Consolidated Interim Financial Statements

December 31, 2010

(Unaudited)

TAG Oil Ltd.
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Consolidated Balance Sheets
Expressed in Canadian Dollars

	December 31, 2010 Unaudited	March 31, 2010
Assets		
Current		
Cash and cash equivalents	$ 74,378,955	$ 9,846,019
Amounts receivable and prepaids	1,961,431	357,027
Inventory	795,367	712,877
	77,135,753	10,915,923
Restricted cash	121,399	121,399
Property and equipment (Note 4)	20,911,504	9,490,006
Investment (Note 6)	1,350,323	601,158
	$ 99,518,979	$ 21,128,486
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 2,475,712	$ 1,466,941
Asset retirement obligations (Note 7)	345,064	347,800
	2,820,776	1,814,741
Non-current		
Asset retirement obligations (Note 7)	2,856,226	1,949,371
	5,677,002	3,764,112
Share capital (Note 8 (a))	151,887,908	76,228,207
Contributed surplus (Note 8 (a))	2,005,250	1,218,746
Deficit	(60,768,089)	(60,118,465)
	93,125,069	17,328,488
Accumulated other comprehensive income (loss)(Note 9)	716,908	35,886
	$ 99,518,979	$ 21,128,486

See accompanying notes.

Approved by the Board of Directors:

"Garth Johnson" "John Vaccaro"

Garth Johnson, Director **John Vaccaro, Director**

Consolidated Statements of Operations and Deficit
Expressed in Canadian Dollars
Unaudited

	Three months ended December 31 2010	Three months ended December 31 2009	Nine months ended December 31 2010	Nine months ended December 31 2009
Revenues				
Production revenue	$ 3,851,621	$ 3,452,359	$ 8,078,684	$ 4,712,532
Royalty costs	(956,389)	(1,381,643)	(2,224,137)	(1,412,773)
	2,895,232	2,070,716	5,854,547	3,299,759
Expenses				
General and administrative	1,194,580	607,320	2,312,799	1,305,450
Depletion, depreciation and accretion	520,088	121,042	1,065,029	646,263
Directors & officers insurance	7,547	9,875	29,464	30,958
Foreign exchange	369,067	158,153	236,462	456,957
General exploration	43,497	33,063	131,359	74,728
Interest income	(125,715)	(12,724)	(191,578)	(56,806)
Legal settlement	-	24,494	-	(28,505)
Production costs	812,896	626,504	2,097,909	1,009,991
Emissions Trading Scheme	23,262	-	45,700	-
Loss on casing inventory sales	-	377	-	6,195
Loss on sale of fixed assets	-	1,539	-	1,539
Realized (gain) / loss on investment	(77,623)	-	(77,623)	1,431,979
Stock based compensation	387,873	100,883	854,650	101,754
Write-off of oil and gas properties	-	63,951	-	63,951
	(3,155,472)	(1,734,477)	(6,504,171)	(5,044,454)
Net (loss) income for the period	(260,240)	336,239	(649,624)	(1,744,695)
Deficit, beginning of period	(60,507,849)	(59,598,857)	(60,118,465)	(57,517,923)
Deficit, end of period	$ (60,768,089)	$ (59,262,618)	$ (60,768,089)	$ (59,262,618)
Loss per share -basic	$ (0.01)	$ 0.02	$ (0.01)	$ (0.10)
-diluted	$ (0.01)	$ 0.02	$ (0.01)	$ (0.10)
Weighted average number of shares outstanding	43,152,043	17,545,783	38,532,154	17,545,783

See accompanying notes.

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

	Three months ended December 31 2010	Three months ended December 31 2009	Nine months ended December 31 2010	Nine months ended December 31 2009
Net income (loss) for the period	$ (260,240)	$ 336,239	$ (649,624)	$ (1,744,695)
Other comprehensive income (loss) in the period				
Change in fair value adjustment on available for sale financial instruments (Note)	729,195	76,987	681,022	1,313,318
Comprehensive income (loss) for the period	$ 468,955	$ 413,226	$ 31,398	$ (431,377)

See accompanying notes.

Consolidated Statements of Cash Flows
Expressed in Canadian Dollars
Unaudited

	Three months ended December 31 2010	Three months ended December 31 2009	Nine months ended December 31 2010	Nine months ended December 31 2009
Operating Activities				
Net loss for the period	$ (260,240)	$ 336,239	$ (649,624)	$ (1,744,695)
Changes for non-cash operating items:				
Depletion, depreciation and accretion	520,088	121,042	1,065,029	646,263
Realized loss / (gain) on investment	(77,623)	-	(77,623)	1,431,979
Stock based compensation	387,873	100,883	854,650	101,754
Acquisition costs	-	(33,142)	-	(33,142)
Loss on sale of fixed assets	-	1,539	-	1,539
Write-off of oil and gas properties	-	63,951	-	63,951
	570,098	590,512	1,192,432	467,649
Changes for non-cash working capital accounts:				
Amounts receivable and prepaids	(1,542,007)	(948,049)	(1,604,404)	(915,938)
Accounts payable and accrued liabilities	134,487	(7,272)	30,663	(53,050)
Inventory	375,607	(200,077)	(82,490)	(296,827)
Cash used in operating activities	(461,815)	(564,886)	(463,799)	(798,166)
Financing Activities				
Shares purchased and returned to treasury	-	-	-	(41,767)
Share capital from issue of new shares	57,015,714	-	75,591,555	-
Cash provided by (used in) financing activity	57,015,714	-	75,591,555	(41,767)
Investing Activities				
Acquisition of Trans-Orient Petroleum Ltd.	-	4,842,890	-	4,842,890
Property and equipment expenditures	(6,419,977)	(1,374,697)	(10,604,300)	(1,852,367)
Purchase of shares	-	(22,067)	(276,415)	(91,775)
Sale of shares	285,895	-	285,895	-
Cash (used in) provided by investing activities	(6,134,082)	3,446,126	(10,594,820)	2,898,748
Net increase in cash during period	50,419,817	2,881,240	64,532,936	2,058,815
Cash and cash equivalents - beginning of the period	23,959,138	6,562,752	9,846,019	7,385,177
Cash and cash equivalents – end of the period	$ 74,378,955	$ 9,443,992	$ 74,378,955	$ 9,443,992

See accompanying notes.

