect our business.

16. Value of Properties

The amounts attributed to our properties in our financial statements represent acquisition and exploration expenditures to date, and should not be taken to in any way reflect realizable value.

17. Legal Proceedings Against Foreign Directors

The Company is incorporated under the laws of the Yukon Territory, Canada, and all of the Company's directors and officers are residents of Canada or New Zealand. Consequently, it may be difficult for United States investors to effect service of process within the United States upon the Company or upon its directors or officers, or to realize in the United States upon judgements of United States courts predicated upon civil liabilities under the United States *Securities Exchange Act of 1934*, as amended. Furthermore, it may be difficult for investors to enforce judgements of the U.S. courts based on civil liability provisions of the U.S. federal securities laws in a foreign court against the Company or any of the Company's non-U.S. resident officers or directors.

ITEM 4. INFORMATION ON THE COMPANY

History and Development of the Company

Corporate Actions

Our legal and corporate name is TAG Oil Ltd. although we have had the name changes disclosed below. We are a Calgary, Alberta, Canada based hydrocarbon resource company that holds an interest in the following New Zealand exploration permits; Petroleum Exploration Permit (“PEP”) 38256, PEP 38258, PEP 38741, PEP 38480 and PEP 38765. As a company domiciled in the Yukon Territory, Canada, our legally registered office is Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, YT, Canada, Y1A 3T2. Our principal business office is located at Suite 400-17th Avenue, Calgary, Alberta, Canada, T2S 0B1 and our regional exploration office is located at 1067-88 Valley Road, RD1, Wakefield 7181, New Zealand.

We were incorporated in British Columbia on December 12, 1990 under the name “398052 B.C. Ltd.” by the registration of memorandum and articles under the Company Act (British Columbia). We changed our name to “Aldus Energy (Canada) Corp.” on January 28, 1991, to “Aldus Energy Corp.” on April 4, 1991, to “Durum Energy Corp.” on July 18, 1991, to “Durum Cons. Energy Corp.” on October 27, 1998 and to our current name “TAG Oil Ltd.” on June 12, 2002. We became a reporting company in British Columbia on obtaining a receipt for our initial prospectus in British Columbia in February 1992. We obtained a listing on the Vancouver Stock Exchange (the “VSE”) and commenced trading through the facilities of the VSE on March 16, 1992. Trading in our common shares was halted by the VSE on September 12, 1996 and recommenced on May 5, 1997.

On October 29, 1997 we were continued (or re-domiciled) from a company subsisting under the jurisdiction of the Company Act (British Columbia) to a company subsisting under the Business Corporations Act (Yukon). Our authorized share capital was originally 25,000,000 common shares without par value. Effective April 5, 1995, we subdivided our shares on a two new for one old basis. Effective October 27, 1998, we increased our authorized share capital to an unlimited number of common shares without par value and consolidated our shares on a one new for five old basis.

Effective with the October 27, 1998 share consolidation (or “reverse-split”), we changed our name to Durum Cons. Energy Corp. and then changed our name again to our current name TAG Oil Ltd. on June 12, 2002. Our common shares were listed on the Canadian Venture Exchange (“CDNX”) under the trading symbol “DUR” until we voluntarily delisted on September 21, 2000. We also traded, and continue to trade, on the United States Over-the-Counter Bulletin Board (“OTCBB”) under the trading symbol TAGOF (formerly “DUREF”) respectively.

Subsequent to our year ended March 31, 2004, we implemented a forward stock split on the basis of one additional new share issued for every two old shares held, resulting in 3,989,025 new shares being issued to existing shareholders of record on April 27, 2004.

All references to our outstanding common shares, issuances of common shares, options and warrants and prices associated with the above corporate actions and their effects on share capital have been shown on a retroactive basis.

During the 2004 fiscal year the Durum (Australia) Pty. Ltd. a 100% owned took steps to be wound up and deregistered. This action was taken to simplify operations and focus on the primary business in New Zealand.

Acquisitions

2004:

In our 2004 fiscal year, we focussed on our current work programs associated with our New Zealand permits and we also sought to expand our exploration interests in New Zealand. The Company completed the required work commitments on its existing permits and acquired two new permits as described below.

During the 2004 fiscal year the Company (25%) and Austral Pacific Energy Ltd. (75%) as operator, were awarded a new exploration permit (“PEP 38258”) located in the offshore Canterbury Basin. In addition the Company (10%), Austral Pacific (27.5%), Tap (New Zealand) Pty Ltd (50%) and Magellen Petroleum (NZ) Ltd. (12.5%) were awarded new exploration permit (“PEP 38765”) (formerly “PPP 38761” and “Block “M”) located in the onshore Taranaki Basin. We also increased our interest in the

onshore Canterbury Basin Project (“PEP 38256”) in New Zealand from 10% to 40.38%. As the activity of the Company has increased, so has the general and administrative costs associated with operating our Company. The Company incurred significant general and administrative costs totalling \$976,993 (2003: \$827,989) after taking into effect stock option compensation expenses totalling \$290,030 (2003: \$110,606).

The Company also retained key oil and gas exploration personnel, included as a significant cost in our general and administrative expenses, in order for the Company to maintain our work commitments and acquisition efforts in New Zealand.

2003

During the 2003 fiscal year we made three oil and gas property acquisitions (PEP 38741, PPP 38761 and PEP 38480), through agreements made with associated company Austral Pacific Energy Ltd. (“Austral-Pacific”) (formerly Indo-Pacific Energy Ltd.) and one acquisition (PEP 38723) through an agreement made with associated company Gondwana Energy, Ltd., for exploration interests in New Zealand and incurred significant expenditures totalling \$517,379 directly related to its oil and gas properties for the year. We also incurred significant general and administrative costs totalling \$827,989, after taking into effect stock option compensation expenses totalling \$110,606, and relating to the increased activity of the Company in its acquisition efforts in the oil and gas industry.

2002

During the fiscal year ended March 31, 2002 the Company did not make any significant expenditures directly related to its oil and gas properties and actually had a net recovery of costs totalling \$13,822 for this period. However during this time we implemented a strategic vision and raised \$915,420 through the issuance of common shares that resulted in key acquisitions early in the 2003 fiscal year.

Financing

On May 2, 2003, we approved an extension of the 6,600,000 warrants, to purchase common shares of the Company entitling subscribers, who are principal shareholders of the Company, to purchase 6,000,000 common shares at a price of US\$0.20 per share until June 6, 2003, US\$0.23 per share until June 6, 2005 and US\$0.33 per share until expiry on June 6, 2006 and 600,000 common shares at a price of US\$0.20 per share until August 21, 2003, US\$0.23 per share until August 21, 2005 and US\$0.33 per share until expiry on August 21, 2006.

See Item 7 – Major Shareholders and Related Transactions

On May 14, 2003, we issued 2,100,000 shares for US\$0.0033 per share, to the President of the Company, pursuant to a Consulting, Incentive Shares and Non-Competition agreement approved by the board of directors on April 24, 2003.

See Item 7 – Major Shareholders and Related Transactions

On May 30, 2003, we granted options to purchase 465,000 common shares of the Company vesting over five years and 300,000 common shares of the Company vesting over four years, exercisable at the price of US\$0.267 per share until expiry on May 31, 2008 and May 31, 2009 respectively.

See Item 7 – Major Shareholders and Related Transactions

On March 4, 2004, we issued 300,000 shares from treasury upon the exercise of share purchase warrants at a price of US\$0.35 per share.

In May of 2004, we completed a non-brokered private placement financing of 542,495 units at a price of US\$1.67 per unit. Each unit consists of one common share and a two-year share warrant entitling the purchaser to acquire an additional share for US\$1.83 per share for the first year and thereafter at a price of US\$2.00 per share until expiry at the end of the second year.

In June of 2004, 25,000 post-split shares were issued from treasury upon the exercise of share purchase warrants at a price of US\$0.23 per share.

Other

The Company gave notice, during the 2004 fiscal year, to Austral Pacific, the operator of APPL 235 (formerly “PPL 192”), of which TAG has a 10% share that the Company does not wish to participate in APPL 235. Our withdrawal request was accepted by Austral Pacific and we do not expect any future costs associated with this permit.

On August 19, 2003, Austral Pacific as operator of PEP 38741, committed the joint venture, of which we hold a 20% interest, to complete the second schedule of the work program for the permit, which entails drilling an exploration well within 24 months of the commencement date of the program and either submit for the approval of an ongoing work program for the remainder of the permit term or surrender the permit. The required well was drilled in June of 2004 and was plugged and abandoned.

On August 20, 2003, the Company sold its commercial office unit purchased by the Company during the 2002 fiscal year for \$420,000. The Company received \$404,141 net of all costs, resulting in a gain on disposition of \$23,256.

Business Overview

Nature of Operations

We are an independent oil and gas acquisition and exploration company, incorporated in Canada, with all our interests in hydrocarbon exploration prospects currently being in New Zealand. We are involved in the exploration for hydrocarbons and all of our current property holdings are in the grassroots or primary exploration stage. We currently do not generate any revenues from the sale of hydrocarbons and therefore are not currently affected by principal markets for hydrocarbon products, seasonality of products, or marketing channels. We do not have a reliance on raw materials, or any significant patents or licences, as we operate in an extractive industry.

We compete with other companies in bidding for the acquisition of petroleum interests from various authorities, and in exploring for oil and gas in the Austral Pacific region. We are also subject to government regulation of the oil and gas properties we hold and in the operations we conduct on those properties. The effects of these regulations are described in Item 4. “Property, Plant and Equipment”.

Organizational Structure

Our operations are conducted in part through our wholly-owned subsidiaries, being:

1. Durum Energy (New Zealand) Limited;
2. Durum (Australia) Pty. Ltd.; (Deregistered during the 2005 fiscal year) and
3. Durum Energy (PNG) Limited (Initiated Deregistration during the 2004 fiscal year)

All of the above noted subsidiaries are owned 100% and we hold 100% of the voting rights.

Unless indicated otherwise, the terms “the Company” or any reference to our business and operations will refer to TAG Oil Ltd. including its subsidiaries.

Property, Plant and Equipment

Our major operations and principal activities are in the oil and gas exploration business. The following is a brief description of the principal prospects held by the Company. For definitions of technical terms in the following description of properties, see the Glossary of Industry Terms found at the beginning of this report. Apart from our interests in the following hydrocarbon exploration properties, we hold only minor office assets for the purpose of operating our business.

The following properties are discussed in this section:

| PROPERTY | LOCATION | WORKING INTEREST (2) | GROSS ACRES (sq. km's) | NET ACRES (sq. km's) |
|--------------------------------------|---------------------|----------------------|------------------------|----------------------|
| PEP 38256..... | Canterbury | 40.38% | 2,794.93 | 1,128.59 |
| PEP 38741..... | Taranaki | 20.00% | 13.53 | 2.706 |
| PEP 38480..... | Offshore Taranaki | 25.00% | 323.75 | 80.94 |
| PEP 38765 (Formerly PPP 38761) | Taranaki | 10.00% | 12.71 | 1.27 |
| PEP 38258..... | Offshore Canterbury | 25.00% | 10,950.39 | 2,737.60 |
| APPL (Formerly "PPL 192") | Papua New Guinea | 10.00% | N/A | N/A |

(1) The Company gave notice to the operator of APPL 235 that we do not wish to participate in the permit and has written it off.

(2) Please refer to Item 5 for a breakdown of our capital commitments.

Exploration Regime in New Zealand

Petroleum exploration permits granted in New Zealand generally provide for the exclusive right to explore for petroleum for an initial term of five years, renewable for a further five years over one-half of the original area. The participants are allowed to exceed the committed work programs for the permits or apply for extensions or reductions of such work programs for any particular year. Any production permits granted will be for a term of up to 40 years from the date of issue. The New Zealand government has reserved a royalty of the greater of 5% of net sales revenue or 20% of accounting profits from the sale of petroleum products. The New Zealand government has proposed reducing these rates to 1% and 15% respectively, but as of this date these proposals have not been put into effect. No performance bond is required, but in the event that the permit holder(s) do not satisfy the regulatory agency that they have met the performance obligations of the committed work program (or such variation as may have been agreed with the regulatory agency), the government has the power to cancel the permit.

Environmental Regulation in New Zealand

New Zealand

In New Zealand, on land and in waters within twelve miles of the coast, the Resource Management Act 1991 controls users of natural and physical resources, including petroleum explorers, with a view to managing resource usage in ways that will not compromise future utilization. The Resource Management Act 1991 places the emphasis on assessment of the effect the proposed activity will, or might, have on the environment with a view to promoting sustainable management. Under the Resource Management Act 1991, most of the responsibility for managing resources and their use is given to local authorities. Regional and district councils must produce and continuously update planning schemes for their jurisdictions which establish procedures and standards for assessing and approving environmental standards in accordance with the Resource Management Act.

Petroleum Exploration Permit 38256 (40.38%); Canterbury

The Canterbury Basin is located both onshore and offshore in the area surrounding Christchurch, on the east coast of the South Island.

The total area of the onshore and offshore Canterbury Basin is about twelve million acres. The original area of PEP 38256 (some 2.76 million acres) covered approximately half of the onshore area. One-half of the original area was relinquished in 2000, and a further one-half of the then-current area was relinquished during 2002. At that time, the duration of the permit was also extended to 2007.

During the reporting period, we gave notice and approval to the operator of PEP 38256, to increase our interest in PEP 38256 from 10% to 40.38%, as a result of AMG Oil withdrawing from the permit.

The permit work program, after taking into effect the increase in our interest during the reporting period, requires us to incur exploration expenditures, which include a 2-D seismic program of approximately \$224,000 during the 2005 fiscal year.

Petroleum Exploration Permit 38741 (20.00%); Taranaki

We acquired a 20% participating interest in the onshore Taranaki Basin, North Island Permit 38741 (“PEP 3874”), by way of a farm-in agreement with an effective date in August 2002 from related company Austral, by paying Austral Pacific NZ\$479,195. The farm-in costs of NZ\$479,195 included our share of planning, acquisition and processing of the 3D seismic program over the permit, up to a \$3.3 million ceiling amount, whereby any cost overruns will be paid pro-rata by each participant in line with their interest share. The acquisition price we paid was based on a similar agreement entered into by Austral with an unrelated party, Tap Oil Ltd., on PEP 38741 and totalled \$366,201. After the farm-in the participant interests in PEP 38741 are Tap (New Zealand) Pty. Ltd. (50%), Austral Pacific (30%), as the operator, and TAG Oil Ltd. (20%).

During the 2003 fiscal period, the ceiling amount of NZ\$3.3 million mentioned above was reached and accordingly we paid our pro-rata costs of all expenditures relating to the permit.

Since the end of the 2004 fiscal year and to the date of this report, we have spent approximately \$205,331 relating to the permit and inclusive of drilling the Honeysuckle-1 well, which was plugged and abandoned, and we expect to incur additional exploration expenditures relating to this permit, of approximately \$20,000 during the balance of the 2005 fiscal year.

Petroleum Exploration Permit 38480 (25.00%); Offshore Taranaki

We acquired, by way of a sale agreement with an effective date in August 2002, a 25% participating interest in the offshore Taranaki Basin, North Island Permit 38480 (“PEP 38480”) from related company Austral Pacific by paying Austral Pacific, 25% of past costs of acquisition totalling \$19,010 (NZ\$25,000). After the farm-in the participant interests in PEP 38480 are Austral Pacific (75%), as the operator, and TAG Oil Ltd. (25%).

We expect to incur exploration expenditures, consisting of permit administration, geology and geophysics and processing the results of a 2D seismic program, totalling approximately \$25,000 during the balance of the 2005 fiscal year.

Petroleum Exploration Permit 38765 (formerly “PPP 38761”) (10.00%); Taranaki

The Company (10%), and other joint venture participants, Austral Pacific (27.5%), TAP (New Zealand) Pty Ltd. (50%) and Magellan Petroleum (NZ) Limited. (12.5%), were granted PEP 38765, located in the onshore Taranaki Basin, North Island, on February 4, 2004. We previously paid Austral Pacific NZ\$43,316 for the 10% interest in PPP 38761, calculated based on past costs as at February 2004.

Together with our joint venture participants we completed the requirements associated with the granting of the Petroleum Prospecting Permit (“PPP 38761”) which included acquiring and processing approximately 10 square kilometre’s of 3D seismic within the existing 3D grid within the first 12 months of the permit and interpret 3D seismic within the permit in light of 3D seismic data acquired in adjacent permits and construct a prospects and leads seriatum.

The term of the permit was set as the earlier of one year after grant or the closing bids for the acreage, which includes the area covered by this permit. Such bids had been invited and the closing date for the bids was October 31, 2003, so PPP 38761 expired on that date. However the Company and the other joint venture partners bid for this acreage and were awarded Petroleum Exploration Permit 38765 on February 4, 2004. Since the end of the 2004 fiscal year, we have incurred exploration expenditures of approximately \$11,500, and we expect to incur additional exploration expenditures relating to this permit, totalling approximately \$133,000, which includes drilling the Miro-Miro-1 well, during the balance of our 2005 fiscal year.

See also Item 10 Material Contracts.

Petroleum Exploration Permit 38258 (25.00%); Taranaki

On August 18, 2003, the Company (25%) and Austral Pacific (75%), as operator, were awarded a new exploration permit “PEP 38258” located in the offshore Canterbury Basin. Within 24 months the participants must undertake a determination of a hydrocarbon charge model, complete remapping of stratigraphic and structural traps along the western flank of the Clipper sub-basin, compile a ranking of risked prospects and leads and either commit to the second phase of the work program or surrender the permit. The work program is expected to cost us approximately \$35,000 during our 2005 fiscal year.

APPL 235 (formerly "PPL 192") (10%)

We gave notice to the operator of APPL 235 that we do not wish to participate in the permit and accordingly we have forfeited our interest and written-off the net book value of \$1 that remained on the balance sheet at March 31, 2003.

ITEM 5. OPERATING, FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis is management's opinion of our historical financial and operating results and should be read in conjunction with our audited consolidated financial statements. (See Item 17) for the years ended March 31, 2004, 2003, and 2002, together with the notes related thereto. The financial statements have been prepared in accordance with Canadian GAAP, and a reconciliation to US GAAP is provided in note 12 to the financial statements, under Item 17. All dollar values are expressed in Canadian dollars, unless otherwise stated.

Operating Results**Summary**

We are in the exploration and evaluation stage with respect to our oil and gas properties and therefore we do not generate any sales or revenue from operations. We have experienced losses in each of our fiscal periods and have not yet achieved break-even cash flow. Our main source of capital currently is the issuance of equity securities, which has a dilutive effect on our shareholders. Total losses incurred since incorporation to the period ending March 31, 2004 were \$9,465,038. The level of future operations may be limited by the availability of capital resources, the sources of which are not predictable. The results of operations should be largely measured by the success of the extent and quality of oil and gas discovered as a result of exploration programs.

Results of Operations – 2004 Compared to 2003 and 2002

We have conducted our operations as an acquisition and exploration company. Our primary focus over the 2004 fiscal year has been (i) completing the work programs of the three permits (PPP 38761, PEP 38480 and PEP 38765) we acquired during the 2003 fiscal year, (ii) completing the work programs required to maintain our existing permits in good standing, (iii) acquiring two additional oil and gas properties in New Zealand (PEP 38258 and PEP 38765), and (iv) increasing our interest in PEP 38256 from 10% in 2003 to 40.38%. In addition, we are taking the necessary steps to affect the wind-up of our subsidiaries in Australia and Papua New Guinea so we can focus our efforts in New Zealand.

Our policy for the 2005 fiscal year is to acquire additional interests in prospective permits and to complete the required exploration work, inclusive of drilling two wells, on our existing New Zealand interests PEP 38741 and PEP 38765 and, where possible, minimizing our risk exposure by farming out interests to other industry participants. We are also planning to acquire 2D seismic on our offshore Canterbury permit PEP 38258 as well as new 3D seismic on our onshore Canterbury permit PEP 38256.

For the three years ended March 31, 2004, we generated \$nil in oil and gas revenues. Total cost of sales for the same three year period was also \$nil.

Costs and expenses

We incurred \$976,993 in general and administrative expenses for the year ended March 31, 2004, inclusive of \$290,030 in stock-based compensation, compared to \$827,989 for the year ended March 31, 2003 and \$211,827 for the year ended March 31, 2002. The Company's net loss of \$938,001 (2003: \$995,253 2002: \$131,136) consisted of general and administrative costs of \$976,993 (2003: \$827,989 2002: \$211,827), interest income of \$15,737 (2003: \$43,470 2002: \$83,691) and a gain on sale of property and equipment of \$23,256 (2003 and 2002: Nil). In addition, the Company, during the year ended March 31, 2004, wrote-off oil and gas property costs of \$1 relating to APPL 235 (formerly "PPL 192") (2003: \$454,150 2002: \$Nil).

A number of General and Administrative costs, decreased for the 2004 fiscal year when compared to last year as follows: accounting and audit \$6,020 (2003: \$10,947), amortization \$5,496 (2003: \$14,532), consulting fees, inclusive of stock-based compensation \$116,816 (2003: \$207,801), corporate relations and development \$21,476 (2003: \$37,953), foreign exchange

\$30,787 (2003: \$80,463), investor relations \$29,022 (2003: \$62,250), legal \$15,011 (2003: \$23,576), office and miscellaneous \$38,803 (2003: \$46,022), printing \$16,318 (2003: \$26,051), property taxes Nil (2003: \$3,447) and travel \$53,299 (2003: \$55,768).

The reasons for the material decreases for the year when compared to the same time last year are as follows: amortization was reduced by \$9,036 due to the sale of the Company's commercial office unit during the 2004 fiscal year, corporate relations and development was reduced by \$16,477 as work relating to corporate materials was completed in the 2003 fiscal year, consulting fees, inclusive of stock-based compensation decreased by \$90,985 as there was no cash paid to any consultants over the 2004 fiscal year, however the Company recorded non-cash stock-option based compensation from the granting of stock options during the year to a consultant totalling \$116,816. Foreign exchange was reduced by \$49,676 resultant from favourable exchange rate fluctuations, investor relations costs were reduced by \$33,228 as the Company terminated its investor relations service agreement early in the 2004 fiscal year and printing was reduced by \$9,733 as corporate materials were printed in the 2003 fiscal year.

Certain other costs, however, increased when compared to the previous year as follows: corporate capital tax \$2,525 (2003: Nil), directors fees, inclusive of stock-based compensation \$370,086 (2003: \$87,175), filing and transfer agency fees \$22,482 (2003: \$21,960), general exploration \$6,966 (2003: \$2,132), property report \$25,000 (2003: Nil), rent \$30,032 (2003: \$26,169), telephone \$18,841 (2003: \$16,558), website development \$62,268 (2003: \$20,013) and wages and benefits \$105,745 (2003: \$85,172).

The reasons for the material increases for the year when compared to the same time last year are as follows: directors fees, inclusive of stock-based compensation increased, resulting from the hiring of the Company's current President and CEO during the 2004 fiscal year while continuing to compensate, at a lesser amount, the former President and CEO of the Company in his role as Chairman of the board. Director's fees also included non-cash compensation costs of \$173,214 relating to the granting of stock options to certain board members. The Company also incurred property report costs of \$25,000 associated with hiring an independent firm of geology and petroleum engineering consultants to prepare a technical review of the Company's resource potential on certain of the Company's prospects and leads in New Zealand. Website development increased during the fiscal year because the Company substantially upgraded the Company's website and wages and benefits increased by \$20,573 in relation to the amount of time invoiced by DLJ Management Corp., for its employee's wages and benefits directly related to time spent on the Company, inclusive of the Company's CFO who is a DLJ employee. DLJ invoices on a cost-recovery basis.

The Company's operating loss, for the comparable period last year, was similar to the current twelve-month periods loss. Although last year the Company recorded a write-off of oil and gas properties and capital assets of \$454,150 and \$6,216, respectively, the Company also recovered costs of \$222,976 relating to past oil and gas properties as well as recorded interest income, rental income and a gain on sale of marketable securities of \$43,470, \$23,000 and \$3,656, respectively.

We believe that the general and administrative costs of the Company will decrease during the 2005 fiscal year as we do not expect to incur the large non-cash, stock-based compensation costs incurred as a result of the issuance of stock options to directors and consultants during the 2004 and 2003 fiscal years being \$290,030 and \$110,606, respectively.

Inflation

We operate primarily in New Zealand, where inflation for our operational costs is at low levels – i.e. in the 2-5% range.

Foreign Currency Fluctuations

We hold cash reserves in CDN and US dollars, but incur the majority of our petroleum property expenditures in New Zealand dollars. Subsequent to the reporting date, the value of the New Zealand currency has slightly depreciated against the value of the CDN and US currency to the benefit of our Company during that period. An increase in value of the New Zealand dollar versus the CDN or US dollar would have a detrimental effect to us as our expenses incurred would, in turn, increase in CDN and US dollars. We do not currently hedge our exposure to currency rate changes, although we may choose to selectively hedge exposure to foreign currency exchange rate risk. We have no policies relating to the foregoing.

Government Regimes

We are subject to foreign governmental regulations that relate directly and indirectly to our operations including title to the petroleum interests acquired by the Company, production, marketing and sale of hydrocarbons, taxation, environmental matters, restriction on the withdrawal of capital from a country in which we are operating and other factors. There is no assurance that the laws relating to the ownership of petroleum interests and the operation of our business in the jurisdictions in which it currently operates will not change in a manner that may materially and adversely affect our business. There is no assurance that the laws of any jurisdiction in which we carry on business may not change in a manner that materially and adversely affects our business.

Differences between Canadian and U.S. Generally Accepted Accounting Principles

The Company is subject to changes in accounting standards. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) which conform in all material respects with United States generally accepted accounting principles (“U.S. GAAP”) However there are some exceptions and these are detailed below in Item 17, Note 12 “Differences between Canadian and United States Generally Accepted Accounting Principles”.

New Accounting pronouncements

In April 2003, the FASB issued SFAS No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“SFAS 149”). This statement amends SFAS 133 by requiring that contracts with comparable characteristics be accounted for similarly and clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows.

SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 and must be applied prospectively. There has been no impact on the Company’s financial position or results of operations from adopting SFAS 149.

In May 2003, the FASB issued SFAS No. 150 “Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS 150”). This statement established standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 and must be applied prospectively by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. There has been no impact on the Company’s financial position or results of operations from adopting SFAS 150.

Liquidity and capital resources – 2004 Compared to 2003 and 2002

Currently, we have sufficient capital to satisfy the required capital expenditures for the 2005 fiscal year in order to maintain our interests in all of our New Zealand based permits. We did not receive any revenue from our operations in 2004 and do not expect to receive any operational revenue during the fiscal 2005 year. It is uncertain whether we will be able to secure outside sources of capital in an amount that is sufficient for us to continue with our expected operations. Due to the exploratory nature of our assets, we do not believe that traditional forms of debt financing are available to us.

Operating Activities:

The Company had \$876,466 in cash and cash equivalents and \$896,208 in working capital at March 31, 2004. This compares to \$1,111,267 in cash and cash equivalents and \$1,136,084 in working capital for year ended March 31, 2003. The Company had a net use of cash of \$660,655 from operating activities for the period ending March 31, 2004 compared to a net use of cash of \$705,771 for the comparable period ending March 31, 2003.

Financing Activities

Financing activities consisted of the Company receiving \$9,710 (US\$7,000) as a result of the issuance of 2,100,000 common shares, to the Company's President and \$139,440 (US\$105,000) from the issuance of 450,000 common shares upon the exercise of share purchase warrants, during the year ended March 31, 2004, compared to \$124,608 (US\$80,000) as a result of issuing 600,000 common shares, that include a two-year warrant, through a private placement during the 2003 fiscal year.

Investing Activities

Investing activities consisted of the Company receiving net proceeds of \$404,141 as a result of selling its commercial office unit, using \$124,169 of cash for exploration work on PEP 38256, PEP 38258, PEP 38741, PEP 38480 and PEP 38765 and using \$3,268 of cash for the purchase of property and equipment. For the similar period last year the Company spent \$517,379 of cash for the purchase of interests in oil and gas properties in New Zealand, using \$7,490 to purchase property and equipment and receiving \$5,856 from the sale of marketable securities during the year. The net result for the twelve-month period ending March 31, 2004 was a net provision of cash of \$276,704 for investing activities. This compares to a net use of cash from investing activities totalling \$519,013 for the same period last year.

Conclusion

The net impact of all cash activities during the twelve months ended March 31, 2004 resulted in a net decrease in cash of \$234,801, compared to a net decrease in cash of \$1,100,176 for the comparable period ended March 31, 2003.

Other

Subsequent to the 2004 fiscal year, we completed a private placement financing consisting of 542,495 units at a price of US\$1.67 per unit. Each unit consists of one common share and a two year share purchase warrant, each warrant entitling the purchaser to acquire an additional common share for US\$1.83 for the first year and thereafter at a price of US\$2.00 up to the end of year two.

During the fiscal year ended March 31, 2004 we issued 2,100,000 restricted common shares from treasury for US\$0.0033 per share, to the President of the Company, pursuant to a Consulting, Incentive Shares and Non-competition Agreement approved by the Board of Directors. We also issued 450,000 common shares from treasury upon the exercise of certain share purchase warrants at a price of US\$0.23 per share.

During the fiscal year ended March 31, 2003 we issued 600,000 units at a price of US\$0.13 per unit pursuant to a private placement agreement to raise total proceeds of US\$80,000. Each unit consists of one common share and one two-year share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of US\$0.17 in the first year and US\$0.20 in the second year. The resale of the common shares under this private placement are subject to a one-year hold period in accordance with applicable law.

During the fiscal year ended March 31, 2002 we issued 6,000,000 units at a price of US\$0.10 per unit pursuant to private placement agreements to raise total proceeds of US\$600,000. Each unit consists of one share of common stock and one share purchase warrant to purchase an additional share of common stock at a price of US\$0.13 until June 6, 2002, at a price of US\$0.17 until June 6, 2003 and thereafter at a price of US\$0.20 until expiry on June 6, 2004. This private placement was ratified by shareholders at the annual and special meeting held on September 19, 2001.

Our capital resources are comprised primarily of private investors who are either existing contacts of management or who come to our attention through brokers, financial institutions and other intermediaries. Management is of the view that conventional banking is unavailable to exploration stage resource companies. Our access to capital is always dependent upon general financial market conditions. Our capital resources have not changed during our 2004 fiscal year, nor are they anticipated to change during the 2005 fiscal year.

Our anticipated capital expenditures on petroleum properties for the 2005 fiscal year are less than \$700,000 for our New Zealand interests and can be met by our current working capital. Included in these expenditures, are drilling programs for PEP 38741 and PEP 38765 and a seismic program for PEP 38256.

The seismic program scheduled for PEP 38256 and the drill program for PEP 38765 are estimated to cost approximately \$200,000 and \$140,000 respectively and the work will be completed during the remainder of the 2005 fiscal year. We have sufficient working capital to complete these 2005 commitments but we will need to raise additional working capital for future commitments. We intend to raise additional working capital through further issuances of common shares to have the funds necessary to participate in additional exploration wells and future permit requirements, or we will need to farm-out our interests other parties to reduce the capital commitments of the Company.

Anticipated Total Work Obligations Before March 31, 2005 (As at 31 March 2004)

| PROPERTY | DESCRIPTION OF WORK | CAD\$ | SOURCE OF FUNDS |
|------------------------------------|-----------------------------------|-------------------|-----------------|
| UNPROVED: | | | |
| New Zealand: | | | |
| PEP 38256 | Permit Maintenance and Seismic | \$ 224,000 | Working Capital |
| PEP 38741 | Drill Well and Permit Maintenance | 225,000 | Working Capital |
| PEP 38480 | Permit Maintenance | 25,000 | Working Capital |
| PEP 38258 | Permit Maintenance | 35,000 | Working Capital |
| PEP 38765 | Well and Permit Maintenance | 145,000 | Working Capital |
| Total Work Obligations..... | | \$ 654,000 | |

The estimates of anticipated Total Work Obligations before March 31, 2005, have been revised *as at July 30, 2004*, and the amended obligations are as follows:

| PROPERTY | DESCRIPTION OF WORK | CAD\$ | SOURCE OF FUNDS |
|------------------------------------|-----------------------------------|-------------------|-----------------|
| UNPROVED: | | | |
| New Zealand: | | | |
| PEP 38256 | Permit Maintenance and Seismic | \$ 237,000 | Working Capital |
| PEP 38741 ⁽¹⁾ | Drill Well and Permit Maintenance | 241,000 | Working Capital |
| PEP 38480 | Permit Maintenance | 25,000 | Working Capital |
| PEP 38258 | Permit Maintenance | 35,000 | Working Capital |
| PEP 38765 | Well and Permit Maintenance | 145,000 | Working Capital |
| Total Work Obligations..... | | \$ 683,000 | |

(1) The Company and Austral-Pacific (formerly Indo-Pacific), as operator of PEP 38741, committed, on August 19, 2003, the joint venture to complete the second schedule of the work program for the permit which entailed drilling an exploration well within 24 months of the commencement date of the program. The well was completed in June 2004 at a cost of approximately \$170,000 and the company will submit, for approval, an ongoing work program for the remainder of the permit term.

Research and Development, Patents and Licences

Not applicable.

Trend Information

Exchange rate fluctuation is an important trend to the Company as we hold our cash in CAD\$ and US\$ and we incur our exploration expenditures in NZ\$. Refer to Item 3. "Risk Factors – Effect of Different Currencies".

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The directors and officers of our company are:

| NAME AND MUNICIPALITY OF RESIDENCE | POSITION HELD | OFFICE HELD SINCE |
|--|--|-------------------------------|
| Alan Hart, ^{(1) (2)} Wakefield, New Zealand | Chairman of the Board of Directors | Chairman–2003, Director –2002 |
| Drew Cadenhead, ⁽³⁾ Calgary, AB | President, Chief Executive Officer, Director | 2003 |
| Garth Johnson, Vancouver, B.C. | Chief Financial Officer, Secretary, Director | 2001 |
| Barry MacNeil, ⁽¹⁾ Vancouver, B.C. | Director | 2001 |
| Gordon Abougoush, ^{(1) (4)} Kelowna, B.C. | Director | 2003 |

(1) Member of audit committee.

(2) Mr. Hart resigned as President & CEO in April 2003 and was appointed Chairman of the Board at that time.

(3) Mr. Cadenhead was appointed President, Chief Executive Officer and a Director in April of 2003.

(4) Mr. Abougoush was appointed a Director in May 2003.

Mr. Alan Hart has been the Company's Chairman since April 24, 2003 and until that time had been our Chief Executive Officer, President as well as a Director since his hiring on July 18, 2002 and until resigning as President and Chief Executive Officer on April 24, 2003. Mr. Hart obtained his Master's Degree in Geology from the University of Texas at Arlington in 1979 and has a long and exemplary career in the oil and gas industry. He has worked in several emerging oil and gas regions including North and West Africa, Central America, Southeast Asia, Australia and New Zealand.

Mr. Drew Cadenhead has been the Company's President, Chief Executive Officer and a Director since April 24, 2003. Mr. Cadenhead began his career in the oil and gas industry in 1979 with Amoco and Canadian Hunter where he was responsible for exploration in Canada's Western Sedimentary Basin. Mr. Cadenhead has held various executive positions in the energy sector, including Vice President of Exploration and executive positions responsible for acquisitions and divestitures. Of particular importance to the Company is, Mr. Cadenhead's international successes in New Zealand's Taranaki Basin with Fletcher Challenge. Mr. Cadenhead is a member of the C.S.P.G. and APEGGA and holds the professional designation P. Geol and received his Bachelor of Science in Geology from the University of Calgary.

Mr. Garth Johnson is a Certified General Accountant who was a Controller with a manufacturer in the lumber industry from 1994 to 1997 in Surrey, B.C. In 1997, Mr. Johnson joined our Company as the corporate accountant. He is currently the Chief Financial Officer, Secretary and a Director of our Company as well as Chief Financial Officer and a director of Trans-Orient Petroleum Ltd., a Director of Austral Pacific Energy Ltd.

Mr. Barry MacNeil has been a member of the board of directors of the Corporation since October 1, 2001. Mr. MacNeil is a Certified General Accountant who has over fifteen years experience in public practice including two years at BDO Dunwoody, Ward & Malette, a local accounting firm in Langley, B.C. Additionally, Mr. MacNeil worked as a Corporate Accountant for a group of companies involved in sales and services of mining equipment to the international mining industry and a lumber company with export sales to Japan, Europe and Australia.

Mr. Gordon Abougoush has been a member of the Board of Directors of the Corporation since May of 2003. He has extensive experience in business development and operations. Of particular importance to the continued development of the Company is Mr. Abougoush's track record of financing and operating successful early stage growth companies. He is the founder and operator of a company that employs 70 individuals and he is also actively involved in commercial and residential property development.

We do not have liability insurance to cover our directors and officers in the performance of their duties, but we intend to so during the 2005 fiscal year. To date, no agreements to contractually provide indemnities have been executed or delivered.

Compensation

The following table sets forth the aggregate compensation paid by our company for services rendered during the last full fiscal year indicated:

SUMMARY COMPENSATION TABLE

| NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION | YEAR ENDED | COMPENSATION | | SECURITIES UNDER OPTION | | |
|---|---------------|----------------|--------------------------------------|-------------------------------------|-------------------|----------------|
| | | SALARY (\$) | OTHER ANNUAL COMPENSATION (\$) | NUMBER OF OPTIONS ⁽⁶⁾ | EXERCISE PRICE | EXPIRY DATE |
| Alan Hart, Chairman and Director ⁽³⁾ | 2004 | 49,204 | – | – | – | – |
| | 2003 | 87,175 | – | 150,000 | US\$0.27 | May 31, 2008 |
| | 2002 | – | – | – | – | – |
| Drew Cadenhead, President, Chief Executive Officer Director ⁽²⁾⁽⁷⁾ | 2004 | 147,667 | – | – | – | – |
| | 2003 | – | – | – | – | – |
| | 2002 | – | – | – | – | – |
| Garth Johnson, Secretary ⁽³⁾ | 2004 | 58,335 | – | – | – | – |
| | 2003 | 34,653 | – | 150,000 | US\$0.27 | May 31, 2008 |
| | 2002 | 21,033 | – | – | – | – |
| Berhard Zinkhofer, Former Director | 2004 | – | 7,042 ⁽⁴⁾ | – | – | – |
| | 2003 | – | 13,665 ⁽⁴⁾ | – | – | – |
| | 2002 | – | 28,624 ⁽⁴⁾ | – | – | – |
| Barry MacNeil, Director | 2004 | – | – | – | – | – |
| | 2003 | – | – | 15,000 | US\$0.27 | May 31, 2008 |
| | 2002 | – | – | – | – | – |
| Gordon Abougoush, Director ⁽⁵⁾ | 2004 | – | – | – | – | – |
| | 2003 | – | – | 150,000 | US\$0.27 | May 31, 2008 |
| | 2002 | – | – | – | – | – |

(1) Mr. Hart resigned as President and CEO in April 2003 and was appointed Chairman of the Board at that time.

(2) Mr. Cadenhead was appointed President, Chief Executive Officer and a Director in April of 2003.

(3) Mr. Johnson was paid \$58,335 (2003: \$34,653; 2002: \$21,033) through invoices submitted by DLJ Management Corp., a subsidiary of Trans-Orient Petroleum Ltd., as a result of Mr. Johnson's time spent on the Company.

(4) Legal fees paid to the law firm in which Mr. Zinkhofer is a partner. Mr. Zinkhofer resigned as a director of the Company in May of 2003 and was replaced by Mr. Abougoush. While still a director Mr. Zinkhofer's firm received \$1,754 in fees and a further \$5,288 after his resignation from the Board.

(5) Mr. Abougoush was appointed a Director in May 2003, replacing Mr. Zinkhofer.

(6) Options were granted on May 30, 2003 and vest over a five-year period and, once exercised, are subject to resale restrictions. As of April 27, 2004 a forward stock split of one additional new share for every two old shares was declared by the Company, resulting in an increase in the eligible option amounts by 50% from the previous year as well as decreasing the exercise price from US\$0.40 to US\$0.27.

(7) Mr. Cadenhead, as part of a consulting, incentive shares and non-competition agreement, acquired 1,400,000 common shares of the Company at a price of US\$0.005 per share. The shares are subject to voting, vesting and resale conditions. See also Exhibit 4.6, Consulting, Incentive Shares and Non-Competition Agreement.

It has been the past policy of the board of directors not to receive an annual salary for their services solely as a director, however directors have been paid for executive services in addition to their board services. We may pay per diem rates to directors from time to time depending on required levels of activities.

From February 1994 to the 2002 fiscal year, we did not pay regular remuneration to our executive officers. Commencing in the 2002 fiscal year we began paying Mr. Johnson, in his role as an employee of DLJ Management Corp., a subsidiary of Trans-Orient Petroleum Ltd., for his services for the Company in a management role and as corporate accountant for the Company. DLJ Management invoices the Company on a cost recovery basis for time spent on the Company by Mr. Johnson on regulatory and accounting functions.

On July 20, 2002, we entered into an agreement with Mr. Hart for his services as President and CEO of the Company whereby the Company paid Mr. Hart US\$6,000 per month until June of 2003. Thereafter we have been paying Mr. Hart, in his capacity as Chairman of the Board and as a Director, NZ\$2,400 per month on a month-to-month basis.

On April 7, 2004, the company extended an oil and gas exploration executive services contract with Rimu Resources Ltd. ("Rimu"), a private company wholly-owned by Mr. Cadenhead, by one-year, with annual consideration of \$160,000. The contract that was originally signed on April 24, 2003 was a one-year, Consulting, Incentive shares and Non-competition agreement, with Rimu Resources Ltd. ("Rimu"). The Company agreed to pay Rimu, for Mr. Cadenhead's services as the Company's President, Chief Executive Officer and as a Director, a signing bonus of \$12,000, in addition to annual consideration of \$148,000. The agreement included the entitlement to purchase 1,400,000 common shares of the Company at a price of US\$0.005 per share, with the shares being subject to certain voting, vesting, and resale conditions.

No other cash compensation, including salaries, fees, commissions, and bonuses was paid or is to be paid to the directors and officers for services rendered, nor was any remuneration paid to directors except for legal services provided by a law firm in which Bernhard Zinkhofer, is a partner. The cost of these legal services during the 2004 fiscal year was \$1,754 while Mr. Zinkhofer was a director and \$5,288 subsequent to his resignation (2003: \$13,665; 2002: \$28,624).

We currently do not offer profit sharing, pension or retirement benefit plans to our officers or directors and none are presently proposed. There are no arrangements for payments on termination for any officer in the event of a change of control, with the exception that upon a change of control of the Company occurring, directors options and incentive shares that are subject to vesting provisions are deemed to have vested completely, immediately prior to a change of control occurring.

Board Practices

All directors have a term of office expiring at our next annual general meeting, to be held in September of 2005, unless re-elected or unless a director's office is earlier vacated in accordance with our by-laws or the provisions of the Business Corporations Act (Yukon).

All officers have a term of office lasting until their removal or replacement by the board of directors. As of July 23, 2004 the following are the Company's officers and directors.

| NAME | PERIOD SERVED IN POSITION |
|--|---------------------------|
| Alan Hart ⁽¹⁾ , Chairman and Director | 2 years, 1 month |
| Drew Cadenhead, President, Chief Executive Officer, Director | 1 year, 4 months |
| Garth Johnson, Secretary, Chief Financial Officer, Director | 3 years, 4 months |
| Barry MacNeil ⁽¹⁾ , Director | 2 years, 10 months |
| Gordon Abougoush ⁽¹⁾ , Director | 1 years, 3 months |

(1) member of the audit committee

Audit and remuneration committees

List of Audit Committee members as at July 30, 2004:

Alan Hart
Barry MacNeil
Gordon Abougoush

Audit Committee members do not have service contracts and are not paid for their services as an audit committee member. The committee is constituted to monitor the veracity of the financial and regulatory reports produced by the Company, and the controls that are in place to ensure the opportunities for fraud or material error in the financial statements of the Company are minimized.

The Company does not have a remuneration committee. Currently any material commitments, inclusive of remuneration, are required to be pre-approved by the Board of Directors.

Employees and Consultants

We have one full time consultant located in Calgary, Alberta, being Mr. Cadenhead through his wholly-owned company Rimu Resources Ltd. All of our administrative duties are carried out by either Mr. Cadenhead or DLJ Management Corp., located in Vancouver, B.C., ("DLJ") a 100% owned subsidiary of Trans-Orient Petroleum Ltd., under a month-to-month contract. We are billed by DLJ on a monthly basis for time spent on Company matters, on a cost recovery basis. Mr. Alan Hart is paid as a part-time consultant working in New Zealand on the Company's behalf and he devotes a majority of his time to other interests.

See "Item 7 – Major Shareholders and Related Transactions".

Share ownership by officers and directors

Mr. Drew Cadenhead owns 2,100,000 common shares (16.75% of shares outstanding) of the Company that are subject to certain voting, vesting and resale provisions.

See also Exhibit 4.6, *Consulting, Incentive Shares and Non-Competition Agreement*.

Mr. Gordon Abougoush owns 22,050 common shares (less than 1.00% of shares outstanding) and 9,300 share purchase warrants of the Company.

Stock options were granted to directors of the Company on May 30, 2003, as follows.

| NAME | NUMBER | EXERCISE | EXPIRY |
|-----------------------|---------|----------|--------------|
| Alan Hart | 100,000 | US\$0.40 | May 31, 2008 |
| Garth Johnson | 100,000 | US\$0.40 | May 31, 2008 |
| Gordon Abougoush..... | 100,000 | US\$0.40 | May 31, 2008 |
| Barry MacNeil | 10,000 | US\$0.40 | May 31, 2008 |

As a result of the forward stock split approved by shareholders and as implemented by the Company on April 27, 2004, the options outstanding to the directors as of July 23, 2004 are:

| NAME | NUMBER | EXERCISE | EXPIRY |
|-----------------------|---------|----------|--------------|
| Alan Hart | 150,000 | US\$0.27 | May 31, 2008 |
| Garth Johnson | 150,000 | US\$0.27 | May 31, 2008 |
| Gordon Abougoush..... | 150,000 | US\$0.27 | May 31, 2008 |
| Barry MacNeil | 15,000 | US\$0.27 | May 31, 2008 |

There have been no incentive stock options exercised by any director, officer or employee to the report date.

There were no incentive options granted to, or exercised by, any director, officer or employee in the years ended March 31, 2003 or 2002.

The Company has, in the past, had no defined plan for involving employees in the capital of the Company. The Company has, at the discretion of the board of directors, granted incentive stock options to its officers, directors, employees and consultants, for the purchase of shares in the Company. Stock options are in consideration for services and are non-transferable. The Board of Directors of the Company determined the exercise price. Vesting of options may be made at the time of granting of the options or over a period of up to five years as set out in each option agreement. Such options granted have a maximum term of six years. Once approved and vested, options are exercisable at any time until expiry or termination as above.

The Board of Directors has adopted a share option plan (the "Plan") and has received approval from disinterested shareholders for the granting of options to employees and service providers which was presented and approved at the annual general meeting of the shareholders held on September 24, 2004. The Plan reserves 2,500,000 common shares for issuance upon exercise of options granted under the Plan. Options granted under the Plan are non-assignable, non-transferable, with a term of up to 5 years, terminating within 90 days after the optionee ceases to be associated with the Company, at an exercise price not less than the TSX-V specified Discounted Market Price, and vest over a period of 3 years.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED TRANSACTIONS

Major shareholders

Beneficial Holders of More Than Five Percent of Outstanding Shares

The following schedule sets forth the common stock ownership of each person known by us to be the beneficial owner of 5% or more of our common stock. All ownership shown is of record and reflects beneficial ownership as of July 23, 2004. Information was provided by the individuals themselves.

| NAME AND ADDRESS OF OWNER | NUMBER OF SHARES | PERCENT OF CLASS |
|---|--------------------------------|------------------|
| Alex Guidi Vancouver, B.C. | 7,026,000 ⁽¹⁾ | 43.15% |
| Drew Cadenhead..... Calgary, Alberta | 2,100,000 ⁽²⁾ | 16.75% |
| Brad Holland Dhahran, Saudi Arabia | 779,970 ⁽³⁾ | 6.12% |
| Tanya Loretto Richmond, B.C. | 807,750 ⁽⁴⁾ | 6.23% |
| Zena Loretto Delta, B.C. | 932,950 ⁽⁵⁾ | 7.27% |
| Ron Bertuzzi Vancouver, B.C. | 696,331 ⁽⁶⁾ | 5.43% |
| Peter Loretto Richmond, B.C. | 962,860 ⁽⁷⁾ | 7.60% |
| Hampton Financial Partners, Inc. Menlo Park, California | 1,650,500 ⁽⁸⁾ | 12.35% |

(1) Of the 7,026,000 common shares owned by Mr. Guidi, 300,000 are held by International Resource Management Corp., 150,000 are held by Pacific Reach Management Ltd. Which are B.C. companies that are wholly-owned by Mr. Alex Guidi. The remaining 6,576,000 common shares are indirectly held by Mr. Guidi through his registered retirement savings plan.

Of the 7,026,000 shares held by Mr. Guidi, 3,750,000 are attributable to common shares, which may be acquired within 60 days under warrants. Specifically Mr. Guidi holds warrants to acquire up to 3,750,000 shares at a price of US\$0.23 per share until June 6, 2005 and thereafter at a price of US\$0.33 per share until expiry on June 6, 2006.

(2) All of the 2,100,000 common shares (formerly 1,400,000 shares, prior to 1.5:1 stock split) owned by Mr. Cadenhead, are subject to a 48 month vesting period, whereby no shares vest for the first thirty six months and then 525,000 shares vest on the thirty seventh month, 350,000 shares vest at month forty one, month forty five and month forty eight. In addition the vested shares are subject to a selling schedule whereby no shares can be sold for three years. Thereafter 7,500 shares per month from month thirty six to forty eight and then 30,000 shares can be sold from month forty nine to sixty on a non cumulative basis. Thereafter there

are no sales restrictions. In addition Mr. Cadenhead has agreed to vote the shares at the direction of the board at all shareholder meetings of the Company for a period of three years. The Company may also buy the shares back from Mr. Cadenhead, should the Consulting, Incentive Shares and Non-Competition Agreement be terminated for cause or not renewed by either party upon expiry of the first three one-year terms.