Supplementary disclosures:

Interest received	$ 125,715	$ 12,724	$ 191,578	$ 56,806

Non-cash investing activities:

The Company incurred $2,234,267 in exploration expenditures which amounts were in accounts payable at December 31, 2010 (September 30, 2010: $2,532,315 and March 31, 2010: $1,256,159).

Notes to the Consolidated Interim Financial Statements
Nine Months Ended December 31, 2010
Expressed in Canadian Dollars
Unaudited

Note 1 – Nature of Operations

The Company is in the process of exploring, developing and producing from its oil and gas properties and has one oil and gas property that contains reserves that are economically recoverable. The success of the Company's exploration and development of its oil and gas properties requires significant additional exploration and development activities to establish additional proved reserves and to commercialize its oil and gas exploration properties. The Company is also influenced by significant financial and legal risks, as well as commodity prices. In addition, the Company must continue to obtain sufficient financing and operating cash flow to further explore and develop its properties towards planned principal operations. The Company monitors its expenditure budgets and adjusts its expenditure plans to conform to available funding. The Company plans to fund exploration and development activities through existing cash resources and in the future by offering equity securities.

Note 2 – Accounting Policies and Basis of Presentation

The unaudited consolidated interim financial statements of TAG Oil Ltd. and its wholly owned subsidiaries have been prepared in accordance with generally accepted accounting principles in Canada, which were the same accounting policies and methods of computation as the audited consolidated financial statements as at March 31, 2010, with the exception of the changes discussed herein.

The disclosure which follows is incremental to the disclosure included in the annual consolidated financial statements. These interim financial statements to December 31, 2010 should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended March 31, 2010.

Note 3 – Future Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of April 1, 2011 will require restatement of material differences created by the transition to IFRS for comparative purposes of amounts reported by Corporation for the year ended March 31, 2011, if any. The Corporation's New Zealand subsidiaries adopted and reported based on New Zealand equivalents to International Reporting Standards (NZ IFRS) from March 31, 2008. As the Corporation's operations are primarily in New Zealand, the Corporation expects minimal impact on the accounting policies, financial reporting and information and technology systems and processes as it transitions the consolidated financial statements to IFRS.

Business Combinations

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

Consolidated Financial Statements

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

Non-controlling Interests

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

Note 4 – Property and Equipment

New Zealand	Working Interest %	Net Book Value at March 31, 2010	Additions During the Period	Recoveries, Depletion and Depreciation During the Period	Net Book Value At December 31, 2010
Oil and Gas Properties					
Proved					
PMP 38156	100.0	$ 7,479,205	$ 8,354,241	$ (993,143)	$ 14,840,303
Unproved					
PEP 38748	100.0	229,617	3,503,027	-	3,732,644
PEP 38348	100.0	550,808	160,548	-	711,356
PEP 50940	100.0	49,122	22,618	-	71,740
PEP 38349	100.0	790,550	100,814	-	891,364
PEP 52181	20.0	-	50,995	-	50,995
		9,099,302	12,192,243	(993,143)	20,298,402
Production equipment		178,628	105,105	-	283,733
Office equipment		212,076	189,179	(71,886)	329,369
		390,704	294,284	(71,886)	613,102
Total		$ 9,490,006	$ 12,486,527	$ (1,065,029)	$ 20,911,504

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

During the period ended September 30, 2010, the Company acquired 100% interest in PEP 38156-Deep for cash, assumption of a 0.775% gross overriding royalty of 15.1% interest in the permit and certain asset retirement obligations of $443,039 associated with the deep prospect. This interest was acquired from the receivers and liquidators of the previous operator and its joint venture partner, a New Zealand state-owned utility and in doing so the previously stratigraphically split PMP 38156 has been consolidated into PMP 38156.

During the period ended December 31, 2010, the Company acquired 20% interest in the offshore permit PEP 52181 for cash from Mighty River Power, a New Zealand state-owned utility. The permit covers a 42,379-acre area in the main Taranaki oil and gas discovery fairway located just 8 km from shore and is in close proximity to existing infrastructure, making commercialization in the event of discovery efficient and cost effective.

Note 5 – Related Party Transactions

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

Pursuant to an agreement dated October 1, 2007, the Company paid an insider of the Company $65,000 in consulting and advisory services related primarily to financing, budgeting and capital expenditure programs relating to the Company's plan of operations.

The Company paid all directors, on a consolidated basis, compensation of $185,500.

Note 6 – Investments

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

	Number of Common Shares Held	December 31, 2010 Carrying Value	Percentage of Ownership	Number of Common Shares Held	March 31, 2010 Carrying Value	Percentage of Ownership
Austral Pacific	3,030,303	$ -	-	3,030,303	$ -	-
Adira Energy	826,431	729,922	0.92%	826,431	360,523	1.32%
Other investments	517,000	620,401	3.21%	1,117,000	240,635	0.73% - 1.38%
		$ 1,350,323			$ 601,158	

During the quarter ended December 31, 2010, the Company sold 1,095,000 common shares of its other investments realizing a profit over book value of $77,623.

Austral Pacific Energy Ltd. trading has been suspended as a result of the company being in receivership and the Company does not expect trading in Austral Pacific to recommence.

In accordance with CICA 3855 the Company's investments are recorded at market value at December 31, 2010.

Note 7 – Asset retirement obligations

The following is a continuity of asset retirement obligations for the nine months ended December 31, 2010:

Balance at March 31, 2010	$ 2,297,171
Revision in estimated obligations	840,700
Accretion expense	63,419
Balance at December 31, 2010	$ 3,201,290
Current portion	345,064
	2,856,226

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas development activity. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately $3,264,806 which will be incurred between 2011 and 2021.

The fair value of the liability for the Company's asset retirement obligation is recorded in the period in which it is incurred, using an inflation rate of 3% and discounted to its present value using a credit adjusted risk free rate of 3.5% and the corresponding amount is recognized by increasing the carrying amount of the oil and gas properties. The liability is accreted each period and the capitalized cost is depreciated over the useful life of the related asset using the unit-of-production method.