See also Exhibit 4.6, Consulting, Incentive Shares and Non-Competition Agreement

- (3) Of the 779,970 shares held by Mr. Holland, 200,000 are attributable to common shares, which may be acquired within 60 days under warrants. Specifically Mr. Holland holds warrants to acquire up to 200,000 shares at a price of US\$0.23 per share until June 6, 2005 and thereafter at a price of US\$0.33 per share until expiry on June 6, 2006.
- (4) Of the 807,750 shares held by Ms. Tanya Loretto, 112,500 are held by Wavecrest Capital Corp., a B.C. company that is wholly-owned by Ms. Loretto. The remaining 695,250 common shares are indirectly held by Ms. Tanya Loretto through her registered retirement savings plan. Of the 807,750 shares held by Ms. Tanya Loretto, 435,000 are attributable to common shares which may be acquired within 60 days under warrants. Specifically, Ms. Tanya Loretto holds warrants to acquire up to 435,000 shares at a price of US\$0.23 per share until June 6, 2005 and thereafter at a price of US\$0.33 per share until expiry on June 6, 2006.
- (5) Of the 932,950 shares held by Ms. Zena Loretto, 300,000 are attributable to common shares which may be acquired within 60 days under warrants. Specifically Ms. Zena Loretto holds warrants to acquire up to 300,000 shares at a price of US\$0.23 per share until June 6, 2005 and thereafter at a price of US\$0.33 per share until expiry on June 6, 2006.
- (6) Of the 696,331 shares indirectly held by Mr. Bertuzzi through his registered retirement savings plan, 300,000 are attributable to common shares which may be acquired within 60 days under warrants. Specifically Mr. Bertuzzi holds warrants to acquire up to 300,000 shares at a price of US\$0.23 per share until June 6, 2005 and thereafter at a price of US\$0.33 per share until expiry on June 6, 2006.
- (7) Of the 962,860 shares held by Mr. Peter Loretto, 168,000 are held by PCL Holdings Ltd. and 3,750 are held by 437581 BC Ltd., both of which are B.C. companies that are wholly-owned by Mr. Loretto. The remaining 959,110 common shares are indirectly held by Mr. Peter Loretto through his registered retirement savings plan. Of the 962,860 shares held by Mr. Peter Loretto, 140,000 are attributable to common shares which may be acquired within 60 days under warrants. Specifically, Mr. Peter Loretto holds warrants to acquire up to 140,000 shares at a price of US\$0.23 per share until June 6, 2005 and thereafter at a price of US\$0.33 per share until expiry on June 6, 2006.
- (8) Of the 1,650,500 shares held by Hampton Financial Partners, Inc., 600,000 are attributable to common shares which may be acquired within 60 days under warrants and 225,000 are shares may be acquired within 60 days under options. Specifically, Hampton Financial Partners, Inc. holds warrants to acquire up to 600,000 shares at a price of US\$0.23 per share expiring on August 21, 2005 and thereafter at a price of US\$0.33 per share until expiry on August 21, 2006 and Hampton holds an option to acquire up to 225,000 shares at a price of US\$0.27 until expiry on March 7, 2005.

To the knowledge of the Company, there have been no significant changes in percentage share ownership held by any major shareholders, during the last three years with the exception of:

1. On April 27, 2003, Mr. Cadenhead purchased 2,100,000 common shares of the Company
2. In May of 2003, Hampton Financial Partners, Inc. purchased 656,250 common shares of the Company and in August of 2003 they purchased an additional 600,000 common shares
3. On March 18, 2004, Mr. Brad Holland acquired 450,000 common shares through the exercise of share purchase warrants.
4. On July 5, 2004, Mr. Peter Loretto (PCL Holdings Ltd.) acquired 25,000 common shares of the Company through the exercise of share purchase warrants.

Insider Reporting

The Securities Act (Yukon) does not prescribe any reporting for insiders of our company. The company is a reporting issuer in British Columbia and insiders comply with the requirements of Part 12 of the Securities Act (British Columbia). Insiders (generally officers, directors and holders of more than ten percent of voting securities) are required to file individual insider reports of changes in their ownership within ten days after the month in which any trade in our securities occurs. Copies of the reports and summaries of the insider activity as well as issuer activity are available for public inspection at www.sedi.com, the Canadian regulatory website for insider trading.

Major Shareholder Voting Right

There are no different voting rights, attributable to the major shareholders and every shareholder has equal rights. Mr. Cadenhead, as part of the Consulting, Incentive Shares and Non-Competition Agreement, agreed to vote his 2,100,000 incentive shares of the Company at the direction of the Board of Directors of the Company at all shareholders' meetings of the Company until April 24, 2006.

Host Country Shareholders

The proportion and number of shareholders of record in the United States as at July 23, 2004 are as follows:

| | |
|--|-----------|
| Estimated proportion of shares held in the U.S. | 14% |
| Number of shareholders | 556 |
| Number of shares held | 1,777,601 |

Arrangements Affecting Shareholdings

Mr. Alex Guidi is the Company's controlling shareholder. There are no known arrangements, which would significantly affect the control of the controlling shareholder.

Related Party Transactions

The following are reported as Related Party Transactions. The nature of the transaction, the affiliate(s) who had an interest in the transaction and the nature of the interest are included in the description of each of the transactions:

- (a) At March 31, 2004 we owed \$9,960 (2003: 81,592) to certain public companies with directors, officers and/or principal shareholders in common with the Company.
- (b) Mr. Bernhard Zinkhofer served as a Director of the Company until May of 2003, and for the fiscal year ended March 31, 2004, Mr. Zinkhofer's firm received \$1,754 (subsequent to his resignation as a director, his firm received \$5,288) (2003: \$13,665) for legal services.
- (c) On June 6, 2001, we completed a private placement for US\$600,000, subject to ratification by our disinterested shareholders at our Annual and Special Meeting held on September 19, 2001. The private placement consisted of four million units (6,000,000 post-split) at a price of US\$0.15 (US\$0.10 post-split) per unit, consisting of one common share and one three-year share purchase warrant. The private placement was made to eight investors, one of who is Alex Guidi whom is a principal shareholder of the Company and Trans-Orient Petroleum. At the time of his transaction Mr. Guidi was also the controlling shareholder of Austral. Each share purchase warrant entitled the holder to purchase one common share at a price of US\$0.20 (US\$ 0.13 post-split) in the first year, US\$0.25 (US\$ 0.17 post-split) in the second year and US\$0.30 (US\$0.20 post-split) in the third year. In total Mr. Guidi subscribed for 2,500,000 units(3,750,000 post-split) of the 4,000,000 (6,000,000 post-split) issued.
- (d) During the fiscal year ending March 31, 2004 the Company paid DLJ Management Corp. ("DLJ") \$127,887 (2003: \$130,162) for corporate services which included office space rental, accounting and administrative services. These services are billed on a cost recovery basis by DLJ. DLJ is a wholly owned subsidiary of Trans-Orient Petroleum Ltd.
- (e) Effective February 1, 2002, the Company entered into rental agreements with Trans-Orient and AMG Oil, whereby the Company received rental income of \$1,000 per month from each company. In February of 2003, AMG Oil gave notice to the Company that due to limited working capital, they could no longer pay rent as agreed. As a result the Company received rental income of \$23,000 for the 2003 fiscal year. The commercial property used to produce rental income was sold in August of 2003.
- (f) The Company entered into farm-in agreements with Austral Pacific for the Company to purchase interests in PEP 38741 (20%) and PEP 38480 (25%) and for the ability to participate in PPP 38761 (10%) based on fair market values totalling NZ\$522,511 during the 2003 fiscal year and as described in Item 4 above.
- (g) The Company, by way of a farm-in agreement with an effective date in August 2002 acquired a 20% participating interest in the onshore Taranaki Basin, North Island Permit 38723 ("PEP 38723") from related company Gondwana Energy, Ltd. ("GondwanaÚ) for paying Gondwana past costs plus a 10% premium totaling \$72,661 (US\$46,200). In November of 2002, the permit expired and the Ministry of Oil and Gas in New Zealand rejected the renewal application.
- (h) The Company, on April 24, 2003, and as extended for a further year as of April 7, 2004, retained Rimu Resources Ltd. ("Rimu"), to provide oil and gas explorations executive services to the Company. Specifically, we entered into a one-year,

Consulting, Incentive Shares and Non-competition agreement, with Rimu, a private company wholly-owned by Mr. Cadenhead, to provide oil and gas exploration executive services to the Company. The Company agreed to pay Rimu, for Mr. Cadenhead's services as the Company's President, Chief Executive Officer and as a Director, a signing bonus of \$12,000, in addition to annual consideration of \$148,000 for the first year and \$160,000 annually for the first extension. The agreement included the entitlement to purchase 1,400,000 common shares (2,100,000 post forward split) of the Company at a price of US\$0.005 (post forward split US\$0.0033) per share, with the shares being subject to certain voting, vesting, and resale conditions.

- (i) During the fiscal year the Company paid \$255,205 (2003 fiscal year – 121,828) in wages and consulting fees to three directors (2003 – two directors) including Messrs. Drew Cadenhead, Alan Hart and Garth Johnson.
- (j) During the 2004 fiscal year the Company granted 310,000 incentive stock options (465,000 post forward split) to purchase common shares of the Company vesting over five years, exercisable at a price of US\$0.40 (US\$0.27 post forward split) until expiry on May 31, 2008 to four directors of the Company.

See also Item 10 Material Contracts.

Interests of experts and counsel

Not applicable

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Consolidated financial statements are provided under PART III, ITEM 17, FINANCIAL STATEMENTS.

There are no material legal proceedings to which we are subject or which are anticipated or threatened.

We have never paid dividends to shareholders and no dividends are payable in the foreseeable future.

Significant Changes

The following significant changes have occurred since March 31, 2004:

- (a) The Company received shareholder approval on April 7, 2004 for a one new additional share for every two old shares held, forward stock split, for the shareholders of record as of April 27, 2004. At that time, the outstanding common shares increased from 7,978,061 to 11,967,086. The post split trading began on May 4, 2004.
- (b) On June 4, 2004 the Company and its partners began their 2004 drilling phase with the Honeysuckle-1 well located on PEP 38741, onshore Taranaki Basin. Drilling started on June 4, 2004 and completed on June 29, 2004. Oil was located but not in sufficient economical amounts to warrant any further exploration work.
- (c) The Company completed a non-brokered restricted private placement on May 4, 2005 for 542,495 units, consisting of one common share and a full share purchase warrant. There were no fees associated with this private financing and the unit placement, totalling US\$905,000 includes a one-year hold period expiring May 4, 2005. This placement had the effect of increasing the outstanding common shares from 11,967,086 to 12,509,581.
- (d) In July 2004 a further 25,000 warrants were exercised at US\$0.27, which had the effect of increasing the outstanding common shares from 12,509,581 to 12,534,581.

No other significant changes material to the business of the Company has occurred since the date of the annual financial statements.

ITEM 9. THE OFFER AND LISTING

Offer and Listing Details

Price History of the Stock

Our shares traded on the VSE and the CDNX, the successor to the VSE, and TSX Venture Exchange, the successor to the CDNX in Vancouver, British Columbia, Canada until September 21, 2000, when we voluntarily delisted. Beginning on December 8,

Form 20-F

1999 our shares traded on the OTC Bulletin Board (“OTCBB”) under the symbol “DUREF” until we changed our name from Durum Cons. Energy Corp. to TAG Oil Ltd on June 12, 2002 and as a result we began trading under the new symbol “TAGOF”. All values noted below are in US dollars per share for the OTCBB and Canadian dollars for the CDNX.

Summary trading by year, for the five most recently competed fiscal periods ending March 31, 2004:

| YEAR | OTCBB | | CDNX | |
|------------|------------------------|-----------------------|------------------------|-----------------------|
| | HIGH ⁽¹⁾⁽²⁾ | LOW ⁽¹⁾⁽²⁾ | HIGH ⁽¹⁾⁽²⁾ | LOW ⁽¹⁾⁽²⁾ |
| 2000 | 1.08 | 0.50 | 1.75 | 0.74 |
| 2001 | 1.203 | 0.25 | – | – |
| 2002 | 1.25 | 0.20 | – | – |
| 2003 | 1.55 | 0.22 | – | – |
| 2004 | 4.50 | 0.52 | – | – |

Summary trading by quarter for the two most recently competed fiscal periods ending March 31, 2004:

| YEAR AND QUARTER | OTCBB | | CDNX | |
|----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | HIGH ⁽¹⁾⁽²⁾ | LOW ⁽¹⁾⁽²⁾ | HIGH ⁽¹⁾⁽²⁾ | LOW ⁽¹⁾⁽²⁾ |
| 2003 | | | | |
| First Quarter | 1.01 | 0.22 | – | – |
| Second Quarter | 1.55 | 0.70 | – | – |
| Third Quarter | 0.88 | 0.55 | – | – |
| Fourth Quarter | 0.75 | 0.46 | – | – |
| 2004 | | | | |
| First Quarter | 1.40 | 0.52 | – | – |
| Second Quarter | 2.25 | 1.10 | – | – |
| Third Quarter | 2.00 | 1.45 | – | – |
| Fourth Quarter | 4.50 | 1.70 | – | – |

Summary trading by quarter for any full quarter subsequent to the year end March 31, 2004:

| MONTH | OTCBB | |
|-------------------------|---------------------------|--------------------------|
| | HIGH ⁽¹⁾⁽²⁾⁽³⁾ | LOW ⁽¹⁾⁽²⁾⁽³⁾ |
| April 1 to June 30..... | 3.75 | 2.00 |

Summary trading by month for the six most recently completed months ending June 30, 2004:

| MONTH | OTCBB | |
|----------------|---------------------------|--------------------------|
| | HIGH ⁽¹⁾⁽²⁾⁽³⁾ | LOW ⁽¹⁾⁽²⁾⁽³⁾ |
| January | 2.10 | 1.70 |
| February | 2.80 | 1.95 |
| March | 4.50 | 2.60 |
| April | 3.75 | 2.75 |
| May | 3.30 | 2.10 |
| June | 2.40 | 2.17 |

- (1) OTCBB quotations may reflect interdealer prices, without retail markup, markdown or commission and may not necessarily reflect actual transactions.
- (2) All market prices subsequent to May 4, 2004 reflect trading after the 1.5:1 forward stock split to the recorded shareholders as of April 27, 2004.
- (3) All quotations are from the website located at www.finance.yahoo.com.

Markets

The authorized capital of the Company consists of an unlimited number of Common Shares without par value, of which 12,534,581 Common Shares are issued as of July 23, 2004.

Our shares traded on the VSE in Vancouver, British Columbia, Canada until September 21, 2000. Beginning on December 8, 1999 our shares traded on the OTC Bulletin Board (“OTCBB”) under the symbol “DUREF” until we changed our name from Durum Cons. Energy Corp. to TAG Oil Ltd. on June 12, 2002. Thereafter our shares have traded under the new symbol “TAGOF”.

ITEM 10. ADDITIONAL INFORMATION

Share Capital

Not applicable

Memorandum and Articles of association

Our Articles of Association were previously filed with our Form 20F for the Year Ended March 31, 2000. The provisions thereof have not changed since that time.

Material contracts

Attached as exhibits are material contracts the Company entered into during the period July 30, 2002 to July 30, 2004 as follows:

- (a) By an agreement dated April 24, 2003, and extended a further year as of April 7, 2004, the Company retained Rimu Resources Ltd. (“Rimu”), to provide oil and gas explorations executive services to the Company. Specifically, we entered into a one-year, consulting, incentive shares and non-competition agreement, with Rimu, a private company wholly-owned by Mr. Cadenhead, to provide oil and gas exploration executive services to the Company. The Company agreed to pay Rimu, for Mr. Cadenhead’s services as the Company’s President, Chief Executive Officer and as a Director, a signing bonus of \$12,000, in addition to annual consideration of \$148,000 for the first year and \$160,000 annually for the first extension. The agreement included the entitlement to purchase 1,400,000 (2,100,000 post forward split) common shares of the Company at a price of US\$0.005 (US\$0.0033 post forward split) per share, with the shares being subject to certain voting, vesting, and resale conditions.
- (b) The Company entered into two farm-in agreements and one bidding agreement, with an effective date in August 2002 and dated September 09, 2002, with associated company Austral Pacific to acquire interests in PEP 38741 (20%), PEP 38480 (25%) and PEP 38765 (formerly PPP 38761) (10%) by paying Indo NZ\$522,511 based on fair market value and past costs.
- (c) The Company, entered a farm-in agreement with an effective date in August 2002 and dated September 09, 2002, acquired a 20% participating interest in the onshore Taranki Basin, North Island Permit 38723 (“PEP 38723”) from related company Gondwana Energy, Ltd. (“Gondwana”) for paying Gondwana past costs plus a 10% premium totaling \$72,661 (US\$46,200). In November of 2002, the permit expired and the Ministry of Oil and Gas in New Zealand rejected the renewal application as it was filed late.
- (d) Pursuant to an Investor Relations Services Agreement dated the 15th day of July, 2002, the Company retained 573634 B.C. Ltd. dba Republic Communications, a British Columbia company, to perform corporate awareness services for the Registrant. The term of the agreement was for six months with Republic Communications receiving US\$5,000 per month plus approved expenses for providing the services. This contract was extended under the same terms on January 15, 2003 and July 15, 2003 and was mutually terminated on August 11, 2003. Republic has received services, from time to time, from a principal of Hampton.

All material contracts are filed under Form 6-K when required.

Exchange Controls

There is no law or governmental decree or regulation in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to a non-resident holder of common shares of the Company, other than withholding tax requirements. See “Taxation”.

There is no limitation imposed by Canadian law or by the charter or other constituent documents of the Company on the right of a non-resident to hold or vote common shares of the Company, other than as provided in the Investment Canada Act (Canada) (the “Investment Act”).

The following discussion summarizes the principal features of the Investment Act for a non-resident who proposes to acquire common shares of the Company. It is general only, it is not a substitute for independent advice from an investor’s own advisor, and it does not anticipate statutory or regulatory amendments.

The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture (each an “entity”) that is not a “Canadian” as defined in the Investment Act (a “non-Canadian”), unless after review the Director of Investments appointed by the minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. The size and nature of a proposed transaction may give rise to an obligation to notify the Director and seek an advance ruling. An investment in common shares of the Company by a non-Canadian other than a “WTO Investor” (as defined in the Investment Act and which term includes entities which are nationals of or are controlled by nationals of member states of the World Trade Organization) when the Company was not controlled by a WTO Investor, would be reviewable under the Investment Act if it was an investment to acquire control of the Company and the value of the assets of the Company, as determined in accordance with the regulations promulgated under the Investment Act, Cdn\$5 million, or if an order for review was made by the federal cabinet on the grounds that the investment related to Canada’s cultural heritage or national identity, regardless of the value of the assets of the Company. An investment in common shares of the Company by a WTO Investor, or by a non-Canadian when the Company was controlled by a WTO Investor, would be reviewable under the Investment Act if it was an investment to acquire control of the Company and the value of the assets of the Company, as determined in accordance with the regulations promulgated under the Investment Act, exceeds a specified amount, which in 2003 was Cdn\$237 million. A non-Canadian would acquire control of the Company for the purposes of the Investment Act through acquisition of common shares if the non-Canadian acquired a majority of the common shares of the Company. The acquisition of less than a majority but one third or more of the common shares of the Company would be presumed to be an acquisition of control of the Company unless it could be established that, on the acquisition, the Company was not controlled in fact by the acquirer through the ownership of common shares.

Certain transactions relating to common shares of the Company would be exempt from the Investment Act, including:

- (a) Acquisition of common shares of the Company by a person in the ordinary course of that person’s business as a trader or dealer in securities,
- (b) Acquisition of control of the Company in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provisions on the Investment Act, and
- (c) Acquisition of control of the Company by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of the Company, through the ownership of common shares, remained unchanged.

Taxation

Canadian Tax Consequences

The following, summarizes the material Canadian federal income tax consequences generally applicable to the holding and disposition of Common Shares by a holder (in this summary, a “U.S. Holder”) who, (a) for the purposes of the Income Tax Act (Canada) (the “Tax Act”), is not resident in Canada, deals at arm’s length with the Company, holds the Common Shares as capital property and does not use or hold the Common Shares in the course of carrying on, or otherwise in connection with, a

business in Canada, and (b) for the purposes of the Canada-United States Income Tax Convention, 1980 (the “Treaty”), is a resident solely of the United States, has never been a resident of Canada, and has not held or used (and does not hold or use) Common Shares in connection with a permanent establishment or fixed base in Canada.

This summary does not apply to traders or dealers in securities, limited liability companies, tax-exempt entities, insurers, financial institutions (including those to which the mark-to-market provisions of the Tax Act apply), or any other U.S. Holder to which special considerations apply.

This summary is based on the current provisions of the Tax Act including all regulations there under, the Treaty, all proposed amendments to the Tax Act, the regulations and the Treaty publicly announced by the Government of Canada to the date hereof, and the current administrative practices of the Canada Customs and Revenue Agency. It has been assumed that all currently proposed amendments will be enacted as proposed and that there will be no other relevant change in any governing law or administrative practice, although no assurances can be given in these respects. This summary does not take into account provincial, U.S., state or other foreign income tax law or practice. The tax consequences to any particular U.S. Holder will vary according to the status of that holder as an individual, trust, corporation, partnership or other entity, the jurisdictions in which that holder is subject to taxation, and generally according to that holder’s particular circumstances. Accordingly, this summary is not, and is not to be construed as, Canadian tax advice to any particular U.S. Holder.

Dividends

Dividends paid or deemed to be paid to a U.S. Holder by the Company will be subject to Canadian withholding tax. Under the Treaty, the rate of withholding tax on dividends paid to a U.S. Holder is generally limited to 15% of the gross amount of the dividend (or 5% if the U.S. Holder is a corporation and beneficially owns at least 10% of the Company’s voting shares). The Company will be required to withhold the applicable withholding tax from any such dividend and remit it to the Canadian government for the U.S. Holder’s account.

Disposition

A U.S. Holder is not subject to tax under the Tax Act in respect of a capital gain realized on the disposition of a Common Share in the open market unless the share is “taxable Canadian property” to the holder thereof and the U.S. Holder is not entitled to relief under the Treaty. A Common Share will be taxable Canadian property to a U.S. Holder if, at any time during the 60 months preceding the disposition, the U.S. Holder or persons with whom the U.S. Holder did not deal at arm’s length alone or together owned, or had rights to acquire, 25% or more of the Company’s issued shares of any class or series.

A U.S. Holder whose Common Shares do constitute taxable Canadian property, and who might therefore be liable for Canadian income tax under the Tax Act, will generally be relieved from such liability under the Treaty unless the value of such shares at the time of disposition is derived principally from real property situated in Canada. Management of the Company believes that the value of our Common Shares is not currently derived principally from real property situated in Canada.

United States Tax Consequences

The following is a discussion of material United States federal income tax consequences, under current law, generally applicable to a U.S. Holder (as hereinafter defined) of common shares of the Company. This discussion does not address all potentially relevant federal income tax matters and it does not address consequences peculiar to persons subject to special provisions of federal income tax law, such as those described below as excluded from the definition of a U.S. Holder. In addition, this discussion does not cover any state, local or foreign tax consequences (see “Taxation – Canadian Federal Income Tax Consequences” above). Accordingly, holders and prospective holders of common shares of the Company should consult their own tax advisors about the specific federal, state, local, and foreign tax consequences to them of purchasing, owning and disposing of common shares of the Company, based upon their individual circumstances.

The following discussion is based upon the sections of the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, published Internal Revenue Service (“IRS”) rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive

basis, at any time and which are subject to differing interpretations. This discussion does not consider the potential effects, both adverse and beneficial, of any proposed legislation, which if enacted, could be applied, possibly on a retroactive basis, at any time.

U.S. Holders

As used herein, a “U.S. Holder” means a holder of common shares of the Company who is a citizen or individual resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or of any political subdivision thereof, an estate whose income is taxable in the United States irrespective of source or a trust subject to the primary supervision of a court within the United States and control of a United States fiduciary as described Section 7701(a)(30) of the Code. This summary does not address the tax consequences to, and U.S. Holder does not include, persons subject to specific provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a “functional currency” other than the U.S. dollar, shareholders subject to the alternative minimum tax, shareholders who hold common shares as part of a straddle, hedging or conversion transaction, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own common shares as capital assets and who own (directly and indirectly, pursuant to applicable rules of constructive ownership) no more than 5% of the value of the total outstanding stock of the Company. This summary does not address the consequences to a person or entity holding an interest in a shareholder or the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares. In addition, this summary does not address special rules applicable to United States persons (as defined in Section 7701(a)(30) of the Code) holding common shares through a foreign partnership or to foreign persons holding common shares through a domestic partnership.

Distribution on Common Shares

In general, U.S. Holders receiving dividend distributions (including constructive dividends) with respect to common shares of the Company are required to include in gross income for United States federal income tax purposes the gross amount of such distributions, equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that the Company has current or accumulated earnings and profits, without reduction for any Canadian income tax withheld from such distributions. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder’s federal income tax liability or, alternatively, may be deducted in computing the U.S. Holder’s federal taxable income by those who itemize deductions. (See more detailed discussion at “Foreign Tax Credit” below). To the extent that distributions exceed current or accumulated earnings and profits of the Company, they will be treated first as a return of capital up to the U.S. Holder’s adjusted basis in the common shares and thereafter as gain from the sale or exchange of property. Preferential tax rates for long-term capital gains are applicable to a U.S. Holder, which is an individual, estate or trust. There are currently no preferential tax rates for long-term capital gains for a U.S. Holder, which is a corporation.

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss. However, an individual whose realized gain does not exceed \$200 will not recognize that gain, provided that there are no expenses associated with the transaction that meet the requirements for deductibility as a trade or business expense (other than travel expenses in connection with a business trip) or as an expense for the production of income.

Dividends paid on the common shares of the Company generally will not be eligible for the dividends received deduction provided to corporations receiving dividends from certain United States corporations. A U.S. Holder which is a corporation and which owns shares representing at least 10% of the voting power and value of the Company may, under certain circumstances, be entitled to a 70% (or 80% if the U.S. Holder owns shares representing at least 20% of the voting power and value of the Company) deduction of the United States source portion of dividends received from the Company (unless the Company qual-

ifies as a “foreign personal holding company” or a “passive foreign investment company,” as defined below). The Company does not anticipate that it will earn any United States income, however, and therefore does not anticipate that any U.S. Holder will be eligible for the dividends received deduction.

Under current Treasury Regulations, dividends paid on the Company common shares generally will not be subject to information reporting and generally will not be subject to U.S. backup withholding tax. However, dividends and the proceeds from a sale of the Company’s common shares paid in the U.S. through a U.S. or U.S. related paying agent (including a broker) will be subject to U.S. information reporting requirements and may also be subject to the 31% U.S. backup withholding tax, unless the paying agent is furnished with a duly completed and signed Form W-9. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder’s U.S. federal income tax liability, provided the required information is furnished to the IRS.

Foreign Tax Credit

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of common shares of the Company may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for such foreign tax paid or withheld. Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer’s income subject to tax. This election is made on a year-by-year basis and generally applies to all foreign taxes paid by (or withheld from) the U.S. Holder during that year. There are significant and complex limitations which apply to the credit, among which is the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder’s United States income tax liability that the U.S. Holder’s foreign source income bears to his or its worldwide taxable income. In the determination of the application of this limitation, the various items of income and deduction must be classified into foreign and domestic sources. Complex rules govern this classification process. In addition, this limitation is calculated separately with respect to specific classes of income such as “passive income,” “high withholding tax interest,” “financial services income,” “shipping income,” and certain other classifications of income. Dividends distributed by the Company will generally constitute “passive income” or, in the case of certain U.S. Holders, “financial services income” for these purposes. The availability of the foreign tax credit and the application of the limitations on the credit are fact specific, and U.S. Holders of common shares of the Company should consult their own tax advisors regarding their individual circumstances.

Disposition of Common Shares of the Company

In general, U.S. Holders will recognize gain or loss upon the sale of common shares of the Company equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder’s tax basis in the common shares of the Company. Preferential tax rates apply to long-term capital gains of U.S. Holders which are individuals, estates or trusts. In general, gain or loss on the sale of common shares of the Company will be long-term capital gain or loss if the common shares are a capital asset in the hands of the U.S. Holder and are held for more than one year. Deductions for net capital losses are subject to significant limitations. For U.S. Holders, which are not corporations, any unused portion of such net capital loss may be carried over to be used in later tax years until such net capital loss is thereby exhausted. For U.S. Holders that are corporations (other than corporations subject to Subchapter S of the Code), an unused net capital loss may be carried back three years and carried forward five years from the loss year to be offset against capital gains until such net capital loss is thereby exhausted. However, the amount that can be carried back is limited to an amount that does not cause or increase a net operating loss in the carry back year.

Other Considerations

Set forth below are certain material exceptions to the above-described general rules describing the United States federal income tax consequences resulting from the holding and disposition of common shares:

Foreign Personal Holding Company

If at any time during a taxable year more than 50% of the total combined voting power or the total value of the Company’s outstanding shares is owned, directly or indirectly (pursuant to applicable rules of constructive ownership), by five or fewer individuals who are citizens or residents of the United States and 60% or more of the Company’s gross income for such year is

derived from certain passive sources (e.g., from certain interest and dividends), the Company may be treated as a “foreign personal holding company.” In that event, U.S. Holders that hold common shares would be required to include in gross income for such year their allocable portions of such passive income to the extent the Company does not actually distribute such income. The Company does not believe that it currently qualifies as a foreign personal holding company. However, there can be no assurance that the Company will not be considered a foreign personal holding company for the current or any future taxable year.

Foreign Investment Company

If 50% or more of the combined voting power or total value of the Company’s outstanding shares is held, directly or indirectly, by citizens or residents of the United States, United States domestic partnerships or corporations, or estates or trusts other than foreign estates or trusts (as defined by the Code Section 7701(a)(31)), and the Company is found to be engaged primarily in the business of investing, reinvesting, or trading in securities, commodities, or any interest therein, it is possible that the Company may be treated as a “foreign investment company” as defined in Section 1246 of the Code, causing all or part of any gain realized by a U.S. Holder selling or exchanging common shares to be treated as ordinary income rather than capital gain. The Company does not believe that it currently qualifies as a foreign investment company. However, there can be no assurance that the Company will not be considered a foreign investment company for the current or any future taxable year.

Passive Foreign Investment Company

United States income tax law contains rules governing “passive foreign investment companies” (“PFIC”) which can have significant tax effects on U.S. Holders of foreign corporations. These rules do not apply to non-U.S. Holders. Section 1297 of the Code defines a PFIC as a corporation that is not formed in the United States if, for any taxable year, either (i) 75% or more of its gross income is “passive income,” which includes interest, dividends and certain rents and royalties or (ii) the average percentage, by fair market value (or, if the corporation is not publicly traded and either is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of “passive income” is 50% or more. The Company appears to have been a PFIC for the fiscal year ended March 31, 2001, and in other certain prior fiscal years. In addition, the Company expects to qualify as a PFIC for the fiscal year ending March 31, 2002 and may also qualify as a PFIC in future fiscal years. Each U.S. Holder of the Company is urged to consult a tax advisor with respect to how the PFIC rules affect such U.S. Holder’s tax situation.

Each U.S. Holder who holds stock in a foreign corporation during any year in which such corporation qualifies as a PFIC is subject to United States federal income taxation under one of three alternative tax regimes at the election of such U.S. Holder. The following is a discussion of such alternative tax regimes applied to such U.S. Holders of the Company. In addition, special rules apply if a foreign corporation qualifies as both a PFIC and a “controlled foreign corporation” (as defined below) and a U.S. Holder owns, actually or constructively, 10% or more of the total combined voting power of all classes of stock entitled to vote of such foreign corporation (See more detailed discussion at “Controlled Foreign Corporation” below).

A U.S. Holder who elects to treat the Company as a qualified electing fund (“QEF”) will be subject, under Section 1293 of the Code, to current federal income tax for any taxable year to which the election applies in which the Company qualifies as a PFIC on his pro rata share of the Company’s (i) “net capital gain” (the excess of net long-term capital gain over net short-term capital loss), which will be taxed as long-term capital gain, and (ii) “ordinary earnings” (the excess of earnings and profits over net capital gain), which will be taxed as ordinary income, in each case, for the shareholder’s taxable year in which (or with which) the Company’s taxable year ends, regardless of whether such amounts are actually distributed. A U.S. Holder’s tax basis in the common shares will be increased by any such amount that is included in income but not distributed.

The procedure a U.S. Holder must comply with in making an effective QEF election, and the consequences of such election, will depend on whether the year of the election is the first year in the U.S. Holder’s holding period in which the Company is a PFIC. If the U.S. Holder makes a QEF election in such first year, i.e., a “timely” QEF election, then the U.S. Holder may make the QEF election by simply filing the appropriate documents at the time the U.S. Holder files his tax return for such first year. If, however, the Company qualified as a PFIC in a prior year during the U.S. Holder’s holding period, then, in order to avoid

the Section 1291 rules discussed below, in addition to filing documents, the U.S. Holder must elect to recognize under the rules of Section 1291 of the Code (discussed herein), (i) any gain that he would otherwise recognize if the U.S. Holder sold his stock on the qualification date or (ii) if the Company is a controlled foreign corporation, the U.S. Holder's pro rata share of the Company's post-1986 earnings and profits as of the qualification date. The qualification date is the first day of the Company's first tax year in which the Company qualified as a QEF with respect to such U.S. Holder. For purposes of this discussion, a U.S. Holder who makes (i) a timely QEF election, or (ii) an untimely QEF election and either of the above-described gain-recognition elections under Section 1291 is referred to herein as an "Electing U.S. Holder". A U.S. Holder who holds common shares at any time during a year of the Company in which the Company is a PFIC and who is not an Electing U.S. Holder (including a U.S. Holder who makes an untimely QEF election and makes neither of the above-described gain-recognition elections) is referred to herein as a "Non-Electing U.S. Holder". An Electing U.S. Holder (i) generally treats any gain realized on the disposition of his Company common shares as capital gain; and (ii) may either avoid interest charges resulting from PFIC status altogether, or make an annual election, subject to certain limitations, to defer payment of current taxes on his share of the Company's annual realized net capital gain and ordinary earnings subject, however, to an interest charge. If the U.S. Holder is not a corporation, any interest charge imposed under the PFIC regime would be treated as "personal interest" that is not deductible.

In order for a U.S. Holder to make (or maintain) a valid QEF election, the Company must provide certain information regarding its net capital gains and ordinary earnings and permit its books and records to be examined to verify such information. The Company intends to make the necessary information available to U.S. Holders to permit them to make (and maintain) QEF elections with respect to the Company. The Company urges each U.S. Holder to consult a tax advisor regarding the availability of, and procedure for making, the QEF election.

A QEF election, once made with respect to the Company, applies to the tax year for which it was made and to all subsequent tax years, unless the election is invalidated or terminated, or the IRS consents to revocation of the election. If a QEF election is made by a U.S. Holder and the Company ceases to qualify as a PFIC in a subsequent tax year, the QEF election will remain in effect, although not applicable, during those tax years in which the Company does not qualify as a PFIC. Therefore, if the Company again qualifies as a PFIC in a subsequent tax year, the QEF election will be effective and the U.S. Holder will be subject to the rules described above for Electing U.S. Holders in such tax year and any subsequent tax years in which the Company qualifies as a PFIC. In addition, the QEF election remains in effect, although not applicable, with respect to an Electing U.S. Holder even after such U.S. Holder disposes of all of his or its direct and indirect interest in the shares of the Company. Therefore, if such U.S. Holder reacquires an interest in the Company, that U.S. Holder will be subject to the rules described above for Electing U.S. Holders for each tax year in which the Company qualifies as a PFIC.

In the case of a Non-Electing U.S. Holder, special taxation rules under Section 1291 of the Code will apply to (i) gains realized on the disposition (or deemed to be realized by reasons of a pledge) of his Company common shares and (ii) certain "excess distributions," as defined in Section 1291(b), by the Company.

A Non-Electing U.S. Holder generally would be required to pro rate all gains realized on the disposition of his Company common shares and all excess distributions on his Company common shares over the entire holding period for the common shares. All gains or excess distributions allocated to prior years of the U.S. Holder (excluding any portion of the holder's period prior to the first day of the first year of the Company (i) which began after December 31, 1986, and (ii) for which the Company was a PFIC) would be taxed at the highest tax rate for each such prior year applicable to ordinary income. The Non-Electing U.S. Holder also would be liable for interest on the foregoing tax liability for each such prior year calculated as if such liability had been due with respect to each such prior year. A Non-Electing U.S. Holder that is not a corporation must treat this interest charge as "personal interest" which, as discussed above, is wholly nondeductible. The balance, if any, of the gain or the excess distribution will be treated as ordinary income in the year of the disposition or distribution, and no interest charge will be incurred with respect to such balance. In certain circumstances, the sum of the tax and the PFIC interest charge may exceed the amount of the excess distribution received, or the amount of proceeds of disposition realized, by the U.S. Holder.

If the Company is a PFIC for any taxable year during which a Non-Electing U.S. Holder holds Company common shares, then the Company will continue to be treated as a PFIC with respect to such Company common shares, even if it is no longer definitionally a PFIC. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules discussed above for Non-Electing U.S. Holders) as if such Company common shares had been sold on the last day of the last taxable year for which it was a PFIC.

Effective for tax years of U.S. Holders beginning after December 31, 1997, U.S. Holders who hold (actually or constructively) marketable stock of a foreign corporation that qualifies as a PFIC may elect to mark such stock to the market annually (a “mark-to-market election”). If such an election is made, such U.S. Holder will generally not be subject to the special taxation rules of Section 1291 discussed above. However, if the mark-to-market election is made by a Non-Electing U.S. Holder after the beginning of the holding period for the PFIC stock, then the Section 1291 rules will apply to certain dispositions of, distributions on and other amounts taxable with respect to the Company common shares. A U.S. Holder who makes the mark-to market election will include in income for each taxable year for which the election is in effect an amount equal to the excess, if any, of the fair market value of the common shares of the Company as of the close of such tax year over such U.S. Holder’s adjusted basis in such common shares. In addition, the U.S. Holder is allowed a deduction for the lesser of (i) the excess, if any, of such U.S. Holder’s adjusted tax basis in the common shares over the fair market value of such shares as of the close of the tax year, or (ii) the excess, if any, of (A) the mark-to-market gains for the common shares in the Company included by such U.S. Holder for prior tax years, including any amount which would have been treated as a mark-to-market gain for any prior tax year but for the Section 1291 rules discussed above with respect to Non-Electing U.S. Holders, over (B) the mark-to-market losses for shares that were allowed as deductions for prior tax years. A U.S. Holder’s adjusted tax basis in the common shares of the Company will be adjusted to reflect the amount included in or deducted from income as a result of a mark-to-market election. A mark-to-market election applies to the taxable year in which the election is made and to each subsequent taxable year, unless the Company common shares cease to be marketable, as specifically defined, or the IRS consents to revocation of the election. Because the IRS has not established procedures for making a mark-to-market election, U.S. Holders should consult their tax advisor regarding the manner of making such an election. No view is expressed regarding whether common shares of the Company are marketable for these purposes or whether the election will be available.

Under Section 1291(f) of the Code, the IRS has issued Proposed Treasury Regulations that, subject to certain exceptions, would treat as taxable certain transfers of PFIC stock by Non-Electing U.S. Holders that are generally not otherwise taxed, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. Generally, in such cases the basis of the Company common shares in the hands of the transferee and the basis of any property received in the exchange for those common shares would be increased by the amount of gain recognized. Under the Proposed Treasury Regulations, an Electing U.S. Holder would not be taxed on certain transfers of PFIC stock, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. The transferee’s basis in this case will depend on the manner of the transfer. In the case of a transfer by an Electing U.S. Holder upon death, for example, the transferee’s basis is generally equal to the fair market value of the Electing U.S. Holder’s common shares as of the date of death under Section 1014 of the Code. The specific tax effect to the U.S. Holder and the transferee may vary based on the manner in which the common shares are transferred. Each U.S. Holder of the Company is urged to consult a tax advisor with respect to how the PFIC rules affect his or its tax situation.

Whether or not a U.S. Holder makes a timely QEF election with respect to common shares of the Company, certain adverse rules may apply in the event that both the Company and any foreign corporation in which the Company directly or indirectly holds shares is a PFIC (a “lower-tier PFIC”). Pursuant to certain Proposed Treasury Regulations, a U.S. Holder would be treated as owning his or its proportionate amount of any lower-tier PFIC shares, and generally would be subject to the PFIC rules with respect to such indirectly-held PFIC shares unless such U.S. Holder makes a timely QEF election with respect thereto. The Company intends to make the necessary information available to U.S. Holders to permit them to make (and maintain) QEF elections with respect to each subsidiary of the Company that is a PFIC.

Under the Proposed Treasury Regulations, a U.S. Holder who does not make a timely QEF election with respect to a lower-tier PFIC generally would be subject to tax (and the PFIC interest charge) on (i) any excess distribution deemed to have been received with respect to his or its lower-tier PFIC shares and (ii) any gain deemed to arise from a so-called “indirect disposition”

of such shares. For this purpose, an indirect disposition of lower-tier PFIC shares would generally include (i) a disposition by the Company (or an intermediate entity) of lower-tier PFIC shares, and (ii) any other transaction resulting in a diminution of the U.S. Holder's proportionate ownership of the lower-tier PFIC, including an issuance of additional common shares by the Company (or an intermediate entity). Accordingly, each prospective U.S. Holder should be aware that he or it could be subject to tax even if such U.S. Holder receives no distributions from the Company and does not dispose of its common shares.

The Company strongly urges each prospective U.S. Holder to consult a tax advisor with respect to the adverse rules applicable, under the Proposed Treasury Regulations, to U.S. Holders of lower-tier PFIC shares.

Certain special, generally adverse, rules will apply with respect to Company common shares while the Company is a PFIC unless the U.S. Holder makes a timely QEF election. For example under Section 1298(b)(6) of the Code, a U.S. Holder who uses PFIC stock as security for a loan (including a margin loan) will, except as may be provided in regulations, be treated as having made a taxable disposition of such shares.

Documents on display

Documents concerning the Company which are referred to in this document may be inspected in our offices at 1407-1050 Burrard Street, B.C. Canada V6Z 2S3 or at the registered office at Suite 200 Financial Plaza, 204 Lambert Street, White Horse, YT, Y1A 3T2, Canada. Copies of the Company's financial statements and other continuous disclosure documents required under the British Columbia Securities Act may be viewed at www.sedar.com and documents referred to in this document are filed with the US Securities Commission and can be viewed on the SEC website at: www.sec.gov.

Subsidiary information

A list of subsidiaries of the Company is identified in Note 2 (b) in the notes to the consolidated financial statements and in Item 4 "Organizational Structure".

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required as the Company is a small business issuer, in accordance with Section 12(b)-2 of the Act.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There has been no material default in any indebtedness, as the Company has no debt.

We have never paid nor declared a dividend, so there are no arrearages.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable

ITEM 15. CONTROLS AND PROCEDURES

As required by Section 302(a) of the Sarbanes-Oxley Act of 2002, the Company's Chief Executive Officer and Chief Financial Officer will be making certifications related to the information in our annual report on Form 20-F. As part of such certification, the Chief Executive Officer and Chief Financial Officer must certify that they are responsible for establishing and maintaining disclosure controls and procedures to ensure that material information with respect to the Company is made known to them and that they have evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to filing the Company's annual report. Disclosure controls and procedures are intended to ensure that information required to be disclosed by the Company in its annual report is recorded, processed, summarized and reported within the time periods required. The Company has adopted or formalized such controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) as of a date within 90 days prior to the filing date of this report, have concluded that, as of such date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the Company.

Changes in Internal Controls

There were no significant changes in our internal controls or in other factors that could significantly affect the our internal controls subsequent to the date of their evaluation, nor do we believe that there are any significant deficiencies or material weaknesses in its internal controls. As a result, no corrective actions were required or undertaken.

ITEM 16. RESERVED

A. Audit committee financial expert

Our Board of Directors has determined that we have one independent audit committee financial expert serving on its audit committee. This financial expert is Mr. Barry MacNeil, who is accredited in Canada as a Certified General Accountant.

B. Code of Ethics

We have adopted a code of ethics that applies to the Chief Executive Officer and the Chief Financial Officer, as well as to all other staff. Our code of ethics is available to review on our website, www.tagoil.com, under the "Investors Section" titled "Code of Conduct".

A copy of our code of ethics is available, free of charge, from the offices of TAG Oil Ltd., at Suite 400, 534 17th Avenue SW, Calgary, Alberta, Canada, T2S 0B1 and this can be requested in writing, addressed to the Company Secretary.

C. Principal Accountants Fees and Services

| PRINCIPAL ACCOUNTANT SERVICE ⁽¹⁾ | FOR THE FISCAL YEAR ENDED MARCH 31, 2004 | FOR THE FISCAL YEAR ENDED MARCH 31, 2003 |
|---|---|---|
| Audit Fees | \$5,000 | \$5,000 |
| Audit Related Services | - | - |
| Tax Fees | \$1,884 | - |
| All Other Fees | - | - |

(1) De Visser Gray has been the Principal Accountant for the two years reported above.

The nature of the services provided by De Visser Gray under each of the categories indicated in the table is described below.

Audit Fees

Audit fees were for professional services rendered by De Visser Gray for the audit of our annual financial statements and services provided in connection with statutory and regulatory filing or engagements.

Audit-Related Fees

Audit-related fees are normally for assurance and related services reasonably related to the performance of the audit or review of the annual statements or bi-annual statements that are not reported under "Audit Fees" above. There were no audit-related fees for the current or previous year.

Tax Fees

Tax fees were for tax compliance, tax advice and tax planning professional services. These services consisted of: tax compliance including the review of tax returns, and tax planning and advisory services relating to common forms of domestic and international taxation (ie: income tax, capital tax, goods and services tax, payroll tax, and value added tax).

All Other Fees

There were no other fees incurred in the period covered in the table above.

Pre-Approval Policies and Procedures

It is within the mandate of the Registrant's Audit Committee to approve all audit and non-audit related fees. The Audit Committee has pre-approved specifically identified non-audit related services, including tax compliance, review of tax returns, documentation of processes and controls as submitted to the Audited Committee from time to time. The Auditors also present the estimate for the annual audit related services to the committee for approval prior to undertaking the annual audit of the financial statements.

PART III

ITEM 17. FINANCIAL STATEMENTS.

Financial Statements begin on page 38.

| INDEX TO FINANCIAL STATEMENTS | PAGE |
|---|-------------|
| Auditors' Report | 40 |
| Consolidated Balance Sheets | 41 |
| Consolidated Statements of Operations and Deficit | 42 |
| Consolidated Statements of Cash Flows | 43 |
| Notes to the Consolidated Financial Statements | 45 |

The financial statements and Report of the independent Auditors are filed as part of the Company's Annual Report.

ITEM 18. FINANCIAL STATEMENTS

Not applicable.

TAG Oil Ltd.
Consolidated Financial Statements
March 31, 2004 and 2003

Auditors' Report

To the Shareholders of TAG Oil Ltd.,

We have audited the consolidated balance sheets of TAG Oil Ltd. as at March 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows, and schedules of general and administrative expenses for each of the years in the three year period ended March 31, 2004. 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 generally accepted auditing standards in Canada and the United States of America. 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 TAG Oil Ltd. as at March 31, 2004 and 2003 and the results of its operations and cash flows for each of the years in the three year period ended March 31, 2004 in accordance with generally accepted accounting principles in Canada and the United States of America.



DeVisser Gray

Chartered Accountants

Vancouver, British Columbia

Canada

June 10, 2004

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by significant uncertainties and contingencies such as those referred to in note 1 to these financial statements. Although we conducted our audits in accordance with both Canadian and U.S. generally accepted auditing standards, our report to the shareholders dated June 10, 2004 is expressed in accordance with Canadian reporting standards which do not require a reference to such matters when the uncertainties are adequately disclosed in the financial statements.



DeVisser Gray

Chartered Accountants

Vancouver, British Columbia

Canada

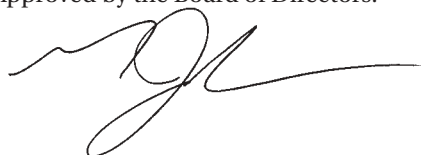
June 10, 2004

Consolidated Balance Sheets

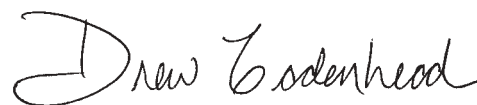
(Expressed in Canadian Dollars)

| As at March 31, | 2004 | 2003 |
|---|---------------------|---------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 876,466 | \$ 1,111,267 |
| Amounts receivable..... | 8,850 | 81,867 |
| Marketable securities (Note 3) | 3,300 | 3,300 |
| Prepaid expenses..... | 31,845 | 48,795 |
| | 920,461 | 1,245,229 |
| Oil and gas properties (Note 4) | 645,209 | 521,041 |
| Property and equipment (Note 5) | 17,470 | 400,583 |
| Total Assets | \$ 1,583,140 | \$ 2,166,853 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 14,293 | \$ 27,553 |
| Due to related parties (Note 8) | 9,960 | 81,592 |
| Total liabilities | 24,253 | 109,145 |
| Shareholders' Equity | | |
| Common stock without par value | | |
| Unlimited number of shares authorized; | | |
| Issued and outstanding at March 31, 2004: | | |
| 7,978,061; March 31, 2003: 6,278,061 (Note 6a)..... | 10,623,289 | 10,474,139 |
| Contributed surplus (Note 6b) | 400,636 | 110,606 |
| Deficit | (9,465,038) | (8,527,037) |
| Total Shareholders' Equity | 1,558,887 | 2,057,708 |
| Total Liabilities and Shareholders' Equity | \$ 1,583,140 | \$ 2,166,853 |

Approved by the Board of Directors:



Garth Johnson, Director



Drew Cadenhead, Director

Consolidated Statements of Operations and Deficit

(Expressed in Canadian Dollars)

| For the Years Ended March 31, | 2004 | 2003 | 2002 |
|--|----------------|----------------|----------------|
| Expenses | | | |
| General and administrative (Schedule) | \$ 976,993 | \$ 827,989 | \$ 211,827 |
| Loss before other items | (976,993) | (827,989) | (211,827) |
| Other Items | | | |
| Interest income | 15,737 | 43,470 | 83,691 |
| Rental income | – | 23,000 | 4,000 |
| Gain on sale of marketable securities | – | 3,656 | – |
| Gain on sale of property and equipment | 23,256 | – | – |
| Write-down of marketable securities | – | – | (7,000) |
| Write-off of capital assets | – | (6,216) | – |
| Write-down of oil and gas properties | (1) | (454,150) | – |
| Recovery of costs | – | 222,976 | – |
| Net loss for the year | (938,001) | (995,253) | (131,136) |
| Deficit – Beginning of year | (8,527,037) | (7,531,784) | (7,400,648) |
| Deficit – End of year | \$ (9,465,038) | \$ (8,527,037) | \$ (7,531,784) |
| Loss per share (Note 7) | \$ (0.13) | \$ (0.16) | \$ (0.03) |
| Weighted average number of shares outstanding | 7,490,116 | 6,122,445 | 5,154,773 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| For the Years Ended March 31, | 2004 | 2003 | 2002 |
|--|-------------------|---------------------|---------------------|
| Operating Activities | | | |
| Net loss for the year | \$ (938,001) | \$ (995,253) | \$ (131,136) |
| Adjustments for net changes in non-cash working capital accounts: | | | |
| Amounts receivable | 73,017 | (77,420) | 18,206 |
| Due to/from related parties | (71,632) | 70,577 | (20,623) |
| Prepaid expenses..... | 16,950 | (46,466) | - |
| Accounts payable and accrued liabilities | (13,260) | (16,081) | 27,192 |
| Adjustments for non-cash operating items: | | | |
| Amortization | 5,496 | 14,532 | 8,923 |
| Stock Option Compensation | 290,030 | 110,606 | - |
| Write-down of oil and gas properties | - | 454,150 | - |
| Write-down of marketable securities | - | - | 7,000 |
| Write-off of capital assets | - | 6,216 | - |
| Write-off of oil and gas property | 1 | - | - |
| Recovery of costs..... | - | (222,976) | - |
| Gain on sale of marketable securities | - | (3,656) | - |
| Gain on sale of property and equipment | (23,256) | - | - |
| Net cash used in operating activities | (660,655) | (705,771) | (90,438) |
| Financing Activities | | | |
| Common shares issued for cash | 149,150 | 124,608 | 915,420 |
| Net cash provided by financing activities..... | 149,150 | 124,608 | 915,420 |
| Investing Activities | | | |
| Exploration of oil and gas properties | (124,169) | (517,379) | 13,822 |
| Proceeds from sale of property and equipment | 404,141 | - | - |
| Purchase of property and equipment..... | (3,268) | (7,490) | (391,591) |
| Proceeds from sale of marketable securities | - | 5,856 | - |
| Net cash provided by (used in) investing activities | 276,704 | (519,013) | (377,769) |
| Net (decrease) increase in cash during the year | (234,801) | (1,100,176) | 447,213 |
| Cash position – Beginning of year | 1,111,267 | 2,211,443 | 1,764,230 |
| Cash position – End of year | \$ 876,466 | \$ 1,111,267 | \$ 2,211,443 |

See accompanying notes to the consolidated financial statements

Consolidated Schedules of General and Administrative Expenses

(Expressed in Canadian Dollars)

| For the Years Ended March 31, | 2004 | 2003 | 2002 |
|---|-------------------|-------------------|-------------------|
| General and Administrative Expenses | | | |
| Accounting and audit | \$ 6,020 | \$ 10,947 | \$ 13,097 |
| Amortization | 5,496 | 14,532 | 8,923 |
| Consulting fees, inclusive of stock-based compensation (Note 6b) | 116,816 | 207,801 | 33,062 |
| Corporate relations and development | 21,476 | 37,953 | 17,329 |
| Corporate capital tax | 2,525 | – | – |
| Directors fees, inclusive of stock-based compensation | 370,086 | 87,175 | – |
| Filing and transfer agency fees | 22,482 | 21,960 | 15,071 |
| Foreign exchange loss (gain) | 30,787 | 80,463 | (39,129) |
| Property report | 25,000 | – | – |
| General exploration | 6,966 | 2,132 | 4,888 |
| Investor relations | 29,022 | 62,250 | – |
| Legal | 15,011 | 23,576 | 45,620 |
| Office and miscellaneous | 38,803 | 46,022 | 14,987 |
| Printing | 16,318 | 26,051 | 9,747 |
| Property taxes | – | 3,447 | – |
| Rent | 30,032 | 26,169 | 18,643 |
| Telephone | 18,841 | 16,558 | 9,684 |
| Travel | 53,299 | 55,768 | 1,954 |
| Wages and benefits | 105,745 | 85,172 | 57,951 |
| Website development | 62,268 | 20,013 | – |
| | <u>\$ 976,993</u> | <u>\$ 827,989</u> | <u>\$ 211,827</u> |

See accompanying notes to the consolidated financial statements

NOTE 1 – NATURE OF OPERATIONS

The Company was incorporated under the Company Act (British Columbia) and continued its jurisdiction of incorporation to the Yukon Territory under the Business Corporations Act (Yukon). Its major activity is the acquisition and exploration of international oil and gas properties.