Note 8 – Share Capital

a) Authorized and Issued Share Capital

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

Issued and fully paid:	Number of Shares	Amount	Contributed Surplus
Balance at March 31, 2010	29,913,275	$ 76,228,207	$ 1,218,746
Issue of new shares	19,250,000	74,734,782	-
Exercise of stock options	86,666	108,333	-
Exercise of broker warrants	207,900	748,440	-
Fair value of stock options exercised	-	81,908	(81,908)
Fair value of broker warrants granted	-	(164,632)	164,632
Fair value of broker warrants exercised	-	150,870	(150,870)
Stock based compensation	-	-	854,650
Balance at December 31, 2010	49,457,841	$ 151,887,908	$ 2,005,250

On November 17, 2010, the Company closed a bought deal common share public offering. The Company sold a total of 10,300,000 common shares at a price of $5.20 per share. The Company also granted to the underwriters an over-allotment option, exercisable in whole or in part at any time on or up to 30 days after the closing of the offering, to purchase up to an additional 1,250,000 common shares at the same price. On November 26, 2010, the over-allotment option was exercised in full. Total net proceeds from the bought deal equity offering including the over-allotment totaled $56,200,609.

On May 5, 2010, the Company closed an equity offering with a total of 7,700,000 units and 231,000 broker warrants sold for net proceeds of $18,534,174. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will be exercisable at $3.60 and will entitle the holder thereof to acquire one common share for a period of 18 months.

b) Incentive Stock Options

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

The following is a continuity of outstanding stock options:

	Number of Options	Weighted Average Exercise Price
Balance at March 31, 2010	1,861,785	$ 1.66
Granted	25,000	2.41
Granted	75,000	2.65
Granted	650,000	2.60
Expired	(45,000)	5.60
Exercised	(86,666)	1.25
Balance at December 31, 2010	2,480,119	$ 1.89

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

Number of Shares	Price per Share	Weighted Average Remaining Contractual Life	Expiry Date	Options Exercisable
65,000	$3.50	0.02	August 2, 2011	65,000
437,499	$1.38	0.39	March 14, 2013	437,499
71,429	$2.27	0.07	June 26, 2013	71,429
17,857	$1.51	0.02	July 21, 2013	17,857
150,000	$1.26	0.23	October 28, 2014	100,000
813,334	$1.25	1.26	October 28, 2014	542,223
175,000	$2.90	0.29	February 9, 2015	58,333
25,000	$2.41	0.04	April 1, 2015	8,333
75,000	$2.65	0.14	August 16, 2015	-
650,000	$2.60	1.23	September 9, 2015	-
2,480,119		3.69		1,300,674

The Company applies the Black-Scholes option pricing model using the closing market prices on the grant dates and to date the Company has calculated option benefits using a volatility ratio of 75% and a risk free interest rate of 2.5% to calculate option benefits. The fair value of the option benefit is amortized over the vesting period of the options, generally being eighteen months.

c) Share Purchase Warrants

The following is a continuity of outstanding TAG share purchase warrants:

	Number of Share Purchase Warrants	Weighted Average Exercise Price	Expiry Date
Balance at March 31, 2010	71,428	US$2.24	June 24, 2010
Issued during the period	4,081,000	3.60	November 5, 2011
Expired share purchase warrants	(71,428)	US$2.24	June 24, 2010
Exercised during the period	(207,900)	3.60	-
Balance at December 31, 2010	3,873,100	$ 3.60	

On May 5, 2010, 3,850,000 share purchase warrants and 231,000 share broker warrants were granted. Each warrant is exercisable at $3.60 and will entitle the holder to acquire one common share until expiry on November 5, 2011.

The Company applied the Black-Scholes on the broker warrants using the closing market price on the grant date, a volatility ratio of 75% and a risk free interest rate of 2.5% to calculate the benefit.

d) Loss per share

Basic weighted average shares outstanding for the nine months ended December 31, 2010 was 38,532,154 (2009: 17,545,783) and diluted weighted average shares outstanding for the period was 44,885,373 (2009: 19,433,853). Stock options and share purchase warrants outstanding are not included in the computation of the diluted loss per share as the inclusion of such securities would be anti-dilutive.

NOTE 9 – Accumulated Other Comprehensive Income (Loss)

		Accumulated Other Comprehensive income (loss)
Balance at March 31, 2010	$	35,886
Unrealized gain on investments		681,022
Balance at December 31, 2010	$	716,908

NOTE 10 – Capital Management

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

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

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

NOTE 11 – Financial Instruments

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

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

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

a) Credit Risk

Credit risk is the risk of financial loss to the Company if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; all of the Company's production is sold directly to an oil super major. The Company is paid for its oil sales within 30 days of shipment. The Company has assessed the risk of non-collection from the buyer as low due to the buyers financial condition.

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

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at December 31, 2010 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended December 31, 2010. As at December 31, 2010 there were no significant amounts past due or impaired.

b) Liquidity Risk

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

The Company's liquidity is dependent upon maintaining its current working capital balances, operating cash flows and ability to raise funds. To forecast and monitor liquidity the Company prepares operating and capital expenditure budgets which are monitored and updated as considered necessary. Considering these circumstances and the cash balance at December 31, 2010 of $74.4 million, the Company's liquidity risk is assessed as low. As at December 31, 2010 the Company's only financial liabilities are accounts payable and accrued liabilities of $2,475,712.

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Company's cash flows, net income and comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

d) Foreign Currency Exchange Rate Risk

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

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

e) Commodity Price Risk

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

The Company did not have any commodity price contracts in place as at or during the period ended December 31, 2010.

f) Interest Rate Risk

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

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

g) Fair Value of Financial Instruments

The Company's financial instruments as at December 31, 2010 included cash and cash equivalents, accounts receivable, investments and accounts payable and accrued liabilities. The fair value of the financial instruments with exception of the Company's investments, approximate their carrying amounts due to their short terms to maturity. The fair value of the Company's investments approximate their carrying value as they are recorded at market value at December 31, 2010.