The recoverability of amounts shown for oil and gas properties is dependent upon the discovery of economically recoverable reserves. The Company does not generate sufficient cash flow from operations to adequately fund its exploration activities and has therefore relied principally upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. Accordingly, the Company's consolidated financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable values of its assets may decline materially from current estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting Principles and Use of Estimates

These financial statements are prepared in conformity with Canadian generally accepted accounting principles, which require the Company's management to make informed judgements 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 and the accrual for future site reclamation costs. Actual results could differ from these estimates.

Material differences between Canadian and United States generally accepted accounting principles, which affect the Company, are described in note 12.

b) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Durum Energy (New Zealand) Limited, Durum (Australia) Pty. Ltd. and Durum Energy (PNG) 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 prevent 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.

During the 2004 fiscal year, the Company deregistered its inactive subsidiary Durum (Australia) Pty. Ltd. and has initiated the deregistration of its inactive subsidiary Durum Energy (PNG) Limited.

c) Joint Operations

Substantially all of the Company's activities relate to the 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.

d) 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.

e) Fair Value of Financial Instruments

The Company's financial instruments consist of current assets and current liabilities. The fair values of the current assets and liabilities approximate the carrying amounts due to the short-term nature of these instruments.

f) Revenue Recognition

Revenues are recognized upon the sale and delivery of the Company's oil and gas production.

g) Cash and Cash Equivalents

Cash and cash equivalents include term investments with maturities of one year or less, together with accrued interest thereon, which are readily convertible to known amounts of cash.

h) Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition of, exploration for and development of oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on proved reserves, before royalties, as determined by management of the Company or independent consultants. Sales or dispositions of oil and gas properties are credited to the respective cost centers and a gain or loss is recognized when all costs in a particular cost center have been recovered, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of oil and gas attributable to the cost center. Costs of abandoned oil and gas properties are accounted for as adjustments to capitalized costs and written off to expense.

A ceiling and impairment test is applied to each cost center and to the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of proved reserves without discount, plus the costs of unproved properties net of impairment. Any excess capitalized costs are written off to expense. Further, the ceiling or impairment test for the aggregate of all cost centers is required to include the effects of future removal and site restoration costs, general and administrative expenses, financing costs and income taxes.

The estimation of future net revenues is based upon prices, costs and regulations in effect at each year end.

Unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience.

In general, the Company may write-off any unproved property under one or more of the following conditions:

- i) there are no firm plans for further drilling on the unproved property;
- ii) negative results were obtained from studies of the unproved property;
- iii) negative results were obtained from studies conducted in the vicinity of the unproved property; or
- iv) the remaining term of the unproved property does not allow sufficient time for further studies or drilling.

i) Property and Equipment

Property and equipment are recorded at cost and amortized over their estimated useful lives on a declining-balance basis as follows:

Building, furniture and office equipment – 4%, 20% and 30%

Leasehold improvements are amortized on a straight-line basis over five years. For each fiscal year in which property and equipment are acquired, management deems each acquisition to occur midway through the fiscal year and, accordingly, the amortization recorded in respect to such assets is restricted to one-half of the amount calculated based on year end balances. Amortization is not recorded in the year of disposal.

j) 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.

The Company's accounting policy for future income taxes currently has no effect on the financial statements of any of the fiscal years presented.

k) Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the lower of the trading price of the Company's shares on the OTC Bulletin Board on the date of the agreement to issue shares and the date of share issuance.

I) Stock Based Compensation

The Company follows the Recommendations of the Canadian Institute of Chartered Accountants in connection with accounting for stock option based compensation. These standards were first applied on a prospective basis to all awards granted on or after January 1, 2002, and established standards for the recognition, measurement and disclosure of stock option-based compensation and other stock based payments made in exchange for goods and services. As amended during the current year, and as applied by the Company to both the current year and comparative years, the standard now requires that all stock option based awards made to consultants and employees be recognized in these consolidated financial statements and measured using a fair value based method.

Refer to Note 6b

NOTE 3 – MARKETABLE SECURITIES

Marketable securities are recorded at the lower of cost and fair market value. Marketable securities consist of 6,000 shares (March 31, 2003: 6,000 shares) of Tenke Mining Corp. (“Tenke”) at a book value of \$3,300 (March 31, 2003: \$3,300). At March 31, 2004, the market value of these shares was \$20,100 (March 31, 2003: \$6,900).

NOTE 4 – OIL AND GAS PROPERTIES

| | NET BOOK VALUE AT MARCH 31, 2003 | ADDITIONS DURING THE PERIOD | WRITE-OFF OF OIL AND GAS PROPERTIES | NET BOOK VALUE AT MARCH 31, 2004 |
|-----------------------------|--|-----------------------------------|---|--|
| Unproved: | | | | |
| New Zealand: | | | | |
| PEP 38256 | \$ 76,695 | \$ 40,556 | \$ – | \$ 117,251 |
| PEP 38258 | – | 19,696 | – | 19,696 |
| PEP 38741 | 366,201 | 28,777 | – | 394,978 |
| PPP 38480 | 45,042 | 22,184 | – | 67,226 |
| PEP 38765 | 33,102 | 12,956 | – | 46,058 |
| Papua New Guinea | | | | |
| PPL 192 | 1 | – | (1) | – |
| Total Unproved | \$ 521,041 | \$ 124,169 | \$ (1) | \$ 645,209 |

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 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.

a) New Zealand–PEP 38256 (40.38%); Onshore Canterbury

The Company, by way of a farm-in agreement dated November 10, 2000, acquired a 20% participating interest in the North Area of Petroleum Exploration Permit 38256 (“PEP 38256”) from AMG Oil Ltd. (“AMG”) in consideration for funding 40% of all costs of drilling the Arcadia-1 exploration well and paying for 20% of all past costs relating to the permit. During the 2002 fiscal year, the joint venture agreement in respect to PEP 38256 was amended to apply to the whole permit of PEP 38256, with the Company’s interest altered to 10% of this larger area and then it was further amended during the 2004 fiscal year when, the Company gave notice to the operator of PEP 38256, to increase its interest in PEP 38256 to 40.38%, as a result of AMG Oil Ltd. withdrawing from the permit. The other participant interests’ are now Austral Pacific Energy (NZ) Ltd. (“Austral”) (34.62%) (formerly “Indo-Pacific Energy (NZ) Ltd.”, and a company related by directors-in-common) and Magellan Petroleum (NZ) Ltd. (25%).

At March 31, 2004, PEP 38256 is in good standing with respect to its work commitments and the Company is required to incur exploration expenditures, which include a 2-D seismic program, of approximately \$224,000 during its 2005 fiscal year to maintain this status.

b) New Zealand–PEP 38258 (25%); Offshore Canterbury

On August 18, 2003, the Company (25%) and Austral (75%), the Operator, were awarded a new exploration permit, “PEP 38258”, located in the offshore Canterbury Basin. Within 24 months the participants must undertake a determination of a hydrocarbon charge model, complete remapping of stratigraphic and structural traps along the western flank of the Clipper sub-basin, compile a ranking of risked prospects and leads and either commit to the second phase of the work program or surrender the permit. These expenditures are expected to cost approximately \$35,000 during the 2005 fiscal year.

c) New Zealand–PEP 38741 (20%); Onshore Taranaki Basin

The Company, by a farm-in agreement with an effective date in August 2002, acquired a 20% participating interest in Permit 38741 (“PEP 38741”) located onshore in the Taranaki Basin, North Island from Austral for NZ\$479,195. The farm-in costs of NZ\$479,195 included the Company’s share of planning, acquiring and processing the 3D seismic program over the permit, up to a ceiling amount, with any cost overruns to be paid pro-rata by each participant in line with their interest share. The ceiling amount was reached during the 2004 fiscal year and accordingly the Company now pays its pro-rata portion of all expenditures relating to the permit. The other participants in PEP 38741 are TAP (New Zealand) Pty. Ltd. (50%) and Austral (30%).

At March 31, 2004, PEP 38741 is in good standing with respect to its work commitments and the Company is required to incur exploration expenditures, consisting of permit administration, geology and geophysics and costs relating to well site preparation and drilling (inclusive of the cost of drilling the Honeysuckle-1 well in June 2004) totaling approximately \$225,000 during its 2005 fiscal year.

d) New Zealand–PEP 38480 (25%); Offshore Taranaki Basin

The Company, by a purchase agreement with an effective date in August 2002, acquired a 25% participating interest in Permit 38480 (“PEP 38480”), located offshore in the Taranaki Basin, North Island from Austral (75%) by agreeing to pay 25% of past costs of acquisition totaling \$19,010 (NZ\$25,000).

At March 31, 2004, PEP 38480 is in good standing with respect to its work commitments and the Company is required to incur exploration expenditures, consisting largely of permit administration and geology and geophysics, of approximately \$25,000 during its 2005 fiscal year to maintain this status.

e) New Zealand–PEP 38765 (formerly “PPP 38761”) (10%); Onshore Taranaki Basin

During the Company’s 2004 fiscal year, PPP 38761 expired according to the terms associated with the granting of this permit in February of 2003. The term was set as the earlier of one year after grant or the closing bids for acreage, which includes the area covered by this permit. Such bids were invited and the closing date for the bids was October 31, 2003, so PPP 38761 expired on that date. However the Company and the other joint venture partners successfully bid for this acreage described as “Block M” and were awarded the Permit, PEP 38765, in February of 2004.

The participant interests’ are Austral Pacific Energy (NZ) Ltd. (27.50%), Tap (New Zealand) Pty. Ltd. (50%), Magellan Petroleum (NZ) Ltd. (12.50%) and TAG Oil Ltd. (10%).

At March 31, 2004, PEP 38765 is in good standing with respect to its work commitments and the Company is required to incur exploration expenditures, consisting of permit administration, geology and geophysics and drilling the Miro-Miro-1 well totaling approximately \$145,000 during its 2005 fiscal year to maintain this status.

f) Papua New Guinea–PPL 192 (and APPL 235) (10%)

The Company gave notice to the Operator of APPL 235, in which it has a 10% interest, that it does not wish to further participate in the permit. As a result the Company has written-off this property. The Company does not expect to incur any further costs associated with this permit.

g) Canada – Alberta

During the current fiscal year the Company paid \$6,966 for lease rentals and maintenance costs in relation to oil and gas interests previously written-off. Accordingly, these costs were expensed as incurred.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

| | 2004 | | | | 2003 |
|-------------------------------------|-------------------|--------------------------|---------------------|------------------|----------------|
| | COST | ACCUMULATED AMORTIZATION | DISPOSAL OF ASSET | NET BOOK VALUE | NET BOOK VALUE |
| Office unit | \$ 228,121 | \$ (10,706) | \$ (217,415) | \$ – | \$ 217,415 |
| Furniture and office equipment..... | 104,701 | (87,231) | – | 17,470 | 12,208 |
| Land | 170,960 | – | (170,960) | – | 170,960 |
| | <u>\$ 503,782</u> | <u>\$ (97,937)</u> | <u>\$ (388,375)</u> | <u>\$ 17,470</u> | <u>400,583</u> |

On August 20, 2003 the Company sold its commercial office unit, including land, for gross proceeds of \$420,000. The Company received \$404,141, net of all costs, resulting in a gain on disposition of \$23,256.

NOTE 6 – 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.

| | NUMBER OF SHARES | AMOUNT |
|---|---------------------|----------------------|
| Issued and fully paid: | | |
| Balance at March 31, 2002 | 5,878,061 | \$ 10,349,531 |
| Private placement | 400,000 | 124,608 |
| Balance at March 31, 2003 | 6,278,061 | 10,474,139 |
| Private placement | 1,400,000 | 9,710 |
| Exercised share purchase warrants | 300,000 | 139,440 |
| Balance at March 31, 2004 | <u>7,978,061</u> | <u>\$ 10,623,289</u> |

During the 2004 fiscal year, the Company issued 1,400,000 restricted common shares to its President for consideration of US\$0.005 per share, pursuant to a Consulting, Incentive Shares and Non-Competition Agreement approved by the Board of Directors.

The Company also issued 300,000 common shares from treasury upon the exercise of certain share purchase warrants at a price of US\$0.35 per share.

During the 2003 fiscal year, the Company completed a private placement of 400,000 units at a price of US\$0.20 per unit. Each unit consists of one common share and one two-year share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of US\$0.35 until August 21, 2005 and US\$0.50 until August 21, 2006. The resale of the common shares under this private placement will be subject to a one-year hold period in accordance with applicable law.

Refer to Note 11

b) Share Purchase Warrants and Incentive Stock Options

At March 31, 2004, the following share purchase warrants are outstanding:

| NUMBER OF SHARES | PRICE PER SHARE | EXPIRY DATE |
|---------------------|--------------------|------------------|
| 3,700,000 | US \$ 0.35 | June 6, 2005/ |
| | US \$ 0.50 | June 6, 2006 |
| 400,000 | US \$ 0.35 | August 21, 2005/ |
| | US \$ 0.50 | August 21, 2006 |
| <u>4,100,000</u> | | |

During the 2004 fiscal year, the board of directors of the Company approved an extension to the 4,100,000 existing warrants to purchase common shares of the Company, entitling subscribers to purchase 3,700,000 common shares at a price of US\$0.35 until June 6, 2005 and US\$0.50 per share until expiry on June 6, 2006, and 400,000 common shares at a price of US\$0.35 per share until August 21, 2005 and US\$0.50 per share until expiry on August 21, 2006.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the Years Ended March 31, 2004 and 2003

At March 31, 2004, the following stock options are outstanding:

| NUMBER OF SHARES | PRICE PER SHARE | EXPIRY DATE |
|-----------------------------|----------------------------|------------------------|
| 250,000 | US \$ 0.40 | March 7, 2005 |
| 200,000 | US \$ 0.40 | March 31, 2007 |
| 310,000 | US \$ 0.40 | May 31, 2008 |
| <u>760,000</u> | | |

During the 2004 fiscal year, the Company granted options to purchase 200,000 common shares vesting over four years and 310,000 common share of the Company vesting over five years, exercisable at a price of US\$0.40 until expiry on May 31, 2007 and May 31, 2008, respectively.

During the 2003 fiscal year the Company granted 250,000 fully-vested options to purchase common shares of the Company, exercisable at the price of US\$0.40 per share until expiry on March 7, 2005.

The Company applied the Black-Scholes option pricing model using the closing price of US\$0.69 (2003: US\$0.63) on the grant date, a volatility ratio of 42% and the risk free interest rate of 3.5% to calculate an option benefit at the date of grant of \$290,030 (2003: \$110,606).

Refer to Note 8d

NOTE 7 – 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.

NOTE 8 – 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 non-arms length parties for the same services. The following are related party transactions not disclosed elsewhere in these financial statements.

a) Due to Related Parties

At March 31, 2004, the Company owed \$9,960 (March 31, 2003 - \$81,592) to public companies with directors, officers and principal shareholders in common.

b) Consulting Agreement, Wages and Legal Services

During the 2004 fiscal year, the Company paid \$255,205 (2003 fiscal year - \$121,828) in wages and consulting fees to three (2003: two) directors.

On April 24, 2003, the Company entered into an agreement with Rimu Resources Ltd. (“Rimu”), a private company wholly-owned by its President, to retain Rimu to provide oil and gas exploration executive services to the Company. The agreement is for a one-year period, extendable if agreed by both parties, with annual compensation of \$148,000 plus a \$12,000 signing bonus. In addition, the agreement included an entitlement for the President to purchase 1,400,000 restricted common shares of the Company from treasury at a price of US\$0.005 per share.

Refer to Note 11

c) Oil and Gas Property

Austral Pacific Energy Ltd., and AMG Oil Ltd. have directors, officers and principal shareholders in common with the Company.

Refer to Note 4

d) Stock Options

During the 2004 fiscal year, the Company granted four directors an aggregate of 310,000 options to purchase common shares.

e) Other

During the 2004 fiscal year, the Company incurred \$127,887 (2003 fiscal year - \$130,162) of largely general and administrative costs through DLJ Management Corp. ("DLJ"), a wholly-owned subsidiary of Trans-Orient Petroleum Ltd. ("Trans-Orient"), which is a public company related by directors-in-common. This amount represents actual costs incurred by DLJ on behalf of the Company. At March 31, 2004 the Company owed DLJ \$9,960.

NOTE 9 – INCOME TAXES

There are no income taxes payable for the 2004 and 2003 fiscal years. At March 31, 2004, the Company has approximately \$4.1 million of resource and other unused tax pools to offset future taxable income earned in Canada. Additionally, at March 31, 2004 the Company has non-capital losses of \$2,399,430 (March 31, 2003 - \$1,076,659) available for future deduction from taxable income earned in Canada, which expire as follows:

| | | |
|------|----|------------------|
| 2007 | \$ | 139,371 |
| 2008 | | 99,137 |
| 2009 | | 486,839 |
| 2010 | | <u>1,674,083</u> |
| | \$ | <u>2,399,430</u> |

At March 31, 2004, the Company also has losses and deductions of approximately NZ\$2,137,672 (March 31, 2003 - NZ\$1,978,126) available to offset future taxable income earned in New Zealand.

The potential future benefit associated with these excess resource tax pools and non-capital loss carry-forwards has not been recognized in these financial statements, as it cannot be considered likely that these amounts will be utilized to reduce future taxable income.

NOTE 10 – COMPARATIVE FIGURES

Certain of the prior years' comparative figures have been reclassified in conformity with the current year's financial statement presentation.

NOTE 11 – SUBSEQUENT EVENTS

During the period subsequent to March 31, 2004 the following occurred:

a) Consulting, Incentive Share and Non-Competition Agreement

The Company extended the agreement with Rimu Resources Ltd. (“Rimu”), a private company wholly-owned by its President, to retain Rimu to provide oil and gas exploration executive services. The extension is for a one-year period, further extendable for another year if agreed by both parties, with annual compensation set at \$160,000.

b) Forward Stock Split

The Company’s shareholders approved, and the Company implemented, a forward stock split on the basis of one and one half post split shares for every one pre-split share. The record date of this forward split was April 27, 2004. As a result of the forward split the Company’s issued and outstanding common shares increased from 7,978,061 at March 31, 2004 to 11,967,086.

c) Private Placement

The Company completed a private placement financing consisting of 542,495 post-split units at a price of US\$1.67 per unit. Each unit consists of one common share and a two year share purchase warrant, with each warrant entitling the purchaser to acquire an additional common share for US\$ 1.83 for the first year and thereafter at a price of US\$2.00 up to the end of year two.

NOTE 12 – DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) which conform in all material respects with United States generally accepted accounting principles (“U.S. GAAP”), except for the following differences:

CONSOLIDATED BALANCE SHEETS

a) Assets

i) Marketable Securities

Under Canadian GAAP, marketable equity securities are valued at the lower of cost or market value. Under U.S. GAAP, the Company’s marketable equity securities are classified as available-for-sale securities and reported at market value, with unrealized gains and losses included as a component of comprehensive income.

| | MARCH 31, 2004 | MARCH 31, 2003 |
|---|---------------------------|---------------------------|
| Marketable securities under Canadian GAAP | \$ 3,300 | \$ 3,300 |
| Adjustment required under U.S. GAAP | 13,200 | 3,600 |
| Cumulative historical adjustments | 3,600 | – |
| Marketable securities under U.S. GAAP | <u>\$ 20,100</u> | <u>\$ 6,900</u> |

As a result, total current assets under U.S. GAAP as at March 31, 2004 and 2003 would be \$937,261 and \$1,227,455 respectively.

ii) Oil and Gas Property

Under U.S. GAAP, the ceiling test under the full cost method is performed for each cost center by comparing the net capitalized costs to the present value of the estimated future net revenues from production of proved reserves discounted by 10%, net of the effects of future costs to develop and produce the proved reserves, plus the costs of unproved properties net of impairment, and less the effects of income taxes. Any excess capitalized costs are written off to expense. The ceiling test under U.S. GAAP has been limited to those periods in which U.S. GAAP balances have been provided.

Under U.S. GAAP, the functional currency for each of the Company's foreign subsidiaries is the local currency of each subsidiary. Accordingly, the current rate method of foreign currency translation is required to be used for conversion into Canadian dollars. All assets and liabilities are translated into Canadian dollars at the rates prevailing on the balance sheet date. Stockholders' equity accounts are translated into Canadian dollars at the rates prevailing on the transaction dates, with revenues and expenses translated into Canadian dollars at the average rate for the year.

Translation adjustments resulting from foreign currency translations are recorded as a separate component of the stockholders' equity section on the balance sheet.

| | MARCH 31, 2004 | MARCH 31, 2003 |
|--|---------------------------|---------------------------|
| Oil and gas properties under Canadian GAAP | \$ 645,209 | \$ 521,041 |
| Foreign currency translation adjustment | 46,356 | 60,991 |
| Cumulative historical adjustments | 46,660 | (14,331) |
| Oil and gas properties under U.S. GAAP | \$ 738,225 | \$ 567,701 |

As a result of the adjustments, total assets under U.S. GAAP as at March 31, 2004 and 2003 would be \$1,676,156 and \$2,213,513, respectively.

b) Stockholders' Equity

i) Common Stock

During the comparative year, the Company elected, under Canadian GAAP, to begin recording the cost of stock options granted to employees and consultants utilizing a fair value measurement basis, a policy that is materially consistent with U.S. GAAP for stock-based compensation as described in Statement of Accounting Standards 123 ("SFAS 123"). However, in previous fiscal years, prior to the adoption of the fair value measurement standard under Canadian GAAP, the Company was subject to the minimum disclosure standards of SFAS 123 under U.S. GAAP, which required it to report, on a pro-forma basis, the effect of following a fair value based method of measuring the value of stock options granted using the Black Scholes, or similar, option pricing model.