Note 12 – Comparative Figures

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

Note 13 – Subsequent Events

The following subsequent events occurred after the quarter ended December 31, 2010:

During the months of January and February 2011, the Company issued 390,000 common shares and 46,000 common shares, respectively, as a result of options being exercised.

During the months of January and February 2011, the Company issued 11,150 common shares as a result of warrants being exercised.

On February 8, 2011, the Company granted a total of 1,255,000 incentive stock options to certain directors, officers, employees and consultants. These options are exercisable until February 8, 2016 at a price of $7.15 subject to vesting over a period of eighteen months.

Note 14 – Segmented Information

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

For the Nine Months Ended December 31, 2010	Canada	New Zealand	Total Company
Production revenue	$ -	$ 8,078,684	$ 8,078,684
Royalties	-	(2,224,137)	(2,224,137)
	-	5,854,547	5,854,547
Expenses:			
General and administrative	(1,522,870)	(789,929)	(2,312,799)
Depletion, depreciation and accretion	(40,979)	(1,024,050)	(1,065,029)
Directors and officers insurance	(29,464)	-	(29,464)
Foreign exchange	(102,536)	(133,926)	(236,462)
General exploration	-	(131,359)	(131,359)
Interest income	176,381	15,197	191,578
Realized (loss) / gain on investment	77,623	-	77,623
Production costs	-	(2,097,909)	(2,097,909)
Emissions Trading Scheme	-	(45,700)	(45,700)
Stock based compensation	(854,650)	-	(854,650)
Net income (loss) income for the period	$ (2,296,495)	$ 1,646,871	$ (649,624)
Total assets	$ 73,100,869	$ 26,418,110	$ 99,518,979
Capital expenditures for the period	$ 40,615	$ 12,445,912	$ 12,486,527

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) is dated February 25, 2011, for the nine month period ended December 31, 2010 and should be read in conjunction with the Company's accompanying unaudited consolidated interim financial statements for the same period and the audited consolidated financial statements and the MD&A for the year ended March 31, 2010.

Forward Looking Statements

The MD&A contains forward-looking statements within the meaning of securities laws, including the "safe harbour" provisions of Canadian securities legislation. Forward-looking statements and information concerning anticipated financial performance are based on management's assumptions using information currently available. Material factors or assumptions used to develop forward-looking information include potential business prospects, growth strategies, the ability to add production and reserves through development and exploration activities, the ability to reduce costs and extend commitments, projected capital costs, government legislation, well performance, the ability to market production, the commodity price environment and quality differentials and exchange rates. Management also assumes that the Company will continue to be able to maintain permit tenures in good standing, that the Company will be able to access equity capital when required and that the Company will maintain access to necessary oil and gas industry services and equipment to conduct its operations. Although management considers its assumptions to be reasonable based on these factors, they may prove to be incorrect.

Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "assume", "believe", "estimate", "expect", "forecast", "guidance", "may", "plan", "predict", "project", "should", "will", or similar words suggesting future outcomes. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: an increase in cash flow, reserves and reserve values through a properly executed development plan at Cheal and Sidewinder, including maximizing the value at Cheal through the implementation of further optimization operations and additional succesful drilling; anticipated revenue from the Cheal oil field; converting the undiscovered resource potential to proved reserves within the East Coast Basin; capital expenditure programs and estimates including those set out herein under "Use of Proceeds"; and the impact of the transition to International Financial Reporting Standards ("IFRS") on the Company's financial statements.

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

The forward-looking statements contained herein are as of February 25, 2011, and are subject to change after this date. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive and as such undue reliance should not be placed on forward-looking statements. Except as required by applicable securities laws, with the exception of events or circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from material forward-looking information for a period that is not yet complete that was previously disclosed to the public, the Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Business

TAG Oil Ltd. is a Canadian-based oil and gas producer and explorer with assets consisting of more than 2 million acres of land onshore in the Taranaki and East Coast Basin's of New Zealand and 15,408 net acres (77,039 gross acres) offshore in the Taranaki Basin of New Zealand. TAG is poised to grow through profitable operations, acquisitions and development and exploration drilling. TAG remains in a strong financial position, with sufficient working capital to fund operations and meet all commitments for the foreseeable future.

At the date of this report there are eight wells producing at the Cheal oil field.

TAG believes that a properly executed development plan will allow for an increase in cash flow, reserves and reserve values through further drilling in the Taranaki basin on TAG's 100% owned and operated Cheal, Cardiff and Sidewinder oil and gas fields.

Longer-term the Company will pursue its goal of converting the undiscovered resource potential within the Company's 100% interests in the East Coast Basin to proved reserves through an aggressive drilling campaign.

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Petroleum Property Activities, Production and Capital Expenditures for the quarter ended December 31, 2010

During the three month period ended December 31, 2010, the Company continued production testing of the 100%-controlled Cheal-BH-1 horizontal well with a conservative range of low draw-down configurations being tested. Additional re-completion of the Cheal-BH-1 well was undertaken in the fourth quarter of the 2011 fiscal year. At the time of this disclosure, the well is on clean up and will likely need further coiled tubing sand clean-out intervention to reach maximum production capabilities.

Progress is being made to commercialize the Sidewinder-1 oil and gas discovery on permit PEP 38748. Initial design work is complete and fabrication is underway at the Sidewinder Production Station, including a 3-km pipeline link into New Zealand's main gas transmission grid. The facility is being designed to accommodate oil and gas production from all future sidewinder wells, including the Sidewinder 2 and 3 wells drilled in Q4 fiscal 2011. First production is scheduled for mid 2011.

The Company has also started a new drilling campaign in the Taranaki basin with up to six wells initially being drilled in the Cheal oil field and the Sidewinder oil and gas field with one well in each permit currently drilling as of the date of this report.

On December 10, 2010, the Company completed the acquisition of a 20% interest in offshore exploration permit PEP 52181 ("Kaheru"), which covers a 77,039 -acre area in the main Taranaki oil and gas discovery fairway. Kaheru is operated by a subsidiary of Australian-based Roc Oil Pty Ltd, is located just 8 km from shore and is in close proximity to existing infrastructure. PEP 52181 contains the Kaheru Prospect and numerous other leads identified on, extensive 2-D and 3-D seismic coverage.

The Cheal field produced an average of approximately 455 barrels of oil per day during the quarter ended December 31, 2010, however at the date of this report Cheal is producing approximately 700 barrels of oil per day and 800 mscf of gas per day while the Cheal-BH-1 well continues to clean-up after recent completion operations. The field is being choked back by artificial lift limitations associated with the power fluid systems presently in place. With these existing limitations, only 4 of the 8 wells capable of production at Cheal are producing on any given day. The wells are rotated to allow even depletion, but planned optimization work in 2011 will allow simultaneous production of all existing and future wells at Cheal. The Company believes that maximum value of the Cheal field will be realized through this optimization implementation combined with additional successful drilling.

During the quarter ended December 31, 2010, the Company incurred $7,009,868 (2009: $5,221,538) worth of expenditures on its oil and gas properties. For the nine month period ending December 31, 2010, the Company has incurred costs of $12,297,348 on its oil and gas properties compared to $5,562,865 for the same period last year. The primary capital expenditures and activities during the third quarter were as follows:

PMP 38156 (TAG 100%): $4,896,773 (9 months: $8,354,241) in costs were incurred by the Company during the quarter including a work over and fracture stimulation of Cheal-B3, a work-over of Cheal 1, the drilling and multi-phase fracture stimulation of the Cheal-BH-1 horizontal well and long-lead items for upcoming drilling and optimization operations. Provisions for asset retirement obligations of $187,910 relating to the Cheal-BH-1 well were also recorded for the quarter.

During the quarter the Company recorded $nil in costs (9 months: $105,105) related to the Cheal production station facilities.

The Company also acquired the former PMP 38156 Deep (Cardiff) concession on December 22, 2010 for cash and the assumption of certain abandonment and reclamation costs that were recorded in PMP 38156.

On January 21, 2010, the Company applied for an Extension of Land to PMP 38156 covering 4.8466sq-km of unpermitted land. The application was still under review by the Ministry of Economic Development at the date of this report.

PEP 38748 (TAG 100%): $1,970,057 (9 months: $3,503,027) of expenditures was incurred in completing and testing the Sidewinder-1 well, earth-works to enlarge the Sidewinder site to accommodate further activity and infrastructure. Provisions for asset retirement obligations of $308,516 relating to the Sidewinder-1 well were also recorded during the quarter.

PEP 38348 (TAG 100%): $76,043 (9 months: $160,548) of expenditures were incurred in the quarter in securing a land access agreement and for long lead items required for two shallow stratigraphic wells to be drilled to approximately 250 meters in March 2011. On November 4, 2010, the Company undertook a compulsory 25% surrender of land and a commitment in writing to next stage of the work program for PEP 38348 with the Ministry of Economic Development.

PEP 50940 (TAG 100%): $nil (9 months: $22,618) of expenditures were incurred in the quarter. The Company applied for and received a Change of Conditions to permit PEP 50940 and under the new terms of the permit the Company has initiated orientated coring operations on up to eight stratigraphic wells to evaluate the structure of the Tangamatai area of interest.

PEP 38349 (TAG 100%): $16,268 (9 months: $100,814) of expenditures were incurred in the quarter related to field mapping and preparation for a shallow stratigraphic well located on the Kawakawa Anticline.

PEP 52181 (TAG 20%): $50,995 (9 months: $50,995) of expenditures were incurred related to the acquisition of the 20% working interest in the permit.

The Company has the following commitments for Capital Expenditure at December 31, 2010:

Contractual Obligations	Total $	Less than One Year $	More than One Year $
Long term debt	-	-	-
Operating leases	-	-	-
Purchase obligations	-	-	-
Other long-term obligations (1)	15,391,000	15,391,000	-
Total Contractual Obligations (2)	15,391,000	15,391,000	-

(1) The Other Long Term Obligations that the Company has are in respect to the Company's share of expected exploration and development permit obligations and/or commitments at the date of this report. The Company may choose to alter the program, request extensions, reject development costs, relinquish certain permits or farm-out its interest in permits where practical.

(2) The Company's total commitments include those that are required to be incurred to maintain its permits in good standing during the current permit term, prior to the Company committing to the next stage of the permit term where additional expenditures would be required. In addition costs are also included that relate to commitments the Company has made that are in addition to what is required to maintain the permit in good standing.

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

PEP 38748: $5,094,000 relates to the building of the Sidewinder Production Facilities and $4,206,000 relates to the drilling of Sidewinder 2 & 3.

PMP 38156: $2,675,000 relates to the drilling of Cheal B4ST, completion operations on Cheal-BH-1, siteworks and installation of a conductor on the Cheal C site and routine workover operations on certain Cheal wells already on production.

$2,458,000 relates to long lead items required for upcoming drilling operations.

PEP 38348: $513,000 relates to the drilling of two shallow core wells to approximately 250 meters.

PEP 38349: $162,000 relates to the drilling of one shallow core well to approximately 250 meters.

PEP 50940: $72,000 relates to the drilling of up to eight stratigrapic coring wells.

PEP 52181: $211,000 relates to the processing of 3D seismic data.

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

Commitments and work programs are subject to change.

Results of Operations

The Company recorded a net loss for the third quarter of the 2011 fiscal year of $260,240 ($0.01 loss per share – basic and $0.01 fully diluted) compared to net income of $336,239 ($0.02 income per share – basic and fully diluted) for the same period last year. For the nine month period ended December 31, 2010, the Company recorded a net loss of $649,624 ($0.01 loss per share – basic and fully diluted) compared to a net loss of 1,744,695 ($0.10 loss per share – basic and fully diluted) for the same period last year.

The Company's revenue for the third quarter of the 2011 fiscal year consisted of oil and gas sales from the 100% owned Cheal Oil Field, totalling $3,851,621 (9 months: $8,078,684) compared to oil sales totalling $3,452,359 (9 months: $4,712,532) in the third quarter of the 2010 fiscal year. For comparative purposes, the Company owned a 30.5% interest in Cheal until October 2009 increasing to 100% thereafter. The Company received interest income of $125,715 (9 months: $191,578) compared to $12,724 (9 months: $56,806) for the same period last year as a result of increased cash balances held during the 2011 fiscal year.