In accordance with the mandatory disclosure standard, the following are the pro-forma figures for common stock had the Company used a fair value-based method of accounting for stock based compensation as described in SFAS 123:

| | MARCH 31, 2004 | MARCH 31, 2003 |
|---|---------------------------|---------------------------|
| Common stock under Canadian GAAP | \$ 11,023,925 | \$ 10,584,745 |
| Cumulative historical adjustments | 3,042,858 | 3,042,858 |
| Common stock under U.S. GAAP | \$ 14,066,783 | \$ 13,627,603 |

ii) Foreign Currency Translation Adjustment

The effects of Note 12(a)(ii) on foreign currency translation adjustment are as follows:

| | MARCH 31, 2004 | MARCH 31, 2003 |
|---|---------------------------|---------------------------|
| Foreign currency translation adjustment under canadian GAAP | \$ - | \$ - |
| Foreign currency translation adjustment | 46,356 | 60,991 |
| Cumulative historical adjustments | 46,660 | (14,331) |
| Foreign currency translation adjustment under U.S. GAAP | <u>\$ 93,016</u> | <u>\$ 46,660</u> |

iii) Accumulated Deficit

The effects of Note 12(b)(i) on accumulated deficit are as follows:

| | MARCH 31, 2004 | MARCH 31, 2003 |
|---|---------------------------|---------------------------|
| Deficit under Canadian GAAP | \$ (9,465,038) | \$ (8,527,037) |
| Net loss under U.S. GAAP | (924,801) | (991,653) |
| Deduct net loss under Canadian GAAP | 938,001 | 995,253 |
| Cumulative historical adjustments | (3,042,858) | (3,042,858) |
| Accumulated deficit under U.S. GAAP | <u>\$ (12,494,696)</u> | <u>\$ (11,566,295)</u> |

iv) Accumulated Other Comprehensive Income

The effects of Note 12(a) on accumulated other comprehensive income are as follows:

| | MARCH 31, 2004 | MARCH 31, 2003 |
|--|---------------------------|---------------------------|
| Accumulated other comprehensive income under Canadian GAAP | \$ - | \$ - |
| Unrealized gain (loss) on marketable securities | 13,200 | 3,600 |
| Cumulative historical adjustments | 3,600 | - |
| Accumulated other comprehensive income under U.S. GAAP | <u>\$ 16,800</u> | <u>\$ 3,600</u> |

As a result of these adjustments, total stockholders' equity under U.S. GAAP as at March 31, 2004 and 2003 would be \$1,651,903 and \$2,104,368, respectively.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

c) Net Loss and and Comprehensive Income for the Year

The following are the effects of Note 12(a) and (b) on net loss for the 2004, 2003, and 2002 fiscal years:

| | 2004 | 2003 | 2002 |
|---|---------------------|---------------------|---------------------|
| Net loss for the year under Canadian GAAP | \$ (938,001) | \$ (995,253) | \$ (131,136) |
| Net loss for the year under U.S. GAAP | (938,001) | (995,253) | (131,136) |
| Other comprehensive income: | | | |
| Realized gain on marketable securities | - | - | - |
| Unrealized gain on marketable securities | 13,200 | 3,600 | (17,500) |
| Comprehensive loss for the year under U.S. GAAP | <u>\$ (924,801)</u> | <u>\$ (991,653)</u> | <u>\$ (148,636)</u> |

d) Loss per Share

Under Canadian GAAP, shares held in escrow are included in the calculation of loss per share. Under U.S. GAAP, shares held in escrow are excluded from the weighted-average number of shares outstanding until such shares are released for trading. Additionally, Statement of Financial Accounting Standards No. 128: Earnings per Share (“SFAS 128”) replaces the presentation of primary earnings per share (“EPS”) with a presentation of both basic and diluted EPS for all entities with complex capital structures including a reconciliation of each numerator and denominator. Basic EPS excludes dilutive securities and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if dilutive securities were converted into common stock and is computed similarly to fully-diluted EPS pursuant to previous accounting pronouncements. SFAS 128 applies equally to loss per share presentations.

The following is a reconciliation of the numerators and denominators of the basic and diluted loss per share calculations:

| | 2004 | 2003 | 2002 |
|--|--------------|--------------|--------------|
| Numerator, net loss for the year under U.S. GAAP | \$ (924,801) | \$ (991,653) | \$ (148,636) |
| Denominator: | | | |
| Weighted-average number of shares under Canadian GAAP | 7,490,116 | 6,122,445 | 5,154,773 |
| Adjustment required under U.S. GAAP | - | - | - |
| Weighted-average number of shares under U.S. GAAP..... | 7,490,116 | 6,122,445 | 5,154,773 |
| Basic and diluted loss per share under U.S. GAAP | \$ (0.12) | \$ (0.16) | \$ (0.03) |

CONSOLIDATED STATEMENTS OF CASH FLOWS

e) Operating Activities

The derivation of this financial statement line item under U.S. GAAP is summarized as follows:

| | 2004 | 2003 | 2002 |
|--|--------------|--------------|--------------|
| Net loss for the year under U.S. GAAP | \$ (924,801) | \$ (991,653) | \$ (148,636) |
| Write down of oil and gas properties under Canadian GAAP | - | 454,150 | - |
| Other components of operating activities which are similar under Canadian and U.S. GAAP | 264,146 | (168,268) | 58,198 |
| Net cash used in operating activities | \$ (660,665) | \$ (705,771) | \$ (90,438) |

ITEM 19. EXHIBITS

The following Exhibits are incorporated by reference:

| EXHIBIT REFERENCE | EXHIBIT DESCRIPTION |
|--------------------------|---|
| 1 | Articles of Association and Bylaws ⁽¹⁾ |
| 4.1 | Subscription Agreement with Alex Guidi for 2,500,000 units dated June 5, 2001 ⁽²⁾ |
| 4.2 | Subscription Agreement with Hampton Financial Partners Inc. for 400,000 units dated August 21, 2002 ⁽³⁾ |
| 4.3 | Executive Contract with Alan Hart dated July 19, 2002 ⁽³⁾ |
| 4.4 | Investor Relations Service Agreement with 573634 B.C. Ltd. DBA Republic Communications dated July 15, 2002 ⁽³⁾ |
| 4.5 | Change of Permit Terms for PEP 38256 ⁽³⁾ |
| 4.6 | Consulting, Incentive Shares and Non-Competition Agreement ⁽⁴⁾ |
| 4.7 | Form of Stock Option Agreement for Canadian Consultants ⁽⁵⁾ |
| 4.8 | Form of Stock Option Agreement for US Consultants ⁽⁶⁾ |
| 4.9 | Form of Stock Option Agreement for all vesting options to named directors ⁽⁶⁾ |
| 4.10 | Form of Farm-in Agreement for PEP 38741 ⁽⁷⁾ |
| 4.11 | Deed of Variance of Farm-in Agreement for PEP 38741 ⁽⁷⁾ |
| 4.12 | Form of Sale Agreement for PEP 38480 ⁽⁷⁾ |
| 4.13 | Form of farm-out agreement for PEP 38723 ⁽⁷⁾ |
| 4.14 | Form of Subscription Agreement for private placement dated April 20, 2004 |
| 4.15 | Form of Stock Option Plan |
| 8.0 | List of Wholly-Owned Subsidiaries of TAG Oil Ltd. |
| 16.1 | Code of Ethics ⁽⁸⁾ |
| 31.1 | Section 302(a) Certification of CEO |
| 31.2 | Section 302(a) Certification of CFO |
| 32 | Section 906 Certifications |

(1) Herein incorporated references previously filed with our Form 20-F dated March 31, 2000 filed September 29, 2000.

(2) Herein incorporated references previously filed with our Form 20-F dated March 31, 2001 filed September 26, 2001

(3) Herein incorporated references previously filed with our Form 20-F dated March 31, 2002 filed September 27, 2002.

(4) Herein incorporated references previously filed with our Form 6-k filed on May 7, 2003.

(5) Herein incorporated references previously filed with our Form 6-k filed on March 14, 2003.

(6) Herein incorporated references previously filed with our Form 6-k on June 11, 2003.

(7) Herein incorporated references previously filed with our Form 20-F dated March 31, 2003 filed July 30, 2004.

(8) Available on the Company's website at www.tagoil.com

EXHIBIT 4.14**SUBSCRIPTION AGREEMENT**

TO: TAG OIL LIMITED
(herein generally, the "Issuer")
Suite 400 – 534 17th Avenue S.W.
Calgary, AB T2S 0B1
Phone: (403) 770-1934 Fax: (604) 770-1935

FROM:

(Investor Name)

RE: Purchase of Units of the Issuer (comprising post-share split (1.5:1) Shares and Warrants) to purchase post-split Shares at US\$1.67 per Unit

REFERENCE DATE: April 20th, 2004

Instructions to complete this Subscription

1. Enter number of Units purchased, Name, Address and Sign on page 2.
2. Registration or Delivery Instructions (if different from information in Item 1)
3. Canadian resident Investors must complete Form 1 or Form 2 (Schedules A and B) unless you are resident in British Columbia and purchasing at least 45,000 Units.
4. If you are an Investor outside of North America, you have no schedules to complete except A, if applicable.
5. All references to dollars in this Subscription Agreement are to United States dollars.
6. This offering of Units of the Issuer is NOT available to resident of the United States.

Form 20-F

Number of Units at US\$1.67 per Unit

Aggregate Subscription Price for all Units

US\$ _____

Payable to: TAG Oil Ltd.

Name of Investor—Please Print

Signature of Investor

Official Capacity or Title of Signatory, if Investor is not an individual—please print

Please print name of the individual whose signature appears above if different than the name of the Investor printed above

Investor's Address

Investor's Telephone and Fax Numbers

Investor's E-Mail Address

Deliver the Units as set forth below:

Name

Account Reference, if Applicable

Contact Name

Address

Address

Telephone Number

Register the Units as set forth below:

Name

Account Reference if Applicable

Address

Acceptance : The Issuer hereby accepts the above subscription.
TAG Oil Ltd.

Per Authorized Signature

Execution Date

Courier or fax completed forms to TAG Oil Ltd., Suite 400–534 17th Avenue S.W., Calgary, AB, T2S 0B1, Attention: Drew Cadenhead, or fax your completed Subscription Agreement to 403-770-1935 (Telephone 403-770-1934). Funds may be attached to the forms by certified cheque or bank draft payable to “TAG Oil Ltd.”

DEFINITIONS

- (a) **Accredited Investor** means generally a high net worth or high income person, specifically defined as:
- (i) an Investor resident in any one of the MI 45-103 Jurisdictions (defined below) who is an accredited investor as defined in Section 1.1 of Multilateral Instrument 45-103 and set out in Category 3: Accredited Investor on Form 1 (see Schedule A); or
 - (ii) an Investor resident in the Province of Ontario who is an accredited investor as defined in Ontario Securities Commission Rule 45-501 and set out on Form 2 (see Schedule B);
- (b) **Applicable Securities Laws** means the securities legislation and all regulatory notices, orders, rules, regulations, policies and other instruments of the securities regulatory authorities in the Reporting Jurisdictions and the other jurisdictions where the Units are sold;

Closing means a completion of an issue and sale by the Issuer and the purchase by the Investors of the Portfolio Securities pursuant to this Subscription Agreement;

- (c) **Closing Date** means a day determined by the Issuer which is expected to occur on or about May 4, 2004. On the Closing Date the Shares and Warrants comprising the Units will be issued and delivered to Investor or as it may direct;
- (d) **Exemptions** means the exemptions from the registration and prospectus or equivalent requirements under Applicable Securities Laws;
- (e) **Foreign Portfolio Manager** means a person who carries on business as a “portfolio manager” (within the meaning of that term under Applicable Securities Laws) in an International Jurisdiction and who purchases Units as an agent for fully managed accounts;
- (f) **fully managed** in relation to an account, means that the Investor has the discretion as to the account as contemplated by Applicable Securities Law;
- (g) **International Jurisdiction** means a jurisdiction outside of Canada;
- (h) **International Securities Laws** means the securities laws having application to the subscriber and the offering other than the laws of Canada (including any province thereof) and the United States (including any state or district thereof) and all regulatory notices, orders, rules, regulations, policies or other instruments incidental thereto;
- (i) **Investor** means the person or persons named as Investor on the face page of this Subscription Agreement and if more than one person is so named, means all of them jointly and severally;

MI 45-103 means Multilateral Instrument 45-103–Capital Raising Exemptions (a copy is available from the Issuer or online at www.bcsc.bc.ca);

MI 45-103 Jurisdictions means British Columbia, Alberta, Manitoba, Saskatchewan, Prince Edward Island, Nova Scotia, Newfoundland and Labrador, the Northwest Territories and Nunavut;

Offering means the sale by the Issuer of its Shares and Warrants on the terms set forth in this Agreement;

Ontario Accredited Investor Exemption means the exemption from prospectus requirements found in Ontario Securities Commission Rule 45-501;

Portfolio Manager means an adviser who manages the investment portfolio of clients through discretionary authority granted by one or more clients;

Public Record means information which has been publicly filed under applicable securities laws by the Issuer, which can be reviewed at www.sedar.com;

Qualifying Issuer has the meaning set out in Multilateral Instrument 45-102 - Resale of Securities;

Regulation D means Regulation D under the U.S. Securities Act;

Regulation S means Regulation S under the U.S. Securities Act;

Reporting Jurisdictions means the Provinces of British Columbia, Alberta and Yukon;

Schedules means the schedules attached hereto comprising:

- (i) A Form 1 – Confirmation of Eligibility (Residents of Provinces other than Ontario); and
- (ii) B Form 2 – Accredited Investor Certificate Form (Ontario Residents);

Securities means the Shares and Warrants of the Issuer being sold hereunder;

Share means a common share (post-share split) without par value in the capital of the Issuer;

Subscription Agreement means this subscription agreement between the Investor and the Issuer, including all Schedules incorporated by reference as it may be amended or supplemented from time to time;

Unit is a reference of convenience to one Share and Warrant sold together;

U.S. Person means a U.S. Person as defined in Regulation S;

U.S. Securities Act means the *Securities Act of 1933*, as amended, of the United States of America;

Warrant means one whole Share purchase warrant, each of which is exercisable to acquire an additional common share of the Issuer for a 24 month period after the Closing Date on the terms described herein;

Warrant Certificate means the certificate representing the Share Warrant issued to an Investor as part of an Unit; and

Warrant Share may be used to refer to the Share (post-split) to be issued upon the exercise of a Warrant.

2. PROSPECTUS EXEMPT SUBSCRIPTION COMMITMENT

2.1 The undersigned (the “Investor”) hereby irrevocably subscribes for and agrees to purchase from the Issuer, subject to the terms and conditions set forth herein, that number of Units of the Issuer set out on the face page of this Subscription Agreement that can be purchased from the amount invested filled in on the face page of this Agreement. Subject to the terms hereof, this Subscription will be deemed to have been made and be effective only upon its acceptance by the Issuer.

3. DESCRIPTION OF UNITS – SHARE AND WARRANTS

- 3.1** Each Unit consists of one Share and one Warrant of the Issuer. The Investor acknowledges that the Shares refer to shares of the Issuer, following a 1.5 for 1 share split which is expected to occur on or about May 3, 2004.
- 3.2** Each Warrant will entitle the Investor to purchase one Warrant Share for a 24 month period after the Closing Date at a price of US\$1.83 for one year after the Closing date and at a price of US\$2.00 until expiry at the end of year two.
- 3.3** The Warrants will be governed by the terms and conditions set out in the certificate representing the Warrants (the “Warrant Certificates”) which will be delivered to the Investor at Closing. Each Warrant Certificate will contain, among other things, provision for the appropriate adjustment in a class, number and price of the Warrant Shares upon the occurrence of certain events, including any subdivision, consolidation or re-classification of the common shares of the Issuer or payments of stock dividends or upon the merger or re-organization of the Issuer.

4. DETAILS OF THE OFFERING

- 4.1** The Offering consists of up to 650,000 Units at US\$1.67 per Unit.
- 4.2** The Subscriber acknowledges and agrees that:
 - (a) the Offering is not a public offering of securities;
 - (b) the Offering is not being made, and this Agreement does not constitute, an offer to sell or the solicitation of an offer to buy the Units, in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation; and
 - (c) the Issuer will rely on the representations and warranties contained in this Agreement to determine if there is an available Exemption for the issuance of the Units.

5. CLOSING

- 5.1** The Investor will deliver to the offices of the Issuer aggregate subscription funds and subscription documents completed in accordance with the instructions on the face page of this Agreement and arrange for concurrent wiring or delivery of certified funds. On request by the Issuer, the Investor agrees to complete and deliver any other documents, questionnaire, notices and undertakings as may possibly be required by regulatory authorities, stock exchanges and Applicable Securities Laws to complete the transactions contemplated by this Agreement. Delivery and payment for the Units will be completed by the Issuer at its offices on the Closing Date at which time certificates representing the Units will be available against payment funds for delivery to the Investor as the Investor shall instruct. Investor hereby waives receiving any prior notice of Closing.
- 5.2** Closing of this subscription is not subject to any closing condition and there is no minimum aggregate offering.

6. STATUTORY AND ADDITIONAL VOLUNTARY RESALE RESTRICTIONS AND LEGENDING OF SECURITIES

- 6.1** The Subscriber acknowledges and agrees that the Offering is being made pursuant to the Exemptions, and consequently that:
- (a) the Securities will be subject to a number of resale restrictions, including a restriction on trading;
 - (b) until the restriction on trading expires, the Subscriber will not be able to trade the Securities unless the Subscriber complies with an Exemption;
 - (c) unless permitted under the Applicable Securities Laws, the Subscriber cannot trade the Securities before the date that is 4 months and a day after the date of Closing, however, the Subscriber, by signing this Agreement, agrees to an additional 8 months (one year total) hold period; and
 - (d) as required under the Applicable Securities Laws, the Issuer will place a legend stipulating the applicable hold period and resale restrictions on the certificates representing the Securities.
- 6.2** The Investor acknowledges that any resale of the Securities will be subject to resale restrictions contained in the Applicable Securities Laws applicable to the Issuer, the Investor or any proposed transferee. Investors with a Canadian or international address will receive a certificate bearing the following legend imprinted thereof:
- “Unless permitted under securities legislation, the holder of the securities shall not trade the securities before one year from the Closing Date.”
- 6.3** The Subscriber acknowledges and agrees that:
- (a) the Securities have not been and will not be registered under the U.S. Securities Act or any applicable State securities laws, and may not be offered and sold, directly or indirectly, in the United States or by or to U.S. Persons (as defined in Regulation S promulgated under the U.S. Securities Act) without registration under the U.S. Securities Act and any applicable state securities laws, unless an exemption from registration is available; and
 - (b) the Issuer is not obligated under any circumstances to register the Securities or to take any other actions to facilitate or permit any proposed resale or transfer thereof in the United States or otherwise by or to a U.S. Person, unless the transferee provides the Issuer with a legal opinion stating that the sale of the Securities is being made in compliance with (i) Rule 904 of Regulation S under the U.S. Securities Act and all applicable State securities laws, (ii) Rule 144 of the U.S. Securities Act and all applicable State securities laws, or (iii) another applicable exemption from the registration requirements of the 1933 Act and all applicable State securities laws.

7. INVESTOR'S ACKNOWLEDGEMENTS – REGARDING RISK, RESTRICTIONS, INDEPENDENT ADVICE

- 7.1** The Investor represents and warrants and acknowledges and agrees with (on its own behalf and, if applicable, on behalf of each beneficial purchaser for whom the Investor is contracting hereunder) the Issuer that
- (a) its decision to execute this Subscription and purchase the Securities agreed to be purchased hereunder has not been based upon any oral or written representation as to fact or otherwise made by or on behalf of the Issuer, and that its decision is based entirely upon its review of information about the Issuer in the Public Record;

- (b) no prospectus has been filed by the Issuer with any securities commission or similar authority in Canada or elsewhere, in connection with the issuance of the Securities, and the issuance and the sale of the Units is subject to such sale being exempt from the prospectus/registration requirements under Applicable Securities Laws and accordingly:
 - (i) the Investor is restricted from using certain of the civil remedies available under such legislation;
 - (ii) the Investor may not receive information that might otherwise be required to be provided to it under such legislation; and
 - (iii) the Issuer is relieved from certain obligations that would otherwise apply under such legislation;
- (c) the Investor (or others for whom the Investor is contracting hereunder) has been advised to consult its own legal advisors with respect to the merits and risks of an investment in the Securities and with respect to applicable resale restrictions and it (or others for whom it is contracting hereunder) is solely responsible (and the Issuer is in no way responsible) for compliance with applicable resale restrictions;
- (d) to the knowledge of the Investor, the sale of the Securities was not accompanied by any advertisement, however the Issuer will pay a finder's fee in connection with some subscriptions under the Offering;
- (e) the offer made by this Subscription is irrevocable (subject to the right of the Issuer to terminate this Subscription) and requires acceptance by the Issuer;
- (f) this Subscription is not enforceable by the Investor unless it has been accepted by the Issuer and the Investor waives any requirement on the Issuer's behalf to immediately communicate its acceptance for this Subscription to the Investor;
- (g) the Securities are speculative investments which involve a substantial degree of risk;
- (h) the Investor is sophisticated in financial investments, has had access to and has received all such information concerning the Issuer that the Investor has considered necessary in connection with the Investor's investment decision and the Investor will not receive an offering memorandum or similar disclosure document;
- (i) the subscription proceeds will be available to the Issuer on Closing and this subscription is not conditional on any other subscription completing;
- (j) no agency, governmental authority, regulatory body, stock exchange or other entity has made any finding or determination as to the merit for investment of, nor have any such agencies or governmental authorities made any recommendation or endorsement with respect to, the Securities; and
- (k) the Issuer will rely on the representations and warranties made herein or otherwise provided by the Investor to the Issuer in completing the sale and issue of the Units to the Investor.

8. INVESTOR'S EXEMPTION STATUS AND OTHER REPRESENTATION

8.1 Each Investor resident in Canada, by its execution of this Subscription Agreement, hereby further represents, warrants to, and covenants with the Issuer that:

- (a) it is purchasing the Units as principal for its own account, it is purchasing such Units not for the benefit of any other person and not with a view to the resale or distribution of all or any of the Securities, it is resident in one of the MI 45-103 Jurisdictions and it:
 - (i) is an "accredited investor" as defined in MI 45-103 and has signed Schedule A (or B if an Ontario resident); or
 - (ii) is a director, senior officer or control person of the Issuer, or of an affiliate of the Issuer; or
 - (iii) is a spouse, parent, grandparent, brother, sister or child of a director, senior officer or control person of the Issuer, or of an affiliate of the Issuer; or
 - (iv) is a close personal friend of a director, senior officer or control person of the Issuer, or of an affiliate of the Issuer;or

(v) is a close business associate of a director, senior officer or control person of the Issuer, or of an affiliate of the Issuer; or

(vi) is a founder of the Issuer or a spouse, parent, grandparent, brother, sister, child, close personal friend or close business associate of a founder of the Issuer; or

(vii) is a parent, grandparent, brother, sister or child of the spouse of a founder of the Issuer; or

(viii) is a person or company that is wholly-owned by, or a majority of its board of directors is comprised of, any combination of persons or companies described in §8.1(a)(ii) to (vii); or

(ix) is a trust or estate of which all of the beneficiaries or a majority of the trustees are persons or companies described in §8.1(a)(ii) to (vii); or

(x) is an individual resident in British Columbia, Alberta, Saskatchewan or Manitoba and will have an aggregate acquisition cost for the Units of \$97,000; or

(xi) is resident in British Columbia, and is not an individual but is a corporation, partnership, trust, fund, association or any other organized group of persons that was not created solely, nor used primarily, to permit a group of individuals to purchase securities without a prospectus which will have an aggregate acquisition cost of purchasing the Units of not less than \$97,000 or, if it is such an entity created solely or used primarily for such purpose, each of the individuals who form part of the group has contributed at least \$97,000 to such entity for the purpose of purchasing the Units; or

(xii) is resident in Alberta and it is not an individual but is a corporation, syndicate, partnership or other form of unincorporated organization that pre-existed the offering of the Units and has a bona fide purpose other than investment in the Units which will have an aggregate acquisition cost of purchasing the Units of not less than \$97,000 or, if created to permit such investment, the individual share of the aggregate acquisition cost for each participant is not less than \$97,000; or

(xiii) is resident in British Columbia and is

(A) an employee, senior officer or director of the Issuer or of an affiliate of the Issuer, and it has not been induced to purchase the securities by expectation of employment or continued employment;

(B) a trustee on behalf of a person referred to in subparagraph (I) herein;

(C) an issuer, all of the voting securities of which are beneficiary owned by one or more persons referred to in subparagraph (I) herein; or

(D) a “consultant”, which is defined as meaning:

(I) an individual, other than an employee or an executive of the Issuer,

(1) that is engaged to provide on a bona fide basis consulting, technical, management or other services to the Issuer or to an affiliated entity of the Issuer, other than services provided in relation to a distribution,

(2) that is neither a registrant nor provides to the Issuer or an affiliated entity of the Issuer services provided by a registrant or services that include investor relations activities,

(3) that provides the services under a written contract between (i) the Issuer or the affiliated entity and (ii) the individual or a “consultant company” of the individual consultant (being a company of which the individual consultant is an employee or shareholder) or a “consultant partnership” of the individual consultant (being a partnership of which the individual consultant is an employee or partner), and

(4) that, in the reasonable opinion of the Issuer, spends or will spend a significant amount of time and attention on the affairs and the business of the Issuer or an affiliated entity of the Issuer; or

(II) a “consultant company” or a “consultant partnership” (as defined in Multilateral Instrument 45-105) of a “consultant”, or an RRSP or RRIF established by or for the “consultant” or under which the “consultant” is the beneficiary,

and in each of §8.1(a)(xiii)(I) and (II), the participation of the consultant in the trade is voluntary; or

(xiv) is resident in Saskatchewan and is a corporation, syndicate, partnership or other form of unincorporated organization, it pre-existed the offering of the Units and has a *bona fide* purpose other than investment in the Units or, if created to permit such investment, the individual share of the aggregate acquisition cost for each participant is not less than \$150,000; or

(xv) is resident in Manitoba, it is an individual or a corporation, partnership, unincorporated association, organization or syndicate, a trustee, an executor, an administrator or other legal personal representative, it is purchasing the Units for investment only and not with a view to resale or distribution and the aggregate acquisition cost of the Units purchased by it is not less than \$97,000 and if it is a corporation, a partnership, an unincorporated association, organization or syndicate, it was not incorporated or created solely or primarily to permit the purchase without a prospectus of the Units; and

(xvi) has completed, signed and returned Form 1 – “Confirmation of Eligibility (Non-Ontario Residents)” which is Schedule A to this Agreement; or