Gross oil sold in the quarter increased from 33,023 (9 months: 92,107) barrels of oil in the quarter ended December 31, 2009, to 46,224 (9 months: 101,024) barrels of oil during the current quarter ended December 31, 2010. Net oil sold in the quarter ended December 31, 2009, was 19,630 (9 months: 51,044) compared to 46,224 (9 months: 101,024) barrels in the current quarter ended December 31, 2010, and the average selling price per barrel decreased from $84 (9 months: $79) per barrel in quarter ended December 31, 2009, to $83 (9 months: $80) per barrel in the quarter ended December 31, 2010.

During the quarter ended December 31, 2010, the Cheal oil field produced 41,898 (9 months: 102,201) gross barrels of oil compared to 29,202 (9 months: 93,327) gross barrels produced for the same period last year.

Production costs for the third quarter of the 2011 fiscal year amounted to $812,896 (2009: $626,504) or $19 per barrel compared to $27 per barrel in 2009. The Company's share of production costs for the nine months period ended December 31, 2010, amounted to $2,097,909 (2009: share $1,009,991) or $21 per barrel compared to $24 per barrel in 2009.

The Company paid $173,518 (9 months: $398,088) in crown royalty costs during the third quarter of the 2011 fiscal year compared to $97,370 (9 months: $128,500) for the same period last year. Royalties associated with the acquisition of the 69.5% interest in Cheal totalled $782,871 (9 months: $1,826,049) for the third quarter of the 2011 fiscal year compared to $1,284,273 (9 months: $1,284,273) in the 2010 fiscal year. Depletion, depreciation and accretion amounted to $520,088 (9 months: $1,065,029) compared to $121,042 (9 months: $646,263) for the same period last year.

On July 1, 2010, the Company entered the transition period for the New Zealand Emmissions Trading Scheme (ETS). The transition period which operates through December 31, 2012, caps on the price of New Zealand Emissions Units (NZUs) at NZ$25 and one unit will only need to be surrendered for every two tonnes of carbon dioxide equivalent emissions, effectively reducing the carbon price to NZ$12.50 per tonne. The Company incurred $23,262 (9 months: $45,700) in ETS costs from the Cheal oil field for the third quarter of the 2011 fiscal year and the costs were not applicable in the 2010 fiscal year.

Since the Company acquired its interest in PMP 38156 in September 2006, the Cheal oil field has produced 597,545 barrels of oil to December 31, 2010. From November 2004 to December 31, 2010, however, the Cheal oil field has produced 690,419 barrels of oil.

A comparative summary of the Company's G&A costs over the three and nine months ending December 31, 2010 is as follows:

	3 months ended December 31		9 months ended December 31	
	2010	2009	2010	2009
Consulting fees	$ 145,110	$ 54,597	$ 251,357	$ 131,147
Directors fees	28,000	9,500	85,500	15,500
Filing, listing and transfer agent	41,182	17,277	88,804	41,279
Reports	-	-	8,306	28,899
Office and administration	61,683	84,247	165,619	121,748
Professional fees	52,241	1,207	127,179	72,855
Rent	25,796	14,066	75,184	39,968
Shareholder relations and communications	63,266	123,898	225,822	144,812
Travel	89,265	56,236	192,001	144,765
Wages	773,473	249,996	1,276,894	595,730
Overhead recoveries	(85,436)	(3,704)	(183,867)	(31,253)
	$ 1,194,580	$ 607,320	$ 2,312,799	$ 1,305,450

G&A costs have increased in the 2011 fiscal year as a result of the Company hiring more staff and needing additional infrastructure to facilitate the operation of the Cheal oil field, increased exploration and development drilling activity, permit acquisitions and capital raising to fund growth. Specifically, office and administration charges and rent have increased due to the establishment and operation of a New Plymouth office to manage exploration and field operations. Wages have increased with the appointment of a Chief Financial Officer, Chief Operating Officer, Exploration and New Ventures Manager and administration staff to enable the Company to execute the Company's strategic plan and manage operations. Certain bonuses were paid to employees and consultants in the quarter based on defined performance criteria set out at the beginning of the 2010 calendar year. Consulting and Director fees have increased related to operations, acquisitions and financing.

Filing, listing and transfer agent fees have increased due to the greater corporate activity in the 2011 fiscal year to date and the Company has also enhanced the corporate website and materials after the Trans-Orient acquisition, increasing shareholder relations and communications costs over the nine months ended December 31, 2010.

In addtion to the G&A costs above the Company recorded a foreign exchange loss for the quarter ended December 31, 2010, amounting to $369,067 (9 months: $236,462) compared to a foreign exchange loss of $158,153 (9 months: $456,957) last year. The foreign exchange loss for the third quarter of the 2011 fiscal year was caused by fluctuations of both the U.S. and New Zealand dollar in comparison to the Canadian dollar. The Company incurred stock option compensation costs of $387,873 (9 months: $854,650) for the quarter ended December 31, 2010, compared to $100,883 (9 months: $101,754) for the corresponding quarter last year.

Please also refer to Note 4 of the accompanying unaudited consolidated interim financial statements for information relating to the Company's assets.

Summary of Quarterly Information

	2011			**2010**				**2009**
	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $
Total revenue	3,851,621	2,413,333	1,813,730	1,815,053	3,452,359	671,355	588,818	600,628
General and administrative	(1,194,580)	(545,603)	(572,616)	(777,131)	(607,320)	(370,297)	(327,833)	(350,947)
Foreign Exchange	(369,067)	(115,820)	248,425	(245,230)	(158,153)	(240,715)	(58,088)	(123,235)
Stock option compensation	(387,873)	(462,765)	(4,012)	(201,049)	(100,883)	-	(872)	(13,246)
Other	(2,160,341)	(1,797,968)	(1,366,088)	(1,447,490)	(2,249,764)	(1,971,222)	(372,080)	(8,810,557)
Net income (loss)	(260,240)	(508,823)	119,439	(855,847)	336,239	(1,910,879)	(170,055)	(8,697,357)
Basic income (loss) per share	(0.01)	(0.01)	0.00	(0.03)	0.02	(0.11)	(0.01)	(0.50)
Diluted income (loss) per share	(0.01)	(0.01)	0.00	(0.03)	0.02	(0.11)	(0.01)	(0.50)

Liquidity and Capital Resources

At December 31, 2010, the Company had $74,378,955 in cash and cash equivalents and $74,314,977 in working capital compared to $9,846,019 in cash and cash equivalents and $9,101,182 in working capital at March 31, 2010. The Company is adequately funded to meet its capital and ongoing requirements for the next twelve months based on the exploration and development programs and anticipated revenue from the Cheal oil field. Additional material commitments, changes to production estimates or any acquisitions by the Company may require a source of additional financing. Alternatively certain permits may be farmed-out, sold or relinquished.

Use of Proceeds

On May 5, 2010, the Company closed an equity offering net proceeds of $18,711,150. The Company's intended use of the net proceeds in the short form prospectus is outlined below:

Property	Operation	Anticipated use of proceeds in Short Form Prospectus, including over-allotment	Current anticipated use of proceeds	Status of operation
Taranaki Basin:				
PMP 38156-S	Optimization; Phase 2	$500,000	$1,500,000	Completed
	Drill five Cheal wells	9,500,000	9,500,000	1 well completed, 1 drilling at date of report
PEP 38748	Drill one exploration well	2,500,000	2,500,000	Completed
East Coast Basin:				
PEP 50940:	Seismic	350,000	-	Changed Program
	Drill up to eight orientated core wells	-	72,000	2011
PEP 38348:	Drill two stratigraphic wells	250,000	513,000	2011
	Drill one stratigraphic well	250,000	329,000	2011
PEP 38349:	Drill one exploration well	2,500,000	2,500,000	2011/2012
Working capital		2,861,150	1,797,150	
Total		**$18,711,150**	**$18,711,150**	

The Company's phase 2 optimization program at Cheal included the fracture stimulation of the Cheal B3 well and an additional workover on Cheal-1 to re-enter the well and finalize the downhole configuration for permanent Urenui Formation production. No significant changes to the use of proceeds has been made by the Company at this time other than the Company anticipates drilling up to eight orientated core wells in permit PEP 50940 rather than undertaking the seismic survey originally planned.

The Company completed an equity offering on November 26, 2010 for net proceeds of $56,353,740. The Company's intended use of the net proceeds in the short form prospectus is outlined below:

Property	Operation	Anticipated use of proceeds in Short Form Prospectus, including over-allotment	Current anticipated use of proceeds	Status of operation
Taranaki Basin:				
PMP 38156-S	Drill three vertical wells	$ 7,500,000	$ 7,500,000	2012
	Drill five horizontal wells	16,250,000	16,250,000	2012
	Optimization and water disposal wells	2,000,000	2,000,000	2012
PEP 38748	Drill two vertical wells	5,000,000	5,000,000	2011
	Drill five horizontal wells	16,250,000	16,250,000	2012
East Coast Basin:				
PEP 50940:	Drill one stratigraphic well	200,000	200,000	2012
PEP 38348:	Drill three stratigraphic wells	600,000	600,000	2012
	Drill one exploration well	-	5,000,000	2011/2012
PEP 38349:	Drill one stratigraphic well	200,000	200,000	2012
Working capital		2,066,400	3,353,740	
Total		**$50,066,400**	**$56,353,740**	

Please refer to the Company's final short-form prospectus filed on November 10, 2010.

Off-Balance Sheet Arrangements and Proposed Transactions

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

Related Party Transaction

The Company was not involved in any other related party transaction during the period ended December 31, 2010, outside of paying wages, director fees and consulting fees. Consulting fees were paid to an insider for advisory services related primarily to financing, budgeting and capital expenditure programs relating to the Company's plan of operations.

Please refer to Note 5 of the accompanying unaudited consolidated interim financial statements.

Subsequent Events

Refer to Note 13 of the accompanying unaudited consolidated interim financial statements.

Share Capital

The Company has one class of common shares. As at December 31, 2010, there were 49,457,841 common shares outstanding and at February 25, 2011, there were 49,904,991 common shares outstanding.

No class A or class B preference shares have been issued.

The Company has a stock option plan. As at February 25, 2011, there were 3,299,119 stock options outstanding, of which 1,324,563 have vested.

The Company has 3,861,950 warrants outstanding at February 25, 2011.

Please refer to Notes 8 and 13 of the accompanying unaudited consolidated interim financial statements.

Business Risks and Uncertainties

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

Changes in Accounting Policies

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

Update on International Financial Reporting Standards (“IFRS”) changeover plan

In February 2008, the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011, will require restatement of material differences created by the transition to IFRS for comparative purposes of amounts reported by the Corporation for the year ended March 31, 2011, if any. The Corporation’s New Zealand subsidiaries adopted and reported based on New Zealand equivalents to International Reporting Standards (NZ IFRS) from March 31, 2008. As the Corporation’s operations are primarily in New Zealand, the Corporation expects minimal impact on the accounting policies, financial reporting and information and technology systems and processes as it transitions the consolidated financial statements to IFRS.

All material financial transactions that would fall under the adoption period for IFRS and the comparable historical financial period are reviewed by the Corporation’s management and the Corporation’s auditors in respect of IFRS. The Corporation’s management and its auditors discuss the impact of accounting treatments for any such transactions in respect of Canadian GAAP and IFRS to ensure that the Corporation is able to minimize the effect on the Corporation of the transition to IFRS.

The key elements, timing and status of the Corporation's changeover plan are outlined below:

1. Develop internal knowledge to manage changeover, design systems and produce IFRS reports.

   Accounting staff are continuing to upgrade their knowledge base with respect to IFRS while ensuring that proper training is maintained throughout the process. Staff have taken, or are taking, IFRS related continuing education courses. As noted above, nominal impact for training is expected for the New Zealand subsidiaries, Canadian subsidiaries or for the parent Corporation.

2. Review accounting policy and standard changes that are required or are optional under IFRS 1 and other standards on conversion and make choices where necessary.