- (b) it is a resident of Ontario, it is an “accredited investor” as defined in Rule 45-501, and the Investor has certified same by marking the applicable boxes and signing and returning “Accredited Investor Certificate (Ontario Residents)” which is Schedule B to this Agreement; or
- (c) it is resident in Québec, the aggregate acquisition cost of the Units purchased by it is not less than \$150,000 and it is not a company established solely to acquire the Units, or, if it was so established, each shareholder of the company is an individual who has contributed at least \$150,000 for the purpose of the investment by the company in the Units, and each such person is acting for his or her account; or
- (d) it is resident in Québec and will not have an aggregate acquisition cost of at least \$150,000, it is recognized by the Québec Securities Commission as an “exempt purchaser” or is a “sophisticated purchaser” within the meaning of Section 43, 44 or 45 or the Securities Act (Québec) or is the government du Québec or its department or agencies, the Government of Canada or the government of a Canadian province, or any of their departments or agencies; or
- (e) if it is a resident of any jurisdiction referred to in the preceding sections but not purchasing thereunder, it complies with the provisions above as if it were a resident of British Columbia and is purchasing pursuant to an exemption from prospectus and registration requirements (particulars of which are enclosed herewith) available to it under applicable securities legislation of the jurisdiction of its residence and shall deliver to the Issuer such further particulars of the exemption(s) and the Investor’s qualifications thereunder as the Issuer may request; and
- (f) if the Investor is not purchasing the Units as principal for its own account and it, or any beneficial purchaser for which it is acting, is a resident of British Columbia, the Investor hereby represents, warrants and covenants to and with the Issuer that it is duly authorized to enter into this subscription and to execute all documentation in connection with the purchase on behalf of each beneficial purchaser, and:
- (i) it is a trust company or an insurer which has received a business authorization under the *Financial Institutions Act* (British Columbia) or is a trust company or an insurer authorized under the laws of another province or territory of Canada to carry on such business in such province or territory, and the Investor is purchasing the Units as an agent or trustee for accounts that are fully managed by the Investor; or
 - (ii) it is an advisor who manages the investment portfolios of clients through discretionary authority granted by one or more clients and the Investor is registered as a portfolio manager under the *Securities Act* (British Columbia) or the laws of another province or territory of Canada, or the Investor is exempt from such registration, and the Investor is purchasing the Units as an agent for accounts that are fully managed by the Investor,

and it (or if the Investor is purchasing for a disclosed principal, such principal) represents, warrants and covenants to and with the Issuer that it is eligible to purchase Units by virtue of satisfying one of the categories set out in §8.1 or of Schedules A or B;

(g) if the Investor is not purchasing the Units as principal for its own account and it, or any beneficial purchaser for which it is acting, is a resident of Alberta, the Investor acknowledges that the Issuer is required by law to disclose to certain regulatory authorities, on a confidential basis, the identity of the beneficial purchaser of the Units for whom it is acting, and hereby represents, warrants and covenants to and with the Issuer that it is duly authorized to enter into this subscription and to execute all documentation in connection with the purchase on behalf of each beneficial purchaser, and:

(i) it is trading for accounts fully managed by it and it is (i) a trust corporation trading as trustee or an agent, (ii) a portfolio manager trading as an agent, or (iii) a person or company trading as an agent that, except for an exemption under the *Securities Act* (Alberta) or the Rules thereunder, is required to be registered as a portfolio manager; or

(ii) it is acting as agent for one or more undisclosed principals, each of which principals is purchasing as principal for its own account, not for the benefit of any other person, and not with a view to the resale or distribution of all or any of the Units,

(h) and it (or if the Investor is purchasing for a disclosed principal, such principal) represents, warrants and covenants to and with the Issuer that it is eligible to purchase Units by virtue of satisfying one of the categories set out in §8.1 or of Schedules A or B;

8.2 Investors Outside of Canada and the United States

If the Investor is resident in a jurisdiction outside of Canada and the United States, it acknowledges that:

- (a) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Units;
- (b) there is no government or other insurance covering the Units;
- (c) there are risks associated with the purchase of the Units;
- (d) there are restrictions on the Investor's ability to resell the Securities and it is the responsibility of the Investor to determine what those restrictions are and to comply with them before selling the Securities;
- (e) the Issuer has advised the Investor that the Issuer is relying on an exemption from the requirements to provide the Investor with a prospectus and to sell the Securities through a person registered to sell the Securities under Applicable Securities Laws and, as a consequence of acquiring securities pursuant to this exemption, certain protections, rights and remedies provided by Applicable Securities Laws, including statutory rights of rescission or damages, will not be available to the Investor;
- (f) the Investor is knowledgeable of securities legislation having application or jurisdiction over the Investor and the Offering (other than the laws of Canada and the U.S.) which would apply to this subscription;
- (g) the Investor is purchasing the Units pursuant to exemptions from any prospectus, registration or similar requirements under the laws of that International Jurisdiction and or, if such is not applicable, the Investor is permitted to purchase the Investor's Units, and the Issuer has no filing obligations in the International Jurisdiction;
- (h) no laws in the International Jurisdiction require the Issuer to make any filings or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction;
- (i) the Units are being acquired for investment only and not with a view to resale and distribution within the International Jurisdiction; and
- (j) if it is a resident of the United Kingdom then it complies with the provisions of §8.1 of this Subscription Agreement as if it were a resident of British Columbia and it is a person of the described in Article 11(3) of the *Financial Services Act, 1986* (Investment Advertisements) (Exemptions) Order 1996, as amended, and is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of its business.

8.3 Other General Representations and Covenants

- (a) the Investor has no knowledge of a “material fact” or “material change”, as those terms are defined in Applicable Securities Laws, in respect of the affairs of the Issuer that has not been generally disclosed to the public;
- (b) the Investor (and, if applicable, any beneficial purchaser for whom it is acting) is resident in the jurisdiction set out on the first page of this Subscription Agreement;
- (c) the Investor has the legal capacity and competence to enter into and execute this Subscription and to take all actions required pursuant hereto and, if the Investor is a corporation, it is duly incorporated and validly subsisting under the laws of its jurisdiction of incorporation and all necessary approvals by its directors, shareholders and others have been obtained to authorize execution of this Subscription Agreement on behalf of the Investor;
- (d) the entering into of this Subscription Agreement and the transactions contemplated hereby do not result in the violation of any of the terms and provisions of any law applicable to, or the constating documents of, the Investor or of any agreement, written or oral, to which the Investor may be a party or by which the Investor is or may be bound;
- (e) Investor has duly and validly authorized, executed and delivered this Subscription Agreement and understands it is intended to constitute a valid and binding agreement of the Investor enforceable against the Investor;
- (f) in connection with the Investor’s investment in the Units, the Investor has not relied upon the Issuer for investment, legal or tax advice, and has, in all cases sought the advice of the Investor’s own personal investment advisor, legal counsel and tax advisers or has waived its rights to and the Investor is either experienced in or knowledgeable with regard to the affairs of the Issuer, or either alone or with its professional advisors is capable, by reason of knowledge and experience in financial and business matters in general, and investments in particular, of evaluating the merits and risks of an investment in the Units and is able to bear the economic risk of the investment and it can otherwise be reasonably assumed to have the capacity to protect its own interest in connection with the investment in the Units;
- (g) no person has made to the Investor any written or oral representations:
 - (i) that any person will resell or repurchase the Units;
 - (ii) that any person will refund the purchase price for the Units; or
 - (iii) as to the future price or value of the Units;
- (h) if the Investor is resident of an International Jurisdiction (which is defined herein to mean a country other than Canada or the United States), then:
 - (i) the Investor is knowledgeable of, or has been independently advised as to, the International Securities Laws (which is defined herein to mean, in respect of each and every offer or sale of Units, any securities laws having application to the Investor and the Offering other than the laws of Canada and the U.S., and all regulatory notices, orders, rules, regulations, policies and other instruments incidental thereto) which would apply to this Agreement, if any;
 - (ii) the Investor is purchasing the Units pursuant to an applicable exemption from any prospectus, registration or similar requirements under the International Securities Laws of that International Jurisdiction, or, if such is not applicable, the Investor is permitted to purchase the Units under the International Securities Laws of the International Jurisdiction without the need to rely on exemptions;
 - (iii) the International Securities Laws do not require the Issuer to make any filings or seek any approvals of any kind whatsoever from any regulatory authority of any kind whatsoever in the International Jurisdiction; and
 - (iv) the Units are being acquired for investment purposes only and not with a view to resale and distribution, and the distribution of the Units to the Investor by the Issuer complies with all International Securities Laws.
- (i) if it is resident in Québec, it acknowledges that it must file a report pursuant to section 46 of the *Securities Act* (Québec) and section 102 of the *Regulation respecting securities* (Québec), together with the prescribed fee, with the Commission des valeurs mobilières du Québec within ten days of each disposition of all or any part of the Units; and

- (j) if it is resident in Manitoba and purchasing pursuant to §8.1(a)(x) it acknowledges that it must file a report on Form 8A, together with the prescribed fee, with the Manitoba Securities Commission within 10 days of each disposition of all or any part of the Units;
- (k) if it is resident in Ontario, it acknowledges that it must file a report on Form 45-501F2, together with the prescribed fee, with the Ontario Securities Commission within 10 days of each disposition of all or any part of the Units; and
- (l) the Investor represents and warrants that:
 - (i) the Securities are not being acquired, directly or indirectly, for the account or benefit of a U.S. Person or a person in the United States and the Investor does not have any agreement or understanding (either written or oral) with any U.S. Person or a person in the United States respecting:
 - (A) the transfer or assignment of any rights or interests in any of the Securities;
 - (B) the division of profits, losses, fees, commissions, or any financial stake in connection with this Subscription; or
 - (C) the voting of the Securities; and
 - (ii) the Investor has no intention to distribute either directly or indirectly any of the Securities in the United States or to U.S. Persons; and
 - (iii) the current structure of this transaction and all transactions and activities contemplated hereunder is not a scheme to avoid the registration requirements of the U.S. Securities Act;

9. REPRESENTATIONS OF THE ISSUER

9.1 The Issuer represents and warrants to the Investor that, as of the date of this Subscription and at Closing hereunder:

- (a) the Issuer and its subsidiaries are valid and subsisting corporations duly incorporated and in good standing under the laws of the jurisdictions in which they are incorporated, continued or amalgamated;
- (b) the Issuer has complied, or will comply, with all applicable corporate and securities laws and regulations in connection with the offer, sale and issuance of the Securities, and in connection therewith has not engaged in any “direct selling efforts,” as such term is defined in Regulation S, or any “general solicitation or general advertising” as described in Regulation D;
- (c) the Issuer and its subsidiaries are the beneficial owners of the business and assets or the interests in the business or assets referred to in its Public Record and except as disclosed therein, all agreements by which the Issuer or its subsidiaries holds an interest in a property, business or asset are in good standing according to their terms, and the properties are in good standing under the applicable laws of the jurisdictions in which they are situated;
- (d) no offering memorandum has been or will be provided to the Investor;
- (e) the financial statements comprised in the Public Record accurately reflect the financial position of the Issuer as at the date thereof, and no adverse material changes in the financial position of the Issuer have taken place since the date of the Issuer’s last financial statements except as filed in the Public Record;
- (f) the creation, issuance and sale of the Shares and Warrants by the Issuer does not and will not conflict with and does not and will not result in a breach of any of the terms, conditions or provisions of its constating documents or any agreement or instrument to which the Issuer is a party;
- (g) the Securities will, at the time of issue, be duly allotted, validly issued, fully paid and non-assessable and will be free of all liens, charges and encumbrances and the Issuer will reserve sufficient shares in its treasury to enable it to issue the Shares and Warrant Shares;
- (h) this Subscription when accepted has been duly authorized by all necessary corporate action on the part of the Issuer and, subject to acceptance by the Issuer, constitutes a valid obligation of the Issuer legally binding upon it and enforceable in accordance with its terms;
- (i) neither the Issuer nor any of its subsidiaries is a party to any actions, suits or proceedings which could materially affect

its business or financial condition, and to the best of the Issuer' knowledge no such actions, suits or proceedings have been threatened as at the date hereof, except as disclosed in the Public Record;

(j) no order ceasing or suspending trading in the securities of the Issuer nor prohibiting sale of such securities has been issued to the Issuer or its directors, officers or promoters and to the best of the Issuer' knowledge no investigations or proceedings for such purposes are pending or threatened; and

(k) except as set out in the Public Record or herein, no person has any right, agreement or option, present or future, contingent or absolute, or any right capable of becoming a right, agreement or option for the issue or allotment of any unissued common shares of the Issuer or any other security convertible or exchangeable for any such shares or to require the Issuer to purchase, redeem or otherwise acquire any of the issued or outstanding shares of the Issuer.

10. COVENANTS OF THE ISSUER

10.1 The Issuer covenants with each Investor that the Issuer will:

(a) offer, sell, issue and deliver the Securities pursuant to exemptions from the prospectus filing, registration or qualification requirements of Applicable Securities Laws and otherwise fulfil all legal requirements required to be fulfilled by the Issuer (including without limitation, compliance with all Applicable Securities Laws of the Reporting Jurisdictions) in connection with the Offering;

(b) use its best efforts to maintain its status as a "reporting issuer" not in default in each of the Reporting Jurisdictions in which it is a reporting issuer at the date of this Subscription; and

(c) within the required time, file any documents, reports and information, in the required form, required to be filed by Applicable Securities Laws in connection with the Offering, together with any applicable filing fees and other materials.

11. CONSENT TO THE DISCLOSURE OF INFORMATION

11.1 The Investor acknowledges and consents to the release by the Issuer of certain information regarding the Investor's subscription, including the Investor's name, address, telephone number, email address and the number of Units purchased, in compliance with securities regulatory policies to regulatory authorities in the Reporting Jurisdictions.

12. GENERAL

12.1 Time is of the essence hereof.

12.2 Neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.

12.3 The parties hereto shall execute and deliver all such further documents and instruments and do all such acts and things as may either before or after the execution of this Subscription Agreement be reasonably required to carry out the full intent and meaning of this Subscription Agreement.

12.4 This Subscription Agreement shall be subject to, governed by and construed in accordance with the laws of British Columbia and the laws of Canada as applicable therein and the Investor hereby irrevocably attorns to the jurisdiction of the Courts situate therein.

12.5 This Subscription Agreement may not be assigned by any party hereto.

12.6 The Issuer shall be entitled to rely on delivery of a facsimile copy of this Subscription Agreement, and acceptance by the Issuer of a facsimile copy of this Subscription Agreement shall create a legal, valid and binding agreement between the Investor and the Issuer in accordance with its terms.

12.7 This Subscription Agreement may be signed by the parties in as many counterparts as may be deemed necessary, each

of which so signed shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument.

- 12.8** Without limitation, this Subscription Agreement is deemed to be entered into on the reference date set out on the face page, notwithstanding its actual date of execution by the Investor.
- 12.9** This Subscription, including, without limitation, the representations, warranties, acknowledgements and covenants contained herein, shall survive and continue in full force and effect and be binding upon the parties notwithstanding the completion of the purchase of the Units by the Investor pursuant hereto, the completion of the issue of Units of the Issuer and any subsequent disposition by the Investor of the Shares or Warrants;
- 12.10** The invalidity or unenforceability of any particular provision of this Subscription shall not affect or limit the validity or enforceability of the remaining provisions of this Subscription;
- 12.11** Except as expressly provided in this Subscription and in the agreements, instruments and other documents contemplated or provided for herein, this Subscription contains the entire agreement between the parties with respect to the sale of the Securities and there are no other terms, conditions, representations or warranties, whether expressed, implied, oral or written, by statute, by common law, by the Issuer, by the Investor, or by anyone else;
- 12.12** All monetary amounts herein are United States Dollars.

SCHEDULE A

FORM 1

CONFIRMATION OF ELIGIBILITY (NON-ONTARIO RESIDENTS)

The undersigned (the “Investor”) hereby confirms and certifies to **TAG Oil Ltd.** (the “Issuer”) that the Investor is purchasing the Units as principal, that the Investor is resident in the jurisdiction set out on the execution page hereof, and that: **[check appropriate boxes]**

Category 1: Cdn\$97,000 Purchaser

- The Investor is resident in British Columbia, Alberta, Saskatchewan, or Manitoba and will have an aggregate acquisition cost of purchasing the Units of not less than Cdn\$97,000.
- The Investor is resident in Québec and will have an aggregate acquisition cost of purchasing the Units of not less than \$150,000.

Category 2: Family, Friends and Business Associates

[Not available to Investors resident in Saskatchewan under this Offering]

The Investor is:

- (a) a director, senior officer or founder of the Issuer or of an affiliate of the Issuer;
- (b) a control person of the Issuer or of an affiliate of the Issuer;
- (c) an individual which is: **[check appropriate box and complete blank below]**
 - a spouse, parent, grandparent, brother, sister or child
 - a close personal friend
 - close business associateof a director, senior officer, control person or founder of the Issuer or of an affiliate of the Issuer, namely _____ **[name of director, officer or control person];**
- (d) an individual which is a parent, grandparent, sister, brother or child of a spouse of a founder of the Issuer;
- (e) a person or company that is wholly-owned by, or that a majority of its board of directors is comprised of, any combination of the persons or companies described in (a) to (d) above, OR
- (f) an estate or trust all of the beneficiaries of which are, or a majority of the trustees of which are, comprised of any combination of the persons or companies described in (a) to (d) above.

Category 3: Accredited Investors

[Not available to Investors resident in Manitoba under this Offering]

The Investor is an “accredited investor” as defined in Multilateral Instrument 45-103 by virtue of being:

- (a) a Canadian financial institution, or an authorized foreign bank listed in Schedule III of the *Bank Act* (Canada);
- (b) the Business Development Bank incorporated under the *Business Development Bank Act* (Canada);
- (c) an association under the *Cooperative Credit Associations Act* (Canada) located in Canada or a central cooperative credit society for which an order has been made under subsection 473(1) of that act;
- (d) a subsidiary of any person or company referred to in paragraphs (a) to (c), if the person or company owns all of the voting shares of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary;
- (e) a person or company registered under the securities legislation, of a jurisdiction of Canada, as an adviser or dealer, other than a limited market dealer registered under the *Securities Act* (Ontario) or the *Securities Act* (Newfoundland and Labrador);

- (f) an individual registered or formerly registered under the securities legislation, or under the securities legislation of another jurisdiction of Canada, as a representative of a person or company referred to in paragraph (e);
- (g) the government of Canada or a jurisdiction of Canada, or any crown corporation, agency or wholly owned entity of the government of Canada or a jurisdiction of Canada;
- (h) a municipality, public board or commission in Canada;
- (i) any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency of that government;
- (j) a pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a pension commission or similar regulatory authority of a jurisdiction of Canada;
- (k) an individual who, either alone or with a spouse, beneficially owns, directly or indirectly, financial assets having an aggregate realizable value that before taxes, but net of any related liabilities, exceeds C\$1,000,000;
- (l) an individual whose net income before taxes exceeded C\$200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded C\$300,000 in each of the two most recent years and who, in either case, reasonably expects to exceed that net income level in the current year;
- (m) a person or company, other than a mutual fund or non-redeemable investment fund, that, either alone or with a spouse, has net assets of at least C\$5,000,000 and unless the person is an individual, that amount is shown on its most recently prepared financial statements;
- (n) a mutual fund or non-redeemable investment fund that, in the local jurisdiction, distributes its securities only to persons or companies that are accredited investors;
- (o) a mutual fund or non-redeemable investment fund that, in the local jurisdiction, distributes its securities under one or more prospectuses for which the regulator has issued receipts;
- (p) a trust company or trust corporation registered to carry on business under the *Trust and Loan Companies Act* (Canada) or under comparable legislation in a jurisdiction of Canada or a foreign jurisdiction, trading as trustee or agent on behalf of a fully managed account;
- (q) a person or company trading as agent on behalf of a fully managed account if that person or company is registered or authorized to carry on business under the securities legislation of a jurisdiction of Canada or a foreign jurisdiction as a portfolio manager or under an equivalent category of advisor or is exempt from registration as a portfolio manager or an equivalent category of advisor;
- (r) a registered charity under the *Income Tax Act* (Canada) that, in regard to the trade, has obtained advice from an eligibility advisor or other advisor registered to provide advice on the securities being traded;
- (s) an entity organized in a foreign jurisdiction that is analogous to any of the entities referred to in paragraphs a. through e. and paragraph j in form and function; or
- (t) a person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, except for voting securities required by law to be owned by directors, are persons or companies that are accredited investors;

and for purposes hereof, the following terms shall have the stated meanings:

company means any corporation, incorporated association, incorporated syndicate or other incorporated organization.

financial assets means cash and securities.

founder means a person or company who:

- (a) acting alone or in concert with one or more persons or companies, directly or indirectly takes the initiative in founding, organizing or substantially reorganizing the business of the Issuer, or
- (b) at the time of the proposed trade is actively involved in the business of the Issuer.

fully managed account means an account for which a person or company makes the investment decisions of that person or company and has full discretion to trade in securities for the account without requiring the client’s express consent to a transaction.

individual means a natural person, but does not include a partnership, unincorporated association, unincorporated organization, trust or a natural person in his or her capacity as trustee, executor, administrator or other legal personal representative.

mutual fund includes an issuer of securities that entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in a part of the net assets, including a separate fund of trust account, of the issuer of the securities.

non-redeemable investment fund means an issuer:

- (a) whose primary purpose is to invest money provided by its securityholders;
- (b) that does not invest for the purpose of exercising effective control, seeking to exercise effective control, or being actively involved in the management of the issuers in which it invests, other than other mutual funds or non-redeemable investment funds; and
- (c) that is not a mutual fund.

person means an individual, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative.

related liabilities means: (i) liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets; or (ii) liabilities that are secured by financial assets.

spouse in relation to an individual, means another individual to whom that individual is married, or another individual of the opposite sex or the same sex with whom that individual is living in a conjugal relationship outside marriage.

EXECUTED by the Investor at _____, this _____ day of _____, 20 ____ .

If a corporation, partnership or other entity:

If an individual:

Signature of Authorized Signatory

Signature

Name and Position of Signatory

Print Name

Name of Purchasing Entity

Jurisdiction of Residence

Jurisdiction of Residence

SCHEDULE B**FORM 2****ACCREDITED INVESTOR CERTIFICATE FORM
(Ontario Residents Only)**

The Investor certifies that it/he/she is an “accredited investor” as defined in Ontario Securities Commission Rule 45-501¹ (the “Rule”) promulgated under the *Securities Act* (Ontario) (the “Act”) by virtue of qualifying as one or more of the following. **Please insert a checkmark in the bracketed area beside each applicable paragraph:**

Individual Investors

- (a) An individual who owns or beneficially owns, or together with a spouse beneficially own, financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds \$1,000,000;
- (b) An individual whose net income before taxes exceeded \$200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded \$300,000 in each of those years and who, in either case, has a reasonable expectation of exceeding the same net income level in the current year;
- (c) An individual who has been granted registration under the Act or securities legislation in another jurisdiction as a representative or a person or company registered under the Act or securities legislation in another jurisdiction as an adviser or dealer, other than a limited market dealer, whether or not the individual’s registration is still in effect;
- (d) A person registered under the Act or securities legislation in another jurisdiction as an adviser or dealer, other than a limited market dealer;
- (e) A person that is recognized by the Ontario Securities Commission as an accredited investor;
- (f) A spouse, parent, brother, sister, grandparent or child of an officer, director or promoter of the issuer;

Non-Individual Investors

- (g) A company registered under the Act or securities legislation in another jurisdiction as an adviser or dealer, other than a limited market dealer;
- (h) A registered charity under the *Income Tax Act* (Canada);
- (i) A company, limited liability company, limited partnership, limited liability partnership, trust or estate, other than a mutual fund or non-redeemable investment fund, that had net assets of at least \$5,000,000 as reflected in its most recently prepared financial statements;
- (j) A company that is recognized by the Ontario Securities Commission as an accredited investor;
- (k) A person or company in respect of which all of the owners of interests, direct or indirect, legal or beneficial, are persons or companies that are accredited investors;
- (l) A promoter of the issuer or an affiliated entity of a promoter of the issuer;
- (m) A person or company that, in relation to the issuer, is an affiliated entity or a person or company referred to in clause (c) of the definition of distribution in subsection 1(1) of the Act;

¹ The Rule defines the term (i) “financial assets” as cash, securities, or any contract of insurance or deposit or evidence thereof that is not a security for the purposes of the Act, (ii) “related liabilities” as liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets and liabilities that are secured by financial assets, (iii) “fully managed account” as an investment portfolio account of a client established in writing with a portfolio adviser who makes investment decisions for the account and has full discretion to trade in securities of the account without requiring the client’s express consent to a transaction, and (iv) “spouse” as, in relation to an individual, another individual to whom that individual is married, or another individual of the opposite sex or the same sex with whom that individual is living in a conjugal relationship outside marriage. Terms used herein which are defined in National Instrument 14-101 (the “National Instrument”) as adopted by the Ontario Securities Commission have the meaning given to them in the National Instrument and terms used herein which are defined in the Act have the meaning given to them in the Act. Reference should be made to the Rule itself for the complete text of the Rule, including other definitions, and to the Companion Policy to the Rule for matters of interpretation and application.

Institutional Investors

- [] (n) A bank listed in Schedule I or II of the *Bank Act* (Canada), or an authorized foreign bank listed in Schedule III of that Act or a wholly owned subsidiary of same;
- [] (o) A loan corporation or trust corporation registered under the *Loan and Trust Corporations Act* (Ontario) or under the *Trust and Loan Companies Act* (Canada), or under comparable legislation in any other jurisdiction or a wholly owned subsidiary of same;
- [] (p) A co-operative credit society, credit union central, federation of caisses populaires, credit union or league, or regional caisse populaire, or an association under the *Cooperative Credit Associations Act* (Canada), in each case, located in Canada, or a wholly owned subsidiary of same;
- [] (q) A Company licensed to do business as an insurance company in any jurisdiction or a wholly owned subsidiary of same;
- [] (r) The Business Development Bank incorporated under the *Business Development Bank Act* (Canada) or a wholly owned subsidiary of same;
- [] (s) A pension fund that is regulated by either the Office of the Superintendent of Financial Institutions (Canada) or a provincial pension commission or similar regulatory authority;
- [] (t) A mutual fund or non-redeemable investment fund that, in Ontario, distributes its securities only to persons or companies that are accredited investors;
- [] (u) A mutual fund or non-redeemable investment fund that, in Ontario, distributes its securities under a prospectus for which a receipt has been granted by the Director of the Ontario Securities Commission or, if it has ceased distribution of its securities, has previously distributed its securities in this manner;
- [] (v) A fully managed account if it is acquiring a security that is not a security of a mutual fund or non-redeemable investment fund;
- [] (w) An account that is fully managed by a trust corporation registered under the *Loan and Trust Corporations Act* (Ontario) or under the *Trust and Loan Companies Act* (Canada), or under comparable legislation in any other jurisdiction;
- [] (x) An entity that is organized outside of Canada that is analogous to any of the entities referred to in paragraphs (d), (g), (n), (o), (p), (q), (r), or (s);

Government Organizations

- [] (y) The government of Canada or of any jurisdiction, or any crown corporation, instrumentality or agency of a Canadian federal, provincial or territorial government;
- [] (z) Any Canadian municipality or any Canadian provincial or territorial capital city;
- [] (aa) Any national, federal, state, provincial, territorial or municipal government of or in any foreign jurisdiction, or any agency or instrumentality thereof.