   An internal review has been completed for any major differences between IFRS and Canadian GAAP, where it is likely to affect the Corporation. The Corporation plans to present the results of this review and seek approval of the Corporation's recommended policy choices and elections at an Audit Committee meeting in 2011. Preliminary findings indicate a minimal impact. The following IRFS 1 elections, policy choices and GAAP differences were considered:

IFRS 1 Elections

Election	**Corporation's Expected Treatment**
Business Combinations	The Corporation plans to take the available exemption and not restate business combinations retrospectively.
Share Based payment transactions	The Corporation plans to take the available exemption and not apply fair value method to share based payment transactions retrospectively.
Fair value as deemed cost of property plant and equipment	The Corporation does not plan to take the available exemption, and plans to follow the guidance of IAS 16 to continue to value its property plant and equipment on the cost basis.
Cumulative Translation differences	The Corporation intends to take the available exemption where adjustments are made as of the Transition Date, resulting in no change to the April 1, 2010 financial statements on the Transition Date.

Policy Choices

Standard	**Corporation's Expected Policy Choice**
IAS 16 Property Plant and Equipment	The Corporation intends to elect to continue to apply the cost model to all classes of property plant and equipment.
IAS 23 – Borrowing Costs	The Corporation does not have any borrowing costs and thus, IAS 23 *Borrowing Costs* will has not been applied to borrowing costs related to qualifying assets for which the commencement date for capitalization is on or after 1 April 2010.
IAS 27 Consolidated and Separate Financial Statements	In accordance with IFRS 1, if a corporation elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must be applied retrospectively. As the Corporation has elected to apply IFRS prospectively, the Corporation has also elected to apply IAS 27 prospectively.

GAAP differences

Standard	Difference and expected quantitative impact
Reclassification within Equity Section	IFRS requires an entity to present each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Corporation examined its "contributed surplus" account and concluded that as at the Transition Date, the entire amount of $1,218,746 relates to "Equity settled employee benefit reserve". As a result the Corporation believes that a reclassification would be necessary in the equity section between "Contributed surplus" and the "Equity settled employee benefit reserve" accounts.
Functional Currency By Entity	IFRS requires that the functional currency be determined for each entity in a consolidated group. Upon translation to the presentation currency, all assets and liabilities are translated at the closing rate at the date of the statement of financial position with resulting exchange differences being recognized in other comprehensive income. The change could have a material non-cash impact depending on the currency rates.

Once policy choices under IFRS 1 have been approved by the directors, the Corporation will update the relevant disclosures as to material policies. As already noted, none are expected to impact the Corporation. However, actual policy choices and results may differ materially than what is presented currently.

3. Prepare 2011 opening balance sheets and reconciliations of 2011 interim and year end statements to Canadian GAAP statements.

   Draft opening Balance Sheets and reconciliations utilizing the Corporation's proposed IFRS 1 policy choices have been drafted for presentation to the Company's Audit Committee to review and approve IFRS policies (as noted above). After the policy choices have been approved by the Audit Committee the Corporation will make any relevant disclosures as to the expected impact on the Corporation's opening IFRS Balance Sheet.

4. Review accounting software and other information technology issues for IFRS compliance.

   The Corporation has completed a review of its accounting software, and determined that no significant changes to the system are required for transition to IFRS, and that the system will be able to produce IFRS compliant Financial Statements for the Corporation.

5. Review internal control implication of new policies and changeover.

   Expected changes as a result of IFRS accounting standards or policy choices are expected to require the Corporation to make some adjustments (although minimal) to its financial statements with the main changes being an increase to its financial statement disclosures. The Corporation has determined that new controls over review of the changes to the Corporation's Financial Statements will need to be instituted. These controls include an enhanced review by the Corporation's executive and Audit Committee and will be instituted in time for IFRS changeover.

6. Review disclosure controls and procedures in light of the change to IFRS.

   Procedures have been implemented to ensure compliant disclosures of the conversion process, and compliant disclosure of ongoing IFRS compliant financial statements and other information.

7. Review business implications of conversion such as compensation formulas, key performance indicators (KPI's) and contract requirements.

   The Corporation has completed its review of the business implications of its conversion to IFRS. As the Corporation has no debt agreements, contractual agreements based on KPI's, financial data or results, and no compensation agreements based on financial results, the Corporation does not believe the business implications of its conversion to IFRS will be significant.

Although not expected, policy changes and changes to accounting standards implemented pursuant to IFRS may have a material effect on the Corporation's financial statements. The information on policy choices and estimated impacts presented here, are only management's expected choices and actual choices may differ once IFRS compliant financial statements are finalized.

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

CORPORATE INFORMATION

DIRECTORS AND OFFICERS
Garth Johnson
President, CEO, and Director
Vancouver, British Columbia

Alex Guidi
Director
Vancouver, British Columbia

John Vaccaro
Director
Vancouver, British Columbia

Ronald Bertuzzi
Director
Vancouver, British Columbia

Blair Johnson
CFO
Auckland, New Zealand

Drew Cadenhead
COO
New Plymouth, New Zealand

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

REGIONAL OFFICE
New Plymouth, New Zealand

SUBSIDIARIES

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

SHARE CAPITAL
At February 25, 2011, there were
49,904,991 shares issued and outstanding.
Fully diluted: 57,066,060 shares.

BANKER
Bank of Montreal
Vancouver, British Columbia

LEGAL COUNSEL
Blake, Cassels & Graydon
Vancouver, British Columbia

Bell Gully
Wellington, New Zealand

AUDITORS
De Visser Gray LLP
Chartered Accountants
Vancouver, British Columbia

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

ANNUAL GENERAL MEETING
The Annual General Meeting was held
on December 10, 2010 at 10:00am at the
offices of Blake, Cassels & Graydon located at
Suite 2600, 595 Burrard Street
Vancouver, B.C. V7X 1L3

SHARE LISTING
TSX Venture Exchange
Trading Symbol: TAO
Warrant Symbol: TAO.WT

SHAREHOLDER RELATIONS
Telephone: 604-682-6496
Email: ir@tagoil.com

WEBSITE
www.tagoil.com