Dated

Signature of the Investor or authorized signatory of the Investor

Name of Investor

Address of Investor

EXHIBIT 4.15**TAG OIL LTD. (the "Company")****2004 SHARE OPTION PLAN****Dated for Reference September 24, 2004****ARTICLE 1****PURPOSE AND INTERPRETATION****Purpose**

1.1 The purpose of this Plan will be to advance the interests of the Company by encouraging equity participation in the Company through the acquisition of Common Shares of the Company. It is the intention of the Company that this Plan will at all times be in compliance with the rules and policies of the TSX Venture Exchange (or "TSX Venture") (the "TSX Venture Policies") and any inconsistencies between this Plan and the TSX Venture Policies whether due to inadvertence or changes in TSX Venture Policies will be resolved in favour of the latter.

Definitions

1.2 In this Plan:

Affiliate means a company that is a parent or subsidiary of the Company, or that is controlled by the same entity as the Company;

Associate has the meaning assigned by the Securities Act;

Board means the board of directors of the Company or any committee thereof duly empowered or authorized to grant options under this Plan;

Change of Control includes situations where after giving effect to the contemplated transaction and as a result of such transaction:

- (i) any one Person holds a sufficient number of voting shares of the Company or resulting company to affect materially the control of the Company or resulting company, or,
- (ii) any combination of Persons, acting in concert by virtue of an agreement, arrangement, commitment or understanding, hold in total a sufficient number of voting shares of the Company or its successor to affect materially the control of the Company or its successor,

where such Person or combination of Persons did not previously hold a sufficient number of voting shares to affect materially control of the Company or its successor. In the absence of evidence to the contrary, any Person or combination of Persons acting in concert by virtue of an agreement, arrangement, commitment or understanding, holding more than 20% of the voting shares of the Company or its successor is deemed to materially affect the control of the Company or its successor;

Common Shares means common shares without par value in the capital of the Company providing such class is listed on the TSX Venture;

Company means the Corporation named at the top hereof and includes, unless the context otherwise requires, all of its subsidiaries or affiliates and successors according to law;

Consultant means a Person or Consultant Company, other than an Employee, Officer or Director that:

- (i) provides on an ongoing bona fide basis, consulting, technical, managerial or like services to the Company or an Affiliate of the Company, other than services provided in relation to a Distribution;
- (ii) provides the services under a written contract between the Company or an Affiliate and the Person or the Consultant Company;
- (iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the business and affairs of the Company or an Affiliate of the Company; and
- (iv) has a relationship with the Company or an Affiliate that enables the Person or Consultant Company to be knowledgeable about the business and affairs of the Company;

Consultant Company means for a Person consultant, a company or partnership of which the Person is an employee, shareholder or partner;

Directors means the directors of the Company as may be elected from time to time;

Discounted Market Price has the meaning assigned by Policy 1.1 of the TSX Venture Policies;

Disinterested Shareholder Approval means approval by a majority of the votes cast by all the Company's shareholders at a duly constituted shareholders' meeting, excluding votes attached to shares beneficially owned by Service Providers or their Associates;

Distribution has the meaning assigned by the Securities Act, and generally refers to a distribution of securities by the Company from treasury;

Effective Date for an Option means the date of grant thereof by the Board;

Employee means:

- (a) a Person who is considered an employee under the Income Tax Act (i.e. for whom income tax, employment insurance and CPP deductions must be made at source);
- (b) a Person who works full-time for the Company or its subsidiary providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source; or
- (c) a Person who works for the Company or its subsidiary on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions need not be made at source;

Exercise Price means the amount payable per Common Share on the exercise of an Option, as determined in accordance with the terms hereof;

Expiry Date means the day on which an Option lapses as specified in the Option Commitment therefor or in accordance with the terms of this Plan;

Insider means

- (i) an insider as defined in the TSX Venture Policies or as defined in securities legislation applicable to the Company;
- (ii) an Associate of any person who is an Insider by virtue of §(i) above;

Investor Relations Activities has the meaning assigned by Policy 1.1 of the TSX Venture Policies, and means generally any activities or communications that can reasonably be seen to be intended to or be primarily intended to promote the merits or awareness of or the purchase or sale of securities of the Company;

Listed Shares means the number of issued and outstanding shares of the Company that have been accepted for listing on the OTCBB and any subsequent exchange TSX Venture, but excluding dilutive securities not yet converted into Listed Shares;

Management Company Employee means a Person employed by another Person or a corporation providing management services to the Company which are required for the ongoing successful operation of the business enterprise of the Company, but excluding a corporation or Person engaged primarily in Investor Relations Activities;

NEX means a separate board of TSX Venture for companies previously listed on TSX Venture or the Toronto Stock Exchange which have failed to maintain compliance with the ongoing financial listing standards of those markets;

Officer means a duly appointed senior officer of the Company;

Option means the right to purchase Common Shares granted hereunder to a Service Provider;

Option Commitment means the notice of grant of an Option delivered by the Company hereunder to a Service Provider and substantially in the form of Schedule A hereto;

Optioned Shares means Common Shares that may be issued in the future to a Service Provider upon the exercise of an Option;

Optionee means the recipient of an Option hereunder;

OTCBB means the OTC Bulletin Board, a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities.

Outstanding Shares means at the relevant time, the number of outstanding Common Shares of the Company from time to time;

Participant means a Service Provider that becomes an Optionee;

Person means a company or an individual;

Plan means this Share Option Plan, the terms of which are set out herein or as may be amended;

Plan Shares means the total number of Common Shares which may be reserved for issuance as Optioned Shares under the Plan as provided in §2.2;

Regulatory Approval means the approval of the TSX Venture and any other securities regulatory authority that may have lawful jurisdiction over the Plan and any Options issued hereunder;

Securities Act means the *Securities Act*, R.S.B.C. 1996, c. 418, as amended from time to time;

Service Provider means a Person who is a bona fide Director, Officer, Employee, Management Company Employee or Consultant, and also includes a company, of which 100% of the share capital is beneficially owned by one or more Person Service Providers;

Share Compensation Arrangement means any Option under this Plan but also includes any other stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Common Shares to a Service Provider;

Shareholders Approval means approval by a majority of the votes cast by eligible shareholders at a duly constituted shareholders' meeting;

TSX Venture means the TSX Venture Exchange and any successor thereto; and

TSX Venture Policies means the rules and policies of the TSX Venture as amended from time to time.

Other Words and Phrases

1.3 Words and Phrases used in this Plan but which are not defined in the Plan, but are defined in the TSX Venture Policies, will have the meaning assigned to them in the TSX Venture Policies.

Gender

1.4 Words importing the masculine gender include the feminine or neuter, words in the singular include the plural, words importing a corporate entity include individuals, and vice versa.

ARTICLE 2

SHARE OPTION PLAN

Establishment of Share Option Plan

2.1 There is hereby established a Share Option Plan to recognize contributions made by Service Providers and to create an incentive for their continuing assistance to the Company and its Affiliates.

Maximum Plan Shares

2.2 The maximum aggregate number of Plan Shares that may be reserved for issuance under the Plan is **2,500,000** Common Shares, unless this Plan is amended pursuant to the requirements of the TSX Venture Policies.

Eligibility

2.3 Options to purchase Common Shares may be granted hereunder to Service Providers from time to time by the Board. Service Providers that are corporate entities will be required to undertake in writing not to effect or permit any transfer of ownership or option of any of its shares, nor issue more of its shares (so as to indirectly transfer the benefits of an Option), as long as such Option remains outstanding, unless the written permission of the TSX Venture and the Company is obtained.

Options Granted Under the Plan

2.4 All Options granted under the Plan will be evidenced by an Option Commitment in the form attached as Schedule A, showing the number of Optioned Shares, the term of the Option, a reference to vesting terms, if any, and the Exercise Price.

2.5 Subject to specific variations approved by the Board, all terms and conditions set out herein will be deemed to be incorporated into and form part of an Option Commitment made hereunder.

Limitations on Issue

2.6 Subject to §2.9, the following restrictions on issuances of Options are applicable under the Plan:

- (a) no Service Provider can be granted an Option if that Option would result in the total number of Options, together with all other Share Compensation Arrangements granted to such Service Provider in the previous 12 months, exceeding 5% of the Listed Shares (unless the Company is classified as a Tier 1 Company by the TSX Venture and has obtained Disinterested Shareholder Approval under §0(a)(iii) to do so);
- (b) no Options can be granted under the Plan if the Company is designated “Inactive” (as defined in TSX Venture Policies) by the TSX Venture;
- (c) the aggregate number of Options granted to Service Providers conducting Investor Relations Activities in any 12-month period must not exceed 2% of the Listed Shares, calculated at the time of grant, without the prior consent of TSX Venture; and
- (d) the aggregate number of options granted to any one Consultant in any 12-month period must not exceed 2% of the Listed Shares, calculated at the time of grant, without the prior consent of TSX Venture.

Options Not Exercised

2.7 In the event an Option granted under the Plan expires unexercised or is terminated by reason of dismissal of the Optionee for cause or is otherwise lawfully cancelled prior to exercise of the Option, the Optioned Shares that were issuable thereunder will be returned to the Plan and will be eligible for re-issue.

Powers of the Board

2.8 The Board will be responsible for the general administration of the Plan and the proper execution of its provisions, the interpretation of the Plan and the determination of all questions arising hereunder. Without limiting the generality of the foregoing, the Board has the power to:

- (a) allot Common Shares for issuance in connection with the exercise of Options;
- (b) grant Options hereunder;
- (c) subject to Regulatory Approval, amend, suspend, terminate or discontinue the Plan, or revoke or alter any action taken in connection therewith, except that no general amendment or suspension of the Plan will, without the written consent of all Optionees, alter or impair any Option previously granted under the Plan unless as a result of a change in TSX Venture Policies or the Company's tier classification thereunder;
- (d) delegate all or such portion of its powers hereunder as it may determine to one or more committees of the Board, either indefinitely or for such period of time as it may specify, and thereafter each such committee may exercise the powers and discharge the duties of the Board in respect of the Plan so delegated to the same extent as the Board is hereby authorized so to do; and
- (e) may in its sole discretion amend this Plan (except for previously granted and outstanding Options) to reduce the benefits that may be granted to Service Providers (before a particular Option is granted) subject to the other terms hereof.

Terms or Amendments Requiring Disinterested Shareholder Approval

2.9 The Company will be required to obtain Disinterested Shareholder Approval prior to any of the following actions becoming effective:

- (a) the Plan, together with all of the Company's previously established and outstanding stock option plans or grants, could result at any time in:
 - (i) the aggregate number of shares reserved for issuance under stock options granted to Insiders exceeding 10% of the Listed Shares;
 - (ii) the number of Optioned Shares issued to Insiders within a one-year period exceeding 10% of the Listed Shares; or,
 - (iii) in the case of a Tier I Company only, the issuance to any one Optionee, within a 12-month period, of a number of shares exceeding 5% of Listed Shares; or
- (b) any reduction in the Exercise Price of an Option previously granted to an Insider.

ARTICLE 3

TERMS AND CONDITIONS OF OPTIONS

Exercise Price

3.1 The Exercise Price of an Option will be set by the Board at the time such Option is allocated under the Plan, and cannot be less than the Discounted Market Price.

Term of Option

3.2 An Option can be exercisable for a maximum of 10 years from the Effective Date for a Tier 1 Company, or five years from the Effective Date for a Tier 2, NEX or OTCBB Company.

Option Amendment

- 3.3** Subject to §2.9(b), the Exercise Price of an Option may be amended only if at least six (6) months have elapsed since the later of the date of commencement of the term of the Option, the date the Company's shares commenced trading on the TSX Venture, or the date of the last amendment of the Exercise Price.
- 3.4** An Option must be outstanding for at least one year before the Company may extend its term, subject to the limits contained in §3.2.
- 3.5** Any proposed amendment to the terms of an Option must be approved by the TSX Venture prior to the exercise of such Option.

Vesting of Options

- 3.6** Subject to §0, vesting of Options is otherwise at the discretion of the Board, and will generally be subject to:
- (a) the Service Provider remaining employed by or continuing to provide services to the Company or any of its subsidiaries and Affiliates as well as, at the discretion of the Board, achieving certain milestones which may be defined by the Board from time to time or receiving a satisfactory performance review by the Company or its subsidiary or affiliate during the vesting period; or
 - (b) remaining as a Director of the Company or any of its subsidiaries or Affiliates during the vesting period.
- 3.7** If the Company is a Tier 2 Company and the Plan Shares exceed 10% of the Listed Shares, any Options granted under the Plan will vest in accordance with the vesting schedule attached as Schedule B and may be exercised only after vesting.

Vesting of Options Granted for Investor Relations Activities

- 3.8** Subject to §0, Options granted to Consultants conducting Investor Relations Activities will vest:
- (a) over a period of not less than 12 months as to 25% on the date that is three months from the date of grant, and a further 25% on each successive date that is three months from the date of the previous vesting; or
 - (b) such longer vesting period as the Board may determine.

Variation of Vesting Periods

- 3.9** At the time an Option is granted which carries vesting provisions, the Board may vary such vesting provisions provided in §3.7 and §0, subject to Regulatory Approval.

Optionee Ceasing to be Director, Employee or Service Provider

- 3.10** No Option may be exercised after the Service Provider has left the employ/office or has been advised his services are no longer required or his service contract has expired, except as follows:
- (a) in the case of the death of an Optionee, any vested Option held by him at the date of death will become exercisable by the Optionee's lawful personal representatives, heirs or executors until the earlier of one year after the date of death of such Optionee and the date of expiration of the term otherwise applicable to such Option;
 - (b) in the case of a Tier 1 Company, Options granted to any Service Provider must expire within 90 days after the date the Optionee ceases to be employed with or provide services to the Company, but only to the extent that such Optionee was vested in the Option at the date the Optionee ceased to be so employed or to provide services to the Company;
 - (c) in the case of a Tier 2, NEX or OTCBB Company, Options granted to a Service Provider conducting Investor Relations Activities must expire within 30 days of the date the Optionee ceases to conduct such activities, but only to the extent that such Optionee was vested in the Option at the date the Optionee ceased to conduct such activities,
 - (d) in the case of a Tier 2, NEX or OTCBB Company, Options granted to an Optionee other than one conducting Investor Relations Activities must expire within 90 days after the Optionee ceases to be employed with or provide services to the Company, but only to the extent that such Optionee was vested in the Option at the date the Optionee ceased to be so employed or to provide services to the Company; and

- (e) in the case of an Optionee being dismissed from employment or service for cause, such Optionee's Options, whether or not vested at the date of dismissal will immediately terminate without right to exercise same.

Non Assignable

- 3.11** Subject to §3.10(a), all Options will be exercisable only by the Optionee to whom they are granted and will not be assignable or transferable.

Adjustment of the Number of Optioned Shares

- 3.12** The number of Common Shares subject to an Option will be subject to adjustment in the events and in the manner following:

- (a) in the event of a subdivision of Common Shares as constituted on the date hereof, at any time while an Option is in effect, into a greater number of Common Shares, the Company will thereafter deliver at the time of purchase of Optioned Shares hereunder, in addition to the number of Optioned Shares in respect of which the right to purchase is then being exercised, such additional number of Common Shares as result from the subdivision without an Optionee making any additional payment or giving any other consideration therefore;
- (b) in the event of a consolidation of the Common Shares as constituted on the date hereof, at any time while an Option is in effect, into a lesser number of Common Shares, the Company will thereafter deliver and an Optionee will accept, at the time of purchase of Optioned Shares hereunder, in lieu of the number of Optioned Shares in respect of which the right to purchase is then being exercised, the lesser number of Common Shares as result from the consolidation;
- (c) in the event of any change of the Common Shares as constituted on the date hereof, at any time while an Option is in effect, the Company will thereafter deliver at the time of purchase of Optioned Shares hereunder the number of shares of the appropriate class resulting from the said change as an Optionee would have been entitled to receive in respect of the number of Common Shares so purchased had the right to purchase been exercised before such change;
- (d) in the event of a capital reorganization, reclassification or change of outstanding equity shares (other than a change in the par value thereof) of the Company, a consolidation, merger or amalgamation of the Company with or into any other company or a sale of the property of the Company as or substantially as an entirety at any time while an Option is in effect, an Optionee will thereafter have the right to purchase and receive, in lieu of the Optioned Shares immediately theretofore purchasable and receivable upon the exercise of the Option, the kind and amount of shares and other securities and property receivable upon such capital reorganization, reclassification, change, consolidation, merger, amalgamation or sale which the holder of a number of Common Shares equal to the number of Optioned Shares immediately theretofore purchasable and receivable upon the exercise of the Option would have received as a result thereof. The subdivision or consolidation of Common Shares at any time outstanding (whether with or without par value) will not be deemed to be a capital reorganization or a reclassification of the capital of the Company for the purposes of this §3.12(d);
- (e) an adjustment will take effect at the time of the event giving rise to the adjustment, and the adjustments provided for in this Section are cumulative;
- (f) the Company will not be required to issue fractional shares in satisfaction of its obligations hereunder. Any fractional interest in a Common Share that would, except for the provisions of this §3.12(f), be deliverable upon the exercise of an Option will be cancelled and not be deliverable by the Company; and
- (g) if any questions arise at any time with respect to the Exercise Price or number of Optioned Shares deliverable upon exercise of an Option in any of the events set out in this §3.12, such questions will be conclusively determined by the Company's auditors, or, if they decline to so act, any other firm of Chartered Accountants, in Vancouver, British Columbia (or in the city of the Company's principal executive office) that the Company may designate and who will have access to all appropriate records and such determination will be binding upon the Company and all Optionees.

ARTICLE 4

COMMITMENT AND EXERCISE PROCEDURES

Option Commitment

4.1 Upon grant of an Option hereunder, an authorized officer of the Company will deliver to the Optionee an Option Commitment detailing the terms of such Options and upon such delivery the Optionee will be subject to the Plan and have the right to purchase the Optioned Shares at the Exercise Price set out therein subject to the terms and conditions hereof.

Manner of Exercise

4.2 An Optionee who wishes to exercise his Option may do so by delivering:

- (a) a written notice to the Company specifying the number of Optioned Shares being acquired pursuant to the Option; and
- (b) cash or a certified cheque payable to the Company for the aggregate Exercise Price for the Optioned Shares being acquired.

Delivery of Certificate and Hold Periods

4.3 As soon as practicable after receipt of the notice of exercise described in §4.2 and payment in full for the Optioned Shares being acquired, the Company will direct its transfer agent to issue a certificate to the Optionee for the appropriate number of Optioned Shares. Such certificate issued will bear a legend stipulating any resale restrictions required under applicable securities laws. Further, if the Company is a Tier 2, NEX or OTCBB Company, or the Exercise Price is set below the then current market price of the Common Shares on the TSX Venture, the certificate will also bear a legend stipulating that the Optioned Shares are subject to a four-month TSX Venture hold period commencing the date of the Option Commitment.

ARTICLE 5

GENERAL

Employment and Services

5.1 Nothing contained in the Plan will confer upon or imply in favour of any Optionee any right with respect to office, employment or provision of services with the Company, or interfere in any way with the right of the Company to lawfully terminate the Optionee's office, employment or service at any time pursuant to the arrangements pertaining to same. Participation in the Plan by an Optionee will be voluntary.

No Representation or Warranty

5.2 The Company makes no representation or warranty as to the future market value of Common Shares issued in accordance with the provisions of the Plan or to the effect of the *Income Tax Act* (Canada) or any other taxing statute governing the Options or the Common shares issuable thereunder or the tax consequences to a Service Provider. Compliance with applicable securities laws as to the disclosure and resale obligations of each Participant is the responsibility of such Participant and not the Company.

Interpretation

5.3 The Plan will be governed and construed in accordance with the laws of the Province of British Columbia.

Amendment of the Plan

5.4 The Board reserves the right, in its absolute discretion, to at any time amend, modify or terminate the Plan with respect to all Common Shares in respect of Options which have not yet been granted hereunder. Any amendment to any provision of the Plan will be subject to any necessary Regulatory Approvals unless the effect of such amendment is intended to reduce (but not to increase) the benefits of this Plan to Service Providers.

SCHEDULE A**SHARE OPTION PLAN****OPTION COMMITMENT**

Notice is hereby given that, effective this _____ day of _____, _____ (the "Effective Date") **TAG OIL LTD.** (the "Company") has granted to _____ (the "Service Provider") , an Option to acquire _____ Common Shares ("Optioned Shares") up to 5:00 p.m. Vancouver Time on the _____ day of _____, _____ (the "Expiry Date") at an Exercise Price of Cdn\$ _____ per share.

At the date of grant of the Option, the Company is classified as a Tier _____ company under TSX Venture Policies.

Optioned Shares will vest and may be exercised as follows:

_____ In accordance with the vesting provisions set out in Schedule B of the Plan

or

_____ As follows:

The grant of the Option evidenced hereby is made subject to the terms and conditions of the Company's Share Option Plan, the terms and conditions of which are hereby incorporated herein.

To exercise your Option, deliver a written notice specifying the number of Optioned Shares you wish to acquire, together with cash or a certified cheque payable to the Company for the aggregate Exercise Price, to the Company. A certificate for the Optioned Shares so acquired will be issued by the transfer agent as soon as practicable thereafter and will bear a minimum four month non-transferability legend from the date of this Option Commitment. [A Tier 1 Company may grant stock options without a hold period, provided the exercise price of the options is set at or above the market price of the Company's shares rather than below.]

The Company and the Service Provider represent that the Service Provider under the terms and conditions of the Plan is a bona fide [EMPLOYEE/CONSULTANT/MANAGEMENT COMPANY EMPLOYEE] _____ of the Company, entitled to receive Options under TSX Venture Exchange Policies.

TAG OIL LTD.

Authorized Signatory

SCHEDULE B

SHARE OPTION PLAN

VESTING SCHEDULE

1. Options granted pursuant to the Plan to Directors, Officers and all Employees and Consultants employed or retained by the Company for a period of more than six months at the time the Option is granted will vest as follows:
 - (a) 1/3 of the total number of Options granted will vest six months after the date of grant;
 - (b) a further 1/3 of the total number of Options granted will vest one year after the date of grant; and
 - (c) the remaining 1/3 of the total number of Options granted will vest eighteen months after the date of grant.
2. Options granted pursuant to the Plan to an Employee or a Consultant who has been employed or retained by the Company for a period of less than six months at the time the Option is granted will vest as follows:
 - (a) 1/3 of the total number of Options granted will vest one year after the date of grant;
 - (b) a further 1/3 of the total number of Options granted will vest eighteen months after the date of grant; and
 - (c) the remaining 1/3 of the total number of Options granted will vest two years after the date of grant.
3. Options granted to Consultants retained by the Company pursuant to a short term contract or for a specific project with a finite term, will be subject to such vesting provisions determined by the Board of Directors of the Company at the time the Option Commitment is made, subject to Regulatory Approval.
4. Options granted to Service Providers involved in Investor Relations Activities shall vest in accordance with Section 3.10 of the Plan.

EXHIBIT 8.0**List of Subsidiaries**

| NAME | JURISDICTION | BUSINESS | % OF OWNERSHIP |
|--|---------------------|-------------------------|-----------------------|
| TAG Oil (NZ) Limited (formerly "Durum Energy (NZ) Limited") | New Zealand | Oil and Gas Exploration | 100% |
| Durum (Australia) Pty. Ltd. ⁽¹⁾ | Australia | Oil and Gas Exploration | 100% |
| Durum Energy (PNG) Limited ⁽²⁾ | Papua New Guinea | Oil and Gas Exploration | 100% |

(1) During the year the Durum (Australia) Pty. Ltd. ceased operations and is in the process of being wound up and deregistered.

(2) During the year Durum Energy (PNG) Limited ceased operations and is in the process of being wound up and deregistered.

Form 20-F

SIGNATURES

The Registrant certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

TAG OIL LTD.

Date: September 28, 2004

By: “Drew Cadenhead”

Name: Drew Cadenhead

Title: President & CEO

CERTIFICATION UNDER SECTION 302 OF SARBANES-OXLEY

I, Drew Cadenhead, certify that:

1. I have reviewed this annual report of Form 20-F of TAG Oil Ltd.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 28, 2004

"Drew Cadenhead"

Drew Cadenhead
Chief Executive Officer

CERTIFICATION UNDER SECTION 302 OF SARBANES-OXLEY

I, Garth Johnson, certify that:

1. I have reviewed this annual report of Form 20-F of TAG Oil Ltd.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and
6. The Registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: September 28, 2004

"Garth Johnson"

Garth Johnson
Principal Financial Officer

EXHIBIT 32**CERTIFICATIONS UNDER SECTION 906 OF SARBANES-OXLEY**

In connection with the annual report of TAG Oil Ltd. (the "Company") on Form 20-F for the fiscal year ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Drew Cadenhead, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

"Drew Cadenhead"

Name: Drew Cadenhead

Title: Chief Executive Officer

September 28, 2004

CERTIFICATIONS UNDER SECTION 906 OF SARBANES-OXLEY

In connection with the annual report of TAG Oil Ltd. (the "Company") on Form 20-F for the fiscal year ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Garth Johnson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

"Garth Johnson"

Name: Garth Johnson

Title: Chief Financial Officer

September 28, 2004